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TM talent management

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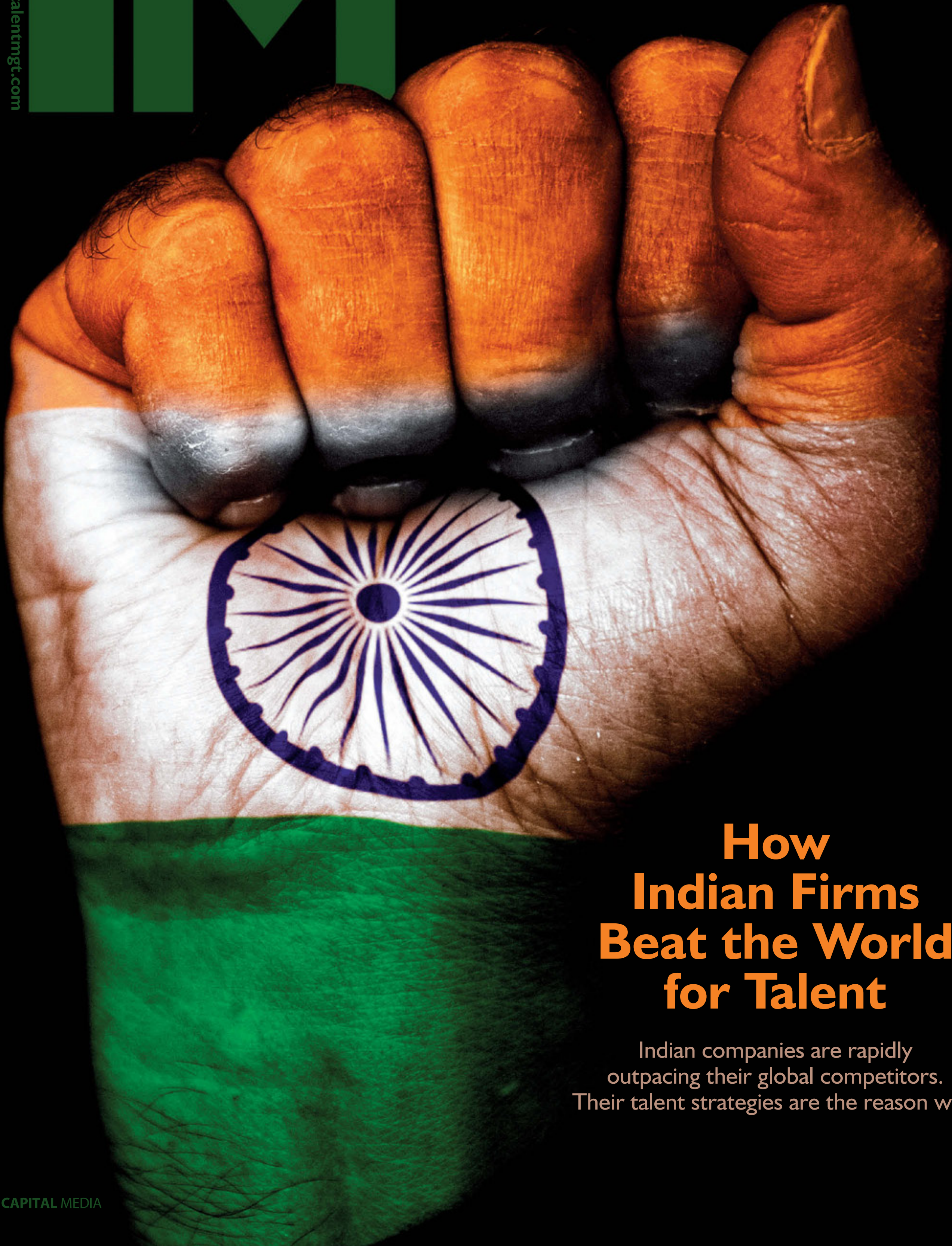

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HUMAN CAPITAL MEDIA

Failure to Launch

We've all experienced failure. One of my biggest was not making the cut for the varsity basketball team in high school.

From a young age, basketball was the center of my sports life. My father even built a small basketball court in our backyard so I could practice. I spent many summer days practicing free throws and hook shots.

Embracing failure can be a boon to performance, provided we're prepared to handle it.

So it was with an incredible amount of disappointment that I listened at tryouts as the coach read the names of the players who made the team and mine wasn't among them.

For a few days, I was in shock. How could I not have made it? I worked just as hard if not harder than some of the other players. Sure, I might not have had the same amount of talent or quickness, but I thought I was pretty good. I wasn't prepared to embrace the fact that I wasn't good enough.

Unlike Michael Jordan, who was famously cut from his high school basketball team before turning himself into the world's greatest basketball player, I didn't have the fire to come back the next year and prove the coach wrong. I turned to other strategies to cope, focusing my attention and effort on other sports.

Failure is both a danger and an opportunity. Some — their self-confidence dashed and their expectations lowered — never recover. Others grow from it, reaching new heights and achieving greater results. I share all this because there's a rash of business literature about failure lately.

Harvard Business Review dedicated its entire April issue to the topic, sharing stories and strategies on how business leaders have understood, learned and recovered from failure. Last month, Tim Harford, a Financial Times columnist, published his book, *Adapt: Why Success Always Starts with Failure*.

The basic principle is that business is far too complex and change too endemic for ready-made, off-the-shelf answers and models. The only way to truly succeed in this rapid-fire environment is improvisation, working from the bottom up rather than the top down. That approach brings with it an increased risk of failure. As with most management ideas, it won't be long before it finds its way into talent management practices.

Undoubtedly, our most memorable and likely best lessons come from failures. We remember and celebrate our best moments — winning the prize, receiving the award, achieving the result — but failures often last longer. Years later, I still remember how it felt to be cut from the team. Do I remember the trophies I received before then? Not as vividly.

Failure is undoubtedly a powerful way to learn and grow, both as individuals and as organizations. But it can also be dangerous. Without the right preparations, we're playing with fire. Careers can be destroyed, psyches demolished and business units decimated. Turning failure into an opportunity requires that we set and align expectations up front, design experiments and develop positive feedback channels.

This presents talent managers with a great opportunity. As the ones who sit at the intersection of people and strategy, we are uniquely positioned to gather insight, consult with business partners and gather intelligence on performance that, should failure happen, can be used to grow.

For years, computer maker Apple labored in the wilderness as Microsoft and others dominated the software and hardware market. But rather than collapse under the weight of failed products and diminished expectations, it learned from its mistakes, found a way to reinvigorate itself and has become one of the world's most recognizable brands.

To follow this lead, we need to carefully define what we're trying to accomplish, how we're going to do it and what we'll do with the results should failure occur. All of that needs to be shared with stakeholders. Otherwise, being more accepting of failure is a management gimmick, not a strategy. And that will only hurt, not enhance, the talent manager's role.

Success can start with failure, but only if we're prepared to embrace it for positive gains. I still like playing basketball. Under different circumstances, I might never have wanted to step on the court again. TM

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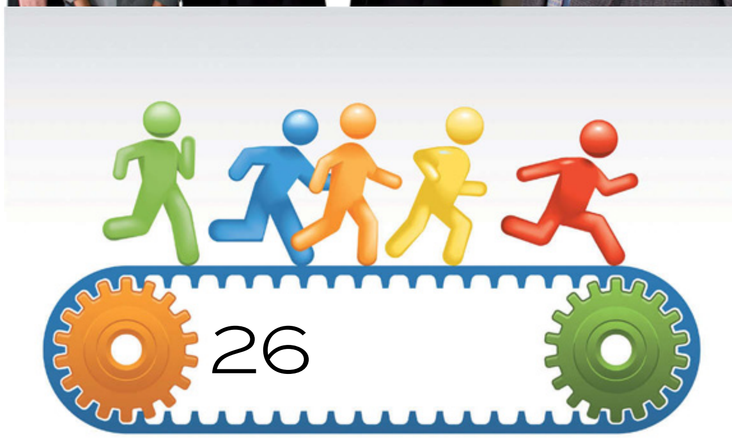

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Power to the Public

Recently I was teaching my MBA class on performance management when one of my students brought up a website containing a record of the ratings given to me when I was a student teacher. The students conveyed that my scores weren't disappointing, but they were by no means the most impressive.

Seeing my scores displayed publicly grabbed my attention more than when they were discussed in privacy in my supervisor's office some time ago. I began to wonder if, as organizational processes and data become more public, user opinions about quality will become ubiquitous. Will outside engagement disrupt HR from performance assessment?

An even more public example of open assessment is the recent controversy sparked by the Los Angeles Times' release of detailed student test-score data for teachers in the Los Angeles Unified School District (LAUSD). Using publicly available data on individual students' test scores on math and reading, the Times employed statistical analysts to calculate how student scores changed while the students were enrolled in a certain teacher's class.

Anyone can go to the Times' website, search for the name of any teacher, and with a couple of clicks see a graph rating that teacher "highly effective" or "less effective" based on the distribution of his or her students' test scores.

This motivated a passionate debate about whether the Times acted appropriately, whether parents and other public constituents should have such detailed performance information about individual teachers, whether such information should be used for evaluation, pay or teacher development, and whether student test scores are a complete — or even relevant — basis for judging teacher performance.

The issue became even more controversial as the LAUSD engaged in teacher layoffs to address budget shortfalls, and it was possible to see whether laid-off teachers were those who had increased test scores or not.

The coverage of the story in national news struck me as evidence of performance information's status as a powerful catalyst. It sparked public interest in questions that are usually the arcane topics of performance management seminars, HR conferences and supervisor training: What should be assessed? Who should do the assessment? How should assessments be communicated? Should assessment be used for evaluation, development or both?

[Will your performance management system soon need to account for consumer ratings of your own leaders?]

Publication of the teacher scores has produced a healthy dialogue about teacher performance systems between unions and school management. The prominence of public information will be a significant educational moment for those charged with designing and managing teacher performance systems. But it will also affect the public, which probably seldom thinks much about this powerful yet often obscure talent management process.

Public performance information draws attention to performance scores in a way traditional HR systems like compensation, training and career development often can't. But will the benefit of improved performance systems for LAUSD teachers outweigh the social cost and disruption?

That remains to be seen, and I suspect many leaders are relieved to see this question is still hypothetical for them as they watch this play out in the LAUSD but not in their organizations. Employees and their leaders continue to trust that organizations keep performance data private.

But don't stay too confident. One of the fastest-growing technology trends is that consumer opinions are becoming more immediate, available and analyzable. Shoppers can wave a phone at a product bar code, type in an opinion and with one click publish that opinion to hundreds or thousands of their closest friends. Many say the future of retail marketing lies in these opinions.

Will your performance management system soon need to account for consumer ratings of your own leaders? Will the performance and evaluation systems designed and run by talent management professionals soon become irrelevant based on the power and immediacy of such ratings?

It wasn't long ago that the marketing profession believed brands and product information were controlled by formal advertising and marketing processes. Savvy talent managers will also need to adopt a new mindset to capitalize on the educational potential of a future of collective performance management. TM

About the Author

John Boudreau is professor and research director at the University of Southern California's Marshall School of Business and Center for Effective Organizations, and author of Retooling HR: Using Proven Business Tools to Make Better Decisions about Talent. *He can be reached at editor@talentmgt.com.*

Getting to the C-Suite

You may aspire to be the chief human resources officer (CHRO) of your organization. Or perhaps you already are the CHRO but you're not accepted as a full member of the C-suite. Either way, your goal is to rise as high as possible in the management ranks of your company, but the mind-set needed to climb is changing.

Harvard Business Review ran an article in March, "How to Make It to the Top: The New Rules for Getting to the C-Suite," with the premise that the road to the top is shifting and senior staff members need to think and act differently. Sources from top executive positions provided proof and examples of this changing direction, such as:

- Chief information officer: "I look at myself as a business leader, not a CIO. I tell my team, 'Don't talk about how great the new smartphone is, talk about how it will increase sales, drive up revenue growth and improve market share.'"
- Chief marketing officer: "The global consolidation of sales and marketing will be instrumental in allowing us to serve our clients' needs in a more comprehensive way."
- Chief financial officer: "Many CFOs a decade ago were probably great stewards but saw the business more through an accounting lens versus a strategy and value-creation lens."

These people view their roles as executives who help drive business results. In comparison, a CHRO in the article was quoted as saying, "A good bellwether of the state of HR will be the function's ability to produce candidates from within its own ranks to take on senior roles at companies."

This statement is fundamentally different from the others. The other professions mentioned sales, revenue, market share, client service, strategy and value-creation. The CHRO example is contemplating human resources' position. That's not good.

The CHRO job is growing in complexity given globalization, government regulations, executive compensation, a paucity of leadership capabilities and increasingly the need for risk management. That may explain a new trend in hiring CHROs; companies are increasingly filling this position with leaders who can understand complex business strategies such as operations, marketing, law or finance.

[The best HR leaders know they have a primary duty to improve business operations from the human capital side.]

The article's authors suggest the CHRO requirements start with commercial acumen and technology knowledge. Essentially, the best CHROs are business people. They understand accounting, and they know the technology issues in their companies. They know they have a primary duty to improve business operations from the human capital side.

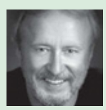
Everyone agrees on this, but many don't know how to strategize it. Most wait for someone from the C-suite to demand action, and then they salute and deliver. The problem is that by then the company has lost its competitive advantage.

Additionally, CHROs require key skills and knowledge areas around two basic issues — change management and culture management. Change in business is constant and increasing in speed and magnitude, while culture concerns are now more than just a sop to millennials and minorities.

The last issue is the CHROs' ability to work with the board on succession and executive compensation strategies. As a board member for four companies, I have experience around talent management at the board level. We are constantly concerned with compensation and succession as well as financials and marketing strategy. And I have found the best way to enhance your position is to come to the board with solutions, not just problems.

At a recent meeting of 20 of the top learning and development people in the country there was consensus that leadership development is No. 1 on their list of imperatives because, for many reasons, America finds itself in need of skilled leaders.

Further, layoffs, corporation growth, global initiatives and competition have raised the threshold of leadership to a new level. Many companies are just getting by — they do not have the capability at the top to drive and sustain competitive advantage. Career pathing, succession plans, and blended and experiential learning have to be brought together in a planned process; they have to be tied to staffing and compensation. When this happens, HR will be a welcomed member of the C-suite. TM



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Jac Fitz-enz is founder and CEO of the Human Capital Source and Workforce Intelligence Institute. He can be reached at editor@talentmgt.com.

Perfecting Performance Management

Few talent processes are as powerful or as widely despised as performance management. The steps to align employees with corporate goals, coach them to higher performance and assess their accomplishments often elicit an unending stream of complaints from managers and employees alike. Talent managers should ignore the siren's calls to eliminate the performance review, and instead create a process that's guided by science, easy to use and features clear accountability.

Thanks to 60 years of psychology research, we have information to set goals that create higher motivation and drive performance. Science tells us that:

- **More difficult goals produce higher performance:** We increase our effort as a goal becomes more challenging. The old performance management maxim of "three regular goals and a stretch goal" doesn't cut it. Today it should be four stretch goals.
- **Goals motivate better when they coincide with self-interest:** When we believe a goal can help us earn, learn or realize other personal objectives, we'll be more motivated to complete it. This doesn't mean employees should set their own goals. In fact, allowing them to do so can easily reduce the power of the first point.
- **Fewer goals are better than many:** The more goals we have, the less effort we can give to each. Science doesn't tell us the right number of goals, but my experience is few of us have more than five truly important goals in any given year.

Many parts of the typical performance management system add complexity to the manager's life without adding value. You can eliminate many traditional bells and whistles to make your process easier and more efficient for your managers.

- **Encourage a one-page goal setting and review form:** We can all agree it's not about the form, but a complex, difficult-to-use form can poison the process for both managers and employees. The only form elements supported by science are a goal statement, metrics and a section to evaluate results. Anything else you want to include should be considered guilty until you prove it innocent.

Don't redesign the entire process; simply chip away factors that cause the most pain.

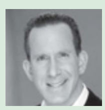
- **Kill the labels:** Fancy classifications such as "valued contributor" or "star performer" complicate the message you're trying to send to employees. Simply tell them they exceeded, met or partially met their goals last year.
- **Precision does not equal accuracy:** Especially popular in scientific and engineering cultures, the precise, formulaic calculation of a performance score gives managers comfort but adds absolutely no value. It is impossible for a manager to accurately measure the difference between a 3.7 and a 3.8 performer. Eliminate the calculation, and force managers to consider the totality of accomplishments and assign a rating.

Even the most well-intentioned manager might not always complete performance management in the time and fashion you require. Two powerful levers can help.

- **Time-bomb communication:** We can help managers do the right thing by making our expectations visible. At key points in your process — goal setting, coaching, reviews — have your CEO or HR leader send a message to every employee covered by performance management detailing the process and expectation.

  The message should describe the process, timing, what employees should expect from their manager and what managers should expect from employees. You've handed the manager a ticking time bomb and given him or her easy instructions to defuse it.
- **Forcing/guiding/managing a distribution:** Highly controversial but increasingly popular, providing strong guidance for performance distribution is a response to the chronic inflation of ratings seen in most companies. If properly challenging goals are set, a reasonable distribution should be achieved. But until managers are fully competent at this activity, the training wheels provided by managed distributions are a helpful tool.

Spend one hour today thinking about how you could decrease complexity, increase transparency or drive more accountability in your performance management process. You don't need to redesign the entire process; simply chip away factors that are causing the most pain. It's the most powerful thing you can do to improve your company's performance. TM



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Managing the Millennials

Brian McMahon, Stephen A. Miles and Nathan Bennett

Millennials occupy an increasingly prominent segment of today's workforce. Savvy talent managers must strategize how best to leverage their contributions.

Just like music that seems to get louder and louder with each generation, so too does the rancor over the challenges each generation brings when it enters the workforce.

Talent leaders often hear about 20-somethings failing to launch and returning home to their parents, or impatient and impertinent young associates who clamor for a voice in every decision. This group also has a tendency to move from one employer to the next. Some managers also have encountered the added challenge of helicopter parents who accompany their child on job interviews and question performance appraisals.

Perceived differences between generations are not new: Research reporting older workers' skeptical views of their younger co-workers has appeared consistently since the 1970s. But young workers today are different from their forebears in a few specific and notable ways — differences that present clear challenges for employers. Employers who are slow to address millennials' oft-observed desires for feedback, work variety and work-life balance will struggle to retain their best young workers.

Generational Gaps in Work Attitudes

Generally recognized as the cohort born after 1980, millennials differ from baby boomers and Gen X in the workplace in three primary ways.

Probably the most striking difference is the role work occupies in their lives. Work isn't as important to millennials as it was to previous generations at the same point in their careers. Today's younger workers are more covetous of leisure time and describe work as less central to their lives. Some employers lament that while their younger employees aren't as keen to get in the ditch and dig, those same employees remain desirous of the benefits — including status and compensation — that coincide with sustained efforts.

Millennials also interact socially with the world in a different way. They generally are more outgoing and assertive than previous generations, and they thrive on immediate feedback. Sometimes called "trophy kids," they have both higher self-esteem and a greater need for positive reinforcement; they excel in environments that are low in ambiguity, with tasks that are well specified.

For instance, it's not out of the question for a millennial to warn her new boss that if she is ever regarded as less than a superstar, she wants to be notified immediately so she can pursue an opportunity elsewhere. Millennials are often quick to wonder how green the grass is on the other side of the fence, and their curiosity likely will become known to those around them. Further, team cohesion and, consequently, team performance are threatened when some members are perceived to be less invested than others.

Finally, not only did millennials grow up with the Internet, they also have been greatly influenced by its ubiquitous ability to connect people across the globe. Consequently, they're less likely to feel bound by geography or embedded in the physical places where they work. They are comfortable with the sense of community fostered by relationships established and maintained over the Internet. As a result, they are more comfortable than their predecessors with portable work and life environments, making location less important.

Previous generations commuted some distances to work together, whereas millennials are comfortable working together from great distances. We could refer to this type of millennial as a nomad. This individual works remotely and lives in hotels because it affords a sense of freedom consistent with being at home everywhere. The nomad has an extensive network of colleagues and friends, so one week she may work in San Francisco and the next may perform admirably

in New York, all the while shopping airfare and hotel prices on the Internet.

The nomad doesn't like feeling pinned down, and the accommodations for this lifestyle are often less expensive than traditional arrangements, such as renting an apartment. Yet this employee's responsiveness and work quality are equal or superior to colleagues in more fixed locations. Since location doesn't matter as much as it might have to previous generations, if a millennial employee is unfulfilled at work in New York, a move to a different company in Chicago is not only reasonable but psychologically easier than it might have been for previous generations.

Getting the Work Done

Despite these differences, talent leaders can successfully attract and retain high-performing employees of this generation. For instance, creating an employment brand — in addition to cultivating a keen understanding of millennials — will pay off. Following are some strategies that may provide companies with an advantage over their less flexible competitors.

Take time off into account. Millennials value not just their time off, but also the ability to control when they are on and off the job. Over the past three decades or so, the number of young people who want more than two weeks of vacation has nearly doubled, according to "Generational Differences in Work Values: Leisure and Extrinsic Values Increasing, Social and Intrinsic Values Decreasing," published in the *Journal of Management,* March 2010.

Leaders who fail to adapt company policies to their workers' attitudes about time off risk losing talent to competitors that have incorporated millennials' values into their various policies. Such a policy shift might be seismic in companies where more traditional policies are ingrained in their cultures, but the upside to promoting this kind of change is that younger workers are more likely to remain enthused about their work and less inclined to experience destructive burnout symptoms that could cause them to consider other pursuits.

Stay — and empower them to stay — a few steps ahead. To address the potential challenges posed by relatively fixed dispositional characteristics shared by many millennials, companies have two options.

First, they can carefully select employees with certain qualities. By exercising care when conducting interviews and determining which assessments to deploy,

A well-designed path up an organizational chart — what to do, how to do it, how long it takes — appeals to millennials' preference for structure and low interest in ambiguity.

talent managers can better gauge the degree to which their millennial applicants can adapt to the workplace. For example, millennials who score higher in intellectual flexibility and comfort with ambiguity should be more adaptive than those who score lower.

One of the major ways millennials on the fast track distinguish themselves from their cohorts is how keenly they appraise uncertainty and reason inductively. Thus, talent leaders who select millennials with these characteristics will fill their ranks with employees who'll succeed in the short run and be ideally equipped to lead when they do ascend the hierarchy. Further, selecting young workers who are self-aware and sensitive to how their co-workers perceive them means these new employees will be savvy enough to adhere to company norms as well as fit in with employees from older generations.

Second, companies can benefit from clearly articulating the traditional career paths through the organization. A well-designed path up an organizational chart — including what to do, how to do it, and how long it usually takes — will appeal to millennials' preference for structure and relatively low interest in ambiguity. Millennials tend to thrive when they know precisely what's expected of them and how they should go about accomplishing goals. From the millennials' perspective, an expectation of explicit feedback in the workplace is a logical outgrowth of the frequent and specific feedback many received throughout their school years.

Many companies today, particularly those in professional services, do provide yardsticks by which work will be measured. But as the younger generation of workers continues to arrive, it would be prudent for companies in other industries to more deeply explicate the advancement process earlier, complete with standard milestones and timelines.

Build a network. Millennials are actually more satisfied with their jobs and more desirous of job security than Gen X and baby boomers, and empirical evidence — even before the global recession — does not support the notion that younger employees job hop any more than older workers. However, like their older brethren have been doing for years, millennials will leave when they perceive a better opportunity. While previous generations had more concrete pulls to get them to leave a job, such as position or salary, millennials are often prompted to make a move by a vague sense of "Why not try something else and see what happens?"

Companies keen to keep — or at least keep in contact with — high-performing millennials would do well to exploit the social media that has compressed the world and made it psychologically easier for employees to move. For instance, new hires in Bank of America's leadership development program play a game using LinkedIn to begin building their networks at the bank. These connections most likely remain should any of these high potentials decide to take a job elsewhere.

Consider that McKinsey & Company boasts an alumni network with more than 20,000 people in more than 100 countries. Companies that foster similar connections among their former employees are likely to not only capitalize on the business opportunities that arise from these connections over time, but alumni also may realize the grass isn't always greener — and at some point express interest in returning to their previous employers.

U.S. Census Bureau data suggests in less than a decade, millennials will comprise about half of the working-age population in the U.S. This demographic change means evidence of small generational differences and even anecdotal observations made in today's workplace may augur the workplace of the future. Talent managers must remain alert to these shifts so their organizations won't be left behind. TM

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Beware Vague Learning Jargon

Jack J. Phillips and Patti P. Phillips

Resist the temptation to use catchy new employee learning measurement terms and focus on metrics that have meaning for clients and key stakeholders.

Learning and development professionals routinely create new jargon that, while meaningful to them, is often confusing to everyone else. A recent addition to the vocabulary is return on expectation (ROE).

Some people suggest ROE is a number. However, business vernacular defines ROE as return on equity. This standard accounting measure indicates the return of shareholder investment in a company. For example, using a scale of 1 to 100, learning clients rate their level of program satisfaction. The average score and ROE is 85.2, which is presented as data reflecting the program's impact.

ROE could suggest client expectation is being met in a variety of measures, such as usefulness, relevance and value. But taking this calculation of ROE is like asking clients if they are satisfied with the program. It represents reaction data, Level 1 in traditional evaluation frameworks posited by Kirkpatrick and Phillips. Presenting reaction data using a familiar business measure presents an illusion of something that is nonexistent and reflects unfavorably on learning and development.

ROE also could be an objective. Some suggest ROE is based on achieving objectives or certain outcomes. If the outcome is productivity, quality or sales, for example, the measure becomes results or impact, Level 4 under traditional frameworks. If this is the case, why not call the outcome results or impact? If ROE represents an objective where the client sets an expectation about what participants should do, then the results represent behavior change or application (Level 3). If the client suggests participants acquire certain knowledge or skills, the objective is Level 2 in traditional frameworks.

Vague definitions leave decision-makers with little basis for their decisions. However, definition is a minor issue when compared to how ROE is developed.

What ROE Could Be

The learning and development definition of ROE is vague, and its development follows an ill-conceived path. Some say the client develops the ROE entirely. This approach has two flaws. First, according to many learning professionals, managers and their executive clients who request programs do not always know how to articulate specific measures of success. Clients may want the program to be "very effective," but what does that mean? Or they'll say, "we want best-in-class managers." Again, this is not clear or definitive.

A client also may set an impossible expectation: "I want 150 percent ROI!" Now the expectation is an ROI calculation. What does the learning leader do with that? The client may say, "We want to improve our sales by 100 percent in six months, something we have never achieved, but …" That still may not be possible. Suppose the expectation is: "We want zero unplanned absenteeism in our call center." Again, that is not a realistic goal. Leaving this process entirely to the client often presents nebulous, misguided or misunderstood expectations, and having the client set the expectation sometimes yields unachievable targets.

A better approach is to negotiate with the client to get an appropriate expectation. This becomes the return on the negotiated expectations (RONE). While this may be the best approach because it can yield specific, appropriate and realistic measures, why not classify the expectation in one of the traditional five levels of evaluation rather than throw out another nebulous term?

Sometimes ROE measurements can go astray. Let's say a broadcasting company spends millions of dol-

lars on a leadership program. When the leadership development team attempts to define expectations so they can use return on expectation, the CEO says, "My expectation is effective leader behavior. There is no need for you to collect data; I will tell you if my expectations are met."

Based on these limited parameters, the team collects no follow-up data. The CEO is fired midway through the project, and the new CEO asks about the status of the program. The leadership development team explains they are measuring the program using the return on expectation as defined solely by the previous CEO. Now they are caught in an embarrassing situation as the new CEO facetiously suggests the former CEO be brought back to evaluate the program. Frustrated, the CEO stops the program and fires the leadership development team, stating they have wasted a great deal of money. This extreme case demonstrates the risk of working from a nebulous expectation understood by one long-gone executive.

Who's the Real Client?

Aside from the CEO, there are other executive opinions that matter. Perhaps there is no more important influence on funding for learning and development than that of the chief financial officer (CFO) and the finance and accounting team. Today the CEO expects the CFO to show the value of non-capital investments, which requires the finance and accounting team to be involved in learning. At the same time, many HR functions now report up through the CFO, adding pressure to show value. Given the importance of this function, it is helpful to ensure that measures used to gauge learning's success get their approval.

The word "return" comes from the accounting field, most notably referring to the return on investment, a financial concept defined as "earnings divided by investment." In the context of learning and development, ROI is net monetary benefits from the program divided by the cost times 100. This yields the ROI percentage, and ROI positions learning as an investment.

The concept of ROE raises a red flag to accountants, as it references fundamental financial terms. Compounding the confusion are variations of return on expectation. These include return on anticipation, return on inspiration, return on information, return on involvement, return on client expectation, and return on event. Even worse are return on training and return on people. Some talent development leaders have even used the concept of return on objectives, suggesting this is a completely different process from measuring the success of learning objectives at different levels.

Figure 1 compares misused terms and the accounting perspective. The issue here is twofold. First, use of the word "return" piques the finance and accounting department's interest because it is the basis for many of their common measures. Second, misusing terms with which finance, accounting and top executives clearly identify decreases learning and talent leaders' credibility. From their perspective, learning leaders are unwilling to show the actual value of their work in terms they can understand. Instead, learning professionals substitute new terms and hope others will see value in them.

However, identifying the real client for a learning and development program is often a murky issue. The client funds the program and has the option to invest in other initiatives. This client will be interested in the value of learning and development if expressed in terms they understand, terms that lead to business impact measures and ROI.

For example, in a large, multinational organization, the centralized talent development function develops programs used by different business units. Each business unit has a learning and development adviser who serves as a liaison with the corporate university. From the corporate university perspective, the client is the learning and development adviser — their principal contact. From this perspective, the client is another learning professional. What this individual may view as valuable could be different from the business unit head who ultimately provides funding and is paying for the program through transfer charges and absorbing associated administrative and travel expenses.

In reality, the business unit head is the real client. Asking that individual about learning and development expectations will produce a different description than one from the adviser because they have different perspectives. The learning and development adviser essentially sees this as his program. He has asked the corporate university to conduct the program, and the corporate university assumes some ownership from that request. If the program does not deliver value, it could reflect unfavorably on the adviser and the corporate university. This fear of results often forces them to use vague measures no one understands. It presents an easy way out and avoids the risk of the program not delivering the value the business unit head desires.

Focus on Business Contribution

Most executives want to see alignment with business needs, and learning and development success expressed as a business contribution. In a 2009 ASTD survey of *Fortune* 500 CEOs, top executives weighed in on the types of data that matter to them. The No. 1 measure CEOs want to see is the connection of learning and development to the business (Level 4 business impact). Ninety-six percent of responding CEOs want to see this data; but only 8 percent actually receive it. In the same study, 74 percent said they want to see the ROI from learning and development. Only 4 percent actually see it now.

The gap in what CEOs want and what they receive presents a challenge. Learning leaders must meet the expectations of executives who ultimately fund learning and development functions. Without their commitment and funds, learning would not exist as a formal process, and key talent will not receive the development they need to advance and perform. The terms, techniques or processes used to measure success must be defined by contributions meaningful to the real client.

Figure 1: Misused Financial Terms

Term	Misuse	CFO Definition
ROI	Return of information Return of intelligence	Return on investment
ROE	Return on expectation Return on events	Return on equity
ROA	Return on anticipation	Return on assets
ROCE	Return on client expectation	Return on capital employed
ROP	Return on people	?
ROR	Return on resources	?
ROT	Return on training	?
ROW	Return on Web	?
ROO	Return on objectives	?

An easy way to accomplish business alignment is to consider objectives at multiple levels. Learning objectives are developed with performance-based statements and sometimes include a condition or criterion. However, from the client perspective, these objectives only represent learning; there are other important objective levels. Application objectives — Level 3 — clearly define what participants should do with what they learned. Examples of Level 3 objectives include:

- At least 99.1 percent of software users will follow the correct sequence after three weeks of use.
- The average 360-degree leadership assessment score will improve from 3.4 to 4.1 on a 5-point scale in 90 days.

- Sexual harassment activity will cease within three months after the zero-tolerance policy is implemented.
- 80 percent of employees will use one or more of the cost-containment features in the health care plan in the next six months.
- By November, pharmaceutical sales reps will communicate adverse effects of a prescription drug to all physicians in their territories.

Impact objectives specify what the application will deliver in terms of business contribution. These Level 4 impact measures communicate the consequence of application, usually defined in categories such as output, cost and time. Examples of Level 4 objectives include:

- The Metro Hospital employee engagement index should rise by one point during the next calendar year.
- There should be a 10 percent reduction in overtime for front-of-house managers at Tasty Time restaurants in the third quarter of this year.
- After nine months, grievances should be reduced from three per month to no more than two per month at the Golden Eagle tire plant.

Impact objectives connect the program to the business. In some cases ROI objectives are set and expressed as a benefit/cost ratio, and ROI as a percent.

Defining expectations and developing objectives that link to meaningful business measures positions any learning and development program for results that will resonate with all stakeholders, including the real client.

There is no need for another ambiguous term that creates more confusion. Return on expectation, return on anticipation and return on client expectation generate meaningless measures and risk misunderstanding among the clients funding learning programs. These terms do little to satisfy executive interest in learning and development programs because their focus is business contribution to the organization. Learning leaders must step up to the challenge and avoid the temptation to grasp trendy jargon or techniques that sound appealing, but do little to demonstrate the real value of learning.

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How to Inspire Talent to Go the Extra Mile

Jeff Kristick

Creating a high-performance culture inspires a deeper commitment to a company and its mission.

Employees typically fall into one of two camps. The first group arrives at 9 a.m. and departs at 5 p.m.; they do a fine job, but that's it. The second group is different — they're willing to stay an extra half-hour to send an email or assist a colleague in wrapping up a project. They're top performers, the people who drive the business, and there are strategies talent leaders can use to create and sustain a high-performance culture that inspires a deeper commitment to the company and its mission.

The open secret about high performers is they're largely born that way. Therefore, an organization's talent management strategy is not necessarily going to create high performers, so that should not be the goal. High performers are already there, waiting to be inspired, mentored, coached and managed. High-performance organizations do the best job of identifying, rewarding and engaging the high-potential individuals within them, giving them resources to be effective and removing barriers.

This in turn attracts more high performers to an organization — a virtuous cycle — as they naturally seek opportunities to shine. Further, a high-performance culture is contagious and can inspire those on the edge of high performance, raising the bar for work quality and professionalism across an enterprise.

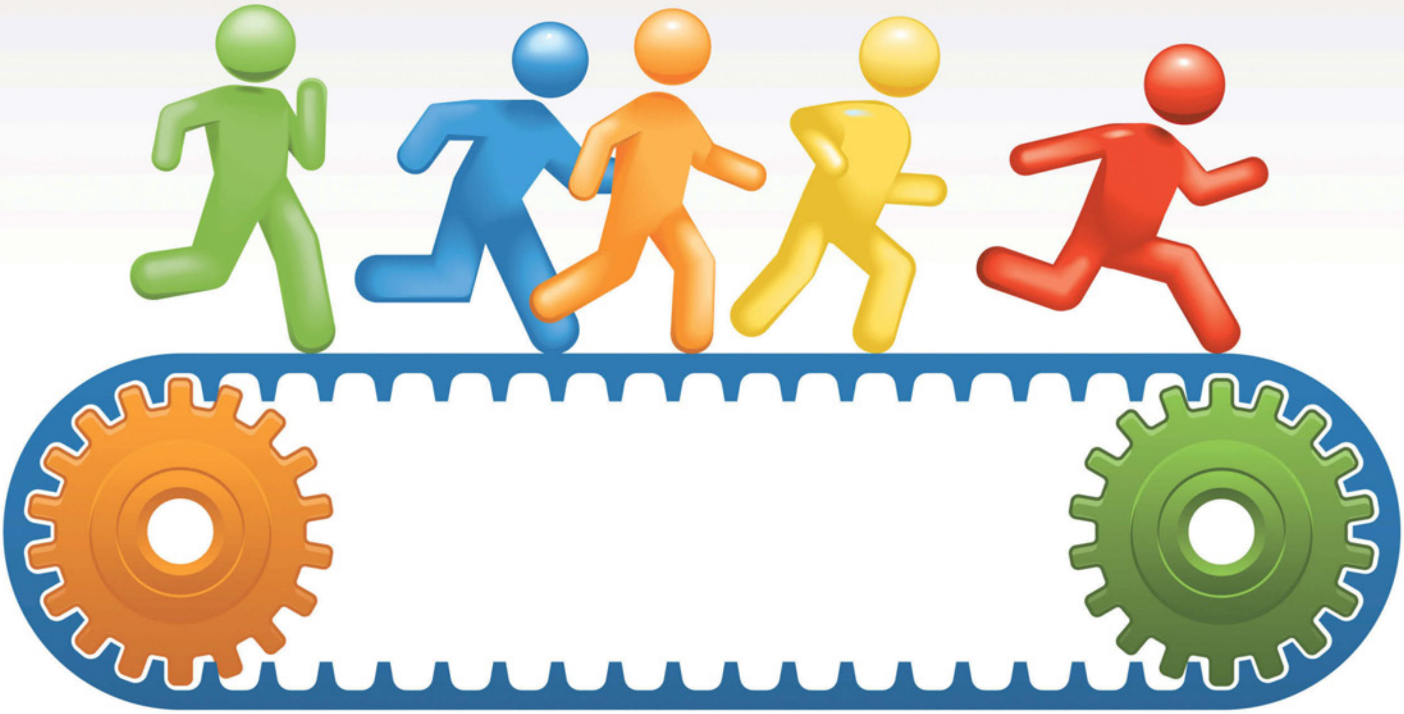
Who Needs What and When?

Ultimately, an organization's culture and performance are determined by its people. That's why a disciplined performance management program should focus not only on developing and managing critical talent, but also on uniting and motivating the entire workforce to achieve specific strategic and operational goals.

One way organizations can accomplish this is by aligning corporate objectives with individual employee goals, cascading down corporate goals so they're interpreted as individual performance objectives. This instills a more direct connection between employees' day-to-day work and the organization's strategic objectives and promotes a sense of ownership for the organization's success. According to a 2009 study from Bersin & Associates, "Renewed Focus on Performance Management," organizations that do this well can see significant results, including less downsizing, lower turnover among high performers, and nearly twice the revenue per employee as organizations without a formal, disciplined performance management program.

Further, it's important to implement both performance management and performance measurement. Management guru Peter Drucker is credited with saying, "If you can't measure it, you can't manage it," and talent management is no different. Too often, the performance appraisal process is defined by subjective assessment of an employee's job, rather than by measurable goals and competencies. Developing a goal-based environment is not only vital to track employee performance, but it also can be a powerful motivator for behavior. The process of developing goals, communicating results and agreeing on next steps gives employees a clear sense of direction and purpose — more so if their individual goals can be associated with organizational goals.

This requires talent managers to invest in the development of specific competencies to ensure high-potential individuals who are promoted have the right skills to be successful. A talent management system that is competency-based eliminates the subjectivity that can trigger push-back and demotivation as the organization attempts to tie advancement and compensation to performance. Also, such a system provides employees



with a clear development path and illuminates the rewards that go with it.

A good first step for talent leaders is to consider the organization's current performance appraisal process. According to the "2008 Essential Guide to Performance Management Practices" from Bersin & Associates, when conducted as a stand-alone event rather than as part of an ongoing process, even the best goal-setting and appraisal process is ineffective to drive a high-performance culture.

Second, building such a culture must start at the top. In their book, *Corporate Culture and Performance*, Harvard Business School professors emeriti John Kotter and James Heskett remind us that not one effort at culture change has ever been successful starting at the bottom. Thus, an organization's leadership must not only want the change, it also must be prepared to invest the time and money in planning technology to support the initiative. A talent management system linking performance with employee development signals that the organization is committed to growing employees' skills and that advancement and improvement go hand in hand.

However, before talent leaders can create a high-performance culture, they have to define what that culture looks like for their specific organization. Do managers take accountability for employee performance and the business outcomes for which they're responsible? Is performance linked directly with compensation? Are high performers offered challenging new opportunities to keep them engaged?

To do all of these things, it's important to take a careful look at where the organization stands. This talent management status check also will help leaders identify what is working so they can be sure to carry these attributes forward as they map out new competencies around critical skills and performance drivers.

Here are some questions talent leaders can use to examine the organization's current state:

- What performance management processes and tools exist?
- What competency models, if any, are in place?
- Is performance management currently integrated with other processes such as learning, recruiting, compensation and succession planning?
- What challenges exist within the organization such as high turnover, skills or leadership gaps and pressure from competitors?
- What is the state of employee morale? Is there an atmosphere of trust and urgency throughout the organization?
- Do employees take appropriate risks? Are they directly accountable for results? Are they encouraged to set and achieve stretch goals?

- What does the organization do really well? Which communications, behaviors and best practices contribute to profitability and competitiveness? Organizations will want to ensure their core strengths are built into a new performance and talent management program.

Before talent leaders can develop a high-performance workforce that is aligned with corporate objectives and goals, they must define them. Taking the time to do this equals the difference between a performance management project and a high-performance strategy. Also, remember that a high-performance culture is not just focused on HR outcomes, but also on business objectives. That's why it is critical to involve the entire business in the planning process, including managers and employees.

While this can be a challenge for large, global organizations, the availability of free or low-cost online survey tools can make it easier to field an employee survey to find out how stakeholders view the organization's performance culture. Social tools also can be used to facilitate online discussions. Doing so will help ensure buy-in from employees and a sense that management is listening as well as talking. Leaders also should articulate strategic business visions, values and milestones so everything from competencies to compensation to learning activities can be focused on achieving them.

Here are some questions to help define the desired state:

- What are the ideal business capabilities and targeted business results?
- What do managers and employees believe needs to change? Operations, training, processes, level of trust, morale?
- What types of new jobs, products and people will be needed to stay competitive?
- What is the timeline? Taking the time to examine this is crucial to avoid disrupting business operations by trying to implement a new high-performance culture too quickly.

How Can We Build What We Need?

It's vital to define and measure the ROI for efforts and resources needed to build a high-performance culture. Is the program lowering HR operating costs? Will it reduce turnover among key personnel and support recruitment and development by focusing on filling critical talent needs, including certifications and other competencies? Here are some starting points to create good metrics and use them consistently to drive higher performance:

- Define the expected outcomes. Be specific, and wherever possible quantify the expectations. Drill down from profitability to define details such as cutting recruitment costs.
- Define the competencies that will characterize a high-performance culture. Again, be specific and break competencies down in terms of specific types of employees such as senior management, leaders or knowledge workers.
- What reporting capabilities will talent leaders need to measure the performance of individuals, groups or the entire enterprise: trend analysis, gap analysis, facility and cost management reporting, learning and performance history, learning documentation?
- What performance metrics are required to satisfy business objectives and to build employee buy-in for a fair review process that ties performance to compensation?

At this point in the planning process, talent leaders will have defined the strategic competencies critical for the business. Generally defined by position, they can include everything from domain-specific expertise to leadership and managerial skills required at different levels of the organization. It's now time to evaluate which tools can be used to further align performance management and measurement with strategic business goals to create a high-performance culture — technology can help.

Again, creating such a culture, and achieving productivity and competitive gains, relies not just on performance management, but on integrating performance management with compensation, learning and development. So, once talent managers have identified the organization's high-performance competencies — behaviors, knowledge, skills and best practices — technology can help focus all talent management activities on achieving those competencies.

For example, a talent management system should allow the organization to define competencies for specific positions, deliver learning content that supports them, assign a competency based on an employee's position, and automatically track progress based on successfully completed learning and a performance evaluation. A system should make it easy for talent managers to keep content up-to-date and to make any course corrections needed to align competencies, job profiles, compensation or other processes with today's rapidly changing business needs.

Further, succession planning and total compensation management functionality that leverages competency and performance data gives talent and business leaders a powerful tool to ensure the right person with the right skill set is in the right job.

The steps outlined here present the road map to a high-performance culture — one that identifies, develops and rewards existing top performers — and also helps all employees develop the skills, knowledge and motivation to attain greater levels of performance. TM

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Wagering on Employee Recognition Programs

Paula Godar

Keeping front-line employees motivated and engaged is critical to retain customers and encourage repeat business, particularly in today's competitive landscape, but motivation is a highly individual process. Employees must find the rewards offered in an employee recognition program personally meaningful or their behavior won't change, and employee engagement won't improve.

For many companies, providing exceptional customer service is at the core of the business plan. When a one-size-fits-all approach is used to inspire employees, they are taking a risk on achieving true engagement because meaningful and motivating experiences are connected to performance. If the risk fails, business outcomes can suffer.

Further, popular cash-only recognition programs often fall short in the engagement stakes. When companies use cash as the reward for incentive and recognition initiatives, employee programs can become confused with regular compensation, which creates a less effective and less flexible reward system.

A 2010 study conducted by Maritz polled 1,000 full-time employees who received some type of reward or recognition in a program. Overall, the survey found employees were less likely to share their success with others — by talking about their rewards, for instance — if they earned cash. Further, two of every five survey participants said they used cash rewards to pay bills or for other necessities such as gas and groceries.

Instead of providing a memorable, rewarding experience for a high-performing employee, cash can become an add-on to an existing salary. By restructuring an internal recognition program to a noncash reward system, companies can empower employees and motivate them to perform more effectively.

Caesars Entertainment Corp., one of the world's largest gaming companies, embraced this approach. For nearly a decade, its employee recognition program had focused on a cash-based reward system. Over time, employees began to see the cash-only program as more of an entitlement and less of a reward. The connection to employee performance — and ultimately customer service — was fading.

To keep front-line employees engaged and motivated to provide excellent customer service to casino and hotel guests, Caesars redesigned its recognition system and wrapped corporate goals, property goals and employee desires into one unified rewards program.

Caesars' revamped employee recognition program gives managers the ability to recognize desired behaviors that support excellent customer service at every touch point. In the months following the April 2009 program kickoff, the company's customer service rankings improved 4.7 percent and continue to trend upward.

Now, while Caesars' 70,000 employees work to improve the customer experience, they earn credits in a variety of ways. Instead of using cash incentives to pay a credit card bill or buy groceries, employees are using program points to purchase items with more significance.

Caesars' vision was to create a new way to connect achievement at work with each individual's passions and life pursuits. The approach, which was folded into the company's employee recognition program, has been successful because it hits on four biological drives that influence behavior — the drive to acquire stuff and status, the drive to bond, the drive to create and the drive to defend. This four-drive model, developed by Paul Lawrence and Nitin Nohria of the Harvard Business School, essentially taps into things that make people tick.

By leveraging this knowledge of what motivates individuals to perform, organizations can optimize the effectiveness of their employee recognition programs. Better yet, they can make an impact on both people and profits. TM

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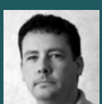
KEYNOTE SESSIONS

A Simple Way to Remove Interference and Reach Your Greatest Potential

ALAN FINE
Author, *You Already Know How to Be Great*

This presentation will challenge your view of people and their performance potential. It will provide you with a proven performance model so you can achieve — and help others achieve — breakthrough results. Alan Fine will help attendees utilize their skills and knowledge to maximize performance.

How Growth, Recognition and Trust Generate Massive Employee Engagement



KEVIN KRUSE
New York Times best-selling author, *We: How to Increase Performance and Profits Through Full Engagement*

During this session, Kevin Kruse will present the conclusions from surveys of more than 10 million workers in 150 countries to reveal the surprising ways emotions at work spill over to other areas of our lives, and show how growth, recognition and trust are the three keys to gaining employee commitment and loyalty.

Good Company: Business Success in the Worthiness Era

LAURIE J. BASSI, Ph.D.
CEO, McBassi & Company Inc.; co-author, *Good Company: Business Success in the Worthiness Era*

Hear economist Laurie Bassi share the hard-nosed evidence that she and her co-authors unveil in their forthcoming book, *Good Company: Business Success in the Worthiness Era*. Bassi will describe the convergence of forces behind these findings and discuss what this means for HR and learning professionals. You'll leave armed with powerful new evidence and a fresh perspective that you can use to get the necessary resources to help your organization be "good company."

Leveraging Simulation Training to Obliterate Conventions at KFC

BRIAN KLAPPER
President, The Klapper Institute

In this discussion, Brian Klapper will present a detailed case study of how KFC used the power of business simulation to train and motivate a team of high-potential associates to radically design store operations. Learn how the "model store" concept became a learning laboratory fueled by innovation and served as a blueprint for radical change that drove double-digit top-line growth and profitability.

Executive for a Day

Stuart Crandell

Assessing critical executive talent through business simulations takes the guesswork out of selecting the right person for the job.

One of the hardest — and perhaps most important — parts of conducting a job interview for an executive role is determining who the candidate truly is. How do talent managers know people being interviewed for a promotion or new position are really who they say they are?

Resumes and interviews only reveal so much. Further, they often don't tell the whole story. Can a candidate actually perform to the extent an executive role requires? Similarly, it is often difficult to determine if an internal candidate will excel in a different role at the next level.

While no selection process is foolproof, the process of selecting executives has evolved to eliminate a good deal of the uncertainty around a candidate's capabilities.

Leading With Questions

Proper assessment isn't really about honesty — we're not talking about lying on a resume about past jobs or college GPA. Honesty refers to whether executives can truly exhibit the skills necessary for a position, rather than simply tell the talent leader they can.

The first step in a proper assessment is crafting a strong interview. In many cases the interviewer's tendency is to jump into what the candidate can or would do in the new position. However, to get a true picture, it can help to look back at what the candidate has accomplished in previous situations that had similar challenges.

The right interview questions will elicit behavioral examples from candidates, allowing them to explain how they've handled similar situations in the past — what they did, when, with whom and what happened. For example, to learn how an employee works under pressure, ask about a project he or she managed under a tight deadline. Having candidates give specific, concrete examples of how they have applied their skills in the past offers a window into how they would handle situations with similar challenges and requirements today. The interviewer should delve deep into a candidate's responses; the more details provided, the better the assessment of the candidate's skills.

The interviewer also must cover the outcomes of those examples. It's easy for candidates to tell a good story of how they implemented a new initiative, but what if that project was a colossal failure that cost them their job? Relayed accomplishments should give the interviewer confidence the candidate can perform well in the new position.

Making Sure a Candidate Is the Real Deal

Many companies are increasingly looking to business simulations, in addition to interviews, to identify and hire the right executive. These tailored, intensive, one- or two-day-long programs place executive candidates in fictitious, yet highly realistic situations designed to mimic the key challenges of a potential position. These simulations go beyond "How would you react?" behavioral questions because the candidates react to actual, unpredicted events with trained consultants who play various characters in the organization. In essence, they are real-time assessments of candidate performance in highly plausible scenarios.

Typically, a few days before a simulation begins, a candidate receives a rich case study on the fictional company and is given a fictitious name and job description of their role to play within the organization, such as head of a geographic region.

After reviewing all of the fictional company information and the issues it faces — Is the company prospering? Undergoing a merger? Facing cutbacks?

— the candidate reports to work as if it were an actual daily routine. In reality, the situation is completely new to the candidate, yet in the role-play scenario, he or she has an office and co-workers who greet him or her by name.

The candidate is inundated with typical workplace challenges: disgruntled employees, harried bosses, emails and telephone calls. But unlike a real workplace, the actors playing co-workers are psychologists who observe the candidate's reactions to the challenges they present. Through the candidate's interactions and the decisions made, the psychologists determine the candidate's leadership qualities and where there is room for improvement.

Let's take a hypothetical example of a candidate interviewing for a general manager opening at a manufacturing company. Her case study included information on the financial performance of her business unit, competitors, key strategies and team members. She also received short briefings for the meetings she would have with her various co-workers — direct reports, peers and boss — all of whom were played by psychologist actors. One of the meetings was with a direct report, designed to test her ability to diagnose and address her region's slow adoption of a change initiative.

During these 30- to 60-minute meetings throughout the day, her "co-workers" followed particular role scripts that elicited different leadership challenges. The psychologists were trained to play their roles in certain

Sustaining Simulation-based Assessments

Stuart Crandell

Talent managers can follow these five best practices to launch a simulation-based assessment program to drive employee engagement and long-term retention that employees will more readily adopt.

1. **Clearly articulate the program's purpose.** Many organizations preparing for significant growth will use simulation-based assessments to ensure leaders are ready to effectively manage a host of potential new challenges. Companies also employ assessments as part of planning for strategic initiatives that require different skill sets, using the results to help them identify gaps and build development plans to address those gaps. Whatever the purpose, ensure employees understand the broad organizational goal behind the program and its timing.

2. **Outline the benefits for participants.** Highlight how the assessment will help leaders gain greater insights into their strengths and development needs so employees can become more effective in their current roles and better prepared for the next level or for new challenges. Position the program as an opportunity for participants to preview future leadership challenges in a simulated environment and receive personalized, objective feedback from expert coaches on how to handle challenges more effectively.

3. **Explain the selection process.** Be open about how the organization will choose participants. Because of the time and costs associated with assessments, companies typically limit participation to high-potential leaders and leaders in pivotal roles. Proactively communicating selection criteria will not only prevent potential negative perceptions about participating, it also will demonstrate the organization's commitment to investing in participants' professional development to help prepare them for future leadership roles. If the selection process involves formal nominations, be sure to tell participants who nominated them for the opportunity.

4. **Share general information about the assessment process in advance.** Because simulation-based assessments will be a new experience for many participants, give them background information on what will happen to demystify the process. For example, provide a general schedule for the assessment, details on how the simulations will work, tips on how participants should prepare, and an overview of the feedback and reports they will receive upon completion.

Be sure to reinforce the following:

- There will be no secrets or surprises in the simulations, which are based on real-life situations and are not intended to trick participants into taking specific actions.
- Participants should handle each simulated situation as they would if they actually worked for the fictitious company; they should be themselves and avoid second-guessing their decisions.
- Participants should be open to feedback, ask questions and take detailed notes to make the most of the experience.
- Because simulations place participants in situations that reflect a role they have not yet achieved, it is expected and appropriate for the results to identify some development needs.

5. **Be upfront about how the organization will use assessment results.** Companies often use assessment results to create more rigorous, fact-based talent reviews and succession management processes. For example, results typically guide future development and deployment decisions, such as which types of assignments and learning opportunities are best suited for a specific individual, or which leaders have the right mix of skills to support a new initiative or move to the next level.

Be sure to tell participants who will review their results — their manager, a human resources business partner, an executive sponsor and themselves. Finally, remember to explain the assessment is simply step one in a long-term development process. The next step is often a formal development planning meeting in which participants collaborate with their managers to create a personal development road map based on insights from this experience. TM ways depending on how the candidate responded. The carefully scripted conversations allowed the candidate to illustrate the leadership qualities she would need for the position.

During the course of the meetings the candidate was able to repeatedly show a knack for seamlessly integrating information from others and incorporating it into a strategic context. In particular, she asked questions and probed for more information — behaviors the psychologists deemed highly valuable for this particular position.

Let's look at another hypothetical example. This time the candidate was interviewing for the role of chief communications officer in an international *Fortune* 500 company. His workplace simulation is all about damage control. The company is in crisis mode; it just released its quarterly financial report, and sales have taken a sudden and unexpected drop. The stock price is falling, shareholders are upset and journalists and analysts want interviews to understand how the company will turn its performance around. The psychologists portraying his stressed-out co-workers are right there to watch his every reaction.

In this instance the candidate scored high marks for his ability to remain calm and collected throughout the chaos. In the midst of a flurry of phone calls and meeting requests, he established a response team, identified subject experts and concisely delegated tasks to them.

While he succeeded in these important areas, his report card had a few blemishes. The psychologists noted he lacked mediation skills due to his lack of patience when dealing with employee infighting. The actors posing as international journalists also noted he seemed to hurry through interviews.

After a simulation, candidates can take a step back and review their performance with the psychologists. These two candidates could identify both their strengths and development needs and work to improve them in the future.

Business Simulation ROI

For a variety of reasons, some people fare better during the interview process than others. However, the candidate who performs best in a traditional interview may not necessarily be best suited for a particular position.

Interviews are part, but not all, of the answer. Even if a candidate hits all the bases and says all the right things, it can be difficult to extrapolate how he or she will perform in a future role based on performance in previous roles. That's one reason many companies have come to rely on business simulations to assess high-potential candidates and executives and to determine the leadership behaviors and skills they may or may not possess. Simulations also work in conjunction with interviews and personality tests to provide a holistic appraisal that goes beyond question-and-answer sessions.

PDI Ninth House conducted research with more than 1,300 participants and nine companies and assessment ratings correlated .45 with future job performance, well above other methodologies. Essentially, this means if talent managers select candidates scoring in the top quartile on the assessment, they are four times more likely to hire a top performer than a bottom performer. Given the importance of the roles for which these assessments are typically used, this often translates to performance improvements of 20 percent or more and ROIs of more than 100 percent.

Further, when selecting the next executive for a critical high-impact role, it is important to put together all of the puzzle pieces to see the bigger picture. Simpler leadership tests, such as multiple-choice personality assessments, lack the depth of simulations and judge leadership style rather than leadership competencies. They are also significantly less rigorous and standardized, and comparing one candidate to another can be inaccurate. Business simulations have trained psychologists as observers and clear evaluation criteria and provide apples to apples comparisons because psychologists can aggregate performance information into an applicable, easy-to-use talent grid.

Test Drive the Leader

Workplace simulations also allow companies to turn an evaluative process into a high-touch development experience. When the simulation is complete, the candidate can review performance one-on-one with the psychologists to learn what the core competencies are and what areas need improvement; they gain same-day results with lasting impact. Also, the assessments can be used as the basis for long-term development if the candidate is hired.

This developmental aspect is especially beneficial for internal candidates being considered for promotion, as it helps them develop the skills they need to reach the next level. Basically, simulations give companies the ability to "test drive" a potential leader.

While the cost and time of such an intensive process make simulations prohibitive for every new hire or promotion, the ability to intensively assess candidates for pivotal roles that have significant impact on business performance makes some simulations well worth the price.

Pick the right candidate, and operations run smoothly. Pick the wrong candidate, and an organization could lose millions of dollars overnight.

Behaviorally based workplace simulations provide an element of science to a process that is otherwise based on speculation and assumption. At the end of the day, interviewers want to know if a potential internal or external candidate can exhibit the skills, right now, in situations that reflect the challenges of a position. Assessments that use real-world simulations can provide the depth of information talent leaders need to make high-stakes hiring decisions. TM

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How Indian Firms Beat the World for Talent

Marc Effron

Indian organizations are rapidly outpacing their Western and European competitors, and talent management strategy is a key part of the reason why.

A near-decade of rapid economic growth has transformed India from a source of low-cost labor into a global business force. As Indian firms such as Tata Group and ArcelorMittal purchase their rivals worldwide, others such as Mahindra & Mahindra create low-cost, high-quality products that directly challenge their Western competitors.

The talent needs of these fast-growing firms are fed by well-educated, entrepreneurial MBAs from India's institutes of management. In high demand, they average four job offers each at graduation, but many dream of starting the next great Indian company that furthers the country's remarkable ascent.

Underlying these trends is a unique business and cultural commitment to great leadership that has created a meaningful competitive advantage. Top Indian talent leaders paint a picture of a country ready to use talent management as a blunt object against its competitors.

The Talent Challenges

India's rapid growth occurred despite significant talent challenges. According to N.S. Rajan, an Ernst and Young partner and Europe, Middle East, India and Africa leader for people and organization, "Despite there being a labor surplus, there is a talent deficit. In response, the last decade has seen organizations in India embracing more formal talent management practices."

"While Indians possess strong intellect, we haven't historically focused on developing leadership skills as much as some Western countries," said P.V. Ramana Murthy, senior vice president HR, India and Bangladesh for Hindustan Coca-Cola. "That's now changing very quickly."

Gender diversity also represents a talent barrier. Traditionally, the Indian woman's role is as the primary caregiver, and there is some lingering discrimination limiting the number of women in the workforce. This has inspired creative new solutions to recruit and retain female managers. Google's Indian offices keep a taxi on call to allow women to get home easily in case of family emergencies. Pharmaceutical company Boehringer Ingelheim allows young female employees to bring their mothers along on business trips to avoid the cultural disapproval young women sometimes face when traveling alone.

Fundamental talent management activities such as recruiting and retaining employees present another significant challenge given rapid company growth rates and rising compensation levels. IT consulting firms such as Tata Group and Infosys plan to add 50,000 and 40,000 employees respectively in 2011 in a country already short on talent. As if that wasn't enough of a challenge, according to a March Aon/Hewitt study compensation increases will average 13 percent with an average 19 percent attrition rate in 2011.

In any other country these combined challenges easily could derail economic growth. But India isn't any other country. Its unique culture, history and spirit provide it with the resources to not only weather these challenges but to thrive despite them.

Have Challenge, Find Solution

Indian firms are responding to talent challenges in ways that not only bring them even with, but also accelerate them past, their global competitors. Their starting point is often around achieving parity through best-practice approaches used by other multinationals.

According to Coca-Cola's Murthy, Indian firms are focusing their attention on:

1. **Better differentiation of performance and potential:** Firms are establishing talent review and performance management processes that clearly differentiate levels of performance and potential to advance.
2. **Sharper focus on A players in A positions:** There is a concerted effort to ensure the most capable talent is aligned with the most critical positions — a strategy enabled by differentiation activity.
3. **Improved diversity management:** With a dearth of female leaders and Generation Y becoming a large percentage of the workforce, companies such as Google and Boehringer Ingelheim are engaging in creative tactics such as those cited earlier.

These efforts help Indian firms respond to rapid growth, but a fundamentally different set of factors is putting distance between them and their global

India: The Roots of a Modern Meritocracy?

Randall P. White

Indian executives have come of age in a highly competitive environment — from birth to their often-transcendent white-collar careers. They appreciate, clamor for and value learning as the means to rise above their station. With a population of more than a billion, the world's largest democracy comes with a vast disparity between wealth and poverty in which education can be a lifesaver and, even more, a differentiator in the world marketplace.

It can be refreshing and rewarding to experience employees' quest to learn, to see how knowledge and skill can trump personality. Despite historical roots, stratification continues to exist in Indian society, yet in the corporate workplace of modern India it is more what an employee knows that defines who that individual is rather than where he or she comes from. This egalitarianism increases the likelihood that qualified people will make it to the most important positions within an organization.

In another sense, it's a little daunting. Indian learners, similarly to Chinese executives, demonstrate a keen demand for what Westerners know. That's always flattering, but Westerners would be foolish to ignore that the goal is to learn how it has been done and then blow on by, asking new and different forward-thinking questions that will provide a competitive advantage.

Ultimately, there is much the West can learn from this. However, the biggest challenge is that the Indian quest for knowledge comes from generations of respect for education — a respect that appears to be eroding in the U.S. at the most basic level. According to the OECD Programme for International Student Assessment's 2010 report, the U.S. has fallen to average in education rankings.

U.S. businesses are in danger of losing in the global arena if we don't embrace learning as the critical element of society. We must change our organizational cultures and learn from examples set by India and other emerging markets.

For example, when giving feedback in Western organizations, talent and learning leaders often feel more like prognosticators than instructors. Students sit, sip coffee and wait to receive "do less/do more" directions. Meanwhile, in India instructors are more likely to get a barrage of tough questions from voracious learners that can take up hours of a feedback session. Then, the learner will want to hear what the instructor has to say. Indian students understand they have to prepare to compete for coveted jobs and salaries. On the other hand, Western students often seem more intent on adjustments rather than growth and improvement. Certainly, adjustments in behavior are positive outcomes of feedback. But when soon-to-be-half of the executive world is continually boning up, Western executives would be wise to buckle down.

In India all of this respect for education has created a sense of humility, even among C-levels, that contrasts with the Western culture of personality. Still, India is not the be-all, end-all model for 21st century business. It has its own cults of personality, manifest in impressive helpings of public and private sector corruption and hubris. In February a telecom licensing scandal reached the highest levels of the government, and Mukesh Ambani, one of India's richest men, lives in a 27-story glass-and-steel home towering above Mumbai.

Perhaps what the West can learn in an immediate, practical way, is:

- People who live in emerging economies see learning — and learning fast — as a primary competitive advantage.
- Knowledge-based reward and advancement may improve the work environment by diminishing the cult of personality.
- A corporation that believes in learning can become a true meritocracy.
- The West needs to re-evaluate and invest in education at every level long before graduates arrive at the corporation.
- For the near term, U.S. corporations need to take on a retraining role, taking on people who came of age in an era of educational mediocrity. In the long term, corporations will need to help any number of stakeholders revamp the U.S. educational system.

As the U.S. continues to tighten regulations on H1B visas for foreign workers, we may lose the option to import competitively educated talent. TM

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peers. Their secret advantage comes from unique social and cultural factors that allow Indian companies to build better talent faster than their Western rivals. Of these six factors, five offer a tremendous advantage in building talent, while the sixth may create an insurmountable barrier. The five advantages include:

1. **A legacy of HR influence:** India's socialist past created both large public-sector undertakings such as the Indian Oil Corporation and family-owned enterprises such as Tata Group, Reliance and Birla Group that invested heavily to develop human resources. According to Ernst & Young's Rajan, "Indian firms have shown a higher propensity to invest at the high end of the HR value chain as compared to multinationals. For many years public sector undertakings have invested in leadership capability development and their head of HR has historically been a member of the board. Family-owned enterprises have made similar investments and recently transformed HR so it can more effectively support talent building."

2. **A well-trained and closely-knit talent fraternity:** India's graduate education system produces top HR leaders from its institutes of management. The XLRI School of Business and Human Resources, established in the 1950s, is a top 5 Indian business school whose graduates include HR leaders for Procter & Gamble India, Hindustan Lever, Hindustan Coca-Cola, Bharti Airtel and Wipro.

   These top Indian talent leaders often form strong interpersonal networks with talent peers outside their companies. Compared to talent leaders in the U.S., Indian senior talent leaders seem to have deeper relationships with, and are in more regular contact with, their external talent peers. This increased interaction enables them to more easily share best practices and India-specific market information.

3. **Strong individual commitment to talent development:** It's not unusual for Indian corporations to hold internal leadership development courses on Saturdays. These meetings aren't held on the weekend to accommodate the schedule of the CEO or a visiting professor. The companies simply have a five and a half or six-day work week. Ask the typical American or European executive to give up a Saturday for a leadership development course and eyes likely will roll. Indian leaders, on the other hand, are less likely to complain about being away from home or not having work/life balance.

4. **A unique understanding of India:** Indian firms have the obvious advantage of understanding how to manage talent in an Indian context. Coca-Cola's Murthy offered a simple but telling example. "Indian firms are very adept at managing the slightly more emotional nature of Indian leaders. While Indian firms have flexibility to support employees' feelings and emotions, multinationals are often bound by rules and regulations that prevent the type of empathy and coaching that can support success."

5. **The ability to develop and pay:** Two key factors to engage and retain great talent — professional development and compensation — are easier to come by at many Indian firms. "Because of their success, Indian companies can offer large wealth creation opportunities through stock options or shares. Western firms aren't listed on the Sensex (the Indian stock exchange) so can't offer similar benefits," Murthy said.

   Growing firms also provide significantly more development opportunities, especially prized international postings. "Indian leaders are highly mobile and want to travel the world," Murthy said.

These five factors create a high but not impossible barrier for non-Indian companies looking to compete. The true challenge is created by the sixth factor — Indian leaders' nationalist passion for success.

A Passion to Succeed

In 1991, India eliminated the license raj — the bureaucratic licensing of industry that restricted Indian firms' ability to compete on the international business stage. The ensuing 20 years have seen firms such as Wipro, Infosys and Reliance become strong global competitors or become leaders in their industry like Arcelor Mittal, Taj Hotels and Larsen & Toubro.

Indians take pride in this ascendance and see sustained corporate leadership as inextricably linked with sustained national success. This belief is reflected in communications from Indian executives. For example, in 2002, Dhirubhai Ambani, founder of the Indian conglomerate Reliance, is quoted in the Times of India saying, "Our dreams have to be bigger. Our ambitions higher. Our commitment deeper. And, our efforts greater. This is my dream for Reliance and for India."

The sentiment doesn't appear to have changed significantly since that time. It's challenging enough to compete against commercially motivated competitors. How can the rest of the world compete against firms that see their success as a patriotic imperative?

The consequences of this nationalism are also visible in the number of nonresident Indians leaving the U.S. to return and work for Indian companies. Already these numbers are a steady flow of 10,000 to 20,000 professionals each year, and projections suggest 100,000 or more will return over the next five years.

Results from a January Aon/Hewitt survey of 14,000-plus job seekers across Asia also reflect this nationalistic pride. In the survey, Indian workers expressed a preference to work for an Indian company while other Asian workers preferred primarily American and British companies.

In just 20 years Indian firms have leveled the playing field with their Western competitors. What Indian firms are doing in talent management should raise a few eyebrows. How they're doing it could shift the world's economic balance even further in their direction. TM

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Building an Ownership Culture

Mike Prokopeak

When business managers take on a greater role in the people management process, talent managers can transform themselves into strategic partners who drive greater results.

Companies whose managers have more ownership of talent management processes are more effective. And talent managers who focus on acting as stewards rather than owners of their people processes can reap the benefits.

In April, advisory and consulting firm The Hackett Group released an analysis of 200 companies for its annual HR Book of Numbers. The data from top performing companies showed that HR partners with business line managers on change management, organizational effectiveness and cultural alignment activities 69 percent of the time, compared to 32 percent at their lower-performing peers.

In performance management, that rate is even higher. At high-performing companies, HR partners with line managers 73 percent of the time versus 38 percent at other companies.

That partnership, and the greater ownership of key talent management processes such as employee development and performance management that goes with it, benefits the business and the individual employee, said Brian Hults, vice president of global organization and people development at Newell Rubbermaid.

"There's a hard benefit in terms of ensuring alignment of the organization's objectives, [ensuring] resources [are] allocated properly and that type of thing, and then there's a soft benefit in terms of substantially improving employee engagement in the organization," Hults said.

In principle, having line managers take greater ownership of talent management makes sense to boost individual and organizational performance. In practice, it is necessary to deliver results in a time of tightened HR budgets and lean talent management departments.

"The truth is there just aren't enough of us in the organization to effectively manage performance and development of all these people," Hults said. "In our organization our ratio of HR professionals to operating managers is over 100 to 1. No HR person can manage performance and development for a hundred people. The operating manager has to do that."

Having line managers step up also ensures that managers don't abdicate their responsibility for people management to an often-distant HR organization and are therefore more effectively leading business operations.

Centralizing Process, Decentralizing Ownership

At Newell Rubbermaid, a $5.8 billion producer of consumer and commercial products including brands such as Rubbermaid, Sharpie, Levolor, Paper Mate and Goody with more than 22,000 employees, Hults and the central talent management team work with HR generalists embedded within the company's three core product groups to implement processes.

"Our human resource philosophy or approach to these things is we develop them centrally, then decentralize them to the extreme," Hults said. "The generalists take the lead role in educating our operating partners on execution, and they're executed via the operating partners."

For this approach to be successful business unit leaders need to take ownership of management processes for their employees.

"That means everything from managing their performance, managing their development, helping them with their career aspirations — all of that stuff put together is critical in terms of engaging people and developing them to their fullest potential so they can be successful in their current roles and in their future," Hults said.

The level of ownership can vary depending on the capabilities and proclivities of any leader. To counteract this variance, Hults said the most effective HR generalists at Newell Rubbermaid embed performance management and development into the "operating rhythms" of a business. In one business unit, the HR generalist meets monthly with the division president and senior staff to review employee performance and development.

"It's reinforcing the message that the onus is on them to execute the processes she's helping them learn and manage and also quality checking to be sure they're being executed effectively," he said.

Hults said successful execution of the basics, such as reviewing objectives, evaluating employee reviews and preparing leaders for objective-setting and performance management meetings is about 90 percent of what's needed, but those processes are often ignored in the hectic pace of day-to-day management.

Regular meetings are a reminder and useful quality check on talent management. They give HR managers the opportunity to offer critical feedback and advice, such as ensuring employee performance objectives and required behaviors are clearly set and defined.

> [Management ownership of key talent processes is a necessity in a time of tightened HR budgets and lean talent management departments.]

Effective business ownership of talent management is more than just regular meetings and reminders, however. Busy operating managers focused on growth and revenue need help to manage their people in the form of easily executable processes and procedures.

"One of the things my department does … is we give people really streamlined tools [and] templates," Hults said. "We do a tremendous amount of training around all these processes — the idea being to enable our operating partners to execute these processes in as efficient and effective a manner as possible."

That means stripping out clutter, removing complicated issues such as compensation from succession planning and focusing on key roles, such as identifying the strengths and weaknesses of incumbents, determining successors and what needs to be done to get them ready.

"That has tremendous face validity for our operating partners because they can directly see how this process helps them in terms of filling their key roles over time as they come open with quality candidates," Hults said.

> While talent managers should build ownership of strategic HR processes among business managers, that doesn't mean they forfeit responsibility. There's still a pivotal role to be played.

Boston-based IT storage company EMC takes it a step further. Employee learning and development is structured as a partnership between development experts and business leaders.

"They view us as a trusted adviser, and they view the education function at EMC as theirs," said Tom Clancy, vice president of education services and productivity for the company. "We're not some training organization that's over in the corner taking orders. We are fully engaged, fully immersed into the business."

EMC ensures alignment by having business leaders like Clancy, a veteran of the company's sales department, run employee development. This approach creates a two-way partnership where learning and development experts teach business leaders to effectively manage employee development and business people keep development focused on the organization's needs.

"The business people taught the learning people how to be better aligned and how to meet audience requirements," Clancy said. "It was really a teamwork approach."

That close alignment of employee learning and development ensures talent management produces results and raises its profile within the organization.

"We've built it in such a way that it's really their education organization," Clancy said. "They're making the investments, and they expect to have a huge ROI on education."

The Benefits of Greater Ownership

In addition to better alignment with corporate objectives, business manager ownership of critical talent management processes brings additional benefits, such as more effective performance management.

"When you think about performance management in its purest sense, it's really an organization development activity to ensure that resources and people are effectively aligned to the strategic plan of the business," Hults said. "By having your operating leaders own the cascading of objectives through the organization, you optimize that alignment."

Business managers have a far deeper understanding of each employee's performance relative to objectives than an HR person who is not engaged directly in the work. That closer connection results in better feedback.

"It's really a problem-solving system and a performance improvement system so the operating managers and the employees can talk about, 'What are my objectives, what am I doing today, how's it going, and how can we as a team, the leader and the associate, be more effective in the execution of these objectives,'" Hults said.

Greater manager ownership also enhances the organization's ability to respond to rapid change.

"The only way you can do that is to have strong alignment with the business," Clancy said. "We knew that right from the start, so we made sure we put the right people in place that were interfacing with the business units so we could truly understand what their requirements are."

At EMC, that alignment and focus resulted in higher customer service scores. EMC's education organization ranks at the top of customer ratings for loyalty and impacts the company's Net Promoter Score, a measure of how likely customers are to recommend EMC to others. According to Clancy, customers who receive training from EMC are seven times more likely to recommend the company than those who don't use its education services.

While talent managers should work to build ownership of strategic HR processes among business managers, that doesn't mean they forfeit responsibility. There's still a pivotal role to be played.

Assessment and evaluation in particular require the kind of special expertise only experienced talent managers can provide. "It's one of the more difficult and technically complex areas of human resources and one where some gaps are pretty evident," Hults said.

While the gaps are relatively easy to work through, it's important to have expertise to determine the develop-

Decentralized Succession Planning at Newell Rubbermaid

Mike Prokopeak

In most organizations, succession planning is owned by the senior executive team, but a central HR department has primary responsibility for the data — the list of high potentials and successors along with their performance data and development plans.

When a role opens up, the HR department will dust off the list of successors and give it to executives to review and select a candidate.

"That's really not efficient," said Brian Hults, vice president of global organization and people development at Newell Rubbermaid.

With 13 business units, featuring such brands as Sharpie, Calphalon, Lenox, Paper Mate and Rubbermaid, rolled up into three business groups, Newell Rubbermaid is a global business with a decentralized structure. Centralized succession planning simply doesn't make sense.

"Basically we've got four people who run HR for a vast majority of our organization — a corporate HR head and three group HR heads," Hults said. "The group HR heads are responsible for business units of about $2 billion each, and each one of them has got in the neighborhood of 6,500 employees in their area of responsibility. If I can't entrust this data to those people, that's a significant problem."

Newell Rubbermaid decentralizes succession planning to make it more efficient and responsive to each business unit's needs. That requires simplifying some of the complicated succession processes and providing business unit leaders with a clear, actionable plan. Having a reasonable, readable succession file makes replacing a key role easier and faster.

"When one of the key roles comes open in the area of their responsibility, they literally have the file … they go to the candidate list, and they know who the internal people are who have been vetted by our leadership team to be a candidate for that role," Hults said.

The results have been significant. Hults said the internal fill rate for open executive positions was in the 20 to 30 percent range five years ago. In 2010, that rate was 89 percent for vice president and above.

"The proof is in the pudding," Hults said. "This is a much more efficient way of filling the key roles than something a bit more traditional." TM

ment required to turn a person into a general manager or group president, for example.

"That's one area where in certain situations you may want to bring in experts within the organization or outside the organization to help the operating leaders," Hults said.

In addition to providing clear benefits for employee engagement and organizational and individual performance, greater business ownership of talent management processes positions HR as a talent consultant that can help business leaders focus on critical imperatives.

"The big criticism of HR — and in a lot of instances it's warranted — [is] it's HR for HR's sake," Hults said. "We're more concerned with the functioning of our internal processes and policies to serve our own needs versus putting in place processes and systems and then working to support the success of our operating leaders."

Decentralizing processes and building ownership among managers raises a talent manager's profile and casts him or her in a new, positive light with business managers.

"They can see the HR person as a supporter of them in terms of the effective execution of those processes, supporting their personal success and the success of their operating unit," Hults said. "That's a powerful combination." TM by Kellye Whitney

The Sum of Many Talented Parts

The four organizations that make up Marsh & McClennan Companies share a common idea: the importance of talent.

Holding company Marsh & McClennan Cos. has roughly 50,000 employees globally and is composed of four different operating organizations: Marsh, an insurance broker, Guy Carpenter, a risk reinsurance specialist, Mercer, an HR consulting firm, and Oliver Wyman, a management consulting firm.

As vice president and global head of talent management, Arturo Poire runs talent strategy for the entire enterprise. He said the systemic use of development and performance management practices, workforce analytics and a new focus on social media tools are helping to create coherence between the companies and expand communication between all of its leaders.

TM: Describe your company's approach to talent management.

POIRE: We are basically four companies in one, and our strategy has to account for that. There is a good level of decentralization that goes on, so each operating company has its own model when it comes to talent management. At the same time we have a large umbrella because we are an intellectual capital company, so there are certain processes and programs that run across the company.

Our company focuses on performance management and talent to a very big extent. We have a very strong performance management process that cuts across all the different operating companies. We make sure that we have consistency in terms of language, we share the same systems and platforms for that process, and in the past few years we've been working very hard on talent reviews, succession management and leadership development. We have meetings with the enterprise CEO once a year to review the top talent across the organization. We also have meetings with top functional leaders, CFO, head of HR, head of legal, head of technology, to look at the functional talent across all of the operating companies. That's what I'm building now, programs that cut across the enterprise in terms of leadership development and managerial skills with a common language and approach for talent management. Much of what I do is leverage what we have internally, learn from each other's best practices and try to reuse things that have been developed in other companies. You have measurement processes — performance management, talent review — then you apply the action — leadership development and learning strategy.

TM: How are those different performance measures linked to strategic objectives?

POIRE: We have a common set of competencies, which have been designed with the strategic objectives in mind. What we're building heavily now is workforce analytics, the tools and instruments to measure the impact of all the actions we are taking, the evolution of our workforce effectiveness and efficiency, and we're trying to create consistencies in how data is produced, analyzed, and how we gather information through different processes such as our colleague survey, internal labor market analysis or our talent reviews. We try to analyze and combine all of those to make sure we link the behaviors we ask our colleagues to exhibit to the actual results.

If you take a 10-year cut of our history, you'll see this is a company that was extremely successful. [We went] through a period of crisis around 2004 with some regulatory problems and then into a little bit of a tailspin. If you look at the past three years, which coincides with the tenure of Brian Duperreault, our CEO, you see a steady improvement in every single measure, and that coincides with a strong focus on our main asset, our human capital. When you put our financial performance side by side with the investments we've made in talent management strategy, you'll see those two lines coincide.

TM: What other challenges impact talent at Marsh & McClennan?

POIRE: Our structure is a big challenge — that we are four different companies — and that's a very important part of our culture. I am driving for coherence, for common language, but I have to be careful to respect the individual businesses' strategic objectives and the company landscape that they face. I have to allow them to do what they have to do to achieve goals. Of course, the fact that we're a global company with more than 100 countries also creates its own dynamic. Probably for the first time in history you have the emerging markets being very healthy, growing very fast, enjoying the benefits of progress, and then you see the more developed world struggling with finan-

“The economic slowdown in the world has made it more challenging for companies to reward colleagues the way they want.”

— Arturo Poire, vice president and global head of talent management, Marsh & McClennan Cos.

cial problems. How you structure your colleague-value proposition, how you design your compensation strategy needs to adjust for that new world.

The other challenge we’re facing that I see as one of the hot topics is engagement. We’re putting a lot of effort, focus and money there. We’ve started doing colleague surveys on a more regular basis. When the other companies are at the top and then go through a crisis, it impacts the morale of your colleagues. Making them feel that they belong to something bigger, something positive, it’s worth making sacrifices. The benefits will come, but it’s tough. What’s happening now for many companies, ours included, is the economic slowdown in the world has made it more challenging for companies to reward colleagues the way they want. Typically you end up asking your colleagues to do a lot more with less. I’m spending a lot of my time trying to [figure out], what is it you can do to motivate your colleagues in the

INSIGHT continued on page 51

by Jim Kochanski and Myrna Hellerman

Want Performance? Pay for It

Establishing a pay-for-performance strategy can be tough, and many talent managers don't bother. With the right vehicles in place, it can be done, and it works.

Most leaders want pay for performance for themselves and their organizations. However, most organizations actually have poorly executed, generic pay programs.

Pay for performance can be an elusive goal, but organizations can make it work, even in years when little discretionary money is available. Many organizations report that pay for performance leads to increased goal alignment and employee effort and boosts their ability to attract and retain top performers.

To understand how some organizations make pay for performance work when others cannot, Sibson Consulting launched the "Real Pay-for-Performance Study," which looked at the pay for performance practices and results in 140 for-profit (74 percent of respondents) and not-for-profit (26 percent of respondents) organizations in summer 2010.

Data revealed that top organizations use more pay for performance vehicles than other organizations. For instance, they recognize top performance with spot bonuses, equity awards, other long-term incentives and profit sharing in addition to traditional pay vehicles of base pay increases and short-term incentives. By shifting their compensation dollars toward high performers, these organizations significantly improve the return on their compensation investments.

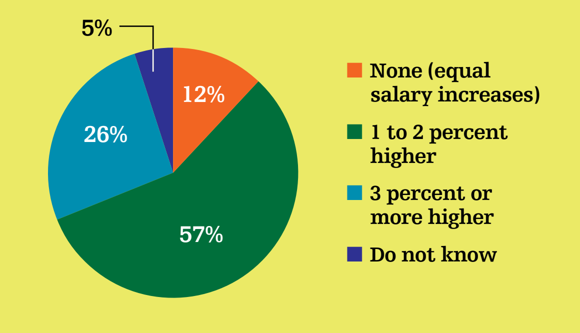
The study also found that best-results organizations provide relatively higher increases to high performers than do other organizations. Further, these organizations understand that top performers are most engaged and motivated to perform when operating in an organization that exhibits an effective pay for performance culture. Best-results organizations are also more effective at aligning goals by cascading budgets and key priorities through unit and department heads. They apply calibration techniques to ensure only true high performers are rated and rewarded as such, and use multiple metrics to track the effectiveness of their culture.

All Employees Are Not Alike

The pay for performance study looks at high-performer pay differentiation for merit increases and annual incentive pay. More than 25 percent of organizations reported 2010 high performers' salary increases that are 3 percent or more higher than average performers. More than half of respondents gave high performers salary increases that are only 1 to 2 percent higher than average performers, and 12 percent of organizations gave the same base salary increase to high performers and average performers. (Figure 1)

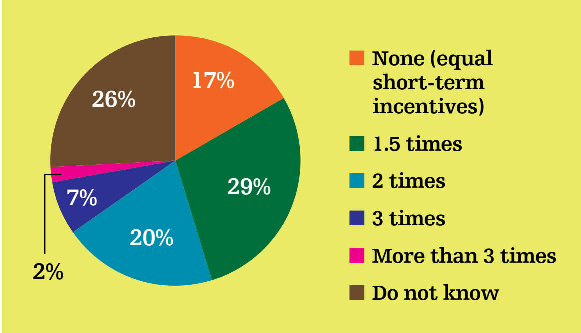
For annual incentives, slightly more than 25 percent of respondents do not know how much greater payouts are for high performers compared to average performers. Further, 17 percent of organizations do not provide any differentiation in short-term incentive payouts for

Figure 1: Base Salary Increases for High Performers Compared to Average Performers



Source: Sibson Consulting's *Real Pay-for-Performance Study*, 2010

Figure 2: Short-Term Incentives for High Performers Compared to Average Performers



Source: Sibson Consulting's *Real Pay-for-Performance Study*, 2010 high performers. (Figure 2) Why? The following statements are common reasons for not differentiating pay for performance:

"All of my people are top performers or they wouldn't be here," and "The company met its plan, so everyone should get a bonus at or above target."

However, not differentiating pay by individual performance can reinforce an entitlement culture unless the organization also offers a strong group incentive program such as goal-sharing.

High-performing organizations give top performers larger increases, and they encourage pay differentiation by giving managers access to cross-organization rating and compensation data. These organizations teach their managers that if everyone receives a high performance rating, there will be less money for those who truly are top performers.

While not tested in the study, P4P practices can disrupt employees' entitlement mind-set and awaken them to the reality that, "I'm not going to get increases or bonuses by just coming to work. I've got to perform better."

Further, high-performing organizations have a better understanding of how much differentiation they achieve. Management uses compensation scorecards to compare pay recommendations before they approve them. In this way, they see if any managers or departments are deviating from the guidelines, and they can examine any outlier recommendations or groups, and create positive norms about how to pay for performance.

Performance and Culture Go Hand in Glove

The study found that slightly more than one-third of organizations perceive their performance management programs as effective and a similar percentage think their company culture supports pay for performance (Figure 3).

The study asked respondents who indicated their pay for performance culture is effective which factors contributed most to that state. Eighty-six percent chose leadership support, 74 percent gave credit to processes for differentiating performance, and 68 percent referenced processes for delivering pay to high performers.

The study also asked respondents who indicated their pay for performance culture is ineffective which of three factors contributed to that state. Seventy-four percent said limited compensation budget, 70 percent said leaders' and managers' inability to deliver feedback and 33 percent referenced a lack of leadership support.

Organizations can overcome a limited compensation budget through program design. One particularly effective program design method is to set aside a portion of the merit or annual incentive pools for high performers only. The remainder of the pools are then allocated according to an established formula. For instance, by carving 0.5 percent out of a 3 percent merit increase pool, a company could give the 25 percent of the employees identified as high performers an average 4.5 percent increase while the remaining 75 percent received an average increase of 2.5 percent.

Study participants said managerial struggles with feedback delivery can be overcome by teaching managers the key components of performance feedback conversations and how to structure and pace these conversations. This training should include hands-on, critiqued practice feedback sessions, which can be videotaped for later reference.

High-performing organizations understand that top performers are most engaged and motivated to perform when they operate in organizations that exhibit an effective pay for performance culture. Though these companies may have limited budgets, they often carve out money to earmark extra rewards for top performers. Further, these high-performing organizations tend to see fewer people as top performers, enabling them to reward even with a limited budget.

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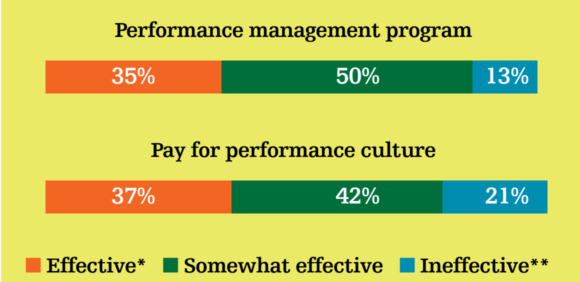
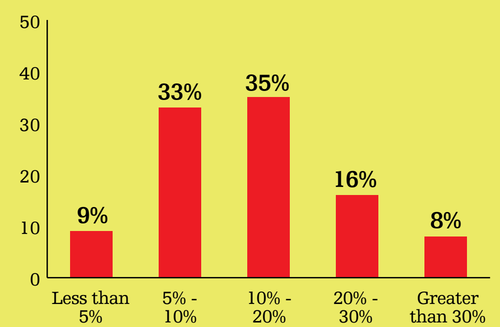
Figure 3: Effectiveness of Performance Management and P4P Culture



* This includes ratings of "very effective" (a relatively small percentage) and "effective."
** This includes ratings of "ineffective" and "very ineffective" (a relatively small percentage).

Source: Sibson Consulting's *Real Pay-for-Performance Study*, 2010

Figure 4: Percent of Employees Targeted as High Performers



Source: Sibson Consulting's *Real Pay-for-Performance Study*, 2010

by Amy Barry and Joyce L. Gioia

Nursing Development at Martin Memorial

Many organizations apply for and win awards, but the benefit is not winning the trophy. It's the journey and its effects on employees and organizational culture.

An organization recognized for its leadership, culture and best practices can attract and retain top talent and promote a higher level of performance to achieve corporate objectives. Employers of choice enjoy other benefits including high morale, engagement and productivity. Martin Memorial Health Systems (MMHS) recognized the importance of these benefits to retain the best and brightest talent within the organization, particularly its high turnover nursing population. So, when MMHS saw high turnover rates, the solution was to rededicate more than 3,000 volunteers and employees.

Based in Stuart, Fla., Martin Memorial is composed of two hospitals, two MediCenters, a freestanding emergency center and numerous outpatient centers and clinics. The not-for-profit, community-based health care system began a journey in 2007 to earn the Employer of Choice designation from Employer of Choice Inc.

As a result of stronger leadership and education initiatives, some designed specifically for nurses, MMHS was recognized as a national Employer of Choice in 2009, 2010 and 2011. The distinction placed it in a group of 17 health care organizations — and 30 companies — nationwide that have earned the distinction.

"Our journey to become an employer of choice has had tangible benefits for our organization," said Mark E. Robitaille, president and CEO of MMHS. "Since we began working toward this recognition over eight years ago, we have seen associate satisfaction rise significantly, while reducing workforce turnover."

MMHS saw turnover fall from a high of 15.85 percent in 2007 to 8.94 percent in 2009. As of January 2011, the results continue to improve with associate turnover at 7.56 percent.

How to Become an Employer of Choice

The journey actually began in 2002 as part of MMHS' quest to continuously improve engagement and meet its strategic goal to become a nationally recognized Best Place to Work organization. It all started with an anonymous employee questionnaire.

In 2002, MMHS spent most of its time focusing on engagement survey results as a way to tackle key areas that needed improvement such as senior leadership visibility, communication, associate involvement and shared governance. During the past few years, the organization has used those results to initiate proactive planning efforts that promote internal leadership development, succession planning and future growth.

For instance, MMHS partnered with Success Profiles Inc., a measurement survey and talent management company, to produce an engagement survey leader eye chart. The 2010 eye chart indicated that approximately 50 percent of all the organization's leaders were rated in the top 25 to 50 percentile.

Since December 2010, MMHS leaders have been going through a self-assessment process called Right Path. The senior leadership team starts by rating its own performance, determining individuals' leadership styles and developing ongoing coaching plans.

In January 2011, MMHS' senior leadership team used peer assessment to evaluate overall performance of all leaders. The organization found that senior leadership rated approximately 88 percent of leaders in the top 25 to 50 percentile.

Using these assessments, MMHS' leadership is able to more effectively coach and develop its leadership team to address workforce and senior leadership perception scores and create opportunities to enhance its succession planning process.

During 2010-2011, MMHS held three coaching retreats for more than 20 senior leaders to help secure and maintain senior management buy-in for the process. This support also ensures that leaders own the process and are comfortable with the feedback they receive before they share it with their direct reports.

Filling a Pipeline of Nurses

MMHS' emerging leader program also has been beneficial for highly talented up-and-comers. This fast-track initiative has enabled the organization to create a talent pool to help meet its needs as it grows.

MMHS conducted a pilot development program for nursing in the spring and summer of 2010. This included a series of workshops, group discussions, reflections and feedback from other participants, leaders and mentors, and gave professional staff and

Top: Associates from the Martin Memorial Health Systems Emergency Center at St. Lucie West, Fla.

Left: Joyce Gioia, CEO of Employer of Choice Inc. (second from left), awards the national Employer of Choice award to Martin Memorial's George Lehach, Amy Barry and Mark Robitaille.

supervisory front-line, management-level leaders the opportunity to learn and grow together.

The nursing pilot has funding for 10 registered nurse associates and is divided into three units covering business management skills, leadership skills and personal development. The course offers 40 hours of continuing nursing education credit from the American Association of Critical-Care Nurses. The learning delivery method is based on the Essentials of Nurse Manager Orientation, developed in partnership with the American Organization of Nurse Executives. This nurse leadership course is one of the first created specifically for nurse managers' development by experts in the field that covers the skills necessary for successful leadership.

MMHS selected the participants for the emerging leader program based on criteria established by nursing leadership, including performance evaluation and clinical ladders, level of education, current involvement in councils and shared governance, and recommendations from their leaders. After selection, the emerging leader candidates were oriented to the program and paired with their leadership mentor, directors and vice presidents throughout the health system. The 12-week program began in April 2010 with weekly group workshops to address financial management, human resource management, quality, strategic management, leading teams, risk management and legal issues, safety, compliance, performance excellence and lean concepts. Each week, emerging leaders complete their online curriculum and meet separately with their mentors.

The emerging leader program affords participants the opportunity to learn about the business of health care, something they are not always exposed to in roles such as a charge nurse or nursing supervisor. Participants work with mentors to understand principles of leadership, how to hire and manage a staff and how to create and maintain a budget. The program also teaches young nurses how to make things happen, how to go behind the scenes of the day-to-day operations of the MMHS health care system, and exploit the benefits of mentoring to develop an effective staff.

The program was well-received by senior leadership, and plans are now under way for a pilot for ancillary talent as well as additional leadership development programs for nurses.

"Martin Memorial is committed to increasing nursing education and clinical skills through our evidence-based practice and nursing research mentorship program," said Sherry Guffin, assistant vice president of patient services for Martin Memorial Hospital South.

To further enhance talent in research, MMHS founded a mentorship program to create a core of nurse experts who are familiar with evidence-based practice, are passionate about nursing research and can mentor collegial staff nurses. Each attendee is assigned a nurse mentor.

MMHS also increased emphasis on nursing education, stressing the importance of completing advanced degrees. In an effort to increase the bachelor of science in nursing (BSN) rate amidst staff, the organization started a partnership with Western Governors University, offering online education options that lead to a BSN in a timely and cost-effective manner for nurses who already have an associate degree in nursing.

Further, all nursing directors and supervisors were directed to obtain their BSN. To date 72 percent of nursing directors have completed their BSN, and this number is expected to rise to 75 percent this year. Eighty-four percent of the entire nursing leadership at MMHS has completed a BSN degree or higher.

The Journey Never Ends

Thanks to a focused and disciplined effort to become an employer of choice, MMHS has developed a continuous improvement mind-set that increases staff education and commitment and improves patient care.

MMHS has multiple projects under way including planning for a new hospital; installing Epic, a new clinical electronic medical record system; a new financial, talent management and materials management system; and continuing a three-year effort to improve performance excellence by focusing on enhancing the efficiency and quality of work the organization performs system-wide as new talent joins.

Talent management efforts have produced a pool of skilled, motivated and engaged talent. One of MMHS' key metrics is its reputation in the medical community among physicians, volunteers and associates. Other metrics gathered from the 2010 employee engagement survey state the following increases in employee and staff satisfaction:

- "I am satisfied with my job" rose from 14.8 percent in 2002 to 88.7 percent in 2010.
- "I have confidence in our organization's leadership" rose from 8.4 percent in 2002 to 83.7 percent in 2010.
- "I would recommend my organization to friends as a good place to work" rose from 22.9 percent in 2002 to 90.2 percent in 2010.
- "My manager or immediate supervisor seems to care about me as a person" rose from 6.3 percent in 2002 to 84.2 percent in 2010.
- "In the past three months, I have gone home feeling good about my workday more than feeling bad" rose from 40.6 percent in 2002 to 94.2 percent in 2010. TM

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right way? The fact that you have multiple generations of workers sharing the workspace makes it a little bit more difficult because what motivates Generation X is not the same thing that engages baby boomers, and it's definitely not the same thing that will engage your Generation Y or millennials.

TM: How does the company promote workforce performance?

POIRE: Learning and development is a key aspect, but it's not the only one. For example, in the insurance services side our business is very, very regulated. You need to have a robust learning strategy and structure because you need to satisfy regulators because of licenses and all of that. Then you have technical learning. When it comes to leadership development, our companies are at different areas of evolution. Some, like Mercer, have done amazing work to create a strong curriculum that goes from first stage manager to becoming a leader, and I'm trying to leverage that for some of the other companies. Oliver Wyman also has a very strong focus on leadership and management behavior. The other companies are following suit.

Our learning strategy is tied to our objectives, but we're also trying to find other ways that you develop leaders. It's not just by participating in a classroom. That's why the talent review process is key. We've launched 360-degree feedback, multi-rater reviews for all of our leaders across the different operating companies where they can actually get feedback on their leadership style, and we're looking at that to create common trends and then to see what kinds of tools and solutions we can create. In addition, we're creating a program that will allow colleagues to have more on-the-job-type development through assignments and working on cross-company projects with colleagues and leaders from other parts of the organization. They can not only make connections and learn about other parts of the company but also learn new behaviors by looking at how others behave.

I recently did a survey of our talent management philosophy with leaders of my organization and one of the things they said loud and clear was one of the strongest ways to develop leaders is by having them have experience through special projects or assignments and giving them the opportunity to receive feedback. Our talent management strategy is moving to make sure we are aligned to that, that the solutions we design are more about real application of learning versus the more theoretical approach you see in other places. Lastly, we are using social media to communicate with each other, share ideas and teach each other in a more effective way. Through that we expect to get more real-time information on issues, concerns and feedback for the leaders of our organization. We're trying to attack this from multiple points.

TM: What does your social media use consist of? How does it play out exactly?

POIRE: We are investing in a new platform. One of the operating companies, Marsh, is leading the way on this. That platform, which is up and running right now, is a lot more than a LinkedIn. Imagine a virtual university where you enroll your leaders to become teachers, create online classes, colleagues can attend those classes, share feedback and have real dialogue with those teachers. We're expanding that technology to the different operating companies.

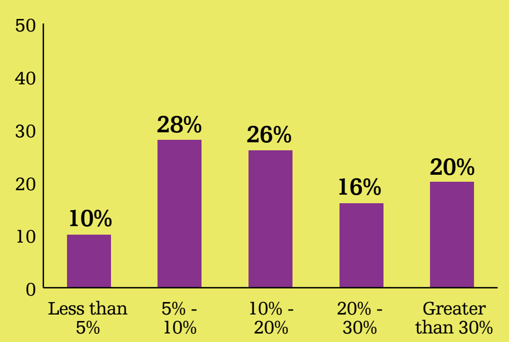
We have also revamped our intranet to enable more real-time conversations with our colleagues. We want companies to be engaged in advancing the company's strategy not only by doing their jobs and doing them very well but also by leading in something that goes beyond day-to-day work. We're going to create message boards, which we've done in the past, where we ask colleagues for cross-company goals, ideas to advance the company strategy, and based on the recommendations we're going to bring them back to our colleagues so they can incorporate the goals into the annual planning process. It's all about leveraging technology, but also changing the mind-set in terms of how you communicate with colleagues in a more fluid and active way.

> **When it comes to leadership development, our companies are at different areas of evolution.**

TM: What's next for Marsh & McLennan's talent efforts?

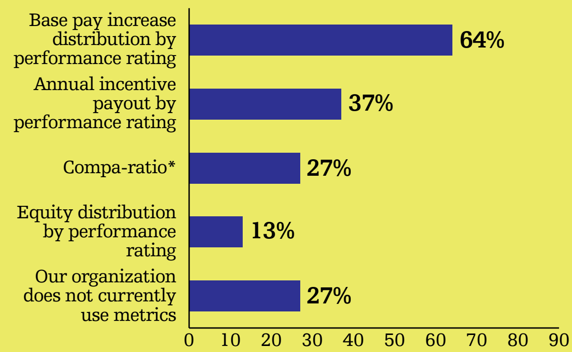
POIRE: The focus for this year goes back to this emergence of different types of conversations with colleagues. We're going to invest more in that as well as in social media tools. My focus will be to continue building organizational coherence and making sure we have processes that are aligned to talent across the enterprise. The other big one is workforce analytics. We've done a lot of work in the last two years to improve the quality of data and the depth of analysis, and we are working more on that. Our company's growing. We're turning to new markets, new segments, so things look very bright. To be successful our talent strategy has to be at the center of it. TM

FIGURE 5: PERCENT OF EMPLOYEES ACTUALLY RATED AS HIGH PERFORMERS



Source: Sibson Consulting's *Real Pay-for-Performance Study*, 2010

FIGURE 6: PAY FOR PERFORMANCE EFFECTIVENESS METRICS



*Compa-ratio is the relationship between individual salaries and the midpoint of each salary band.

Source: Sibson Consulting's *Real Pay-for-Performance Study*, 2010

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What Gets Measured Gets Done

The study found a wide variation in the perceived effectiveness of setting pay performance goals to drive business success. Some 36 percent of respondents said goal alignment was effective in this regard, while 24 percent rated it ineffective. Similarly, the study found a wide variation in ratings calibration effectiveness. The rating-calibration process attempts to ensure that ratings are checked and adjusted against an organization-wide standard. Some 27 percent of respondents found that effective, and 36 percent found it ineffective.

High-performing organizations are more effective at aligning goals by communicating budgets and key priorities with department heads, ensuring that managers and supervisors disseminate the information throughout the organization. These organizations use multiple rating-calibration techniques. They determine individual ratings at cross-organizational, formal, performance-review process meetings; publicize rating distributions of all departments for senior leaders; and create organizational-wide target distributions, then audit and report on actual distributions.

While a majority of organizations in the study identified between 5 and 20 percent of their workforce as high performers, actual ratings suggest a much higher percentage of employees are classified as such when defined as the top rating in a three- or four-point scale, or the top two ratings in a five-point scale. Compare Figures 4 and 5. This breakdown typically results from organizations not adhering to their distribution guidelines when it comes to execution of pay decisions or managers' failure to submit performance evaluations on time. The latter is a common excuse for why cross-calibration is impossible.

High-performing organizations use calibration techniques more effectively to ensure only true high performers are rated as such. Talent managers should offer precise comments about specific aspects of performance, not generic ones such as, "she's a good worker." Using calibration techniques also ensures there is a similar degree of stretch to all goals and objectives used as the basis for performance measurement. For example, there is no disparity between necessary performance for two similarly situated but stylistically different managers such as a "tough" versus "easy grader."

Me and Us

Fifty-five percent of organizations in the study pay for short-term performance based on organization-wide achievement. This strategy is easy to administer, but does not link individual effort or results to the rewards, except for executives. Approximately 20 percent fund their bonus pools based on business/unit/department achievements, which improves the line of sight between individual efforts and the reward without ignoring the importance of overall organization results.

Almost one-third of organizations in the study do not use metrics to track the pay for performance effectiveness. Most organizations that do use metrics use base pay increase distribution by performance rating. (Figure 6). Of organizations using metrics, the majority typically use only one or two to track pay for performance effectiveness.

High-performing organizations consistently use multiple metrics to track the effectiveness of their pay for performance culture and continuously identify opportunities for improvement. They understand that what gets measured gets done. For example, organizations that measure and publish data on the differentiation of merit or incentive awards tend to get more differentiation in the awards. Further, they often believe by making managers aware that their aggregate decisions could become visible and be compared with other parts of the organization, they can exert pressure to "do the right thing."

Pay for performance is not a one-size-fits-all endeavor, and many organizations struggle with the process, but it is possible to effectively connect pay and performance. There is a wide variation in the relative success of organizations' ability to establish and execute pay for performance programs effectively. Leadership support is a critical catalyst, as is the way pay for performance is incorporated into an organization's culture. TM

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Reputation Repair

Reputation doesn't happen overnight — one event can't form your reputation and one corrective gesture can't reform it. You need a sequence of consistent, similar actions to begin the rebuilding process.

It's doable, but it requires personal insight and discipline. When I first start working one-on-one with clients to change their behavior, they want instant results, but it doesn't work that way.

If you're known as a sarcastic boss, you have to bite your tongue for a long time for people to recognize the change and start accepting the new you. You can go for weeks without deviating, but just one incident where the old sarcastic you reappears and people begin to wonder if you've changed at all.

You have to be consistent in how you present yourself. If you abandon that consistency, people get confused. The reputation you're trying to form gets muddied by conflicting evidence and eventually loses its sharp focus.

Take a look around you at work. Which colleagues have clear, positive reputations, and what are they doing to achieve this enviable position? Consistency is often their primary virtue — without it, we'd never see the pattern they're creating.

I used to marvel at an executive named Bill who rose to the highest ranks of his company and did it all from 8:30 a.m. to 5:30 p.m. He decided early in his corporate career that his family was more important to him than work, so he set a personal goal of always being home by dinnertime — which meant that, despite being as ambitious as the next person, he had to get all his work done during regular work hours.

Bill didn't have the cushion of working late or on weekends, yet his results were excellent. He was liked and admired by everyone he worked with, which partly explains his ascent at the company.

But it doesn't explain everything.

"How did you do it?" I asked him.

[You have to be consistent in how you present yourself.]

"I always knew that my family came first," Bill said. "So I vowed that I wouldn't be one of those people who love trading gossip or need to demonstrate that they're in the loop about all the company intrigue.

"If I could cut all that out of my workday — the small talk, the watercooler distractions, the beer after work, the impromptu sessions to complain about senior management — I figured I'd save a lot of time. I could do my job and get home at a normal hour. And I pretty much kept my vow.

"It's funny though," he continued. "At first I was the company oddball. I was capable and got good performance reviews. People saw me as no fun, no frills and a late-model Ward Cleaver. The only thing missing was the cardigan.

"But I was consistent and steady, and over time, that sober persona became my signature — and a virtue. People started to think of me as someone who could be counted on like clockwork. I was 'dependable,' which is a reputation I'll take anytime.

"Because I didn't traffic in office small talk, my bosses grew to consider me as someone who could be trusted with confidential information, which is ironic, because the less interested I was in other people's secrets, the more comfortable they were sharing them with me.

"Eventually, my serious demeanor made people think I had leadership potential. People were willing to follow someone steady and dependable like me. I suppose they thought I wouldn't let them down. And once people are willing to follow you, the sky's the limit. All because I wanted to clock out at 5:30."

One key to Bill's success is his consistency. He repeatedly gave people an unambiguous way to view him, which happens when you're disciplined about your objectives and follow through. After a while, people are locked into one way of interpreting your behavior, and your reputation falls neatly into place.

Another interesting fact about Bill — even though his kids are grown and out of the house, and he doesn't always have to leave work by 5:30, he still sticks to his schedule. That's the best thing about creating a reputation for yourself: Do it right the first time, and you may never have to change your ways. TM

About the Author

Marshall Goldsmith is a world authority in helping successful leaders achieve positive, lasting change in behavior. He is the author or co-editor of 31 books, including Mojo. *He can be reached at editor@talentmgt.com.*