# Part I

## Building more effective organizations

# 1    Building more effective organizations: A primer[1]

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This chapter sets the stage for those that follow. We seem to be at a "tip-ping point" (Burke and Cooper, 2006) in the way organizational leaders are coming to view the importance of people as a key element in their organiza-tion's success and are prepared to act on this realization. It first lays out new challenges facing organizations as their employees, competition and business environment changes. In response to these new, and in some cases continuing demands, organizations need involved and engaged employees, need to man-age and develop their talent, and to continuously adapt and change to survive. Contributions from some central researchers and writers are thus reviewed to provide a sense of what is known about continued high levels of organizational performance and the emerging consensus of what needs to be done to achieve this.

## The new world of work and organization

O'Toole and Lawler (2006), in collaboration with the Society for Human Resource Management, wrote a follow-up to *Work in America*, published in 1973. Using focus groups with HR managers and state-of the art reviews by leading US academics, they identify ways in which workplaces have changed over this time period, why these changes have occurred, the impact of these changes on workers and organizations, and organizational and government policy initiatives necessary for organizations (and American society) to remain competitive. Effective HRM that emphasizes building human capital lie at the center of these efforts.

Too many organizations are wedded to outdated HRM practices that are out of step with the demands of today's business environment.

O'Toole and Lawler (2006) identified several themes in their review. These include:

- insufficient creation of new "good" jobs;
- increased choice and risk now borne by workers;
- increased influence of competitive and economic considerations in managerial decisions;
- increased tension between work and family life;
- increased social stratification based on education;
- changes in the nature of careers;
- a mismatch of skills and business needs – too few highly skilled, skill shortages in science, engineering and mathematics;
- reduction in corporate training;
- less sense of community at work associated with reduced motivation and commitment to organizations;
- the continuing health care crisis characterized by high escalating costs;
- demographic changes leading to a shortage of skilled workers connected with changes in retirement and immigration policies;
- failure to use HRM best practices to build human capital;
- more women at work in professional and managerial jobs; their career patterns and paths becoming increasingly similar;
- most people end up working for several employers during their working life;
- lifelong learning is necessary for continuing success;
- no longer having to retire at 65;
- more people work at home some of the time;
- work intensified – having to work faster and harder – making the home – personal life integration problem a major one for more people;
- talent now available is richer, and more experienced;
- workers have more freedom, responsibility and greater personal accountability;
- employees now less loyal to a given employer;
- shift from manufacturing to service jobs;
- more global operations;
- more use of outsourcing and on-shoring – foreign companies buying companies in a given host country.

The global business environment has forced organizations to reinvent themselves, embrace change, and increase the speed of innovation, change and adaptation.

A need for continual improvement in products, services and business processes.

## The age of human capital

Business is a lot more complex today than it was 20 to 30 years ago. Increase in the provision of services by organizations has raised the importance of human capital (Stewart, 1997; 2001). Intangible assets such as the quality of its brand name, business systems and processes, and the quality of its workforce have become critical defining features of organizations.

Organizations have also developed more complex structures in response to the need for speed, global operations, and higher value-added activities. These include changing and flexible job descriptions, global teams, virtual teams, and becoming less bureaucratic. There is also a greater pressure for economic performance, often associated with greater use of downsizing and out-sourcing. There is increasing evidence that people and organizational culture represent the only unique competitive advantage (Pfeffer, 1994; 1998; Ulrich and Brockbank, 2005; Ulrich and Smallwood, 2003).

## The "war for talent"

Talented people are critical to the success of a company, therefore the importance of strengthening the firm's talent pool is now heightened.

*How to attract, develop, excite and retain highly talented managers.*

Why does a war for talent exist today? Michaels, Handfield-Jones and Axelrod (2001) suggest the following.

1. The shift from the industrial age to the information age.
2. Greater demand for high level managerial talent.
3. An increase in the numbers of people changing companies.

Excellent talent management is now a competitive advantage.

Companies that scored in the top quintile on their talent management index earned, on average twenty-two percentage points higher return to shareholders than did their industry peers.

Michaels, Handfield-Jones and Axelrod report that most companies are unfortunately poor in talent management. Only 20 percent believe they have enough talented leaders to meet their current business needs and future opportunities. Only a small percentage of companies indicated strong agreement that their organizations endorsed the following five talent management practices:

bringing in highly talented people – 14%
develops people quickly and effectively – 3%
retains almost all high performers – 8%
removes low performers – 3%
knows who the high and low performers are – 16%
Organizations are facing a new reality:

- companies need people
- talented people are the competitive advantage
- better talent makes a huge difference
- talented people are scarce
- people are mobile and their commitment is short term
- people now demand much more from their organizations.

Organizations, if they are to successfully manage talent, need to embrace a talent mindset, craft a winning employee value proposition (EVP), rebuild their recruiting strategy, weave development into their organization, and differentiate and affirm their people.

Leaders must passionately believe that performance and competitiveness are achieved with better talent – the talent mindset. That is, to be successful you must have great talent. Managers need to create a statement as to why talented managers should join and stay with their organization (provide challenge, development, a great company with great leaders, good pay, and open, performance-oriented culture) in order to make their organization a place where talented people would want to work. Organizations must go out and find great candidates at all levels of the organization and actively market the organization as a great place to work. They need to make development a major part of their organization's initiatives by the use of stretch jobs, coaching and mentoring. They should review performance and differentiate high, middle and low performers. And invest differentially in these individuals. Leaders need to have high standards for talent. They need to spend lots of time in people decisions. They need to instill a talent mind-set in all managers at every level in the organization. They need to provide the necessary resources to attract develop, excite and retain talent. Finally, managers must be held accountable for the talent pools they develop.

## Characteristics of effective organizations

What qualities do effective organizations have? What makes them effective? These questions have moved to the forefront in the past decade with some

consensus on their qualities. This section reviews some of the most important in this regard.

## Jon Katzenbach

Katzenbach (2000) was intrigued by the fact that some organizations "uniquely and consistently fire up the positive emotions within their workforces and channel the extra energy to higher levels of performance than their competition can." (Katzenbach, 2000, p. ix).

He defines higher or peak performance "as any group of employees whose emotional commitment enables them to make or deliver products or services that constitute a sustainable competitive advantage for their employer" (p. x). Peak performance is performance "better than the norm, better than expected, better than the competition and better than similar workforces in other places".

Katzenbach and his research team identified over 25 peak performing organizations, many well-known and highly desirable places to work. They assumed that these organizations would show a pattern consistent with principles of good people management. They undertook detailed case studies of each using available published data and information, studied middle and upper management as well as front-line workers. Each case study took several days and involved intensive interviews, surveys and focus groups. Those companies were specifically selected to represent a diverse set of products, services and industries. They observed five different patterns, termed balanced paths, in the companies studied.

The key to achieving an emotionally committed workforce was maintaining a balance between organizational performance needs and employee fulfillment. Peak performing organizations were disciplined in meeting organizational needs for shareholder return, market share, customer satisfaction, work output and the development of key capabilities. Peak performing organizations were also disciplined in meeting employee needs for decent wages leading to a secure livelihood, direction and structure, identity, purpose and self-worth, belonging and social interaction, and opportunity.

The leaders of peak performing organizations also shared common philosophical beliefs and management practices. They strongly believed in each employee; they engaged their employees emotionally and rationally; they strived for organizational performance goals and worker fulfillment with equal commitment and zeal.

Katzenbach concluded, to his surprise, that good people management (e.g., treating people fairly, providing rewards), by itself, fell short. In addition, most organizations try to implement good people management, with varying degrees of commitment and success. While these efforts were useful, peak performing organizations moved beyond them.

Five paths to peak performance captured all the higher performing organizations studied. Each path represented a different approach for firing up the workforce to achive higher performance. These five paths were: Mission, Vision and Pride (MVP), Process and Metrics (P&M), Entrepreneurial Spirit (ES), Individual Achievement (IA), Recognition and Celebration (R&C).

High performing organizations in all five paths balanced organizational and individual fulfillment needs. Five broad categories of employee needs were addressed.

- *Basic subsistence* – receiving adequate pay, working in a safe and secure work environment.
- *Structure and control* – knowing what was expected, knowing why things happen, knowing where the organization was heading, having some control over one's future.
- *Identity and purpose* – seeing value in one's work, taking pride in one's skills and abilities.
- *Belonging* – being part of a selected group, being part of something special, having feelings of ownership.
- *Opportunity* – having opportunities for challenge, making progress, learning and developing.

## Mission, values and pride

These organizations had magnetic leaders, a compelling legacy, and held bold, impossible dreams. Their leaders provided an inspiring vision, made all employees feel valued, and worked hard at selecting the right people. Members of MVP organizations took most pride in the accomplishments and reputation of their organization and the accomplishments of their work units. Employee pride was reinforced by recognition. Company values were strongly held and widely shared by employees.

## Process and metrics

These organizations typically had demanding customers and were in dynamic marketplaces. They valued consistent behavior, clear measures of important goals, emphasized continuous improvement, and relied heavily on data and results. The P&M path stressed individual accountability, well-defined successes that translated organizational objectives into individual goals. Organizational and business processes were clear and efficient. These processes also provided individual fulfillment as well. Those employees meeting challenging individual goals were well rewarded.

## Entrepreneurial spirit

These organizations were somewhat similar to those pursuing the MVP path in that they had magnetic leaders and bold, impossible dreams. Leaders tended to be hands-off; individual initiative and risk taking was encouraged; meaningful rewards and recognition was provided and opportunity widespread. These organizations worked hard at ensuring they had selected the right people. Employees were rewarded in terms of what they created and the personal risks taken (high risks/high rewards). Leaders tried to get out of the way of talented employees.

## Individual achievement

These organizations were similar in some ways to those pursuing the P&M path (e.g., demanding customers, dynamic and fast-changing marketplaces). Their employees were ambitious; individual growth and goal achievement were linked with and led to high levels of organizational performance; there were high rewards to those that met their goals. Employees in these organizations knew what mattered most and the performance-reward links were clear the IA path provided opportunities to grow and develop to employees as individuals. Efforts were made to monitor and reward individual contributors with promotions and growth opportunities. Individuals took responsibility for their own development and being successful.

## Recognition and celebration

These organizations resembled both the MVP and ES paths. They had inspiring leaders, a compelling history and legacy, and were in fast-changing market-places. Employees were provided with meaningful recognition and rewards, and were valued for their contribution. The work itself, however, was not intrinsically stimulating, and the workforce was largely unskilled at relatively low pay levels. The R&C path worked best in combination with another path. Individual and group accomplishments were recognized and rewarded in an environment characterized by enthusiasm, fun and excitement.

Several organizations followed more than one path simultaneously. Following more than one path, if the paths are well integrated, can strengthen the organizations and reinforce each other over time. But following more than one path was more likely to be more demanding and complicated. In addition, organizations can follow one or more paths, enact it/them badly, or have their path(s) be unbalanced, and thereby perform at low levels.

Every successful organization pursued a P&M path to some degree. This path is based on concepts of accountability and performance management (clear measures and standards, performance transparency in that employees know how they and others are performing). The P&M path was typically linked with one or more other paths – most commonly with R&C and MVP.

Katzenbach suggests that organizations need to have particular beliefs and skills to succeed in any of these paths. First, they must have knowledge of the need to balance both organizational performance needs and individual fulfill-ment needs. Second, they must be committed to meeting employee fulfillment needs with the same intensity and discipline as meeting organizational perfor-mance needs. Third, organizations must have a willingness and commitment to addressing emotional and rational needs of employees. Fourth, organiza-tions need the skill and discipline to develop the tools and processes that align the organization to the path(s) that meets the employees needs for fulfillment.

Katzenbach observed three powerful sources of energy in the organizations studied: magnetic leaders having a clear, inspiring, and bold vision; being in a dynamic marketplace characterized by unpredictable conditions, aggressive competitors and demanding customers; and having a remarkable history and legacy of accomplishment represented by heroes, legends and martyrs.

There are a variety of ways to create and channel energy. These include the following.

1. Building an image of peak performance and success: showing people they are valued, creating and shaping the big picture of where the organization is heading, and generating collective energy across the unit or organization.
2. Keeping the emphasis on performance: selecting the right people and having demanding standards, clearly articulating what is most important to the organization (its values), developing clear performance measures, and offering meaningful recognition and rewards.
3. Opening up options and opportunity: creating lots of opportunity for development and advancement, distributing leadership opportunities throughout the organization, and making the work more meaningful and interesting.

It is obviously critical to enforce disciplined behavior throughout the organization. This is the only way to ensure a balanced approach in any of the paths undertaken. This discipline can refer to costs, customer service, recruiting and training, accountability and performance management.

Organizations interested in finding the path that best fits their circumstances need to address two key areas. The first is developing a compelling business case. Why would they want a peak performing workforce? Where in the organization is such a workforce most needed? What will it cost to produce such a workforce? What are their performance needs and assumptions with regard to customers, employees and shareholders? How important is their workforce compared to other factors in how their organizations perform? How good a job are they doing in meeting employee needs for support and safety structure and control, identity and self-worth, belonging and trust, and growth and development? The second is to pursue a balanced path (or paths). What sources of energy can they build on? Your company history? What makes their employees proud? Who are the most respected leaders? What process of alignment of employee and organization performance needs should their organization use? Regular or special communication of their efforts? Use of formal management processes? Informal networks? Employee programs? Are their performance achievements known to their employees?

The change to a peak performing organization and a fired up workforce will make new demands of organizational leadership and raise the standards for both front-line workers and managers alike. Leaders will have to be more emotional, becoming more personal, supportive and interactive. Leaders will need to unleash the emotional energy in employees. Everyone will need to become "higher performing" as well. Accountabilities will be clear and pursued vigorously.