



Building on a Firm Foundation

How Business Operating Models Drive Talent Development

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Business leaders may not say so publicly, but many are concerned that the talent in their organization today may not be adequate for the future. As a result, there has been a frenzy of activity in the last couple of years to copy the hot development practices described in the literature and heralded as successes by others. Even with cutting-edge development practices in place, many organizations are not developing the talent they need in sufficient numbers to ensure future success. So, the question remains: "How can I develop the talent my organization needs?"

In our work with different companies across a variety of industries, we have discovered the answer is not implementing the "right" program. It is much harder than that. Success requires aligning development efforts with a business's unique "operating model" (i.e., the way decisions are

made, actions are taken, performance is monitored and rewards are distributed). Simply stated, companies that connect their development practices to the way they run the business on a daily basis produce more and better talent. Therefore, business leaders need to stop copying the development programs that worked for others, and focus on creating a strong operating model and aligning development efforts to it.

Why Are Operating Models Important?

Without a clear operating model, talent development efforts have no foundation or direction. The importance of a strong operating model can easily be seen in the following two examples. In a merger of large energy companies, a common operating model was quickly adopted, which included an integrated organizational structure, clear business goals and measures, defined progress reviews and a project management discipline. Employees from both legacy companies were clear on how the new organization would be run, how decisions would be made, and what skills, behaviors and results would define success. Development activities, both formal and informal, focused individuals on learning and understanding the new operating model and refining the skills and behaviors needed to succeed in the new organization.

In another instance, which occurred at about the same time, several chemical companies merged, but did not immediately establish a common operating model. Each legacy company continued to operate as it always had. Beyond the obvious difficulties of running a business without a clear and integrated approach, the lack of clarity concerning how the new business would be run made attempts at developing talent nearly impossible. New training, performance management and succession planning processes were introduced, but all were ineffective. Leaders continued to develop the skills and behaviors valued in the old organizations, not the talent and capabilities needed for success in the new company.

In both examples, the post-merger activity included development efforts, but the company with the clearly defined operating model achieved exponentially greater return on its talent development activities. Organizations with strong operating models naturally develop talent as employees work within the system, watch others, and learn through their own successes and failures. If an organization wants to develop better people, it needs to run a better business and make sure its development efforts are aligned with the operating model.

What Is the Best Operating Model?

There is not one “best” operating model. Each is unique based on the organization’s culture and its current business environment. Most organizations give significant attention to their strategy, products, markets and financial structures, but not their operating models. How the business runs day-to-day tends to evolve — often accidentally — and becomes a mosaic of what has worked well in the past and adaptations to changing business dynamics. While one operating model is not inherently better than another, some are more effective than others depending on the business environment, and certain elements of an operating model are more important than others for developing talent. Those most important for supporting development include:

Information access. How information on business performance is shared within an organization is a foundational element of a strong operating model. Information access either limits or expands the effectiveness of decision-making and coordination across a company. It also impacts the feasibility and effectiveness of different development program designs. For example, in operating models with open access to information, it is easier for staff to understand functional, product and geographic units outside their own, without special programs like rotational assignments and/or cross-geography temporary assignments.

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Decision rights. Decision rights and roles in the decision-making process also are important elements. In effective operating models, there is clear understanding and accountability for how important decisions will be made. An essential part of talent development is improving the ability to make decisions. If the decision rights in an organization are clear, opportunities to practice decision-making and solicit feedback on effectiveness are identified more easily.

Meeting schedule and design. Some organizations thoughtfully design the schedule and agenda of key meetings and carefully identify participants to facilitate information-sharing and decision-making. Others tend to keep having the same meetings over and over again, without clear purpose or apparent impact. Meetings are a key ingredient for a strong operating model and an important opportunity for talent development. When

we ask top talent for examples of successes and failures in their careers (i.e., key learning and development experiences), their stories almost always involve what happened, or didn't happen, in key organizational meetings. Companies with better meetings are more prolific breeding grounds for top talent. GE's famous "session C" (a talent review and development planning meeting) is a classic example. By participating in these meetings, managers learned to better evaluate staff and apply consequences to improve the talent portfolio and business performance.

Goal setting and measurement. An operating model also includes the way an organization sets individual and team goals, and monitors progress against those goals. The annual budget is the most frequently used type of goal-setting and measurement. Most people with experience in organizations have encountered both effective and ineffective budgeting processes. The poor processes seem disconnected from the business objectives, are owned entirely by the finance organization, and are either a one-time exercise ignored for the remainder of the year, or are overly prominent as the sole driver of how the business is monitored and run day-to-day. In other organizations, the budgeting process is a key training ground for high-potential leaders and an important way the business is operated, accountability is assigned and performance is monitored.

Accountability and consequences. In many matrixed organizations where few leaders have full control over their business (for good reasons in most cases), leaders frequently lament "accountability is unclear." Yet some companies with complicated matrix structures seem to be able to assign accountability and effectively apply consequences. An operating model where clear responsibility, accountability and consequences are applied is more developmental than one where they are not. In these organizations, compensation decisions often play an important role in talent development. The performance differentiation created by allocating a

fixed pool of compensation dollars often creates performance tension. This, in turn, motivates individuals to pursue more challenging performance goals, which facilitates professional development.

Which Elements of Talent Development Need to Align With an Operating Model?

There are three essential elements in talent development that need to align with an operating model:

- Accountability for development
- Types of learning activities
- Degree of community needed to support development.

The first element, *accountability* or responsibility, is the degree to which the individual versus someone else (e.g., the manager or HR), owns, drives and manages the development process. Many organizations fail to clearly define who “owns” development. In these companies, employees complain that their manager is not interested in their development or does nothing to develop them. Managers complain their direct reports don’t take responsibility to learn and grow. There is no ideal balance of accountability that is right for all organizations. We have discovered, however, organizations that clearly define roles, expectations and accountability for development, and hold leaders accountable for the professional growth of their people in some way, tend to produce greater talent with more efficiency than organizations without this clarity.

Another element of talent development that needs to align with an operating model is the type of learning *activities* included in a development program. Learning activities can be grouped into two types:

- Type 1: Those that provide “awareness”
- Type 2: Those that provide “stretch.”

Type 1 activities, or “awareness activities,” enhance an individual’s understanding of his or her current capabilities and development opportunities, and include performance assessment and appraisal, feedback

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(including 360-degree) and most types of training. Type 2 activities, or “stretch activities,” challenge an individual to do something new or do something old in a new way. They often include job changes, special temporary assignments and challenging individual or team performance goals. Stretch activities provide the opportunity for individuals to practice new behaviors, challenge themselves to perform at higher levels, and make significant contribution to the organization. Awareness activities help people prepare for stretch opportunities and optimize their learning from them. Elements of the operating model determine how the two types of activities need to be sequenced and balanced to facilitate talent development.

The third element to consider in the design of talent development programs is the degree of *community* needed to support learning or the degree

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to which development will be pursued individually vs. collectively. Many professionals report feeling “alone” in their development efforts. This is especially true for women and minorities, and may be why there continues to be such demand for mentors and coaches despite their mixed success. Some organizations are beginning to sponsor collective learning opportunities and communities of learning outside formal training settings. One example is the women’s network in a high-tech company. In this organization, women meet monthly to identify ways they can develop the skills they need to be successful in the company and support each other in their development journeys.

All three of these elements — accountability, activity and community — need to be designed to work in concert with the unique operating model of the business. For example, in some organizations, the

operating model demands individual accountability, ownership and initiative. The development programs in these companies need to emphasize employee ownership, stretch activities and solo development opportunities. In organizations where the operating model emphasizes teamwork and collaboration, accountability for development can be shared, awareness building and stretch activities can be balanced and collective learning opportunities can be incorporated into the formal development programs.

How Can You Use the Operating Model to Improve Development?

In most organizations, design of the operating model and decisions about talent development are rarely connected. Human resources professionals with responsibility for staff and leadership development often don’t have direct access to the day-to-day operation of the business and certainly don’t feel a mandate to improve the operating model. One of the first steps in improving development is to get HR professionals closer to the executives who run the business. Together, they can identify the best way to leverage the operating model for talent development. This needs to happen at a high level in the organization since leaders lower in the organization are rarely concerned about the lack of future talent. In several well-run companies, the topics of talent supply and development are discussed at business meetings weekly or monthly, rather than only at the annual talent review meeting. This provides a better opportunity to align development needs with current business activities, and to find practical ways to use the operating model to develop talent. Some of those ways include:

Make the operating model more developmental.

A simple exercise is to examine the common development needs of key people in the pipeline during a talent review meeting and ask: how could the business operate differently to improve their skills? For example,

in a large, complex health care organization, it was discovered that many of the leaders needed exposure to clinical and functional areas outside their technical expertise. The traditional development solution would be job rotation, but when the HR professional and COO considered how the day-to-day operating model could help, they found a simple solution. Rather than having each department present their quarterly results and operating plan separately to the COO, they began to have joint sessions to which all department leaders were invited. Though more time intensive than the old one-on-one meetings, the new joint sessions are less disruptive and more efficient than rotating leaders laterally through departments, and have had the added benefit of increasing synergy between the departments in real time. This minor change to the operating model has enhanced operational efficiency and resulted in significant leader development.

In a research and development organization, almost all of the leaders needed to enhance their people management skills. When the line vice president and HR director examined the operating model, they realized meetings and progress reports minimized people management in favor of technical accomplishments and financial monitoring. The department directors had almost no practice in people management other than the annual compensation process. The solution was to add “people metrics” to the measures regularly reviewed in management meetings and to hold twice a year “performance and development” reviews. During these meetings, directors ranked their staff and shared plans for their top and bottom performers. Although initially unpopular, directors’ skills in evaluating staff and dealing with high and low performers improved significantly through this change in the operating model.

Learn through real work. Another way to align talent development with an operating model is to experiment with connecting real work and learning. Similar to action learning, which typically utilizes a

special project, real work learning involves developing new skills while completing work that is part of one’s job. This can be as simple as telling managers who need to work more effectively across organizational lines, “When you do the budget this year, focus on how you can save money by integrating across organizations” and then supporting them in working outside their comfort zone. The real work that has to be done is the budget, and it can be done with a learning goal that provides both stretch and awareness.

A larger, more systemic example occurred in a product management organization that decided it would identify learning objectives for all new product introduction teams. The new product introductions work had to be done anyway, and the teams each selected a different learning objective they wanted to practice over the course of the project. Although no quantitative evaluation was done, all the teams reported they learned more than they had on other teams and that the projects went better than they had without learning objectives.

Add stretch. One of the best ways to connect development to the operating model is to add stretch to jobs and job assignments using accountability and consequences. Stretch has the benefit of developing people and helping the organization achieve higher results. A key element of any operating model is the way in which accountability is assigned and the way that consequences are applied for achieving or not achieving goals. When evaluating their own operating model, business leaders more frequently express frustration with accountability and consequences, than any others. Yet these two elements either cause stretch to occur (and as a result development), or allow leaders to remain in their comfort zone. In the government contracting industry, one firm often is mentioned as a developer of top talent. When alumni of this firm discuss how they were developed, most say that they had to work harder, think harder and produce more

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than anywhere else they have worked since. Stretch was the essence of their development experience.


One gauge of stretch inherent in an operating model is the level of differentiation in incentive plan payouts. In some organizations, every executive reaches their target incentive, regardless of company performance. In other companies, some executives always get less than target, while others far exceed their target. The organizations with higher differentiation in their incentive payout usually have more clear accountability, more stretch in their goals and tie consequences better to performance. This type of operating model drives greater professional development.

Clarify decision rights. One frequent defect in operating models is a lack of clarity in who makes decisions. For example, in a large financial services company with a heavily matrixed structure, every major decision required multiple meetings until general consensus was achieved. As a result, some of the most

important decisions were never made. Many of the leaders called for an end to the matrix structure, wishing for autonomous decision-making authority. Senior executives decided to clarify decision rights, including which decisions were individual, and which were group, when the decisions should be made, and by what method (consensus, majority, etc.) The organization started with the most critical decisions that needed to be made, including 25 decisions that had to be made every year, and those that were non-routine like acquiring or shedding a unit. This refinement to the operating model streamlined the decision-making process and provided leaders the opportunity to practice decision-making in a more constructive environment.

Improve meeting schedules and designs. One common development challenge is that many of the meetings individuals “grew up in,” and currently spend their time in, are poorly organized, have the wrong participants and are unfocused in their purpose. Most meeting agendas and attendees have evolved over time and are rarely revisited to determine if they form the basis for an effective operating model, much less support talent development. Improving meeting design begins with mapping all meetings on a single calendar and looking for opportunities to consolidate based on purpose and business needs. Meeting participants then can be determined to ensure only the people needed to make decisions attend. A major reorganization in a telecommunications company resulted in the elimination of geographic business units that were creating redundant products and the creation of global business units based on type of customer. The meeting schedule for the new business units was not fully revised for almost a year, forcing individuals to struggle under the time demands of attending meetings designed to support both the old and new business structures. If anyone developed during this period, it was only by learning what not to do the next time they reorganized!

One Size Does Not Fit All

Adopting the “best practices” of other companies does not guarantee effective talent development. Training, coaching, mentoring, action learning, 360-degree feedback, talent reviews and other development techniques are not silver bullets guaranteed to save organizations in every situation. Talent development does not occur in a vacuum separate from the way a business is run on a day-to-day basis. The two are closely connected and need to be thoughtfully integrated. The next challenge business leaders face is the iterative process of tailoring development practices to align with the operating model, then working to make the operating model more effective for the business and the development of future talent. 

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