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The Talent Reboot

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Article at a glance

Over the past decade consultants have been convincing companies that there is a “war for talent”. In this war, we have been told that talent needs to be given what it wants and that companies need to go to extraordinary lengths to provide talent with all the flexibility and freedom it desires. This article argues that talent is crucial for business success, but that the current focus and direction being taken is detrimental to businesses and society. A paradigm shift is required. We argue that the new talent focus needs to be built around creating talented companies, not creating talented individuals.

The key to building a “Talented Company” is the belief that having the right systems, procedures, values and supportive culture makes people smart, and not the other way around. Talent management needs to focus on making the star system before it can make star players. A number of companies are getting this right. These talented companies create a culture where people’s passions and energies can be engaged, optimized and directed in the right direction. Talented companies do not stand and fall on the back of a few talented individuals but rather benefit from the collective sum of tribes of talent imbedded within the culture of their business. Talent cannot reach it’s fullest potential if it doesn’t operate in a talented environment.

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THE WORD "TALENT" HAS GIVEN BUSINESS A BAD NAME!

The 15th September 2008 is a day that shall remain etched in the annals of corporate history. It's the day that Lehman Brothers went bankrupt lurching the world economy into the biggest financial crisis since the 1930's. On that day and ensuing months it became clear a number of very talented individuals had brought the world to the brink of financial disaster. It's a day that talent gave business a bad name. But there is more to the new talent challenge than just the financial crisis. Over the past decade consultants have been convincing companies that there is a "war for talent". In this war, you have been told that talent needs to be given what it wants and that companies need to go to extraordinary lengths to provide talent with all the flexibility and freedom it desires. Nowhere has the war for talent been more ferociously fought than in the corridors of the financial monoliths. Banks, investment houses and insurance companies have hired and rewarded the very best. In return the brightest of the brightest have devised very clever and innovative financial instruments that brought the world to the brink of collapse. The reasons for the financial crisis are complex, needless to say. But what if the crisis happened not in spite of talent but because of it? What if companies have been using the wrong strategies and tactics to fight the war for talent?

This article argues that talent is crucial for business success, but that the current focus and direction being taken is detrimental to businesses and society. A paradigm shift is required. We argue that the new talent focus needs to be built on creating talented companies, not creating talented individuals.

THE TALENT BLITZKRIEG IS OVER

The current approach to talent management began in 1997 when America's largest and most prestigious management consultancy McKinsey declared that there was a "War for Talent". This has become a war cry that spurred on an entire industry of consultants and HR professionals, all focused on convincing businesses that they need to be bending over backwards for the stars of their industry.

What the War for Talent amounts to is an argument for indulging employees. As McKinsey consultants Michaels, Handfield-Jones, and Axelrod wrote in their book titled *The War for Talent*: "You need to do everything you can to keep them engaged and satisfied—even delighted. Find out what they would most like to be doing, and shape their career and responsibilities in that direction. Solve any issues that might be pushing them out the door, such as a boss that frustrates them or travel demands that burden them."

Leading companies keen to capitalise on human talent took note. They sought out best practice, created new positions like "Head of Talent" and gave HR a greater role at Board level to signal the intent and importance that executives are placing on fighting this war. One of the companies that had taken to the trenches early on pioneering talent management was General Electric. They singled out and segregated their stars, rewarding them disproportionately, and pushing them into ever more senior positions. A senior executive is quoted as saying. "Bet on the natural athletes, the ones with the strongest intrinsic skills and don't be afraid to promote stars without specifically relevant experience, seemingly over their heads." Others were quick to follow GE's example and began to implement their own policies of the 20/70/10 principle where the top 20% of employees are excessively rewarded and the bottom 10% "managed out" of the business while the remaining 70% got token bonuses.

A burgeoning sector focusing on the woes of talent erupted. Consultants and HR professionals

jumped onto the bandwagon, shouting from the rooftops that talent needs special treatment. Much of what was being said by consultants made sense. People do represent a sustainable competitive advantage, but recently we've been noticing alarming results. These results suggest that the war for talent is being lost and instead of generating value talent management is eroding it. Bernie Madoff, clearly a very talented crook, defrauded investors of with almost \$65 billion. Lehman Brothers, RBS, HBoS, Bank of America, General Motors, Enron and countless other companies overflowing with talent have eroded over Thirteen trillion dollars in wealth and millions of jobs have been destroyed. There are now numerous signs that talent management has got it wrong and forgotten the principals behind what makes talent successful in the first place - the company, its systems, its values, it's culture and the people who support talent in their roles.

IT HASN'T BEEN ALL SMOKE AND MIRRORS

A lot of what Mckinsey and a number of other consultants, including ourselves, have been saying made a lot of sense at the time. The talent environment had indeed shifted and by the late 1990's changing demographics, the increasing role of knowledge workers, globalization (and with it increased competition) and the personal values of a younger generation of workers all combined to create a potential talent time bomb, one which if executives did not confront could very well blow up in their face.

There are some compelling arguments for focusing on talented individuals and it essentially boils down to this simple but hard-hitting statement - You sell the same products and services, to the same customers, at similar prices. Deliver through the same channels, advertise in the same media, using the same techniques and you swap staff every few years. So where is your competitive advantage? Competitive advantage is now less and less about WHAT you sell, and more and more about WHO you are! And who you are is defined by the people who work for you, specifically your talent.

From this perspective the logic behind aggressively pursuing talent, offering bonuses for individual performance made a lot of sense.

SHOOTING STARS, THAT BURNT OUT!

Pursuing and rewarding talent aggressively is something that Enron did particularly well. Which is not surprising when you consider that Jeffrey Skilling, former CEO of Enron, was one of youngest partners in the history of Mckinsey. The management of Enron, adhered exactly to what McKinsey said that companies should do to succeed in the modern world of work. Enron hired the very best and the very brightest, and rewarded the top performers handsomely. Talent was promoted without regard for seniority or experience. Enron's former chairman Kenneth Lay, was quoted saying "The only thing that differentiates Enron from our competitors is our people, our talent" Talent at Enron were the smartest available and Enron's policy was to pay talent more than they themselves thought they were worth.

One story was that of Louise Kitchen. Louise was a twenty-nine year old, came up with the idea that Enron needed an online gas trading business. She began working in her spare time on the project, and soon had two hundred and fifty people throughout Enron helping her. After six months, Skilling was finally informed and he would later say "I was never asked for any capital or for any people. They had already purchased the servers. They had already started ripping apart the building. They had started legal reviews in twenty-two countries by the time I heard about it." It was, Skilling believed "exactly the kind of behavior that will continue to drive this company forward." This should've been talent case study material, an example of talent being empowered

and released to fulfill it's potential but sadly it isn't. By the time Enron was bankrupt, EnronOnline was trading over \$6bn worth of commodities every day. Shortly before hundreds of Enron employees were laid off, about 500 of the energy giant's executives were awarded hefty bonuses. One former executive told CNN the bonuses were awarded to Enron's inner circle and to people who worked at setting up the questionable financial partnerships that led to the company's demise. Louise Kitchen, was one of these 500 executives taking home a reported \$2m.

Kitchen demonstrated the behaviour many companies would hope to see from their talent. But there are key learning's here, the main one is that talent often believes it's own myth and runs away with itself. There is a strong argument for checks and balances when it comes to empowering talent. As Malcom Gladwell points out in an article he wrote for The New Yorker: "Kitchen's qualification for running EnronOnline...was not that she was good at it. It was that she wanted to do it, and Enron was a place where stars did whatever they wanted."

This raises the question then, in highflyer talent environment is how do you evaluate performance in a system where no one is in a job long enough to determine actual results? The financial crisis also highlighted this weakness in the current talent management model. Talent in financial services has been paid huge bonuses for short term performance and not long term results.

TALENT NEEDS TO GET OFF ITS PEDESTAL

Sir Fred Goodwin the former Chairman of RBS, is the son of an electrician and was the first of his family to go to university studying law at Glasgow University. He joined accountants Touche Ross, and qualified as a chartered accountant in 1983 and within 5 years became a partner. At the age of 32 he headed the worldwide liquidation of Bank of Credit and Commerce International after its collapse in July 1991 and was in charge of 1,000 people with teams from London to Abu Dhabi and the Cayman Islands that eventually returned over half the money from one of the most complicated, high-profile financial frauds ever. His move into banking came after National Australia Bank invited him to become deputy chief executive of Clydesdale in 1995 rising to chief executive in 1996. He joined Royal Bank of Scotland in 1998 as deputy CEO. RBS made waves in 2000 with its £23.6bn takeover of NatWest, a bank three times its size. The Sunday Times wrote that "The NatWest deal was the making of Goodwin," with Goodwin promoted to CEO in January 2001. From 2000 until 2008 he presided over RBS's rapid rise to global prominence as the world's largest company (by assets - £1.9 trillion), and fifth-largest bank by stock market value and its even more rapid fall as RBS was forced into effective nationalisation in 2008. On October 11, 2008, Goodwin officially announced his resignation as Chief Executive and an early retirement, effective from January 31, 2009 - a month before RBS announced that its 2008 loss totaled £24.1bn, the largest annual loss in UK corporate history. Following the February 2009 disclosure of his approximately £700,000 per year pension award from RBS he was the subject of widespread public, political and media criticism, including accusation of lying by Alistair Darling and Gordon Brown.

But why this fall from grace for such an obviously talented banker? Carol Dweck, a psychologist at Stanford and author of the book *Mindset: The new psychology of success*, may have the answer. She gave a class of students aged 10-12 a test filled with challenging problems. One group was then praised for its effort and the other group was praised for its intelligence and being the best. Those praised for their intelligence then showed signs of being reluctant to tackle difficult tasks, and their performance on subsequent tests dropped. The children then had to write to students not on the study, telling them about their experience. The results were astonishing: forty per cent of the students who had been convinced that they were the best and most talented adjusted their grade upward and lied about how they had scored on the test.

Like the students in Carol Dweck study, Sir Fred isn't a naturally deceptive person, he certainly isn't lacking in intelligence or self-confidence. Sir Fred simply did what people do when they are immersed in an environment that celebrates them solely for their innate "talent." They begin to define themselves by that description, and when times get tough and that self-image is threatened they have difficulty with the consequences. They will not stand up to investors and the public and admit that they were wrong. They'd sooner lie.

SHIFT TO TALENTED COMPANIES

Perhaps the problem is less in the concept of talent and more around how we perceive what talent is and how to treat our star players. Consider a football team in the English Premiership. Clearly all players are talented and at the top of their game. Yet football has engendered a culture of revering the individual star players more than the team. There are a few exceptions to this but on the whole the media and teams promote their star individual players ahead of the team and even the club. Individual players are paid enormous salaries for their talent, brought in ahead of home-grown talent and paraded for the media and fan base. The result is a war, one where the stars pit teams against each other during the transfer season waiting for the highest bidder to offer them the next best deal. Loyalty is offered not to the team but to the club with the biggest pay cheque. It's a culture that does not foster loyalty or one where the teams or clubs best interest is at heart and this is the road that many corporations are also heading down.

Consider English rugby. Here the culture is very different and individual players come second to the team. English rugby teams have their star players of course but they focus more on creating talented teams. Johnny Wilkinson is a huge talent but the team is not built solely around this star player. In rugby it doesn't matter if you have the best kicker in the world if the rest of the team is missing tackles and letting try scorers through. In rugby it's the talented teams that wins, not talented individuals.

The difference in the talent management styles between rugby and football is that football focuses on talented individual players, where as rugby focuses on creating a talented team. It may be one of the reasons why football players are paid so much, and it may also be one of the other reasons why English rugby team has played in the last two world cup finals and won one of them. The question for your talent management program is do you want talented individuals or a talented company?

CREATING A GALAXY OF STARS

Many companies have adopted the football approach to talent management. Like Enron, they seek out the individuals and reward them handsomely often at the expense of the team, resulting in resentment and reduced motivation and moral of the other "players". It has also been easier for businesses to focus on measuring and rewarding individual talent rather than talented teams and in this way talent management has followed the path of least resistance. Rewarding teams is far more complex (even though there are excellent examples such as Ricardo Semler innovative management practices at Semco). The reality is that a company is only as good as the whole sum of its individual parts. Companies need to focus not on talented individuals but on becoming a

talented company. A talented company differs in that it takes the collective energy of its entire workforce to nurture a supportive culture that is focused on innovation, performance and delivery. The focus of senior leaders, HR professionals and talent themselves needs to shift from focusing on managing talent to managing the talented company.

TALENTED TRIBES WIN THE WAR

Today most companies are unnatural and uninspiring environments to work in. Whilst the way in which we work has changed dramatically over the past one hundred years, the structures of work, including the office itself have remained stubbornly old fashioned. But this is starting to change. What we like to call “new world companies”, the likes of Google, Zappos and Apple have created environments that in many instances don’t even look like offices.

What new world companies are geniuses at creating and capitalising on are what Seth Godin and David Logan call tribes. Tribes are ancient social structures organised largely on the basis of kinship. Tribes, it had thought, had largely disappeared but with the advent of the Internet, social networks and mobile technologies, research in social studies is showing that tribes are making a comeback. Perhaps this is not surprising. Tribes offer a kinship or belonging that modern day society has eradicated.

A tribe is a group of people between 20-150 who work together and share a common culture/sense of purpose. Extensive studies undertaken by David Logan has identified that there are five different stages that tribes can pass through. Each tribe is recognised by its distinctive behaviour and language that the tribe use to communicate:

- Stage 1 - This is the lowest level tribe and mantra here is that “life sucks”. Members of this tribe believe that life is inherently hopeless, unfair and needs to be met with aggression and anger. Fortunately most professionals skip stage one.
- Stage 2 - The theme here is “my life sucks” - this tribe believes that they are not valued and that they can’t succeed. They blame the boss, the system, their colleagues for holding them back. This is a dangerous tribe in any business and if they gain critical mass can have a negative influence on the culture of your organisation.
- Stage 3 tribes have a culture of “I’m great” and the unspoken part is “and you are not” 48% of workplace tribes function at this level. People here believe that they are doing all the work and that the business is relies completely on their own existence. This tribe creates clicks and information is power it is jealously guarded. Stage three tribes build management silos and members they jealously guard entry into the tribe. Talent management programs that are exclusive and elitist have a danger of forming stage three tribes.
- In a Stage 4 tribe members are saying “we’re great” - this tribe unites around common values and goals. They unite to outdo the competition and they are on a quest. Leaders here connect members with conflicting views and empower them to find solutions information flows freely through the network because of a belief in a common outcome. The tribe is adaptive, creative and a magnet for talent and industry leading innovation
- Stage 5 tribes are characterised by members believing that “life is great” enjoyed by only 2%

of workplace cultures - stage 4 tribes enter stage 5 when a unique market opportunity or innovation allows them to embark on a history making project. Breaking new ground - can't gauge progress against a competitor. Their only compass is their noble cause.

BUILDING A TALENTED COMPANY

Henry Mintzberg points out in his article: Rebuilding Companies as Communities in the Harvard Business Review, the importance of companies remaking themselves into places of engagement, where people are committed to one another and their enterprise. He continues saying that "Decades of short-term management...have inflated the importance of CEOs and reduced others" and the end result: "mindless, reckless behavior that has brought the global economy to its knees"

To rebuild companies as communities they need to focus on creating tribes that are saying "we're great" or "life is great" because once you achieve this you gain the collective energy of all your employees working towards a common vision each passionately committed to achieving your goals

Every company is made up of tribes, Different tribes perform at different levels, some demand and deliver excellence and deliver incredible innovations other tribes simply band together to do the minimum to not to get fired. Most importantly though effective tribes always have more power than any leader. Companies need to harness the power of tribes and build a sense of community and common beliefs within their organisations.

Most talent management programs inadvertently create stage 3 tribes - the tribe of I'm great because I'm in the talent tribe, and you're not great because you are not in the talent team. This narcissistic behaviour alienates the others and stage two tribes, the life sucks tribe, becoming stronger and larger. At Enron, if you weren't talent you were a nobody. This led to a destructive them vs us culture in which turf wars were fought, information got tied up and creativity suffered.

To create a stage 4 or even stage 5 tribes in your organisation you need to get people to move up stages. You move individuals one at a time up into the next tribal stage by encouraging them to start using the language of the tribe in the next stage up. Change stage by showing people how their work makes an impact help them feel valued. This is an essential process in building a talented company.

THE SOUL OF A COMPANY

Tony Hsieh at Zappos the CEO of online shoe seller Zappos.com is clearly a talented person who understands the value of creating talented tribes. Prior to joining Zappos, Hsieh co-founded and sold LinkExchange to Microsoft for \$265M in 1998. Hsieh graduated from Harvard University. In 2008 Zappos achieve the \$1billion sales revenue milestone and on July 22, 2009 Amazon.com announced the acquisition of Zappos.com in a deal valued nearly \$900 million. So impressed have Amazon been with Zappos's performance and unique culture that they have decided not to swallow up the brand and Zappos will remain as an independent subsidiary. Hsieh's talent speaks for itself, he has created two very successful multimillion dollar businesses. What is more impressive though is how Hsieh has built Zappos. Firstly he set a very clear vision - for customers to say "That was the best customer service I have ever had." Hsieh then did two things to engender a tribal culture. Firstly, he asked all of the tribal members to convene and agree what

values were required to deliver this vision. The Zappos tribes consulted each other and came back with a list of 10 core values which have become the DNA of Zappos and how the company lives. Here are the values, and you will notice that they are not like traditional corporate values which typically are trust, integrity, honesty but rather are more human, more personal things like Create Fun and A Little Weirdness; and Build a Positive Team and Family Spirit.

Zappos's ten core values include:

1. Deliver WOW Through Service
2. Embrace and Drive Change
3. Create Fun and A Little Weirdness
4. Be Adventurous, Creative, and Open-Minded
5. Pursue Growth and Learning
6. Build Open and Honest Relationships With Communication
7. Build a Positive Team and Family Spirit
8. Do More With Less
9. Be Passionate and Determined
10. Be Humble

“How Pixar Fosters Collective Creativity”

Another example of a talented company is the animation company Pixar. In the September 2008 article in HBR by Ed Catmull, the president of Pixar, he attributed the studio's success in creating a string of highly popular animated films to its “vibrant community where talented people are loyal to one another and their collective work, everyone feels that they are part of something extraordinary, and their passion and accomplishments make the community a magnet for talented people.”

The second piece of tribal genius that Hsieh implemented was a tribal initiation in the form of a 4 week long Customer Loyalty Training course. All employees that are hired for their corporate office, regardless of position, are required to go on the course, which includes at least 2 weeks of talking on the phone with customers in the call center. After a week of training, the new employees are bribed with \$2,000 plus their full months salary to leave the company immediately, no strings attached. This is to ensure people are there for the love of the job and not the money.

Hsieh has set a salary for himself and the “monkeys” as the senior executive team is called at a paltry \$36,000 a year. Of course with his personal investment in the company and the money he made out of LinkExchange, he is not hurting for money, but it sends a very symbolic message to the employees at Zappos

The results speak for themselves, \$1 billion dollars of sales within eight years, a new wealthy investor in the form of Amazon and client testimonials that are so full of praise that it becomes embarrassing.

THE NEW TALENT WAR STARTS NOW

We have become a society that is obsessed with stars resulting in a sense of entitlement and elitism. From the sports fields to the hallowed corporate halls something has gone wrong. As Hamlet said “something is rotten in the state of Denmark” something too is rotten in corporations around the world. Talent has become selfish and arrogant, it has been found lying, cheating and now wanting. Today the talent challenge is not about finding, retaining and engaging individual talent. A new talent focus is required, one that encourages a creative and innovative culture based on collaboration and teamwork.

The key to building the Talented Company is the belief that having the right systems, procedures, values and supportive culture that make people smart, and not the other way around. Talent management needs to focus on making the star system before it can make the star players. A number of companies are getting this right. These talented companies create a culture where people's passions and energies can be engaged, optimized and directed in the right direction. Talented companies do not stand and fall on the back of a few talented individuals but rather benefit from the collective sum of tribes of talent imbedded within the culture of their business. Talent cannot reach it's fullest potential if it doesn't operate in a talented environment.

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