Linking Behaviour to Bottom Line Performance

Leadership, Intangibles & Talent Q4 2009

Welcome to the final Quarterly Review of 2009. This issue, in addition to the usual round-up, we have an interview with Mike Haffenden[1]. Mike co-founded the Corporate Research Forum and was formerly HR Director for Hewlett-Packard. In this issue we touch on some of the following themes;

- **Thoughts on 2009**
- **The Assumptions behind Motivation**
- **Reverse Norms**
- **Retention**
- **Innovation**
- **The Future of HR**

Articles are included from the likes of the Harvard Business Review, Henry Mintzberg, HR Magazine, Jeffrey Pfeffer, MIT Sloan Review, Nokia, SuccessFactors and the Wall Street Journal.

As always, comments and feedback are of course welcome.

Thoughts on 2009

In summing up the past 12 months, clearly the recession and how best to tackle it's effects has been the headline topic amongst HR and OD commentators. Whilst practical tips are always valuable and there have been many, some of the most interesting articles have taken a wider perspective and have questioned some of the fundamental assumptions we have about the way organisations are run. This quarter has been no exception and some of the most interesting articles are featured below.

As regular readers will know, employee engagement has been a particularly hot topic in 2009. Reading through various articles, this I believe has actually disguised the underlying theme or driver of the discussion. The pressing issue driving the engagement debate is that firms are increasingly searching for some sort of intangible alchemy. How to improve performance once all cost cutting has been made and in particular how to ensure that such cost cutting does not destroy morale amongst workers.

As we will see, the final quarter of 2009 has seen the publication of a large number of articles that continue to question traditionally held beliefs about motivation, innovation, talent management and other central issues to the HR/OD agenda.

First in the firing line and picking up from our previous issue, management guru Henry Mintzberg[2] wrote a piece in the Wall Street Journal about the negative impact of bonuses in organisational performance. In typical fashion, Mintzberg does not mince his words;

"Executive bonuses—especially in the form of stock and option grants—represent the most prominent form of legal corruption that has been undermining our large corporations and bringing down the global economy."

Tag Cloud

The key problem that Mintzberg identifies is the use of financial indicators as the sole gauge of a company's health. Quite correctly in my view, Mintzberg argues that companies are far too complex and the factors influencing their performance too subtle and wide ranging to be accurately understood by traditional financial measures.

"This flawed assumption, though, does far more damage than simply distorting CEO compensation. All too often, financial measures are a convenient substitute used by disconnected executives who don't know what else to do—including how to manage more deeply."

Trying to change the mindset from assessing performance in the current timeframe and look towards how decisions will impact the long-term health of the organisation is another argument Mintzberg uses. At the same time as looking forward, it is impossible to disconnect present and future performance from the past. Should current executives be rewarded for the foresight of their predecessors whilst making short-term decisions that damage the prospects for future generations.

Performance is not about what is happening in the current time period, it is as much down to history and ingrained culture and the impact of decisions made today have on future performance.

Indeed as Mintzberg claims, an organisation's relative success or failure actually has very little to do with the incumbent senior management and the rewards designed to motivate them. Amongst the huge number of variables at play of which current management have no influence over include;

- The impact of previous management teams
- Underlying organisational culture
- External market factors

The current model also assumes that the majority of value in an organisation is added at C-suite level. This assumption is questioned in a compelling article by Erik Berggren and Lars Dalgaard[3] where they state that;

"Organizations that will prosper need to turn strategies into returns. Although the egos in the executive suite may not like the fact that bottom line results are far more dependent on execution (85% vs. 15%) than on strategic plans"

They then go on to say that;

"The greater the manager's insight into the performance capability of the individuals and the team, the more likely there will be consistent and quality outcomes."

This sentiment ties in directly with Mintzberg's assertion that bonuses damage performance because they legitimise the disconnect between senior management and their understanding of what is happening in the business.

I think this article also supports another of Mintzberg's arguments, namely that organisations place too much emphasis on leadership rather than effective day to day management. There seems to be a direct analogy between what Berggren and Dalgaard are saying about strategy and Mintzberg's frustration with the glorification of the corporate leader at the expense of less glamorous yet ultimately productive grassroots management.

The Assumptions behind Motivation

Interestingly, Mintzberg's arguments in this article tie in with a theme we have touched on in previous issues and in particular reflect a talk we highlighted from the Quarter 3 issue from Dan Pink focusing on motivation. In this talk Pink uses scientific research to dismantle the case for the use of financial incentives for improving motivation and performance. Further support for Pink's position came right at the end of the year in an article by Teresa Amabile and Steven Kramer in the Harvard Business Review[4]. Focusing on employee motivation their findings show;

“we now know what the top motivator of performance is—and, amazingly, it’s the factor those survey participants ranked dead last. It’s progress. 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.”

“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. What’s more, it doesn’t depend on elaborate incentive systems.”

Another excellent HBR article, this time from A.D. Amar, Carsten Hentrich, and Vlatka Hlupic[5] touches a similar topic. This time, the criticism is for organisations that seek to gain greater efficiency through tighter control. This is a very relevant topic given current difficult economic conditions. However, citing a number of real life examples where companies were able to boost performance by relaxing controls and encouraging greater autonomy, the authors echo the sentiments of Pink and others in a call for greater levels of independence.

Reverse Norms

Mintzberg’s comments about the difficulty in assessing the health of organisations reminds me of a conversation I had with a senior investment banker a while ago, he claimed that after 25 years of advising companies on acquisitions, mergers, disposals and IPOs he still had absolutely no idea of how to tell a good company from a bad one.

In using financial targets have we consigned ourselves to a spiral of over simplification? Where we are trying to measure the hugely complex with the overly simplistic and basing important decisions on these crude metrics. With all the data and technology available to organisations now, is there an alternative more sophisticated approach to motivation available?

If Mintzberg and others are correct, the question that immediately arises from these articles is how have we ended up in this situation, where so many of the assumptions we have made about motivation and reward are false? One possible answer comes from a blog post by Bob Sutton[6] discussing Jeff Pfeffer’s new book The Human Equation[7]. Pfeffer makes some interesting points in particular about what he calls about ““Perverse Norms" and how such norms often emerge and cement themselves in the corporate mindset even though they conflict with the evidence.

Sutton cites the example of lay-offs as having an overall negative effect on performance;

"If the world believes that laying-off employees by the carload is good management and confers status on those that do it with the most vigour, it will be difficult for executives to resist the temptation to conform to the normative definition of "good management" and thereby achieve approval."

This got me thinking, in his example Sutton cites layoffs, however executive bonuses could also fall into this category, certainly according to Mintzberg. However, during this quarter there have also been other articles questioning the way in which crucial organisational activities are approached.

Retention

Another candidate for being a “perverse norm” is retention. Retention remains a key part of the talent management agenda and for firms it is likely to become more important if and when the economy recovers. The prevailing wisdom and intuition would tell you that the way to hang on to certain people would be to incentivise individuals and make leaving the company harder or certainly less attractive.

Not so, according to a recent MIT Sloan Review article[8], the authors Elizabeth Craig, John Kimberly and Peter Cheese argue that the best way to attract and retain top talent is to provide them with the tools that will make them most attractive and employable to competitors.

“our research shows that executives intend to stay longest with those companies that offer the greatest opportunities to enhance their employability.”

Interestingly, the ideas around proficiency and progress resonate nicely with the HBR piece on motivation noted above.

“In addition to developing their leader-

ship talents, executives want to increase their value by acquiring knowledge of operations outside their areas of expertise, and by polishing general business skills."

By making it easier for people to leave or be appealing to other employers, organisations are likely to benefit from increased retention and motivation. This idea of increased autonomy is supported in an article by Rex Davenport[9] where he highlights a recent interview with Jay Cross in Learning Executives Briefing.

"When learning is pushed on people—people resent it."

Cross then goes on to make the point about the way outcomes are measured;

"First, the metrics that people have been using for the past 30 years—using accounting measures—are totally ridiculous. In the past 40 years the value of the stock market has gone from 80 percent tangibles to almost the opposite, 80 percent intangibles. If you listen to any (experts) they say that intangibles are unmeasurable, that they are too flaky. The ROI stuff is totally bogus and organizations shouldn't waste their time on it. The proof is not to look at the learning, but instead to look at the changes in behavior that come about as a result of the learning."

Moving this thinking forward a bit, instead of measuring success in a role by the acquisition of more power or responsibility, maybe executives should be encouraged to move in the opposite direction? By aspiring to make ones role obsolete, managers are able to disseminate power to where it needs to be before moving on to the next role. Just a thought!

Innovation

Continuing the theme of perverse norms, traditional attitudes towards innovation came under fire in an article in the Wall Street Journal[10]. In this article, the authors discuss situations where companies should outsource their own innovation rather than trying to deliver innovative ideas internally. This is something that will be a bitter pill for many organisations to swallow who spend considerable sums on initiatives designed to stimulate and boost innovation. For a variety of reasons, some organisations are always likely to struggle with activities that require the type of approach associated with innovation.

One way organisations often seek to boost their innovation is through the use of consultants. This approach is soundly bashed in an entertaining piece by James Gardner[11]. According to Gardner, consultants are the last people you would look to use to help boost innovation;

"The consultant-innovator's hallmark is such a narrow focus on the business problem that they don't ever get to using influence to push the next innovative thing. They'd much rather study the issues and create Powerpoint."

Clearly a generalisation but I suspect that there is more than a grain of truth in this assertion.

Areas such as bonus culture, retention and leadership are clearly crying out for new ideas and a rethink in terms of approach. All of these and more could easily fit into the "perverse norm" category. Whether things will change to any great extent is open to question and in my mind highly doubtful. The current inertia I believe can be summed up in the term bonus culture. Things are unlikely to change because current practices are so deeply ingrained or cultural that any call for change will fall on the deaf ears of vested interests. Interestingly, Mike Haffenden touches on this point in his interview.

Despite the poor prospects of real change, it is worth however noting that all the above examples involve the way organisations manage and engage their people. Whilst we may have the mechanical or systems side of things working well, there is still much to be desired when it comes to dealing with people.

The Future of HR

This brings me nicely on to the final topic for this issue, a quick round-up of thoughts on the future of HR. Always a good source of material even though the debate hardly seems to have shifted in the previous 12 months despite the economic upheaval.

To kick things off, there was a provocative blog post by Gautam Ghosh[12], where he claims that for HR to survive it has to first of all make itself redundant before transforming itself into a new function. The essence of the post is that technology has made the traditional HR role obsolete and that if the function is to survive, previous activities need to be discarded and new roles adopted. This is an interesting idea and one we have touched on before. From my perspective, this is one of the reasons why will start to see an increase in the number of non-HR trained professionals taking up senior HR positions.

On a similar theme an article in HR Magazine[13] emphasises the need for more business focus from the HR department. I'm sure we will see plenty more articles along similar lines in 2010.

Much of the debate amongst HR practitioners in 2009 has been about the role of Web 2.0 in the corporation. Indeed in many places I have seen the employee engagement debate reduced to "whether we should allow our employees access to Facebook?" question. In my mind this discussion is completely beside the point and belittles the contribution HR may make to the organisation in the future. To summarise this, there was a good blog post[14] by Marc Coleman who took a look at how the Nokia HR department has encouraged an open dialogue with its employees through the use of social networking technologies.

As we move into 2010, it is this aspect of HR technology which is likely to develop. I believe we have reached a limit in terms of surveys, form filling, metrics and dash boards and instead will see further advances in technology such as social analytics which instead of measuring past performance or where a company has been, will enable a more predictive approach to be taken. This is touched on in a blog post by the always interesting John Ingham[15].

"The challenge for analytics is now more about analysing relationships between data points"

Footnotes and References

1. http://fourgroups.com/link/?105

2. http://fourgroups.com/link/?106

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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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