

## PREFACE

**S**trategic Talent Development addresses the new world of global competition and rapid change through an approach that develops and engages everyone in the success of the enterprise.

I first set out my ideas in *The Value of Talent*. My role as CIPD, Vice-President, Learning and Talent Development was significant for the opportunity it gave me to work on research projects with people at the top of the field. The role also brought me into contact with leading organizations and practitioners. Since then, I have worked in different countries on different continents, discussing my ideas at conferences and seminars. I have also had the good fortune to work with many fantastic businesses and outstanding people who have helped me shape my thinking and develop new ideas. My role as a governor of the University of Portsmouth, where I also chair the Human Resources Committee and sit on the Remuneration Committee, has provided yet another perspective on the increasing complexity of managing people and organizations in today's environment. All these experiences have helped me develop my philosophies further and experience them in practice. My colleagues at Scala and at Network-ACE, which is our European network, have been instrumental in helping me, and I am immensely grateful to them.

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# Introduction

**T**he central theme of this book is that our world has changed and is changing in ways that call for a transformational response from organizations in attitudes and in ways of doing things, especially in ways of leading, managing and organizing people. My purpose is to put forward a response.

The changes are profound. They affect many aspects of the way organizations structure themselves, how people within them interact, and the detail of how they do things in their day-to-day work. Three particular areas of change must be in our minds:

- globalization;
- communications and technology;
- attitudes across society.

These factors have some common characteristics: one is the speed with which change is happening; another is that it can emerge from anywhere; a third that these are not independent factors but interact with each other. This is creating a new world business environment, where products and services that were revolutionary two years ago are rendered obsolete if they don't adapt to market changes fast enough, and where new competitors seem to spring up overnight.

## The new world business environment

How do today's changes compare with previous eras and is there a material difference? Of course, the Industrial Revolution, with its steam engines, machine tools and materials technology, transformed the world in a remarkably short time from agrarian societies to those we could recognize today.

These technologies enabled each other, just as now computing, communications, biotechnology and nanotechnology all reinforce and support development in each other. And this earlier revolution was also characterized by fierce competition and demanded a management revolution in its ways of doing things. I argue that today's knowledge revolution is different in the speed and sources of change, and that these differences also demand a new management revolution.

The change that drives business today may not be characterized by physical icons, such as skyscrapers, great ships, ports and airports, industrial complexes and cityscapes. It may not be characterized by mass travel suddenly becoming easy and affordable, or communications being shrunk from weeks to minutes by telegraph wires snaking across the world. Today's change is subtler but just as real, nonetheless. It arises largely from the invention of the transistor just over 60 years ago, rapidly followed by printed circuit boards and computers and then personal computers and mobile phones, the internet and the world wide web.

Let us try to visualize this immense change. Think about that sophisticated but everyday device used by millions of people around the globe, the Apple iPhone, and how we got to it in 2007. It took over 200 years from early experiments with electricity until the transistor was developed in 1948. Then in just the next 40 years or so, and in a rush, we got serious computing, personal computers and hand-held devices. The world wide web arrived at the end of that time. In the ensuing 20 years, commerce over the web exploded from nothing to an estimated \$204 billion in the United States alone in 2008. In 1998 Google reported 26 million web pages on its index; by 2000 it had one billion and by 2008 one trillion. It is hard to imagine life without the web, available to us worldwide and now on tiny hand-held devices. The computer data centres that power the web account for nearly 2 per cent of the world's electricity production. Soon web-enabled devices will be found in mundane devices such as refrigerators and cookers.

And it is not just what the smartphone can do but what we can do with a smartphone that is new. Commerce has changed: books, music and TV are distributed online, as are news and opinion. 'Distributors' are being replaced by selling direct from producer to customer. Banking, shopping and logistics are all done online, the latter enabling modern supermarkets to provide extraordinary choice and drive down costs. The web has enabled e-mailing and social networking, as well as open-source problem solving. Industries, such as national mail services, are being deconstructed as new ones grow.

The word 'globalization' is now common currency. While international trade is not new and events in India affected Europe more than 200 years

ago (and vice versa), the scale and immediacy are different. Today a call centre servicing Europe or North America can be in India or the Philippines or Kenya and, at the flip of a switch, can be somewhere else. Going back to that iPhone for illustration, it turns out to be an extraordinarily international project. It was designed at Apple headquarters in California (the lead designer being an Englishman) but components from Japan, South Korea, Taiwan, the UK and Germany are assembled in China.

The speed of change has not levelled off and the business implications of the digital revolution, cheap broadband communications and the world wide web have clearly not run their course. The next technologies, built on these ones, may enable us to do things we only dream of today. If and when this electronic revolution begins to slow, perhaps the next big thing could be new biological industries. And new technologies do not just boost economic growth but have profound implications for what we do, how we do it and how we organize ourselves to do it.

Today's globalization is not just about a growing volume of global trade, its distinctive difference is that competitors, suppliers and customers, enabled by communications and technology, can be anywhere in the world. A company based in Scotland can use software hosted on computers in Canada, written for a US company by a contractor in India to sell a book written and published in France (though printed in China) from a warehouse in Ireland to a customer in Australia. The business's advisers and investors are in London but its competitors can be anywhere in the world while its owner can review and control daily progress from her holiday villa in Italy.

Government processes are different too. Laws and regulations that govern business are increasingly negotiated within supranational bodies and coordinated through international organizations, and infractions may be prosecuted through courts in a dozen jurisdictions. A good example might include Apple and Samsung suing each other for patent infringements in courts around the world. Meanwhile Samsung is a major supplier to Apple. Regulators also have an international reach; in 2012 US regulators investigated US, British and European banks for manipulating UK interest rates. The European Commission, meanwhile, has anti-monopoly processes in progress against Microsoft and Google – giant US-based software firms.

## The innovation economy

It is being widely commented that developed Western economies are moving beyond the knowledge or information economy to what is sometimes called

the innovation economy. According to interviews conducted by the executive search firm Spencer Stuart, more than two-thirds of directors at the leading global companies it advises cite innovation as critical for long-term success (Cohn, Katzenbach and Vlaskovits, 2008). This has been constantly reinforced since, for example by PwC's 15th Global CEO Survey, which finds that 'supporting the capacity to innovate' is at the forefront of priorities for CEOs (PwC, 2012).

Rapid and often unpredictable change demands rapid reaction and an ability to anticipate it with new products and services: with further innovation. Today's business environment requires people who can innovate, work across organizational boundaries and in partnerships, and who are sufficiently far-sighted and fast-reacting to spot trends, create opportunities and rapidly take advantage of these. Success will come from positioning the business so that when the right option becomes clear, the right people with the right skills are able to pursue it rapidly. If you can jump on a bandwagon, you may already be too late.

## New ways of working

Individuals will need to continually reappraise their skills, acquire new ones and be flexible and fleet of foot. They need to have an eye on the horizon to spot changes as they emerge; to be able to create opportunities before others do; to be innovative, creative and adaptable and eagerly willing to learn. Moreover, they need to embrace new ways of working, where they collaborate across boundaries, work in virtual teams, and where reporting lines are fluid. New media is also significant for its effect on people's attitudes: they are more used to sharing information, and more open about themselves and their work. This effect will increase, especially as younger people join the workforce.

## The economic downturn

Before considering how to achieve this culture of innovation we must bring in the economic circumstances of our age. The aftermath of the 2008 global financial crisis is still being keenly felt and, while its worst effects have, so far, been felt in the United States and Europe, they are still spreading like ripples on a pond and growth is stuttering around the world. Its effects are unlikely to disappear entirely because it is also one aspect of longer-term

adjustment in trading patterns. This is creating the need for some managerial balancing acts: we must balance the need to downsize with the need to grow some areas of the business; the need to shed labour while bringing in new recruits with particular talents; the need to react to current pressures and workloads with the need to innovate, look ahead, and prepare for future challenges. We must maintain existing operations while developing new ones and breaking into new markets. The need to control costs while maintaining employee morale, commitment and motivation lies at the heart of these balancing acts. Intuitively, we know that organizations that truly engage and inspire their employees achieve high productivity, and therefore high performance. There is a buzz about them. The research evidence to support this intuition is compelling, and should shape the way leaders and managers think about and support the people who work for them.

## Create a new world organization

All this demands a 'new world' organization in response, where:

- People develop their skills and abilities so that the business has the right capabilities available when needed.
- Organizational culture encourages collaboration, innovation, flexibility and rapid response.
- Autocratic and hierarchical styles are replaced by leadership styles that create 'shared values, shared visions and shared understanding'.
- People are engaged around a compelling vision and strategic direction so that their efforts, motivation and commitment are directed to the success of the enterprise.

It has probably always been impossible to simply instruct people to innovate and have a realistic expectation that they will do so. Rather, it is necessary to create the conditions for such innovation and speed of response. This is exemplified by the experience of Xerox Corporation which famously generated many extraordinary ideas at its Palo Alto research facility. 'Established in 1970 in an industrial park next to Stanford, PARC researchers designed a remarkable array of computer technologies, including the Alto personal computer, the Ethernet office network, laser printing and the graphical user interface' (Markoff, 2011). These brilliant and influential developments also illustrate another lesson, because the Xerox Corporation did not exploit a single one of these inventions that have formed the basis of huge industries.

'Years later, Dr Goldman explained Xerox's failure to enter the personal computing market early on as part of a large corporation's unwillingness to take risks' (Markoff, 2011). Creating the right conditions for innovation requires action that extends beyond the laboratory.

Another leadership challenge lies in a change in how we perceive the world. Our expectation of change is creating 'new world organizations' where the need to adapt quickly to new markets and new competitors and to innovate quickly is driving them to be less hierarchical, to have flatter hierarchies and to employ management structures where people's jobs move from team to team and they work across functional and national boundaries and in partnerships with external organizations. This increase in real collaboration represents a permanent shift in attitudes from the adversarial approach of simply buying-in at the lowest possible price.

## The changing internal business model

A consequence of these changes is that traditional 'command and control' management systems, where information is passed up through levels of a hierarchy and instructions pass the other way, simply don't work effectively. They are much too slow and they stifle innovation. Moreover, lean, de-layered and interconnected organization structures have made management through close personal supervision and controlling the detail of what and how people do things mostly impossible.

Today 'shared values, shared visions and shared understanding' set the culture and the tone. When people know where the organization is going, how it is going to get there, when values are clear, this sets the boundaries and people know how to act, take decisions and take responsibility, and they know what is expected of them.

This is also a new world of ideas that create competitive advantage or even whole new business streams; and businesses must be sufficiently agile, future-focused and innovative to keep pace with overnight change in technology or ways of doing business if they are to keep ahead of competition. These ideas may arise anywhere within the organization, at any level. Managers need to recognize them, be open to them, and encourage their colleagues to come up with them. They must create the culture that will encourage their people to spot opportunity, and they must ensure they and their people develop the capabilities that will enable them to take advantage of this opportunity.

## Strategic talent development

I have outlined what needs to be done and the leadership challenges that face us in getting there. But there are ways of overcoming these challenges and that is what this book addresses. My proposition is that if we value everyone, not just the few high performers, meet their aspirations and engage them with business success, this translates into improved, long-term business performance.

This approach is as much about behaviours and values as about systems and processes. It is strategic because it means looking ahead and aligning individual development with future organizational needs and with the strategy of the organization. It is inclusive because it recognizes that decisions and actions that will be pivotal to success may occur anywhere in the organization.

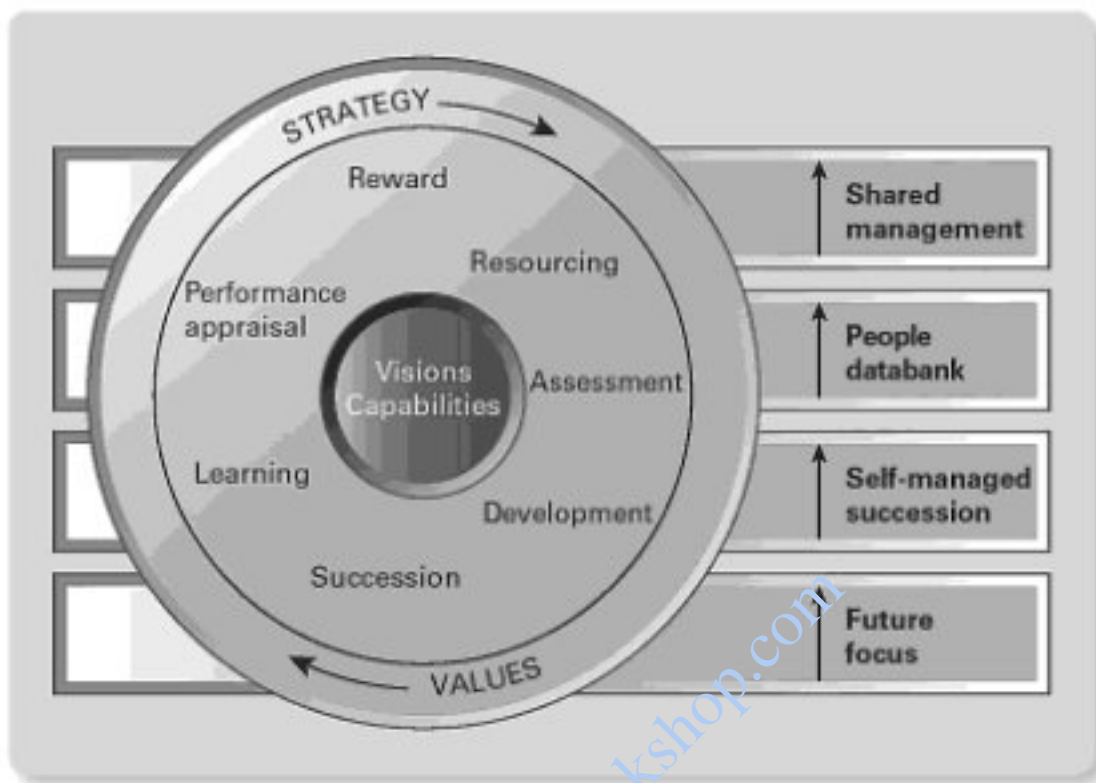
Inclusive talent development is more than aiming to harness people's talents and help them be the best they can be, though that is part of it. It is more than having people available to fill key roles, though that too is part of it. It is a way of thinking and doing things that gets to the heart of relationships within the organization. It includes people in the vision and direction of the business so that they input their ideas and actively seek to create opportunities and make them happen. It includes people in decisions that are made about them or that affect them, so that leadership and management are multi-way processes and people have more control over their destinies. It is also about how staff, managers and HR work together to create an innovative, creative, skilled and adaptable workforce that is willing to learn.

## About this book

I set out here a practical approach for achieving this new world organization, which I call 'strategic talent development'.

This book moves through three distinct phases. The first is conceptual. Chapter 1 makes the case for strategic talent development through its relationship with employee engagement. We consider the evidence for how this impacts on profitability and its implications on how to lead and manage people. We consider values and how these bind people and create a common identity. This will give us a deep understanding of organizational culture and help generate insights on how to create leadership styles and processes that suit today's world and translate into hard business results.

**FIGURE 0.1** The four-point framework shows the steps to develop your talent and engagement strategy



The second phase of the book – Chapters 4 through to 8 – describes the systems and processes needed to assess, develop, deploy and retain people. I present these systems and processes in relation to a four-point talent framework (see Figure 0.1), which guides you through how to put these in place so that they form a coherent and consistent strategy that pulls people in the same direction. I present this four-point framework in Chapter 3, giving an overview of it, and showing how it is business driven and addresses the main leadership challenges of today. I then present the processes that will achieve the business aims of each of the points on the framework.

Finally, phase three – Chapters 9 and 10 – covers the practical actions leaders must take to lead effectively in today's new world, but also to deal with the people problems that economic downturn has brought for many. We consider what leaders must do, and how they might do it, to achieve a highly engaged workforce and a profitable and sustainable future for the business.

what is required to achieve it and about proving the correlation with business performance.

This seems a simple idea but it is made up of several elements, which we can group under three headings: people's ability, their motivation and the opportunity (Purcell *et al*, 2003):

**Ability** refers to personal qualities, skills, and knowledge.

**Motivation** is itself made up of internal and external elements.

Individuals are driven by their own inner motivation but this also needs to be directed.

**Opportunity** enables ability and motivation to be effective.

Opportunity is critical to this process because success demands effective external management, since individuals will be unable to exercise their abilities and motivation if their work team is badly coordinated or they are poorly managed. Circumstances must also permit people to exercise their abilities and motivation. If there is a breakdown of the opportunity factor – let us say there is a shortage of orders or materials, or a machine breaks down – then even the best machine operators will be prevented from achieving high productivity. However, if the operators have high ability and are well motivated, they are more likely to help the business recover quickly and make up for lost time. It is also reasonable to apply the same model to the overall business simply by aggregating these three factors at the organizational level.

All three factors in this AMO model need to come into play to achieve the benefit of what is commonly referred to as employee engagement. Figure 1.1 illustrates this idea and, for simplicity, it rolls management effectiveness into 'opportunity'.

It is particularly striking how interconnected all this is. Opportunity and effective line management reinforce motivation and ability, while even the desired outcome – 'effectiveness' – will reinforce motivation: success breeds high morale. Which elements of this diagram represent employee engagement? Well, it is hard to tease them apart. Strategic talent development builds on the idea that all these processes within the management of organizations are interconnected and need to be treated as an integrated whole. One bit without the other does not work.

With this model in mind, let's consider how employee engagement is generally defined, and then the evidence of its importance to business performance. Employee engagement has been described as 'a positive attitude held by the employee towards the organization and its values. An engaged employee is aware of business context and works with colleagues to improve performance within the job for the benefit of the organization'

**FIGURE 1.1** Employee engagement

(Robinson, Perryman and Hayday, 2004). It gives rise to the 'degree of discretionary effort employees are willing to apply in their work in the organization' and it recognizes that 'every employee ultimately chooses whether to contribute the minimum levels of performance required (or to sabotage), or to go beyond the minimum required by the post and to offer outstanding effort in their role' (Alimo-Metcalfe and Alban-Metcalfe, 2009).

The engagement index slots people into one of three categories:

- **Engaged** employees work with passion and feel a profound connection to their company. They drive innovation and move the organization forward.
- **Not-engaged** employees are essentially 'checked out'. They are sleepwalking through their workday. They are putting in time, but not enough energy or passion into their work.
- **Actively disengaged** employees aren't just unhappy at work; they're busy acting out their unhappiness. Every day, these workers undermine what their engaged co-workers accomplish.

## Why is employee engagement important?

Numerous studies make a persuasive case for how engagement leads to success. No single one has proved this beyond doubt, as proving causality would require comparators where all factors are the same, which is

impossible to achieve. However, research data published by leading international recruitment, reward and market research companies such as Towers Watson, Kenexa, Hay, Aon Hewitt and Gallup together make a compelling case that shows companies with high employee engagement levels also experienced a higher operating margin (up to 19 per cent higher), net profit margin, revenue growth and earnings per share (up to 28 per cent higher) than companies with low employee engagement (Towers Perrin, 2005).

## The characteristics of employee engagement

The case for creating employee engagement is persuasive but what do you have to do to achieve it? The study 'Unlocking the Black Box' (Purcell *et al*, 2003) adds to our understanding of the AMG model. It concludes that the difference between high- and low-performing organizations is influenced by a combination of managers' proactive and continuous support for the development of their people, and well-designed and effective HR policies for these managers to apply. The policies and practices that make a difference are recruitment and selection; training and development; career opportunities; communications; involvement in decision making; teamworking; appraisal; pay; job security; job challenge/job autonomy; work-life balance. The Black Box study also finds that engaged employees are inspired by a 'big idea'. They describe this as an overall sense of purpose that binds people through a central idea about what is important.

The Gallup Q12 survey also measures employee engagement. The instrument was the result of hundreds of focus groups and interviews which found that there are 12 key expectations that, when satisfied, form the foundation of strong feelings of engagement. So far, 87,000 work units and 1.5 million employees have participated in the Q12 instrument. Comparisons reveal that work units with high Q12 scores exhibit lower employee turnover, higher sales growth, better productivity, better customer loyalty and other manifestations of superior performance.

These studies match my own experience. A few years ago I carried out an assignment with the foreign exchange department of a US bank. The head of the department was convinced that giving more support and attention to his people, and improving teamwork, would impact positively on profits. We set about introducing or revising existing people processes and, importantly,

provided coaching for the desk heads and for the head of department himself on how to use these processes, as well as how to apply a range of people-management skills. We tracked profitability over the course of 18 months and saw it rise by 29 per cent during this time.

I have derived the following indicators of an engaged workforce from the studies discussed above and have proven them as practical tools with clients. Engaged employees:

- feel respected and treated fairly in areas such as pay, benefits, job security and opportunity;
- have plenty of opportunity for development, and feel supported;
- know that they are listened to and that their opinions count;
- understand how they contribute to organizational goals and success;
- feel proud of their jobs and their accomplishments;
- know what the future might hold for them;
- enjoy good, productive relationships with their co-workers.

Managers should regularly ask themselves what they are doing to meet these indicators. It cannot be emphasized enough that their delivery demands regular high-quality conversations between individuals and their managers about performance and careers, where individuals are able to contribute their input to decisions, and managers give specific and considered feedback.

### ***Is employee engagement something new or simply a repackaging of previous ideas?***

New technology has opened up more sophisticated opportunities to collect and process data. This provides us with the possibility to test assumptions and provide hard data to measure success and identify business improvements. It enables us to go beyond our previous aim of retaining people longer to making people more productive while they are with us, as well as staying longer. So in a sense, employee engagement is a technological measurement process, which provides evidence of what we have to do to drive business success. As the saying goes, 'If you can measure it, then you can manage it.' Yet also, employee engagement has evolved from previous management theories, which emphasize the importance of employee commitment. The distinction is that earlier management theory tended to be one-way – what to do to gain commitment – whereas employee engagement is a two-way interaction between employer and employee.

## ***Collecting data to measure employee engagement is a highly effective management tool***

However, there is increasing anecdotal evidence to show that many organizations are just going through the motions when they survey their people, and are being too selective about the results they are taking notice of, underplaying those that contain warning signs that something is amiss. A striking example occurred in a firm that is involved in processes that have significant health and safety implications. They were delighted with their good results in the 'communications' group. However, close examination showed a worrying response against one indicator: 'I am afraid to speak up.' Especially given the nature of the business, this was a major cause for concern and further investigation, which was initially going to be ignored.

There is also evidence that organizations are placing too much emphasis on benchmarking their results with other businesses. It is not the comparison that is important – best of a bad bunch is an expression that comes to mind here – but the need to keep raising performance in your own organization. Such examples are wasting the potential this tool offers.

Get the most out of employee surveys by:

- supplementing questionnaires with one-to-one meetings and focus groups to enable you to get underneath the issues and gain insights and solutions from people on the issues to address and how to do so;
- communicating the results fully and openly: run discussion groups around key issues such as: 'What is causing people to be afraid to speak up?'
- acting on the results and letting people know that you are taking these actions because of what they told you through the survey;
- not ignoring the issues that you find difficult. If you cannot act on something, say so and explain why. Keep it on the agenda.

## **Strategic talent development: the link between talent management and employee engagement**

The attraction of the effects of engagement is obvious; it potentially enables the organization to increase employee effort and productivity and improve teamworking, as well as reduce turnover and absenteeism, without increasing salary costs. It maximizes the value of the organization's investment in people.

## 2. Identifies future capabilities that the organization will need and develops people to meet them

This requires taking a longer-term view of development than is typical, which tends to be one year ahead, to fit the performance appraisal cycle. It encourages everyone to think about what is evolving, what is changing and what is driving the business so as to identify capability gaps. It encourages managers to think about changing skill-sets and employee expectations. This helps the individual understand what the future might hold for them and identify a career path. It helps the organization prepare people to meet the challenges of its longer-term business strategy.

The process of developing individuals also makes them feel better about themselves and about the organization. They appreciate that they are valued and see their worth to the organization being enhanced, which will improve their sense of engagement. Even if personal development improves an individual's long-term prospects outside the organization, there is still this improved sense of engagement in the short term, which benefits the organization.

These issues relate to employee engagement indicators:

- 'Knowing what the future might hold for them and how they might be supported to get there.'
- 'Having plenty of opportunity for development, and feeling supported.'

## 3. Delivers not just individual capabilities but those that are part of what the team does as a unit

Strategic talent development provides a process that encourages conversations about performance and careers. It encourages sharing of information and ideas, and emphasizes support and collaboration.

In this way, it is a main contributor to employee engagement, mapping directly to:

- 'Enjoying good, productive relationships with co-workers.'

## 4. Creates innovation, resilience and flexibility at all levels of the organization

The outcomes from the previous attributes should be directed towards achieving innovation, resilience and flexibility. This is achieved through dialogue around and across the organization about emerging trends on

the horizon, about the implications of these, and how to take advantage of them. The business's leaders will stimulate this dialogue by discussing business strategy and performance, and being open to new ideas. This maps directly to factors that lead to high employee engagement:

- 'Knowing your opinions count and are listened to.'
- 'Knowing how you contribute to organizational goals and success.'

## 5. Inspires people through vision, and clear sense of direction

This again must start at the top. It relates to the Black Box finding of mobilizing people around the 'big idea'.

## 6. Actively seeks out people's ideas and opinions, listens to these and acts upon them

Employees feel they can voice their ideas and be listened to, with joint sharing of problems and challenges and a commitment to arrive at joint solutions. This connects to point 7.

## 7. Actively and continuously provides employees with information about the business, its strategies, progress and business results, consulting with employees wherever possible

This involves sharing information at a macro and micro level in the business so that people feel informed, trusted with information, are given bad as well as good news, are consulted about decisions, and given explanations about how and why they were taken. A common failing in organizations is a reluctance to communicate bad news, or failing to communicate when there is no news, leaving people to construct their own version of events – which may be wrong or unsettling. I recall one City firm negotiating a merger, which was common knowledge throughout the organization and the market. Negotiations were protracted and went on far longer than anticipated. The CEO failed to heed advice and to let people know that he had no news, believing it would reflect badly on his negotiating skills. So, there was a long period of no news, during which many of the top performers, especially those who had recently joined the firm through a previous takeover, were headhunted out. Contrast this with the CEO of a manufacturing business who met the economic crisis with an intensive communications programme,

giving the detail of the firm's commercial circumstances, making sure the revenue model was completely transparent and understood. He explained the reasoning behind all decisions, and kept people updated on progress, even when there was no news, or bad news. Strikingly, he spoke from the heart, sharing his concerns and anxieties, as well as his hopes. He lost no one, and moreover people remained motivated and engaged and worked hard to turn the business around.

How, what and when you communicate is gaining in importance in the new world organization, where 'command and control', which is based on low trust, is breaking down. Communicating frankly, honestly and extensively builds trust and gains commitment and loyalty. It is a key indicator not just to measure employee engagement, but to embed styles based on 'shared values, shared visions and shared understanding' that are essential to the modern organization.

These issues relate to employee engagement indicators:

- 'Knowing that they are listened to and that their opinions count.'
- 'Understanding how they contribute to organizational goals and success.'
- 'Feeling proud of their jobs and their accomplishments.'
- 'Knowing what the future might hold for them.'

This is not an exhaustive list of engagement indicators. Well-being (how people feel about stress, pressure and work/life balance), Fair deal (how happy they are with their pay and benefits), Giving something back (how much the company puts into the local community and society at large), and My company (pride in the company) are other engagement indicators that are common to key surveys (Best Companies, 2012). These are, however, outside the scope of this book where my concern is with those indicators that get to the heart of collective and individual relationships in the organization with the aim of enabling everyone and the business itself to grow and flourish.

## **CASE STUDY**

KPMG has worked hard to develop a high level of engagement within the organization, and the firm is a regular award winner for its success here. Staff expect managers to tell them how it really is – in good times and bad, and this was the foundation of its Flexible Futures programme, which in 2009 helped KPMG weather the uncertainty of the recession. Following extensive communication on the effects of the recession on the business, staff were consulted on the design and implementation of this programme of voluntarily working

reduced hours for a short term. Having set itself a target of 65 per cent sign-up, KPMG were delighted that 85 per cent of staff were willing to sign up for reducing their hours by one day a week, or taking 4–12 weeks off on 30 per cent pay, if business need required it. Sarah Bond, Head of Engagement, said at the time: 'We were open with colleagues about the need to introduce additional flexibility in our staffing arrangements to help prepare for uncertain times. It is a clear indicator that staff at KPMG feel a shared ownership for the organization's fortunes, and I am very sure that we would not have achieved such a positive response without the high level of engagement between staff and management.'

This case study shows how high employee engagement levels build trust and cooperation.

## How do we bring talent and engagement policies to life?

For a long time, there has been commonality among the surveys about which factors lead to higher engagement levels, and much of it points to the role of the manager. For example, the Black Box study, referred to earlier, found that front-line managers exercise a strong influence over the level of discretionary effort that an individual directs to their job. Some managers encourage people to be responsible for their own jobs whereas others stifle initiative through controlling or autocratic behaviour. A CMI study found that almost half of workers surveyed (47 per cent) had left a job because of bad management (CMI, 2009). Perhaps even more significantly, the same survey (49 per cent) said they would be prepared to take a pay cut, in order to work with a better manager.

Certainly, a main lever to bring talent and engagement policies to life is the quality of the relationships people have with their top leadership, their manager and with each other. However, there is evidence that 'career development', which used to be the fifth-ranked reason why people left organizations, has now risen to top place, overtaking 'poor relationship with manager' (CRF Institute, 2012). I believe this is to do with our changing perceptions of job security.

### ***Changing perceptions of job security***

The theories of motivation first developed in the 1960s by Frederick Herzberg (Herzberg, 1987) and Abraham Maslow continue to be widely used. They both suggest that what Herzberg refers to as 'hygiene' factors,

profitability, but because one of the stars wanted it. Research carried out by Tosi *et al*, which finds no link between organizational success and the perceived charisma of the CEO, supports this critical view (Tosi, Misangyi and Fanelli, 2004). In place of the 'heroic' models, alternatives that include 'being open and considerate of others' and demonstrating 'humility' are being cited as desirable. We also see leadership models that emphasize the distribution of leadership throughout the organization, as well as the importance of 'shared values, shared visions and understanding'.

This new approach to leadership highlights the convergence of two important trends in the 'new world' discussed in the last chapter. First, it seems that people in the new world are less willing to accept the 'command and control' model of management from on high by the 'heroic leader'. It seems to be becoming less common and not to be working very well. The second fact is that the pace and complexity of change in our societies and business environment must stimulate innovation and flexibility at all levels of the organization. These factors make a more devolved leadership style desirable so that companies can cope effectively in these circumstances.

The writer who has done much to promote this view of leadership is Jim Collins. He investigated over 1,400 organizations quoted on the US Stock Exchange, controlling for economic factors and size among other variables. He focused on those who moved their organizations from solidly 'good' performance to 'great' performance and who maintained this position for at least 15 years. He identified two common characteristics: one, the steadfast belief of the chief executive that their company would be the best in the field; and the second, their 'deep personal humility'. The first of these critical factors reflects a strategic approach to business. The latter characteristic reflects a way of managing: it emphasizes the role of the team and identifies the leadership job as enabling that team to perform effectively (Collins, 2001).

### ***What do we mean by leadership?***

At the top level of the organization it deals with overall strategy and vision and values, as discussed before. It is a subset of the management process, which is a concept little changed since FW Taylor, the earliest management commentator, developed his theories of scientific management. Taylor described management as being about planning, organizing people and resources, and about control. His emphasis was on efficiency and administration and, in an era when this was achieved through a 'command and

control' approach, this was how the manager managed. However, his work did not focus on the 'how' of getting people to do things efficiently, much less on the 'how' of creating an innovative organization. As society has changed, this 'how' has become a much more important consideration, which brings us to leadership.

Our ideas of business leadership grew from the work of behavioural scientists in the 1960s. They introduced the idea that influencing people by virtue of personal attributes and behaviours was important to management success. At first this notion worked within 'command and control' structures, with line managers influencing to gain commitment and enthusiasm. Real, full-blown leadership – 'driving change', 'setting direction', 'interacting with stakeholders' – was the preserve of people at the top. Since the 1960s, rapid change and competitiveness in the business environment, the emergence of the knowledge worker and of the information age and, now, of the innovation age have fomented change and put behaviours centre-stage. These are behaviours related to learning, adaptability, flexibility and team-working. They are also the different leadership behaviours required at different levels of the organization and for different roles. For example, a professional expert, though not a manager, may be required to lead and direct a significant piece of change, while interacting with and managing others across organizational boundaries – which illustrates that anyone, anywhere, may be required to move in and out of leadership roles at different times.

The distributed leadership model also recognizes that innovation and creativity can come from anywhere in the organization. It allows for individuals anywhere within it to have knowledge and understanding that is a valuable input into decision making. MacBeath argues that 'distributed leadership is premised on trust, implies a mutual acceptance of one another's leadership potential, requires formal leaders to "let go" some of their control and authority, and favours consultation and consensus over command and control'. It is not a zero-sum game, where developing others diminishes the power of those at the top, but 'one where each can mutually reinforce the other' (MacBeath, 2005).

### ***What is the most effective way of leading people?***

The importance of 'behaviours' as the means to bring about a culture change was addressed initially through the concept of 'the learning organization'. This is a theory of organizations as 'learning systems' in which success depends on two key skills – learning continuously and giving

direction. I believe this idea succeeded, but only to a limited degree; it helped change attitudes and get individuals to recognize the importance of learning. It helped them see learning as something to take control of, as opposed to it being something that is 'done' to them through being sent on a training course. However, this has had little impact on the way people and relationships are managed in the organization. This role has been taken by coaching, which has increasingly gained hold as being the most effective way of managing people and building working relationships. Estimates in the UK, for example, suggest that coaching takes place in around 90 per cent of organizations, with line managers being the main deliverers, and the need to train them in coaching skills being a priority (CIPD, 2009).

Other studies show that a coaching style of management delivers benefits that are manifested in better team relationships, enhanced self-confidence and more general improvements to engagement, flexibility and commitment. A coaching style of management is not about 'being the boss', giving directions, telling people how they should have done it or jumping in with the answer. Rather, a manager's role today is often to enable, encourage and facilitate so that staff have a sense of control over their own work and their own time, so they identify their own options and solutions to problems, so they are involved in decisions and so they learn and develop. A manager may also work with an employee on a more formal coaching basis, perhaps to help that person develop their knowledge or acquire a new skill or responsibility.

It is unsurprising that developing managers' ability to coach is gaining such importance, as 'command and control' styles have a practical drawback: with leaner organizations, managers do not have time to micro-manage and, with wider spans of control the new norm, they may have insufficient detailed understanding of the technical aspects of jobs they are managing. Moreover, coaching styles are transferable to different situations and, increasingly, managers must achieve results through people over whom they have no direct authority. In these situations they must influence by using coaching skills rather than command.

The distributed leadership model, whose characteristics are 'shared values, shared visions and shared understanding', is the next step. Using coaching styles as the main delivery mechanism, this leadership model enables decisions and actions important to success to occur anywhere in the organization. It recognizes that innovation requires teamwork and collaboration and that people at all levels must be able to spot trends and adapt to them.

It also takes account of structural pressures that are blurring organizational boundaries and reporting lines.

## The way we do things around here

For this strategic talent development approach and distributed leadership to flourish, they must be supported by the organizational culture.

We all know what we mean by culture but most of us have difficulty defining it precisely. It is broadly the shared values and the collection of different behaviours that, taken together, comprise 'the way we do things around here'. These can include rituals and customs such as going for a drink with colleagues on a Friday night, as well as interacting through formal management meetings. It can include the way one is expected to behave on these occasions. It can be built on shared memories and experiences but that does not preclude new colleagues being inducted into the behaviours without having shared those experiences.

Organizational culture can be complex and can vary across the organization. As Schein, an acknowledged expert in corporate culture, points out, 'Wherever a group has enough common experience, a culture begins to form' (Schein, 1999). Culture can reside at all levels in any system: a country has its own culture, as does a whole industry. There may be an organizational culture but, undoubtedly, there will also be a distinct culture for each department, group or team. Culture can also change over time. As it affects the way people do things and make decisions, sometimes changes need to be helped along to ensure the organization has the right culture in the right place. According to Schein, 'There is now abundant evidence that corporate culture makes a difference to corporate performance.' This is a compelling argument for analysing culture and, where appropriate, seeking to manage its development in a particular direction.

Researchers agree that culture is more than 'shared values', yet values are often considered integral to culture. Hofstede used the metaphor of an onion to describe the manifestation of culture at different levels. On the outside layer lie symbols (ie words, gestures and objects), heroes (ie iconic representation of the admired in the culture), rituals (ie collective activities and teachings), and finally values as the core of the culture (Hofstede, 2003). Certainly, values have come to be a shorthand way of describing the culture and I use the term in this way throughout this book. It is such a significant

issue that the next chapter will discuss values, what we mean by them and how they affect behaviour.

## Key points

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- There is strong evidence that employee engagement leads to better individual and organizational performance.
- Employee surveys are valuable tools for engaging people's perceptions and ideas. Use them to truly identify improvements and to understand perceptions. Don't be selective in what you listen to. Benchmarking is over-emphasized. Strive for your own high standards.
- 'Command and control' styles of management run counter to employee expectations and are becoming impractical. A powerful alternative is a coaching style of management where people are supported, challenged and developed rather than told what to do.
- The new leadership model acts through promoting 'shared values, shared visions and shared understandings'.
- Strategic talent development:
  - embodies this leadership approach;
  - guides you to look ahead and align individual development with future organizational needs and business strategy;
  - encourages you to recognize that innovation that will be pivotal to success may occur anywhere in the organization;
  - promotes employee engagement.

## The mathematics of values

What if different values appear to conflict? An example might be a simultaneous belief in 'integrity' but also in 'success'. How do you resolve a situation where a small compromise of integrity will lead to a big gain for success? The clue is in the name: 'value'. These are beliefs and principles to each of which we ascribe a worth, which allows us to create a hierarchy. So it is important to avoid formulations that appear to give the same value to a long list of principles and to try to be more specific, such as 'we will never achieve success at the cost of our integrity'. This tells us clearly that success and integrity are both values but that integrity is more important.

This understanding should also help in the selection of appropriate and meaningful values and in how we express them. Extending the example, we may want a value to be 'customer focused'. Once we consider the relative weighting of values and ask whether that means we would choose the customer's benefit over our own, we realize that 'customer focused' is a subset of 'success'. It is a means to achieving the latter, not an end in itself. That means it should be stated in terms such as 'we achieve success through being customer focused', which makes clear the hierarchy of beliefs. This sort of value is not less important because it is a subset of another value. Companies that say they 'strive for excellence in all they do' or 'strive to innovate' are giving a clear message to their staff, investors and customers about how they achieve success and it does help to guide behaviours.

Values are also frequently conditional, which is particularly relevant at work. For example, the individual usually believes in being loyal to the team or to the organization, but only on condition that this is reciprocated. So being given a poor pay review or being passed over for promotion may be interpreted as breaking the obligation. This is a problem for companies because it is the individual who is in charge of interpreting what breaches the conditionality, while their employer or colleagues may never be aware that the bargain is broken. One of the most relevant problems of this sort arises from perceptions of excessively high levels of reward accorded to bosses; those lower down the organization hierarchy may feel that the requirements for their conditional values of loyalty and honesty have been breached by what they view as bad behaviour higher up.

There is a final problem with values that is useful to have at the back of your mind; if Value A is more important than Value B, and Value B is more important than Value C, does that mean Value A is also more important than Value C? The answer is that we don't know, so it is best to make it clear

when communicating values. Continuing the same example as above, suppose another value is that we 'treat people with respect'. For the most part, this is the same thing as behaving with integrity, which is our supreme value. However, if times are hard we may dismiss staff in order to reduce costs, thereby moving this value below our value of 'success'. This tells us that while values are both important and useful, they are also complicated. They may form complex hierarchies, they may be conditional (being sacrificed to economic survival) and open to interpretation. So if staff must be dismissed I will treat them with dignity and give them the best financial package I can afford. But in good times I may have felt that the value of treating people with respect required me to retrain or reallocate people but not to dismiss them. I have reinterpreted the value.

## Giving values meaning

Take stock of what you want to achieve by having corporate values. It is likely that as an organizational leader you seek a work environment that encourages behaviour that has positive effects on stakeholders and the community. You are probably aware that an increasing number of customers, employees, regulators and legislators are paying attention to the impact of organizations on society. They will support an organization whose values they identify with: whether because they support its ethical standards or because the brand image suits them sufficiently to buy the products or join as an employee. Values, therefore, reflect what your organization stands for: they encapsulate its personality and link it with its various stakeholders.

It is often hard to describe values briefly, yet being brief makes them far easier to communicate effectively. The solution to this dilemma lies in communicating concise catch phrases but always explaining them in more detail. One of McDonald's published values provides a good example. It is headed 'We are committed to our people', which is brief and has a comforting ring to it but is not very clear; so they go on to elaborate: 'We provide opportunity, nurture talent, develop leaders and reward achievement. We believe that a team of well-trained individuals with diverse backgrounds and experiences, working together in an environment that fosters respect and drives high levels of engagement, is essential to our continued success.' It does not make empty or meaningless promises but does express some specific aims and finishes by making clear that this is a subset of success.

Douglas Macgregor states that organizations that have succeeded in engaging everyone around clearly discernible values do not simply proclaim their values; they immerse their managers as well as their employees in the ideology to an obsessive degree (Macgregor, 1997). New members learn the values of the organization through their initial socialization processes. Many organizations, such as the BBC and the *Guardian* newspaper, have long-held values, and employees are well versed and immersed in them. They act as constant reference points against which people determine policy, interpret challenges and dilemmas, and take decisions.

Guardian Media Group (GMG; [www.gmgplc.co.uk](http://www.gmgplc.co.uk)) uses its values as a reference point for all employees on a wide range of issues. They act as a focus to pull people together and help to establish a corporate identity and company loyalty; they help people know how to behave; they set boundaries within which people can work – that way you don't need a 'do' and 'don't do' list, or someone to say you can or cannot do something: it is obvious and falls into place.

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## CASE STUDY

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GMG is owned by the Scott Trust Ltd. It has a broad portfolio of businesses and investments. Its core business is Guardian News & Media (GNM), which publishes the *Guardian* and the *Observer* as well as the [guardian.co.uk](http://guardian.co.uk) website.

The idea that businesses have obligations to the society in which they operate is often thought of as a relatively new phenomenon even though many businesses, particularly those founded by Quakers in 19th-century Britain, espoused this view. At GMG an awareness of the wider responsibilities of business has always been at the heart of what they do. The *Manchester Guardian* was created to support social reform in the early 19th century, and the ethos of public service has been part of its DNA ever since. The editor CP Scott summed this up in his 1921 leader marking the centenary of the paper, in which he asserted that newspapers have 'a moral as well as material existence'. He listed the essential attributes he believed should form the character of a newspaper. He wrote that the most precious possession was 'honesty, cleanness (integrity), courage, fairness, and a sense of duty to the reader and the community'. The Scott Trust later adopted these values as its own; they continue to inform the way in which GMG runs its business, operating GNM as a commercial enterprise while always seeking to adhere to principles of decency and public service.

Since then, these values have acted as a guiding light and clear reference point in shaping the style and nature of the newspaper and of the group as a place to work. Alison Hall, Director of Change at GNM, says: 'People choose to work here because of the values. You know what is right and what is wrong and what fits with the paper's ethos.'

It does not need policing.' This clarity enables people to adapt and act quickly, whether in formulating policy or pursuing a story.

This values-driven approach is illustrated by the response of GNM Editor-in-Chief Alan Rusbridger to a question during a visit to Norway in June 2009 when he revealed that he does not read all the tweets from journalists before they are published: 'I was told that this could not happen in Norway as the editor-in-chief would insist on reading all content', says Rusbridger. 'We are probably ahead of others as we devolve a great deal of responsibility and freedom to our reporters. The idea of journalists publishing directly is not a shocking one for us' (The *Guardian* and the *Observer*, 2008–09).

This last example shows how clear values facilitate trust on the part of the managers and, as a result, leadership is devolved to where and when it matters.

Where organizations do not have the long-held traditions of GNM, identifying values and making them mean the same things to everyone can be problematic, one such problem being that organizations usually, and perhaps inevitably, choose their values from a small set of words or phrases that can equally mean a lot or nothing. At worst, empty phrases give rise to cynicism and discontent, as people find the organization does not live up to its promises. The most common 'value words' used in organizations are: openness, fairness, integrity, honesty, respect, customer focus, team orientation and creativity. Given these difficulties:

How do you identify values and ensure everyone shares their meaning? How can you achieve this while also retaining flexibility for differences across departments, business units and geographical location, where needs may be rather different? How do you ensure that these words are not empty platitudes and really mean something?

GNM again provides some answers to these questions. Carolyn Gray, Group HR Director, receives reports from the HR directors of the individual businesses on various aspects of HR. This includes evidence of how these HR activities are aligned with Scott Trust values. She then presents an overall report to the GNM board, including how effectively values have been upheld. What is striking here is how it remains important to refer continually to values and be conscious of them, even when they have been in place since 1921.

At Standard Chartered Bank, values take the form of five descriptors: courageous, responsive, international, creative, trustworthy. The bank invested considerable time and effort into identifying these values through discussion and workshops and using consultancy support to facilitate discussions. Then, having homed in on just five words that might be expected to be

2012). The point here is that those standards are clear, and as some commentators remarked, they still hold true in many parts of the Corporation.

To answer our earlier questions, these case studies help us conclude:

- To make values stick, consciously work at embedding them.
- To establish ‘shared values’, constantly articulate and evaluate behaviour. It is not easy for people to change their values, especially when these are associated with their national culture, but they can change their behaviour – and it is how people behave that brings the values to life. Discussing these behaviours with reference to values will help you put a shared meaning on values, while also allowing for cultural adaptations.
- Check that you actively promote organizational values through your words and your deeds. Facilitate this where necessary.
- Check that organizational values are upheld consistently through all your strategic talent development policies and practices, including performance management.

‘Shared values’ represent an organization’s long-term view of the world; that is, you cannot change them too frequently – you need to make sure you define them properly but then hold your nerve with them and really embed them to reap long-term benefits. Having shared values in an organization does not mean that everyone has to have exactly the same view, but that their views must be mutually supportive and transparent.

A talent and engagement strategy is beneficial in this respect. Drawing up a strategy will engage you in conversations around the business, which lead to insights that do not often emerge when you are caught up in the day-to-day. These conversations are opportunities for reinforcing your values and generating a shared meaning. One aim of a talent and engagement strategy is to join up your people processes and integrate them with business strategy so that your processes transmit consistent messages and influence consistent behaviour. This too is instrumental in creating ‘shared values’. As we saw earlier, a role of strategic talent development is to drive the culture and the behaviours that will lead to sustainable success for your business. In an ideal world, the senior management team will actively support this, or indeed your values will already be in place. Where this is not the case, be especially conscious of the behaviours your policies may drive. For example, if you need to drive teamwork or encourage accountability, communicate how a

particular initiative will help achieve this. Eventually, as behaviours develop, cultural values will become more evident and will take on a shared meaning.

As Charlie Mayfield, chairman of the John Lewis Partnership, wrote in *The Times*, ‘putting emphasis on values is also a recipe for commercial success. Companies that focus most on maximizing profit are often not the most profitable. That’s especially true over time’ (Mayfield, 2010).

## CASE STUDY

Jack Welch, CEO of the US General Electric Company for 20 years, wrote to shareholders about four types of manager (GE Annual Report, 2000):

*...it’s about the four ‘types’ that represent the way we evaluate and deal with our existing leaders.*

*Type I: shares our values; makes the numbers – sky’s the limit!*

*Type II: doesn’t share the values; doesn’t make the numbers – gone.*

*Type III: shares the values; misses the numbers – typically, another chance, or two.*

*None of these three are tough calls, but Type IV is the toughest call of all: the manager who doesn’t share the values, but delivers the numbers; the ‘go to’ manager, the hammer, who delivers the bacon but does it on the backs of people, often ‘kissing up and kicking down’ during the process. This type is the toughest to part with because organizations always want to deliver – it’s in the blood – and to let someone go who gets the job done is yet another unnatural act. But we have to remove these Type IVs because they have the power, by themselves, to destroy the open, informal, trust-based culture we need to win today and tomorrow.*

*We made our leap forward when we began removing our Type IV managers and making it clear to the entire Company why they were asked to leave – not for the usual ‘personal reasons’ or ‘to pursue other opportunities’, but for not sharing our values. Until an organization develops the courage to do this, people will never have full confidence that these soft values are truly real. There are undoubtedly a few Type IVs remaining, and they must be found. They must leave the Company, because their behavior weakens the trust that more than 300,000 people have in its leadership.*

## Organizational success factors

As we have already discussed, clear values that embody what the organization stands for, and that guide the behaviour of its members, is essential in

today's organizations where direct supervision and top-down control are becoming increasingly difficult.

Returning to the BBC as an example, their values provide the reference point for establishing the performance standards that make for success in the enterprise.

Lord Reith, the first director-general of the BBC, laid down a definition of the purpose of the BBC to 'inform, educate and entertain'. In the newsroom, for example, this definition is an important reference point giving 'the news-gathering team a clear set of standards to work to, which are set at the highest possible level'. There is 'a regular dialogue with the programme editors about standards to be sure everyone is working to the same ends' (Caplan, 2003).

Walmart is an example of a company that is trying to shift its corporate culture across the world from one based on rules to one based on values. The aim is to ensure that employees will 'feel empowered and have the right values so they can make the right decision. The thing that will decide if Walmart continues to be special as it grows around the world is getting these values across' (*The Economist*, 2011).

Moving to a values-driven culture, and maintaining it once you get there, raises serious challenges. How do you get people to share values across the company, perhaps also across the globe? Before addressing that question, we must consider what can go wrong, so that we can identify the pitfalls to avoid. There is often a disconnection between individual and organizational values, or between what is publicly stated and how people behave. Such disconnections make it difficult for people to know what is acceptable. An example might be a company that has among its stated values to treat everyone with dignity and respect, but whose norms have permitted and perhaps even encouraged a pattern of sexual harassment over a number of years. Do those in the organization know that the behaviour is wrong, but condone it nevertheless?

## Business ethics and values

If we talk about values then we should also talk about business ethics. Ethics is a branch of philosophy that deals with what is right and what is wrong behaviour. But it is not just confined to philosophers: we all make ethical decisions every day of our lives. Some of these decisions are on a large scale where we may decide whether to cheat, to steal or to lie. Most of them will fall into more of a grey area where we can convince ourselves either that they are trivial or that we are doing no wrong. Such borderline decisions may be about taking company property, on a small scale, such as pens or

paper, accepting entertainment from a supplier that we know is meant to influence a business decision, saying something in a meeting (or remaining silent) with the intention of gaining an advantage over a colleague, or maybe failing to mention a relevant disadvantage of a product we are trying to sell.

There is a clear overlap between business ethics and values but they are not the same thing. Some values will not concern ethics, but all ethics will fall within your set of values. Values that are not ethical issues might include things such as being open with colleagues and sharing information or contributing to the local community or always putting the customer first.

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## CASE STUDY

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A friend of mine was a director of a company trading in an African country. The company sold its services in a number of neighbouring countries where it was often necessary to pay taxes or to have taxes withheld from payments before it was certain how much was due. It turned out that his company had overpaid its taxes in one of those countries and so he was seeking a refund from the authorities. Meeting a senior executive of the revenue authority in a smart city centre hotel he was shocked to be faced with a blatant demand for a bribe in order to secure the release of the monies that were legally due to his business under the nation's tax code.

His decision to refuse was based on an ethical judgement but it was also influenced by the effect it could have on his company's culture. If he paid the bribe then it would have to show in the records of his business and, at the least, his accounting staff would be aware of it. What sort of example would he be setting them? Once they could see that dishonesty was officially countenanced in one context, how could he be sure they would not draw the conclusion that dishonesty was ok in other contexts?

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Decisions taken within an organization may be made by individuals or groups, but whoever makes them will be influenced by the culture of the company. Where such decisions have an ethical nature they will also act the other way, affecting the culture of the company too and therefore future decisions. At its simplest, once a decision is made that contravenes your declared company values, this makes it more likely that further decisions of this type will be made. This is the 'slippery slope' argument.

Putting aside the moral issues of right and wrong, there is a clear business case for ethical behaviour. The news media are full of reports of the repercussions of unethical behaviour, ranging from phone hacking through

bribery and false reporting of data to money laundering and misrepresentation. The fines levied for law breaking usually dwarf the original benefit and, where the bad behaviour is not actually unlawful, the loss of reputation itself can be enormously costly. Beyond that, there is the hidden cost of people following bad examples from within the organization and feeling that if it or its leaders can behave badly then they themselves have the same right.

Why do individuals behave unethically? One reason is the complexity of the issues leaders deal with, and the difficulty in many instances of determining which is the most ethical alternative. Another is the pressure people are under to perform, such that they start by cutting corners a little and, once done, this marginally questionable behaviour makes it feel easier to cross the next barrier. There are several systemic factors. One is the competition for scarce resources; another the ease with which we slip into unethical acts to gain a competitive advantage in the race for position or power.

Factors related to the dynamics of group and team behaviour can lead to unethical behaviour or failure to act to stop it. One is groupthink,<sup>1</sup> which can occur in a homogeneous group with a strong leader. A second is the presence of ideologues: individuals who view their own extreme positions as 'right' and any opposing positions as 'wrong'. A third is the organization's response to dissent. There are few incentives for 'whistleblowers' or those who try to expose unethical behaviour in organizations. Organizational norms encourage 'going along' and discourage questioning the unethical actions of others. This can quickly compromise ethical standards in any organization.

Values and ethics are not just about having a rulebook that people may or may not look at. The organization must live its values; senior management must set an example, transgressions must be punished, values must be talked about. Constantly examining and re-examining these issues must be part of the regular conversations that occur around the organization. When I worked at Alitalia as a young trainee in HR, safety was, and I feel sure still is, the prime consideration. This wasn't just a written statement, but was reinforced at every opportunity, through formal corporate communication, through informal conversations, and through practices and processes and how these were implemented and controlled. This might seem obvious, but my point is that safety wasn't separated out as a responsibility for just those directly involved but was part of the worldwide fabric of how things were done at Alitalia, and which everyone was conscious of, whatever their role. It permeated everything that was done and what people said and did and how they thought. It was part of the general conversation. There is a common expression that it is not enough to 'talk the talk', you must also 'walk

## How can the leaders of an organization build an ethical climate and embed the organization's values?

There are a number of steps:

- Foremost are the actions of the strategic leadership and the way they deal with ethical issues. The pattern of top leaders' behaviour determines organizational values. Top leaders should regularly review their own actions and communications in the light of the organization's ethical codes and espoused values. They should consciously seek to discuss values.
- A second step is to make explicit ethics policies, through the firm's employment policies, but perhaps additionally by drawing up an organizational ethical code, or by signing up to one. An example of the latter is the Principles of Responsible Investment. This UN-backed initiative, which now has over 1,100 signatories, is a network of international investors who work together to put into practice the six principles that make up the code. Whistleblowing policies are important, especially paying consideration to how these are implemented and the way people who use the policy are treated.
- The next step is to increase awareness of how to apply those ethical codes. Training in how to deal with situations with an ethical dimension, and how to anticipate situations that involve ethical choices, can go a long way towards ethical institutional practices.
- We also need to know what is actually going on in the organization. This requires a culture where full and accurate information is passed upwards through the hierarchy and where individuals are not frightened to convey bad news. However, it also relies upon more senior managers asking probing questions and not using the answers merely as a reason to chastise or punish. When probing questions are used to bully people, it stops the flow of useful information. The information passed upwards helps to inform sound management decisions, but should also support ethical behaviour and allow the strategic leader to know when or where there are potential ethical breaches so that corrective action can be taken. It is a real danger that when unethical behaviour is unnoticed, or unpunished, members will assume that the organization's leadership condones it.

## What happens when, as an organization, we fail to live up to our values?

This can happen because we were not serious about them in the first place, which is the negation of everything discussed in this chapter, or because individuals substitute personal and unacceptable values for those of the organization. Typically this occurs when individuals sacrifice integrity for personal gain. In such cases, as long as the organization reinforces its values by disciplining the individuals, or at least stating that they were wrong and that such behaviour will not be tolerated in future, its values are intact. However, if it fails to do this and therefore implicitly adopts the 'new values' or if the breach was so widespread that it had become an organizational value, then there is a problem: if the organization fails to repudiate bad behaviours, its claimed value system is a dead letter.

Sometimes, ethical dilemmas are subtle.

Example: many European businesses operate payment terms of 90 days regardless of the fact that suppliers' terms are often 30 days. This often conflicts with the organization's stated values of trust and integrity. How can you build trust and act with integrity with regard to your contractors and suppliers in these circumstances?

Example: many organizations encourage personal ambition and the single-minded pursuit of personal reward. How does this reconcile with people whose religious upbringing has taught them that there is virtue in charity and abstinence?

Example: it is not unusual for pharmaceutical and cosmetic companies to give less prominence in their advertising and promotion to unflattering studies of the effectiveness of their products than to studies that appear to show favourable results. Or they might avoid carrying out studies that could be unhelpful to those promotions. Does this behaviour cross the line of what is ethical?

Identify practices such as these that might sit uncomfortably with your values. Discuss them openly, and pull actions back into alignment, if you can. Take action with people whose performance is straying from your values, but equally this will help them decide if they do not like the way you are interpreting the organization's values.

## Keep values in the consciousness

Recruitment, performance appraisal, development and pay should all reflect and reinforce the organization's values and ethical codes. Increasingly,

organizations are expecting people to exhibit how they uphold the firm's values through the performance management process. In some cases, the person's final rating will depend not just on whether they have met their objectives, but on evidence that they have also upheld the firm's values.

Above all, values must be discussed regularly and openly. At leading PR firm Burson-Marsteller, for example, discussions on the firm's values and what they mean to people in different parts of the world can be accessed easily through the firm's internal social media. These discussions keep the firm's values in people's consciousness but also enrich global working, helping people to improve their understanding of each other's cultures and ways of operating.

## Key points

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- Shared values, shared visions and shared understanding set the boundaries for people to take decisions and know what is expected of them.
- Values must be meaningful and, where they are usually expressed in just a word or phrase, must be expanded upon so that people know what they mean.
- The firm's values must be communicated and discussed regularly and openly to keep them in people's consciousness and ensure that there is a common interpretation of them.
- Make ethics policies explicit, through the firm's employment policies, but additionally by drawing up an ethical code, or by signing up to an existing one.
- Recruitment, performance appraisal, development and pay should all reflect and reinforce the organization's values and ethical codes.
- Values must be lived, not just talked. This applies to everyone, from top to bottom. The organization must act when it fails to live up to them.
- Ethical behaviour is intrinsically rewarding. This will lead to better results.

## Note

- 1 The term 'groupthink' was coined by Irving Janis in 1972.

# Strategic framework

03

**S**trategic talent development that includes the entire workforce delivers what your business needs to meet the rapid changes in markets, technology, society and techniques that characterize our global business environment. The four-point framework (Figure 3.1) will help you achieve this. Its four points address the challenges of the new world business environment, and guide you through the process of drafting and implementing a people plan that will position your business to survive and prosper through an engaged, flexible and talented workforce. Without an appropriate process, your vision and transformation effort can easily dissolve into a list of confusing, incompatible and time-consuming projects that go in the wrong direction or nowhere at all.

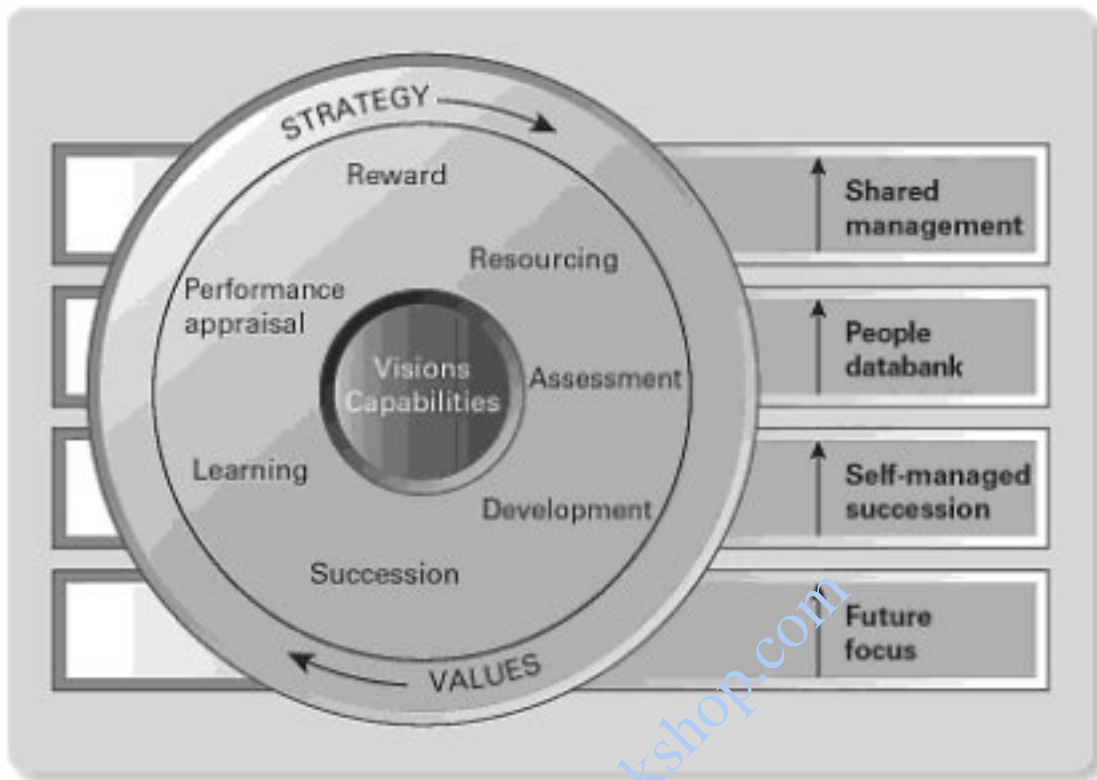
In the Introduction, we considered the broad business environment at the macro level. I now turn to how these changes translate into boardroom concerns. I then show how the four points of the strategic framework address these concerns. I feel it is important to make this direct link between the four points and the strategic needs of the business to emphasize that strategic talent development is business driven. I then give an overview of the four-point framework.

## The relevance of the four-point framework to the new world business environment

The starting point, therefore, is to ask what the business needs: or, indeed, what's keeping C-level executives<sup>1</sup> awake at night?

Three of the biggest boardroom challenges that strategic talent development must respond to are: the speed and unpredictability of change, the

**FIGURE 3.1** The four-point framework shows the steps to develop your talent and engagement strategy



increasingly serious consequences of failing to manage risk effectively, and the constant need to manage the bottom line, especially in light of ever-rising costs. Let's look at these more closely.

### ***The speed and unpredictability of change***

Change brings opportunity but it is strikingly the fear of missing opportunity, or of seeing the opportunity but being unable to take advantage of it quickly or smartly enough, that is the prime cause of insomnia for today's C-Suite executives.

Hard evidence to support my own anecdotal evidence comes from IBM's survey of 1,700 CEOs and senior public sector leaders from around the globe (IBM, 2012). This found that 'technology now tops the list of external forces impacting organizations. Above any other external factor – even the economy – CEOs expect technology to drive the most change in their organizations over the next five years' and 'While CEOs are invigorated by the opportunities, they also fear falling behind, given the pace of technology change.' According to this survey, 84 per cent of organizations that outperform their peers 'translate insights into action better than industry peers. 73 per cent more outperformers excel at managing change...'.

PwC's Global CEO Survey in 2012 also supports my view: 'One in four CEOs said they were unable to pursue a market opportunity or have had to cancel or delay a strategic initiative because of talent constraints.' This survey also reports that 'despite weak confidence in global economic growth, CEOs' confidence in their own organization's growth prospects was significantly higher' (PwC, 2012). Clearly, strategic talent development is urgent, as well as important, if organizations are to achieve top-line growth.

In today's technological, connected world, significant change, shaped by leaders' strategic vision and encouraged by the organizational climate, may emerge from a team or an individual anywhere within your organization. The inspiration or insight for a new product or market or way of doing things may come from anyone. The ability to take rapid advantage of it *must* come from everyone.

The first questions we must address, therefore, are: How can we create an environment that empowers people to spot opportunity? How can we engage people so that they will act on the opportunity?

## **Risk management**

This discussion takes us into the risk management arena. What is the risk to the business of pursuing this opportunity? What is the risk of not doing so? Do we have the people who can take this opportunity forward? What impact will it have on others? Will it lead to infighting between different factions and departments? How will those who are currently pre-eminent react to this upstart idea? How will it disrupt an existing market and value network, or displace earlier technology? Who will block this decision? Who will support it?

There are probably other questions but these are the key talent questions to which there are two answers: firstly, businesses must create the cultural conditions for change and strategic innovation; secondly, businesses need a deep, current understanding of the people they employ, of their functional and behavioural capabilities, their experiences and their aspirations.

Brand reputation is another area of risk that is increasingly coming within the scope of a talent and engagement strategy because Web 2.0 technologies form a corporate communications frontier. In the past, companies would identify one or two people who were authorized to speak to the press, to investors and to suppliers. The company's public image could be centrally controlled. Now just about everyone is interfacing

with the outside world through Facebook or MySpace or Twitter or LinkedIn or specialist forums or personal blogs. This exploding use of social media is not just changing the way an organization manages its brand. It is changing people's attitudes: they are more used to sharing information, hungrier for it; and it is encouraging people to be more open about themselves and about what they are working on. An old-world response would ban such communication to preserve confidentiality; the new-world response is to ensure that people understand what is commercially confidential so they can use these media without giving away trade secrets. In the old world, information was power, so people kept information to themselves. In the new world, power comes from sharing information.

### ***The bottom line***

Another big concern in the C-Suite is, of course, the concern to grow the bottom line. This brings us back to the discussion in Chapter 1, where we looked at studies that show the correlation between high levels of employee engagement and higher productivity, and that therefore provide us with evidence that implementing strategic talent development will directly impact the bottom line.

## **What does success look like?**

The four-point framework will help you address these fears, so that the following are embedded in your culture and become 'how we do things around here'.

### ***Seize opportunity***

For an organization to seize opportunity, it requires:

- A workforce with the skills of learning and unlearning so the organization has the agility to move rapidly into new markets, or new products. 'Unlearning' means you not only adopt the new but also stop using the outmoded: these can be difficult habits to break.
- A workforce empowered to spot opportunity from wherever they are in the hierarchy, and from whatever position. This, in turn, demands frequent clear, open and transparent communication within the organization.

**FIGURE 3.2** How the four-point talent framework responds to business challenges



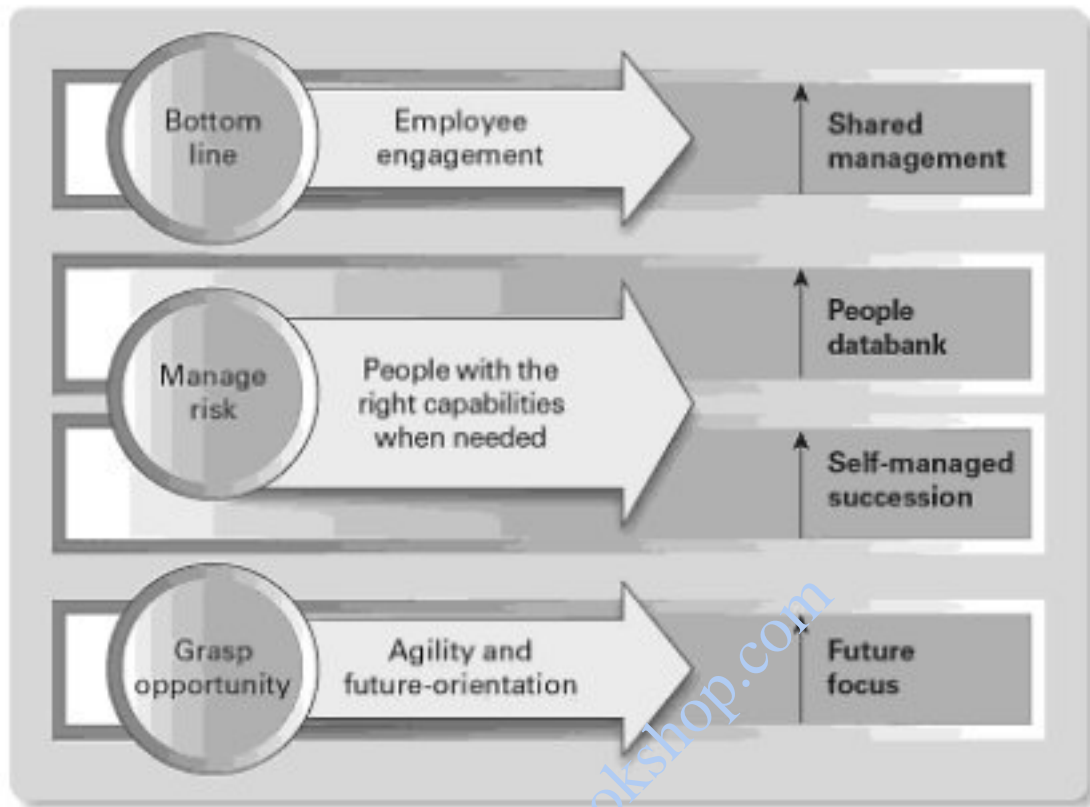
- A culture that values everyone's role and contribution, recognizing that all roles are interlinked and does not allow one function to regard itself as superior.
- Everyone to be taking a future-oriented approach so that they recognize an opportunity when they see it.
- An emphasis on innovation, where innovation doesn't just mean small, incremental improvements – these are just part of being a dynamic organization. 'Innovation is about finding new ways of combining things generally. Innovation means offering things in different ways, creating new combinations' (Porter, 2012).

### **Manage risk**

To address the risk related to having appropriate resources of skills and capabilities the organization must:

- Focus on the future so that needs are apparent early.
- Have processes for developing the capabilities it is likely to need in the future.
- Have an understanding of the workforce, of each person's skills and abilities and, importantly, their aspirations. This makes for faster decisions about who can take on new challenges. It also helps engage those who are required to maintain and evolve existing activities (Figure 3.2).
- Employ open communication and trust, to manage reputational risk. These are brought about by clear values that set boundaries, and a culture that brings all employees close to the business strategy. Encourage people to derive the inspiration and ingenuity social media provides that leads to innovation and flexibility.

**FIGURE 3.4** How the four-point framework responds to the new-world environment



**NOTE** The diagram helps to give a sense of direction and sequence but reality is complex and there are many linkages and different lines of feedback.

## The four-point framework

Let's now take an overview of how to make all this happen (Figure 3.4).

### *Focus on the future*

A business has many strategies that interconnect and integrate with the overall business strategy. The same is true of visions: there is an overall vision for the business, and each function has a vision including, of course, talent development. It is rather like nesting Russian dolls. You are presented with one doll. When you open this, you find another within, another within that, and so on. Each conforms to the overall design but may have different painted features. The different strategies that come within your talent and engagement strategy – for assessing, developing, deploying and engaging people – are connected through an overarching strategic 'focus on the future'.

A focus on the future sets the strategic direction around which people turn strategy into action, and are empowered to spot opportunity in the

outside world. It also, through articulated and defined capabilities, creates a common language around success.

Let me illustrate this: FSB is a fund management advisory business. They consider the challenges ahead and identify that with the eurozone still in difficulty, most investment opportunities will be in the Asia-Pacific region and the other rising markets with scalable businesses. They anticipate that their existing clients will become more demanding about the quality of advice and information they receive before deciding whether to invest in new markets. They are likely to be more discerning, too, in assessing the people who run the funds in which they are considering investing. They will probably be looking for longer-term returns than has been the case until now. What capabilities will FSB need to meet these challenges? They will need to develop their knowledge and understanding of the Asia-Pacific region, and of the other rising markets. I class this as 'functional' capability. They will also need to develop their behavioural capability around some key areas: being open to new ideas, and future-oriented thinking, for example to be able to spot the right time to move into different markets, and with which products. Sophisticated client orientation and negotiation skills, for sure, will be needed to deal with new and more discerning customers, for example to surface the client's real needs and help them think these through, or to work out solutions that will be in the interests of all parties. So FSB's functional capability profile will include 'knowledge and understanding of the Asia-Pacific region, and of the other rising markets'. Their behavioural capability profile will include: client orientation, negotiation, being open to new ideas, and future-oriented thinking. These capabilities must be communicated and defined so that they are clearly understood. They then, in effect, become the organization's success factors: 'the skills we must master if we are to achieve success'.

This enables managers to know how to select people for different roles, set expectations for performance, assess performance, give feedback, and support development. It gives individuals a clear understanding of what is expected of them, and enables them to plan their own development and their careers.

Clear success factors that, alongside capabilities, include visions and values that are truly 'lived' in the organization set the boundaries so that people know how to act, how to take responsibility, how to take decisions, and how to develop their roles and themselves. It becomes the default culture, which drives behaviour and performance. It takes the place of 'eyeball' management, or top-down direction, which are no longer possible in the new world