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# WHITE PAPER 103:

## Execution Readiness: Effectively Executing the Business Plan

# Executive Summary

Execution is literally the bottom line for business organizations. The most elegant business model and brilliantly created strategies mean nothing if the execution is flawed. When so many businesses are faced with tougher business challenges than ever before, execution is the difference that makes the difference!

Bossidy and Charan, authors of *Execution: The Discipline of Getting Things Done,* claim that the main reason companies fall short of their promises is a failure of execution. It is the gap between what a company's leaders want to achieve and the ability of their organizations to deliver it.

Kaplan and Norton, creators of the Balanced Scorecard, claim that a company must align its intangible assets with its strategy in order to create value.

**These intangible assets are the organizational conditions necessary for execution to flourish—conditions measured by the Organizational Heat Map and expressed in a research-based execution readiness index**.

Great results can happen when the right mixture of business practices is combined with an engaged workforce led by a senior team of deep character.

This paper provides the rationale and research underlying the structure and methodology of the Organizational Heat Map and associated change process.

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## Introduction

Our research on CEO beliefs and practices has revealed how a CEO's personal character and blind spots about how they habitually treat others can impact execution readiness. Conversely, it has also revealed how the CEO's character habits and positive leadership practices can create tremendous value. The Organizational Heat Map has come out of this research. It is a highly developed tool for assessing the organizational factors that influence management's readiness in executing the business strategy.

We recognize that execution processes cannot easily be directly measured; however, the conditions which are necessary for effective execution can be measured. Thus, the Organizational Heat Map yields one overall "execution readiness index"—a score representing how effectively these conditions are present in the organization.

While the Organizational Heat Map utilizes Web-based survey methodology, it does not compete with or replace the traditional employee survey. Instead, the Organizational Heat Map is a diagnostic tool—a way to tap the wisdom of the workforce about how to improve business practices. It is a crucial first step in changing or transforming a good business into an outstanding business.

## Typical Uses of the Organizational Heat Map

The Organizational Heat Map can be used either enterprise-wide or selectively by a single business unit or functional area.

The Organizational Heat Map can be extremely helpful when the right team is in place—when the board is satisfied that they have selected the right person as the CEO and the CEO has the "right people on the bus." Under these conditions, the Organizational Heat Map is an excellent tool for the senior team to use to identify barriers which hamper the effective execution of the business strategy. Launching the Organizational Heat Map can be an important step in increasing workforce engagement. By soliciting the wisdom of the workforce and mobilizing them to partner with management in fine-tuning execution skills and business processes across the entire company, a great deal of positive organizational energy is released.

Alternatively, a board might have reservations about the CEO and the senior team. Is this the right team to lead this company at this specific time? Under these conditions, the Organizational Heat Map becomes a diagnostic tool for the board to use in making this determination. How the CEO and the senior team react to the data reveals a great deal about whether or not they have the "right stuff" to lead the company. Did they pull together and accept guidance on how to address the issues and problems the Organizational Heat Map exposes, or did they "shoot the messenger;" delay and/or ignore the findings; attempt to bury the results? Their reaction to the data is, in and of itself, diagnostic of their ability to effectively lead the company.

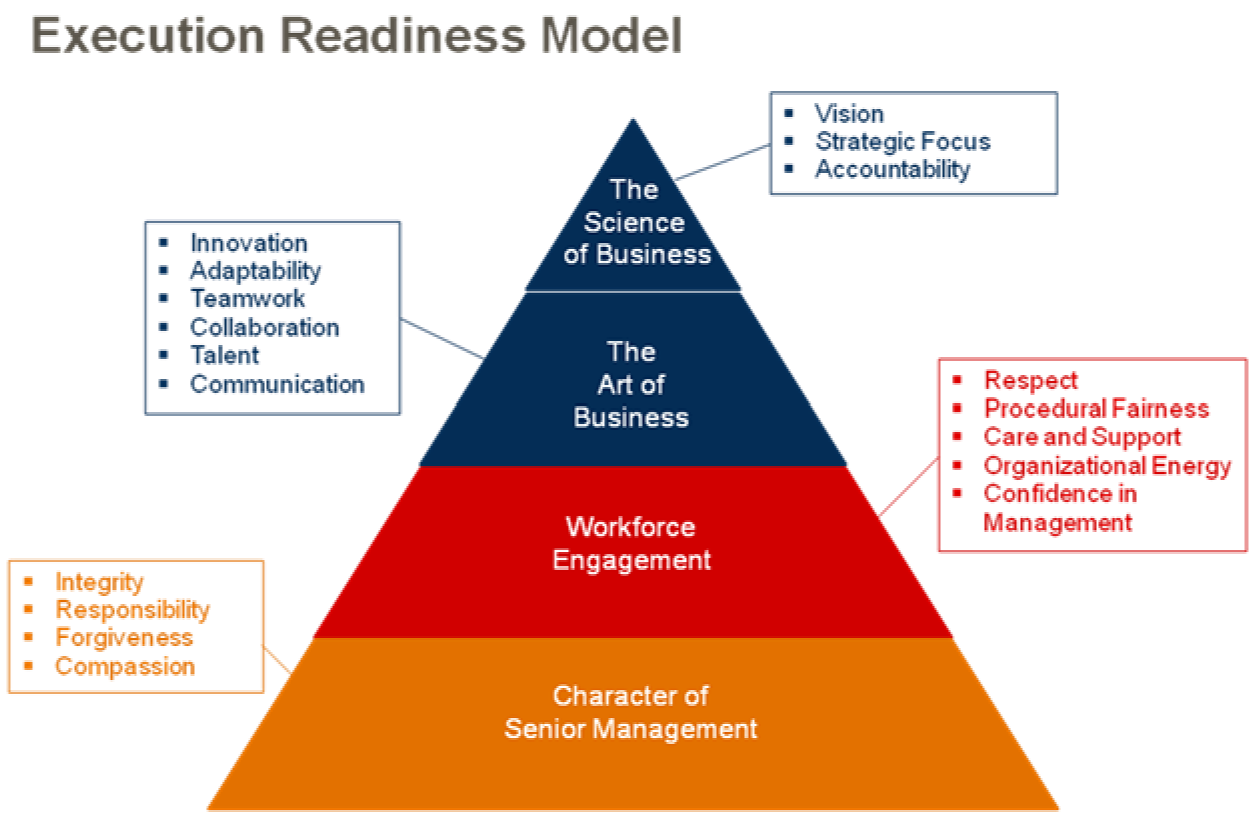
## The Organizational Heat Map's Structure

The Organizational Heat Map is built around eighteen factors which can either enhance or block the effective execution of a business strategy. These factors are found interspersed among three interconnected sectors:

1. Business Practices (Art and Science)
2. Workforce Engagement
3. Character of Senior Management

Each of the eighteen factors has between four to ten specific behavioral indicators.

Figure 1




We have provided the reader with an example of an Organizational Heat Map. (Appendix A)

This white paper will review the leadership and management literature regarding these three organizational areas—business practices (both the art and science), workforce engagement, and character of senior management—and their ultimate relationship to effective execution—getting things done.

## The Leadership Bench

In addition, we will describe the leadership competencies we believe are required to lead an organization that executes its strategic business plan well. We have identified thirteen leadership competencies which align with the factors describing the Art of Business and the Science of Business—the two top layers of the Execution Readiness Model triangle.

## Why Focus on Execution?

Because it's literally the bottom line for business organizations. The most elegant business model and brilliantly created strategies mean nothing if the execution is flawed.

There is surprisingly little written specifically on the subject of execution. Bits and pieces of it are embedded in many other subjects, such as strategy, change management, transformational leadership, and so on.

Perhaps the most widely read book on the subject is Bossidy and Charan's classic, *Execution: The Discipline of Getting Things Done*,[1] with over one million copies in print. They define execution as, ". . . a systematic process of rigorously discussing hows and whats, questioning, tenaciously following through, and ensuring accountability. . . . execution is a systematic way of exposing reality and acting on it." (Page 22) Bossidy and Charan describe three core processes of execution—the people process, the strategy process, and the operations process. They describe in useful ways how each must be linked to the other two in order for effective execution to happen.

A more recent book on the subject by Welborn and Kasten, *Get it Done! A Blueprint for Business Execution*,[2] provides instruction on ways to identify and eliminate barriers to execution. They describe how to conduct experiential workshops in order to make visible and trace what connects with what, where, when, how, and how much. (Pages 153-166)

The above two are clearly "how to" books written for managers by authors with a good deal of front-line experience in leading and managing change.

There are several other tools that are used to increase the effectiveness of business execution. Specifically, Six Sigma,[3] Lean Six Sigma,[4] Balanced

[1] Bossidy, Larry and Charan, Ram. *Execution: The Discipline of Getting Things Done.* New York, Crown Publishing Group, 2002.
[2] Welborn, Ralph and Kasten, Vince. *Get it Done! A Blueprint for Business Execution.* Hoboken, NY. John Wiley and Sons, 2006.
[3] Pande, Peter S., Neuman, Robert P., and Cavanagh, Roland R. *The Six Sigma Way: How GE, Motorola, and Other Top Companies are Honing Their Performance.* New York. McGraw-Hill Companies, 2001.
[4] George, Michael L. *Lean Six Sigma for Service: How to Use Lean Speed and Six Sigma Quality to Improve Services and Transactions.* New York. McGraw-Hill Companies, 2003.

Scorecard,[5] and Value-Based Management[6] are all widely used business improvement methodologies. These methodologies all have one thing in common: they need the right conditions in order to work. That is, they need a set of intangible assets: an atmosphere of trust generated by the character of senior management, and high levels of workforce engagement and management skills in both the science and the art of business practices. If any one of these three conditions is missing, these tools will be of limited usefulness and the ability to execute the strategic plan will be compromised—sometimes only slightly; other times the plan will completely fail. Indeed, Welborn and Kasten claim that 90 percent of business process redesign initiatives fail to produce intended breakthrough results. They blame this on human and organizational problems which are not adequately addressed. (Page 165)

Kaplan and Norton,[7] the creators of the well-known Balanced Scorecard, have stepped forward into the murky world of intangible assets with their 2004 HBR article, entitled "Measuring the Strategic Readiness of Intangible Assets." We agree with their statement about the value of measuring intangible assets. They say, ". . . it becomes clear that measuring the value of intangible assets is really about estimating how closely aligned those assets are to the company's strategy. *If the company has a sound strategy and if the intangible assets are aligned with that strategy, then the assets will create value for the organization.* [Italics ours.] If the assets are not aligned with the strategy or if the strategy is flawed, then intangible assets will create little value, even if large amounts have been spent on them." (Page 2)

Kaplan and Norton go on to state that the ". . . companies that have successfully changed their strategies have needed only a limited number of behavioral changes—just seven, in fact—to maximize the contributions of their people to the execution of new strategies." (Page 10) They list the seven behaviors in two categories:

1. Value Creation
   - Increase focus on customers
   - Innovation
   - Results
2. Strategy Execution
   - Increase employees' understanding of the company's mission, vision, and values
   - Accountability
   - Communications
   - Teamwork

All of these intangible assets are measured by the Organizational Heat Map.

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[5] Kaplan, R.S. and Norton, D.P. *The Balanced Scorecard: Translating Strategy into Action.* Cambridge, MA. Harvard Business School Press, 1996.
[6] Copeland, Tom, Koller, Tim, and Murrin, Jack. *Valuation: Measuring and Managing the Value of Companies, Second Edition.* New York. John Wiley and Sons, 1994.
[7] Kaplan, Robert S., and Norton, David P. "Measuring the Strategic Readiness of Intangible Assets." Cambridge, MA. Harvard Business Review, February 2004, Harvard Business School Publishing Corporation.

Another glimpse at the importance of intangible assets is reported by the Economist Intelligence Unit.[8] They report that "failure often comes from companies struggling with people issues. The most frequently cited barrier to success in change management is winning over the hearts and minds of employees at all levels of the organization." (Page 2)

Core to the Organizational Heat Map's workforce engagement index is just this—assessing the strengths of the emotional connection (hearts and minds) between the leadership of the company and the workforce.

We have created the Organizational Heat Map in order to provide a higher level and more comprehensive approach to the whole subject of business execution. It is not just another tool like Six Sigma or the Balanced Scorecard. Rather it is a diagnostic instrument for measuring the *conditions* necessary for such tools to be effectively deployed.

Imagine that you're the owner of a greenhouse and your business is directly impacted based on how successfully you have created the conditions for your plants to flourish. The temperature and humidity of the greenhouse are critical factors. So is the amount and duration of the lighting—both sunlight and artificial light. Too much light can be as bad as insufficient light. Same for the temperature and humidity. Finally, there's the density of the plants and the relationship to pests and diseases. A highly skilled greenhouse operator is able to successfully balance each of these factors—temperature, humidity, light, density, pest control—but he or she cannot do it without a thermometer, barometer, and measures of light, density, and level of pests present. Measurement of these conditions is needed in order for the greenhouse's business strategy to be effectively executed.

We assert that the conditions which must be present for the outstanding execution of most business strategies are the eighteen factors measured by the Organizational Heat Map. These factors reside in the three sectors:

1. Business Practices (Art and Science)
2. Workforce Engagement
3. Character of Senior Management

If management at all levels is made up of people of deep personal character and integrity who provide a clear vision for the future; develop sound strategies and goals for achieving the vision; hold people accountable; support innovation, collaboration, and teamwork; develop talent; communicate often and effectively; treat the workforce fairly, with respect and care—if they do all of these things consistently, they will have created the conditions which will almost certainly result in a highly effective level of business execution.

Will all of this ensure business success? Of course not. Even with a great business model and the best strategic plans impeccably executed, a business

[8] Kielstra, Paul. *A Change for the Better: Steps for Successful Business Transformation.* The Economist Intelligence Unit. London, UK, 2008. Sponsored by Celerant Consulting.

can still fail. Curve balls or "black swans"[9] can come out of nowhere. Many great businesses did not survive the impact of the terrorist attacks in 2001 or the credit market collapse in 2008.

But those factors aside—no black swans or financial tsunamis—the greatest business model and the best strategies will never create any value unless they are executed effectively. And to execute well, the right conditions must be present. The Organizational Heat Map measures these conditions.

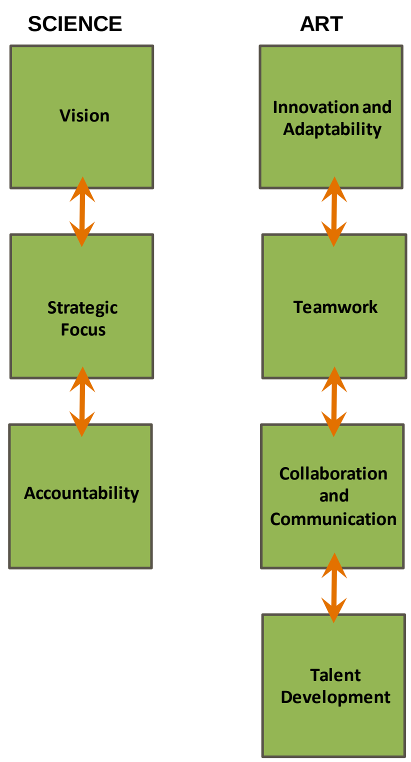
## Business Practices—the Science *and* the Art of Business

So what are the conditions that must be present for effective business execution? At the top of the list are several business practices. The nine factors that make up this sector can best be thought of as residing in parallel processes—the science and the art of business.

Figure 2

*The two main pillars of art and science are curiosity and criticism.*
—John Steinbeck

Parallel Processes




[9] Taleb, Nassim Nicholas. *The Black Swan: The Impact of the Highly Improbable.* Penguin Books London, England, 2008.

| Science of Business | Art of Business |
|---|---|
| • Crafting a compelling vision<br>• Creating and maintaining strategic focus<br>• Holding people accountable | • Sponsoring innovation<br>• Supporting adaptability<br>• Creating and leading teams<br>• Demonstrating collaboration<br>• Communicating strategically<br>• Developing talent |

## The Science of Business

The science of business is all about the discipline of guiding, monitoring, and measuring, all for the purpose of driving toward a compelling vision for the future—next quarter, next year, next decade.

### Crafting a Compelling Vision

Kotter[10] does an excellent job of describing the key characteristics of a compelling vision. He says, ". . . effective visions seem to have at least six key characteristics . . . First, they describe some activity or organization as it will be in the future, often the distant future. Second, they articulate a set of possibilities that is in the best interests of most people who have a stake in the situation: customers, stockholders, employees. In contrast, poor visions, when followed, tend to ignore the legitimate interests of some groups. Third, effective visions are realistic. They aren't pleasant fantasies that have no chance of realization. Ineffective visions often have a pie-in-the-sky quality. Good visions are also clear enough to motivate action but flexible enough to allow initiative. Bad visions are sometimes too vague, sometimes too specific. Finally, effective visions are easy to communicate. Ineffective visions can be impenetrable." (Pages 71-72)

We especially like the definition offered by Hybels.[11] He defines, "Vision is a picture of the future that produces passion." (Page 32) He goes on to note that what makes a vision is the *feelings* it evokes. He points out that a vision is ". . . not just the picture of the future. It's the energy and passion it evokes deep in one's heart. This level of energy or passion must be experienced to be fully understood." (Page 33)

We like this definition because it emphasizes the energy and emotion that an effective vision evokes. A vision is more than a "head" trip; at its core, it is a message communicated to the "heart" of the workforce from the "heart" of the CEO.

An effectively communicated vision will not only energize people but it will also enable every individual in the company to see the connection between his or her job and the company's future growth and success. In addition, everyone should be able to tell others what the vision is without going to the wall of the conference room and reading a poster about the "vision"!

[10] Kotter, John P. *Leading Change*. Cambridge, MA. Harvard Business School Press, 1996.
[11] Hybels, Bill. *Courageous Leadership*. Grand Rapids, MI. Zondervan Publishing, 2002.

Boyatzis and McKee[12] express this point well: “You cannot inspire others about a vision if you yourself cannot articulate it. To feel the passion and hope that a vision should invoke, you have to know it so well that it is something you don’t have to read to remember—not just a poster on a wall. Only then can leaders begin to inspire hope through a shared dream.” (Page 164)

**Creating and Maintaining Strategic Focus**

Out of a compelling vision in the peak-performing company comes what Hamel and Prahalad[13] call “strategic intent.” They define it as follows: “Companies that have risen to global leadership over the past twenty years invariably began with ambitions that were out of all proportion to their resources and capabilities. But they created an obsession with winning at all levels of the organization and then sustained that obsession over the ten- to twenty-year quest for global leadership. We term this obsession ‘strategic intent.’” (Page 149)

They go on to say, “Almost every strategic management theory and nearly every corporate planning system is premised on a strategy hierarchy. In this hierarchy, senior management makes strategy and lower levels execute it . . . strategy hierarchy undermines competitiveness by fostering an elitist view of management that tends to disenfranchise most of the organization. Employees fail to identify with corporate goals or involve themselves deeply in the work of becoming more competitive.”

Hamel and Prahalad point out that “Japanese companies win not because they have smarter managers but because they have developed ways to harness the ‘wisdom of the anthill.’ They realize that top managers are a bit like the astronauts who circle the Earth in the space shuttle. It may be the astronauts who get all the glory, but everyone knows that the real intelligence behind the mission is located firmly on the ground.”

The Organizational Heat Map is a tool for harnessing the “wisdom of the anthill.”

Part of creating an excellent strategy is ensuring that the organization has set adequate goals. The first person to call for objective, measurable business goals as a systematic business practice was Peter Drucker in his 1954 classic, *The Practice of Management.*[14] He coined the term “management by objectives” and pushed for the business world to adopt the practice of involving management at all levels in the process of goal setting aligned with the strategic plan. He suggested the following process of management by objectives:

- Cascading of organizational goals and objectives
- Specific objectives for each member
- Participative decision making
- Explicit time period
- Performance evaluation and feedback

[12] Boyatzis, Richard and McKee, Annie. *Resonant Leadership*. Cambridge, MA Harvard Business School Publishing, 2005.
[13] Hamel, Gary and Prahalad, C.K. *Strategic Intent*. Harvard Business Review, July, 2005.
[14] Drucker, Peter. *The Practice of Management*. New York, Harper and Row, 1954.

The criteria for an objective (or goal) was soon reduced to the "SMART" acronym:

- Specific
- Measurable
- Achievable
- Realistic
- Time-based

Kaplan and Norton,[15] who created the Balanced Scorecard approach to measuring business performance, have continued to refine the process of goal setting and the measurement of goal achievement. They point out in a more recent publication[16] that "for people to act on the words in vision and strategy statements, those statements must be expressed as an integrated set of objectives and measures . . ."

The Organizational Heat Map assesses the degree to which a company (and departments within the company) sets goals which are specific, measurable, and time-based. It also assesses the degree to which a company has in place the systems, procedures, and metrics to track progress against their goals.

**Holding People Accountable**

Giving performance reviews is a core task for anyone in management, yet it is so seldom done with any regularity—and when it is done, is often performed very poorly. Ram Charan[17] describes this challenge well when he writes, "Delivering negative feedback tests the strength of a leader . . . By failing to provide honest feedback, leaders cheat their people by depriving them of the information they need to improve . . . Feedback should be many things—candid; constructive; relentlessly focused on behavioral performance, accountability, and execution . . . Asking the right questions; identifying and resolving conflicts; providing candid constructive feedback; and differentiating people with sanctions and rewards is never easy. Frequently, it's downright unpleasant. No wonder many senior executives avoid the task. In the short term, they spare themselves considerable emotional wear and tear. But their evasion sets the tone for an organization that can't share intelligence, make decisions, or face conflicts, much less resolve them. Those who evade miss the very point of effective leadership. Leaders with the strength to insist on honest dialogue and follow-through will be rewarded not only with a decisive organization but also with a workforce that is energized, empowered, and engaged."

Accountability operates at several levels. An individual can be held accountable by a boss, by peers, and not insignificantly, by him- or herself! One of the behavioral indicators the Organizational Heat Map assesses is the degree to which senior management accepts responsibility when things go wrong and the

[15] Kaplan, Robert S. and Norton, David P. *The Balanced Scorecard: Translating Strategy into Action.* Cambridge, MA. Harvard Business School Press, 1996.
[16] Kaplan, Robert S. and Norton, David P. "Using the Balanced Scorecard as a Strategic Management System." Harvard Business Review, July-August, 2007
[17] Charan, Ram. "Conquering a Culture of Indecision." Harvard Business Review, January, 2006.

degree to which they admit to their mistakes and failures. The Organizational Heat Map also assesses the frequency with which people receive regular performance reviews.

## The Art of Business

If the "science" of business is about driving toward the future vision with discipline, then the "art" of business is about creating the conditions and processes that allow that to happen—collaboration, adaptability, innovation, teamwork, communication, talent development. These are matters more of the heart than the head—more art than science.

### Sponsoring Innovation

Innovation and creative problem solving need a climate of forgiveness in order to thrive. People will be reluctant to take risks and try new approaches if the organization is known for punishing people who make mistakes. It's one thing to make a stupid mistake over and over again—intolerance for this is simply good performance management. But good performance management also requires a tolerance for well-intentioned people who make mistakes. No new inventions or breakthroughs in any field from medicine to manufacturing would have occurred if people were required to risk their careers each time they tried something new.

An unforgiving corporate culture is not the only "innovation killer." Christensen, Kaufman, and Shih[18] point out how the typical financial tools and analysis kill good innovation because the focus on results is brought to bear too early in the process. They suggest that the innovation process should begin with the minimum financial standards as a given, followed by trying to determine the assumptions and conditions needed to make them come to pass. If the financials don't fall in line based on the assumptions and the conditions created, then the authors recommend that you should question them, fix them, and learn from them. If they finally don't produce the desired results, then kill the project—and the organization has learned invaluable lessons in the process.

Innovation doesn't need a lot to flourish. People are naturally drawn to be innovative and creative because humans are wired to be curious and inventive. Catmull[19] says that at Pixar they stick closely to the following simple operating principles:

1. Everyone must have the freedom to communicate with anyone.
2. It must be safe for everyone to offer ideas.
3. We must stay close to innovations happening in the academic community.

[18] Christensen, Clayton M., Kaufman, Stephen, P. and Shih, Willy C. "Innovation Killers: How Financial Tools Destroy Your Capacity to Do New Things." Harvard Business Review, January, 2008.
[19] Catmull, Ed. "How Pixar Fosters Collective Creativity." Harvard Business Review. September, 2008.

The Organizational Heat Map measures these and several other indicators of a climate that sponsors innovation.

**Supporting Adaptability**

The ideal stage of the corporate lifecycle is what Ichak Adizes[20] labels as "prime." "Prime is an ever-changing condition, a segment of a journey, not a haven at the end of the road. Companies in Prime are recognizable: All aspects work well together, all operations thrive, and all members of the organization know where it is going and how to stay on track. Prime is in a state of balance: flexibility and control, function and form, imagining and producing, innovation and administration. But companies in that exultant equilibrium—so hard to achieve, so easy to lose—continually risk sliding back to childish habits or stumbling into the rigidity of old age." (Page 124)

The essence of adaptability is the capacity to continually grow and change. Adizes goes on to state, "If [a company] does not produce significant new products or spin off promising start-ups within any three year period, it is either decaying or on the brink of decline." (Page 124)

Indeed, Charles Darwin wrote, "It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most *adaptable* to change."

We have embedded several behavioral indicators within the Organizational Heat Map to measure the degree to which the organization supports adaptability.

**Creating and Leading Teams**

Anyone who has worked in an organization larger than a one-person company has probably experienced some form of teamwork. Nearly all business challenges require a degree of teamwork. Furthermore, most people, when asked to describe the most rewarding period of their career, will describe a team experience. Given the universality of teamwork, it is no surprise that creating and leading teams is a basic part of the art of business.

One of the best books on the subject is now a classic—*The Wisdom of Teams: Creating the High-Performance Organization*, by Katzenbach and Smith.[21] In the prologue to their book, they list "commonsense findings" and "uncommonsense findings." These are worth repeating:

Commonsense Findings:

- A demanding performance challenge tends to create a team.
- The disciplined application of "team basics" is often overlooked.
- Team performance opportunities exist in all parts of the organization.
- Teams at the top are the most difficult.

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[20] Adizes, Ichak. *The Pursuit of Prime.* Knowledge Exchange. Santa Monica, CA., 1996.
[21] Katzenbach, Jon R., and Smith, Douglas K. *The Wisdom of Teams: Creating the High-Performance Organization.* Harvard Business School Press, Cambridge, MA., 1993.

 

- Most organizations intrinsically prefer individual over group (team) accountability.

Uncommonsense Findings:

- Companies with strong performance standards seem to spawn more "real teams" than companies that promote teams per se.
- High-performance teams are extremely rare.
- Hierarchy and teams go together almost as well as teams and performance.
- Teams naturally integrate performance and learning.
- Teams are the primary unit of performance for increasing numbers of organizations.

Another more recent source is a book by Patrick Lencioni.[22] In it, he describes the characteristics of a truly cohesive team: (Pages 189-190)

1. They trust each other.
2. They engage in unfiltered conflict around ideas.
3. They commit to decisions and plans of action.
4. They hold one another accountable for delivering against those plans.
5. They focus on the achievement of collective results.

A small but powerful book by Miles Kierson[23] lists the "Top 10 Benefits of Executive Team Alignment": (Pages 43-44)

1. Everyone on the team pulls in the same direction.
2. There is a basis for sustaining momentum.
3. There is an element of certainty about successful implementation.
4. There is a shift from an executive *group* to an executive *team.*
5. There is clarity around decision making.
6. Decisions and implementation are made with greater speed.
7. If a better decision could have been reached, you are likely to know this much sooner.
8. Executives express themselves and contribute more.
9. The executive aligned team is an example for the rest of the organization.
10. Being an aligned executive team creates the foundation for the success of the company.

Most work in organizations gets done by teams. Thus, it is of critical importance that an organization effectively provides for the creation and leadership of teams. The Organizational Heat Map measures several features of effective teamwork.

**Demonstrating Collaboration**

Nothing destroys value much faster than the "silo" mentality. Departmental isolation and territoriality are just like tossing sand in the gearbox. Everything slows down, and sooner or later, the internal integrity of operating business

[22] Lencioni, Patrick. *The Five Dysfunctions of a Team.* Jossey-Bass, San Francisco, CA., 2002.
[23] Kierson, Miles. *The Transformational Power of Executive Team Alignment*. Advantage, Charleston, SC, 2007.

 

systems begins to fail. One only has to look in the business press to find examples of companies which are failing because they've evolved into separate rigid units, none of which can stand alone successfully, but still fail to collaborate for their mutual survival.

Yet, the benefits of collaboration are huge. Weiss and Hughes[24] state that "getting collaboration right promises tremendous benefits: a unified face to customers, faster internal decision making, reduced costs through shared resources, and the development of more innovative products." (Page 92)

Gratton and Erickson[25] describe conditions which undermine collaboration as well as those factors that lead to success. Factors which undermine collaboration are teams larger than twenty members, virtual teams, teams with a great span of diversity, and teams of highly educated and specialized members. The authors then list eight factors that lead to success in collaboration on teams. Our summary of these factors is as follows:

1. Invest in signature relationship practices. For example, invest in open floor plans that foster communication.
2. Model collaborative behavior. People tend to collaborate if they see senior management collaborating.
3. Create a "gift" culture. Mentor and coach people so that they build networks across corporate boundaries.
4. Ensure the requisite skills. Teach employees how to build relationships, communicate well, and resolve conflict.
5. Support a strong sense of community. People more readily share when they have a sense of community.
6. Assign team leaders who are both task and relationship oriented. Both orientations are key to successful teamwork.
7. Build on heritage relationships. Form teams with some people who know each other, if possible.
8. Understand role clarity and task ambiguity. Cooperation increases when roles are sharply defined yet the team has latitude on how to achieve a task.

The authors conclude their discussion by noting that a number of skills are crucial in building collaborative teams: ". . . appreciating others, being able to engage in purposeful conversations, productively and creatively resolving conflicts and program management." They observe that a company's human resources or corporate learning department can make an important difference in the level of collaboration by training employees in these skills.

The Organizational Heat Map measures a number of cultural practices that support the demonstration of collaboration.

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[24] Weiss, Jeff and Hughes, Jonathan. "Want Collaboration? Accept—and Actively Manage—Conflict." Harvard Business Review. March, 2005.
[25] Gratton, Lynda and Erickson, Tamara J. "Eight Ways to Build Collaborative Teams." Harvard Business Review, November, 2007.

 

### Developing Talent

The paradox of this business "art" is that the more a company focuses on developing its talent, the better prepared people are to leave and work for competitors, but the less likely they are to leave!

When a company becomes known as a place for top talent to work—a good employer to list on one's resume—the more top talent is attracted. It becomes a virtuous circle. People want to join talented teams who are winners. But of course, the more a company is known for having top talent, the more aggressively competitors try to raid the talent. The best defense is to keep people so engaged and challenged while continually investing in their careers that they have no interest in talking to the competition.

Indeed, the Corporate Leadership Council study on *Realizing the Full Potential of Rising Talent*[26] reported a major impact on Total Shareholder Return of up to 15.4 percent from the successful execution of talent development programs, due to the increase in organizational effectiveness and profitability.

A source that spells out the mechanics of building a leadership development process is *The Leadership Pipeline: How to Build the Leadership-Powered Company*.[27] The authors describe six critical career passages for leaders of large business organizations. The authors discuss how building a pipeline program around these six passages provides many benefits for the company. "Having a leadership pipeline in place can reduce emotional stress for individual employees. When someone . . . is placed in a position for which he lacks the skills . . . it takes a large emotional toll. The Pipeline model makes skipping passages unlikely. . . . This model helps people move through leadership passages at the right speed. . . . The Pipeline model reduces the typical time frame needed to prepare an individual for the top leadership position in a large corporation." (Page 31)

A common mistake many companies make is to focus only on developing leaders and the people judged to be "high potential." The rank-and-file worker considers the opportunity for adequate professional development to be a significant indicator of the degree to which the company values him or her. People who feel valued are more apt to be engaged and to turn down competitors' offers.

A somewhat surprising finding reported by the Corporate Leadership Council is that performance does not always predict potential. In fact, their research shows that most high performers are not high potential. Up to 71 percent of high-performing employees are simply satisfied with their current level, do not wish the additional challenge of a higher-level job, or are already at their peak level based on their talents and skills. This, however, does not mean that they should be ignored. Development programs can help every employee "sharpen the saw" and

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[26] Corporate Leadership Council. Executive Summary: *Realizing the Full Potential of Rising Talent. 2005.*
[27] Charan, Ram, Drotter, Stephen and Noel, James. *The Leadership Pipeline: How to Build the Leadership-Powered Company.* Jossey-Bass. San Francisco, CA. 2001.

the contribution such programs make to employee loyalty and engagement is significant.

The Organizational Heat Map includes several items designed to measure the attention a company gives to talent development.

**Communicating Strategically**

Perhaps the core of all forms of the "art" of business is communication. Communication happens on many fronts—verbal, nonverbal, by what a leader pays attention to, by what he or she ignores, by what is funded and what is unfunded. All are forms of communicating to the workforce. But clear, effective verbal communication is essential.

John Kotter[28] comes right to the point: "The challenge of simple and direct communication is that it requires great clarity of thought plus more than a little courage. Remember the old saw: If I had more time, I'd write you a shorter letter. It's much harder to be clear and concise than to be complicated and wordy. Simple also means no bamboozling. Technobabble is a shield. If the ideas are dumb, others will recognize them as dumb. Dropping the armor makes us more vulnerable in the short term, which is why we are often reluctant to do so." (Page 89)

Kotter goes on to make the following recommendations about how to effectively communicate a company's vision and strategy. The key elements: (Page 90)

- Simplicity. All jargon and technobabble must be eliminated.
- Metaphor, analogy, and example. A verbal picture is worth a thousand words.
- Multiple forums: Big meetings and small, memos and newspapers, formal and informal interaction—all are effective for spreading the word.
- Repetition: Ideas sink in deeply only after they have been heard many times.
- Leadership by example: Behavior from important people that is inconsistent with the vision overwhelms other forms of communication.
- Explanation of seeming inconsistencies: Unaddressed inconsistencies undermine the credibility of all communication.
- Give-and-take: Two-way communication is always more powerful than one-way communication.

This focus on strategic communication brings us full circle. Communication of a "compelling vision" is what, in part, energizes the organization. The effectively communicated vision taps the "fuel" for energizing a workforce. Communicating wisely and skillfully immediately translates into the release and guidance of organizational energy.

The Organizational Heat Map assesses the skill level of managers to communicate with the workforce.

[28] Kotter, John P. *Leading Change*. Harvard Business School Press, Cambridge, MA, 1996.

## Thirteen Leadership Competencies Most Needed to Execute Effectively

When an organization has leaders who are skilled in both the art and science of business, are people of deep character, enjoy the benefits of a highly engaged workforce, and have a business model which is realistic, adequately capitalized, and so on—then we assert that this organization will succeed and create value for all stakeholders (assuming no macroeconomic factors intervene, such as tsunamis, earthquakes, terrorism, financial collapse of markets, etc.) So, let us turn our attention to the specific leadership skills needed to execute effectively.

### Bench Strength Defined

We define "bench strength" as the measurement of each of the following execution leadership competencies for each layer of management in the organization:

| **Execution Readiness Dimensions** | **Definition** |
|---|---|
| Developing Strategy | • Creates a strategy that provides immediate impact on results<br>• Gains alignment on strategy all the way to the front-line workforce<br>• Communicates the vision in a way that is inspiring to others |
| Strategic Focus (Driving Strategy) | • Keeps the organization focused on three or four key initiatives<br>• Sets realistic and measurable goals<br>• Sets priorities and communicates the connection between specific actions or decisions and desired outcomes<br>• Creates integrated cross-functional processes and actions<br>• Translates conflict into improved understanding and action<br>• Holds people accountable to specific goals and milestones |
| Decision Making | • Balances the use of both intuition and analysis<br>• Makes timely decisions<br>• Is aware that how one frames a discussion of a subject can influence the acceptance or rejection of the decision |
| Team Leadership | • Provides role clarity such that everyone fully understands her or his role on the team<br>• Creates a climate of trust, open dialogue, and willingness to confront difficult issues<br>• Holds the team to a high level of personal accountability for team performance |

| | |
|---|---|
| Learning | • Tests ideas and learns from mistakes<br>• Gives and receives both positive and negative feedback<br>• Listens to both cognitive and emotional messages |
| Communication | • Makes complex matters easily understood<br>• Demonstrates active listening skills<br>• Skillfully speaks and presents to audiences of all sizes<br>• Allows people to voice their opinions without fear of retribution |
| Emotional Competence | • Is aware of the impact his or her expression of emotion has on others<br>• Maintains composure when under stress<br>• Empathizes with others and sees the world the way they see it |
| Moral Competence | • Tells the truth<br>• Owns up to mistakes<br>• Forgives people who make well-intentioned mistakes<br>• Cares for people as individuals, not just as “human capital” |
| Creating and Guiding Energy | • Displays the right amount of optimism<br>• Inspires people and infuses positive energy into the organization<br>• Is engaged and committed to the success of the business |
| Developing the Leadership Pipeline | • Drives leadership and talent development at all levels of the organization<br>• Actively participates in his or her own leadership development program<br>• Drives a careful succession planning process for all key positions |
| Shaping the Culture | • Demonstrates the core values of the culture with his or her behavior<br>• Quickly removes organizational and cultural barriers to the successful execution of business strategies<br>• Influences managers and leaders at all levels to “own” and frequently talk about the values, vision, and strategy for the organization |
| Tending to Stakeholders | • Cements (*pursues and develops*) positive relationships with key stakeholders<br>• Seeks out and develops relationships with individuals and organizations which can benefit the organization<br>• Avoids inappropriate relationships which could adversely impact the organization |
| Demonstrating a Global Worldview | • Expresses viewpoints which demonstrate an awareness of current and future global macroeconomic forces that could impact the |

| | |
|---|---|
| | organization<br>• Expresses viewpoints which demonstrate an awareness of the interconnectedness of human society and the global economy<br>• Expresses viewpoints which indicate an awareness of the challenges to the sustainability of the organization's business model |

## Why These Specific Competencies?

Nearly every large corporation has its own list of executive-level competencies. Usually this list serves as the leadership competencies assessed by a 360 instrument. Often these 360 instruments are routinely administered for everyone in a management or leadership role. Occasionally they are used developmentally and the participants gain a great deal from the assessment. However, more often the reports are filed away and forgotten with no discernable impact on managerial or leadership effectiveness.

We believe there are two reasons for this. The first is that the format of the reports typically uses multiple bar graphs depicting the self-assessment compared to the assessments of direct reports, peers, and a superior. It is difficult to know what to make of, say, a two-point difference on a seven-point scale between two scores. In our opinion, without more information and context, a 360 assessment of this type adds little value.

We believe the second and more important reason many 360 reports are filed away and forgotten is that they often focus on the "head" instead of the "heart." Recent findings[29] in the neuroscience field show that the "fuel" for change comes when one's emotions can be engaged. Bar graphs of "head" dimensions typically evoke boredom, not emotion.

Of course, "head" versus "heart" hardly meets the rigorous requirements of a scientific definition, but for those of us who have been in the trenches helping executives in big jobs deal with the challenges of executing their business plans, this distinction has been very helpful. We have selected the dimensions defined above because they mostly focus on the "heart." Other than "Developing Strategy" and "Driving Strategy," we assert that the other eleven dimensions are primarily those of the heart. You will not see in this list, for example "business acumen" or "customer focus" or "market insight"—all typical competencies in many 360 tools and all focused on the "head."

Furthermore, in creating these competencies, we attempted to list the leadership behaviors we thought have the closest connection to our Execution Readiness Model. For example, the Science of Business (Vision, Strategic Focus, Accountability) are the "head" competencies and the executive leader behavior described in "Developing Strategy" and "Driving Strategy" were created to correlate to these factors. Likewise, the other eleven competencies were created

[29] Two references which are an easy read and support this claim are: *Switch: How to Change Things When Change is Hard.* Chip Heath and Dan Heath, 2010, and *The Social Animal: The Hidden Sources of Love, Character and Achievement.* David Brooks, 2011.

to correlate to the "heart" factors listed in the "Art of Business" (Innovation, Adaptability, Collaboration, Teamwork, Communication, Talent) and in the "Workforce Engagement" and "Character of Senior Management" sections of the model.

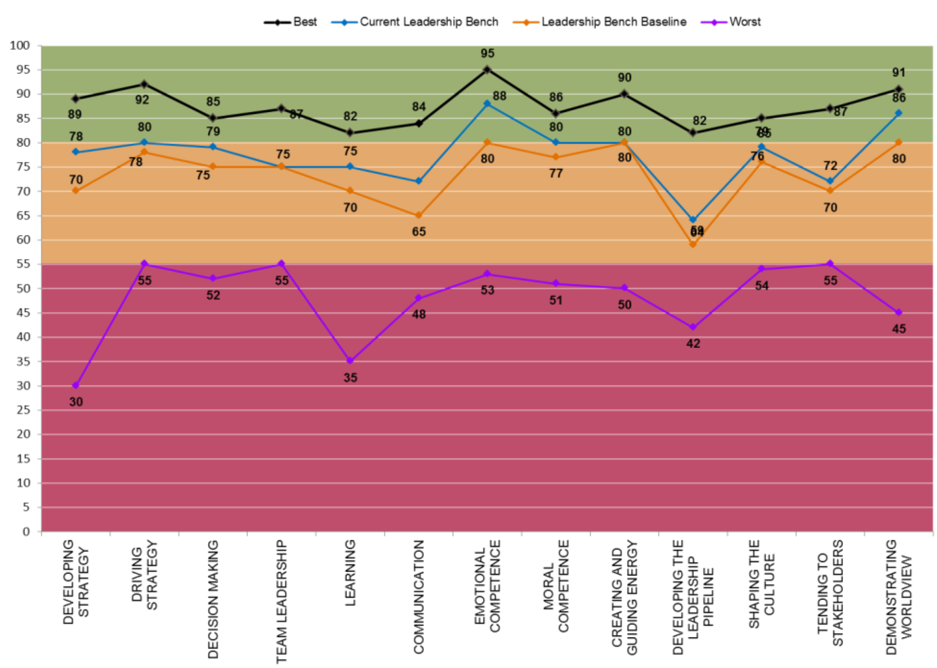
We do not assert that this is the best of all possible lists of execution readiness leadership competencies. However, we believe it does an adequate job of assessing this construct. We believe it is more important to use this list of execution readiness competencies—with the understanding that it can be refined as we discover its limitations—than it is to delay establishing a process for measuring bench strength.

## Monitoring Change in Bench Strength over Time

One of the challenges any organization faces is to monitor the overall strength of the leadership bench so as to assess the impact of executive development programs. The KRW Research Institute asserts that a simple twenty-minute survey designed to measure the thirteen execution readiness dimensions listed above, when administered once per year to the direct reports of all executive-level leaders, can provide a useful baseline from which to assess change in the bench strength. (See Appendix E for the actual survey.)

Over time, changes in the executive leadership bench strength (the combined execution readiness level on the thirteen competencies) can be monitored and compared to other companies in the KRW Research Institute's database. Figure 3 illustrates such a comparison from one year to the next for a hypothetical company.

Figure 3



This scorecard is a visual display of the change in the average execution readiness skill level on each of the thirteen competencies. The question, “How much change is meaningful?” is one which the CEO, the CHRO, and the Executive Team must answer. The KRW Research Institute cannot answer this question for the company. Perhaps a small increase in “Vision and Strategy” is very meaningful to the team, given where they were a year earlier. Likewise, a drop in one of the dimensions may be very meaningful. For example, a drop of a few points in “Moral Competence” might be an early warning sign that compliance efforts have slipped or that there is at least one senior leader who is causing worry to those who rated the leadership bench.

If KRW is coaching most of the executives included in this annual bench strength assessment, the combined impact of the executive coaching programs should have some positive impact on the ratings. A comparison could be made by creating two scorecards—one for those who have been coached and an additional one for those who have not. At a minimum, the bench strength assessment can provide a useful tool for assessing the impact of the coaching services as perceived by the direct reports of the executives who have received coaching.

We believe that this annual scorecard assessing the overall execution readiness skill level of the leadership bench will provide a useful tool for the CEO, CHRO, and the Executive Team to use in reflecting on their combined capacity to execute the business strategy.

## Workforce Engagement

A world-class leadership bench will never be able to utilize all of the operating skills discussed in the previous sections of this paper (both the science and the art) *unless* the organization is comprised of a highly engaged workforce. Of course, many of the practices in both the science and art of business do create, when done well, a higher level of workforce engagement. But those skills can’t carry all the freight. Certain organizational housekeeping must also be kept up—compensation policies must be fair and transparent; recognition and praise must be given frequently; extra rewards and promotions must be based on merit and transparently determined; workloads must be kept reasonable (excepting short periods where extraordinary effort is required and embraced by the workforce); and perhaps most important of all, employees at all levels must be kept in the loop—that is, their input must be included in relevant decisions. We are not suggesting that any business organization should become a consensus-driven institution or even a democratic one. That is a formula for poor execution. What we are suggesting is that management often and consistently asks the workforce at all levels to give input to relevant decisions. Most often, the non-management employees know a lot more about the specific impact of a significant decision than the most brilliant manager or senior leader.

Before we proceed further to discuss our workforce engagement model embedded in the Organizational Heat Map, we will review the “state of the art” in the corporate and academic worlds regarding this subject.

## How is Workforce Engagement Defined?

For the past ten years, "workforce engagement" has been part of the buzz. Employee morale and satisfaction were the focus in the '80s and '90s but the focus has shifted in the past few years to engagement and commitment. It was finally recognized that it is possible to have a very satisfied, yet *unproductive* workforce! It is now assumed that an engaged workforce is a productive workforce.

The definition of the concept of engagement is far from uniform. Multiple definitions abound in the press. Practitioners and consultants often talk about it but there has been surprisingly little academic research on the concept.

Lockwood[30] states that employee engagement ". . . can be characterized by vigor, dedication, and absorption. Vigor means high levels of energy and mental resilience on the job, persistence in the face of difficulties, and a willingness to invest effort in one's work. Dedication refers to a sense of inspiration, pride, significance, enthusiasm, and challenge at work. Absorption is being happy, fully concentrated, and deeply engrossed in one's work so that time passes quickly, with difficulty detaching from work."

One of the practitioner firms most involved in this area of organizational development consulting is the Gallup organization. In fact, the Gallup research group coined the term. They claim on their Gallup Consulting Web site[31] that their research ". . . has identified twelve questions that measure employee engagement and link powerfully to relevant business outcomes, including retention, productivity, profitability, customer engagement, and safety." However, they have received some critical comments from other researchers. Endres and Mancheno-Smoak[32] state, "In the books reporting Gallup's research, considerable time is used explaining the meta-analytic techniques used to find the relationships between the items in Gallup's Workplace Audit (GWA) questionnaire and the business unit level outcomes of productivity, profitability, employee retention, and customer service. (Buckingham and Coffman, 1999) Less time is spent defining and validating the construct of employee engagement. Because of this lack of construct definition, subsequent users interpret the construct in different ways."

Saks[33] has provided one of the more comprehensive reviews on the subject. Writing in 2006, he sums it up by stating, "To make matters worse, employee engagement has been defined in many different ways and the definitions and measures often sound like other better known and established constructs like organizational commitment and organizational citizenship behavior. . . . Most

[30] Lockwood, Nancy R, "Leveraging Employee Engagement for Competitive Advantage: HR's Strategic Role," SHRM[R] Research Quarterly, 2007.
[31] http://www.gallup.com/consulting/52/Employee-Engagement.aspx
[32] Endres, Grace M. and Mancheno-Smoak, Lolita, "The Human Resource Craze: Human Performance Improvement and Employee Engagement," Organization Development Journal, Spring 2008.
[33] Saks, Alan M., "Antecedents and Consequences of Employee Engagement," Journal of Managerial Psychology, 2006, Vol 21, No. 7, Pp. 600ff.

often it has been defined as emotional and intellectual commitment to the organization . . . or the amount of discretionary effort exhibited by employees in their jobs."

However, as far back as 1990, one academic researcher provided a definition which we think has some merit. Kahn[34] defined engagement as ". . . the harnessing of organization members' selves to their work roles; in engagement, people employ and express themselves physically, cognitively, and emotionally during role performances." (Page 694)

We like the comprehensive nature of this definition. People don't just bring one part of themselves to the workplace; they bring their emotions along with their mind and body. They also bring all of their history—the emotional and cognitive patterns they've accumulated over the years. With this large canvas on which to paint, we'd like to offer our approach to defining workforce engagement.

## How We Define and Measure Workforce Engagement

A sunset is a sunset. However, there are dozens—perhaps hundreds—of ways a sunset can be described. But when anyone on the face of the earth looks at it, they know it's a sunset. No one confuses it for the moon or for a sunrise.

Our research reveals a strong relationship between the moral competence (the character habits) of senior management and the energy and passion of the workforce—the degree of pride they exhibit and the level of respect, nurturance, and fairness they experience. This has led us to offer the following definition of workforce engagement:

> *Workforce engagement is defined as the degree to which there is a strong emotional connection and intellectual respect (heart and mind) between the leadership of the company and the workforce.*

The Organizational Heat Map measures the conditions, which if present, will yield a workforce that anyone would judge as highly engaged. Just like seeing a sunset—people know when they are around highly engaged employees. People can sense the level of energy and emotional atmosphere when they enter the reception room of a business or a retail outlet.

We assert that there are five factors which, when judged by the employees to be present in most or all situations, will provide the necessary conditions for a high level of employee engagement. These five factors are:

1. Respect
    - It is safe to tell the truth to senior management.
    - Most people have reasonable workloads.
    - Management collaborates with employees on relevant decisions.
    - People are free to be themselves at work.

[34] Kahn, W.A., "Psychological Conditions of Personal Engagement and Disengagement at Work," Academy of Management Journal, Vo. 33, pp. 692-724.

2. Procedural Fairness
   - All employees are treated with fundamental fairness.
   - Hiring practices are impartial.
   - Compensation and extra rewards are fair and transparently determined.
   - Promotions are based on merit and given fairly.

3. Care and Nurturance
   - Employees are cared for as individuals with personal lives—not as "production units."
   - The company celebrates the successes of individuals and teams.
   - Recognition is given for good performance.
   - Adequate professional development is provided at all levels.
   - The company is a nurturing and supportive community.

4. Organizational Energy
   - Intensity (very high, high, moderate, low, very low)
   - Quality (very positive, positive, neutral, negative, very negative)

5. Confidence in Management
   - Individual employees have confidence in the company's leadership.
   - Management is leading the company effectively.
   - Management makes wise decisions.

Our methodology for measuring workforce engagement departs from all others we've encountered. Most others ask the employee for his or her agreement or disagreement regarding several statements deemed to be important. We only ask two such questions: "I am proud of the work my team/department/group does" and "I have confidence in the company's leadership." The other twenty items all ask the employee to give his or her observations about the company and its practices. We peer into the organization to measure the conditions which stimulate and support employee engagement versus the subjective experience the employee reports. This yields information which can be acted upon. An employee's subjective experience is difficult to directly address.

## The Business Case

A reasonable question about workforce engagement is this: Is it essential or just "nice to have" when it comes to obtaining sustained business results? As long as people deliver the basics—come to work when they're supposed to, follow directions, and perform above some minimum level—as long as they soldier along in this way, why bother with all the other bells and whistles? Don't all of the human resources frills just add cost? They're lucky to have jobs! As one CEO recently told us, "Do I worry about retention? Hell, no—in this economy, where are they going to go?"

There is a fair amount of compelling data reported by two major consulting groups—Gallup and Towers Perrin—which show that an engaged workforce does, indeed, make a meaningful contribution to results. The Towers Perrin

Global Workforce Study[35] reported that employers with the highest percentage of engaged employees, on average, increased operating margins by 3.74 percent and net profit margins by 2.06 percent, whereas organizations with the lowest percentage of engaged staff showed declines of 2.01 percent in operating margins and 1.38 percent in net profit margins.

The Gallup organization claims that employees should be considered as part of the company's financial assets. The difference in the financial performance of what Gallup calls the "High Loss Group" (i.e., less engaged) versus the "High Gain Group" (more engaged) is a substantial 75 percent.[36]

One of the five factors in our workforce engagement model that we believe is critical is "procedural fairness." Research on compliance has revealed that when a workforce believes that it is treated with "procedural fairness,"[37] it is much more apt to be fair in return. Having compensation and hiring policies shrouded in mystery and a senior leadership team which provides its members with excessive compensation at the expense of the rank and file is likely to result in a license to steal. "You're screwing us, so we'll screw you."

"Shrink" (a euphemism for employee and customer theft) can be significant.[38] Costco Wholesale and REI are two companies which report that their shrink rate is far below industry standards. Employees instead are allies in preventing theft.

Lack of fairness also impacts retention. Again, the Towers Perrin Global study found that a full 50 percent of workers in "disengaged" companies are looking or have firm plans to leave compared to only 11 percent in the "engaged" companies. Costco's retention rate is an astounding 93 percent after one year of employment in a sector where 50 percent is considered outstanding.

Employees who believe that the company does not treat them fairly and who in general are disengaged create a huge drag on company finances. Training costs skyrocket when retention is poor.

Can a firm business case be made for workforce engagement? Not completely, simply because there are a multitude of factors that impact ultimate business success, and to isolate only one factor and claim that it is part of the causal chain is nearly impossible to do. However, the correlational findings are impressive. At the very least, it only makes sense that having an enthusiastic, energetic, and highly motivated workforce is a competitive advantage.

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[35] *Closing the Engagement Gap: A Road Map for Driving Superior Business Performance.* Towers Perrin Global Workforce Study, 2007-2008.
[36] Phelps, Glenn. *"What the Big Picture Doesn't Show," Gallup Management Journal, June 10, 2004.*
[37] For an excellent introduction to the subject of Procedural Fairness: Tyler, Tom R *Procedural Fairness and Compliance with the Law*, Swiss Journal of Economics and Statistics, Vol. 133 (2/2), 219-240, 1997.
[38] Kiel, Fred. *Flaws in the Selfish-Worker Theory.* Business Week, October 6, 2008. Page 78.

 

## The Character Habits of Senior Management

We have seen how a management team highly skilled in business practices will still fail to execute the business strategy effectively unless there is also a highly engaged workforce in place. A highly engaged workforce is a necessary condition if the team is to successfully practice both the art and science of business.

But there is one more piece to the puzzle—the depth of character displayed by the senior team through daily decisions and behavior.

Donald Sull, a professor of strategy and international management at the London Business School, and Charles Spinosa, a group director at Vision Consulting based in Dublin, got it right when they wrote in the Harvard Business Review:[39]

"Most of the vexing challenges leaders face—improperly executed strategy, lack of organizational agility, disengaged employees, and so on—stem from broken or poorly crafted commitments."

Of course, "broken or poorly crafted commitments" can occur at all levels of an organization but they are especially damaging to effective execution when they occur among the members of the senior team.

It might help the reader for us to define what we mean by "character" and how that relates to the concept of ethical behavior. For us, ethical behavior is behavior that occurs when people have a choice to behave in other ways and instead choose to behave ethically. But what is ethical behavior? It is behavior that is informed by empathy for others and is driven by the goal of enhancing the well-being of another person or group of people. We all know about moral dilemmas—when faced with two choices and either one causes harm on the one hand, and brings benefits for others on the other. Sometimes neither choice seems very "ethical" given the overall consequences, but this is, unfortunately, the condition we find in human social intercourse.

So what do we mean by "character"? Character refers to the level of moral development an individual has attained. We say that a person is of "deep" character when his or her first response in any given situation automatically takes into account the impact on the well-being of other human beings.

Human beings appear to be born with the "software" to become moral human beings.[40] Lennick and Kiel devote an entire chapter to the subject of "Born to be Moral," citing scientific evidence of the epigenetic rules humans seem to have inherited as part of their genome to be concerned about each other. Much like being born with the neurological "wiring" to learn a language, we are also born with the neurological wiring to be empathetic—the core skill in becoming a moral human being.

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[39] Sull, Donald N. and Spinosa, Charles. "Promise-Based Management: The Essence of Execution." Harvard Business Review, April 2007.
[40] Lennick, Doug and Kiel, Fred. *Moral Intelligence: Enhancing Business Performance and Leadership Success.* New Jersey. Wharton School Publishing, 2005.

 

The degree and level of development one attains in learning the empathy skill and associated communication skills varies a good deal. Several theorists[41] [42] have written in depth on the subject and we will not attempt to summarize or repeat their work. Suffice it to say, there is little disagreement among scholars that human beings are moral beings. The success of all human endeavors rests to one degree or another upon a moral foundation of trust that other people will honor their word, tell the truth, and keep their promises.

If the CEO and senior team cannot be trusted to tell the truth and keep their promises, the engagement of the workforce will be hampered. Likewise, if they do not own up to their own mistakes, insist on a great value proposition for the company's customers, and in general display some concern for the greater "common good" of the workforce, communities in which they operate, and even the broader community of citizens in the world, they will not be admired or fully respected. If they fail to demonstrate a forgiving attitude toward well-intentioned mistakes, innovation will be stifled. Most people won't make a creative, out-of-the box decision if it means risking their career. Finally, if the CEO and senior team treat the workforce as "units of production" versus people with personal lives and dreams, they will not be likely to retain their best talent.

The following schema displays the relationship between the depth of character displayed by the CEO and senior leaders and workforce engagement.[43]

[41] See Kohlberg, Lawrence. "The Claim to Moral Adequacy of a Highest Stage of Moral Judgment". *Journal of Philosophy* 70: 630–646, 1973.
[42] Gilligan, Carol. *In a Different Voice: Psychological Theory and Women's Development*. Social Science Publishing, 1993.
[43] The four principles (integrity, responsibility, forgiveness and compassion) are described in detail in Lennick, Doug and Kiel, Fred. *Moral Intelligence: Enhancing Business Performance and Leadership Success.* New Jersey. Wharton School Publishing, 2005.

 

Figure 4


GE is a company well-known for its emphasis on the character of its leadership team. Ben W. Heineman, Jr., the retired Chief Legal Officer at GE for nearly twenty years writes,[44] "In no area of corporate life is leadership commitment more important than in creating an integrity culture. And nothing is more effective in manifesting that commitment than a seamless consistency between leaders' personal attributes, their public and private statements, and their direct and indirect actions." (Page 102)

The reader may be questioning the emphasis we place on character. Ethical behavior stems from an individual's character. The best definition we've found for

[44] Heineman, Ben W. Jr. "Avoiding Integrity Landmines," Harvard Business Review, April, 2007. (100-108).

 

the concept of character is provided by the well-known Harvard social biologist E.O. Wilson. He says in his book, *Consilience: The Unity of Knowledge*: [45] (Page 246)

> "True character arises from a deeper well than religion. It is the internalization of the moral principles of a society, augmented by those tenets personally chosen by the individual, strong enough to endure through trials of solitude and adversity. The principles are fitted together into what we call integrity, literally the integrated self, wherein personal decisions feel good and true. Character is in turn the enduring source of virtue. It stands by itself and excites admiration in others. It is not obedience to authority, and while it is often consistent with and reinforced by religious belief, it is not piety."

If we accept Wilson's definition, then integrity, as he defines it, is the core of one's character. But what does this have to do with the effectiveness of executing a business strategy? Might not unethical CEOs and management teams have extremely successful businesses? Likewise, might not upstanding, ethical, moral pillars of the community have abysmal records as business leaders?

Of course, the answer to both of these has to be yes. We can all give examples, both current and from the annals of business history, where bad guys made a lot of money in sketchy and unethical ways, and where good guys have been driven into bankruptcy behaving in the most ethical ways. A visible recent example of that is the experience of Aaron Feuerstein, the owner of Malden Mills in Massachusetts. It burned to the ground in 1995 and put 3,000 people out of work. Mr. Feuerstein did the unexpected and pledged to rebuild while keeping everyone on full wages. In so doing, he risked his personal financial security. It was a poor business decision. Ultimately, he was driven out of business and his company went into bankruptcy.

The business press is, unfortunately, awash with stories about business leaders who have made hundreds of millions in ways that are certainly judged as grossly unfair and harmful to others—and therefore, unethical. The most astounding current example of this is the Bernie Madoff Ponzi scheme. For decades, Madoff reaped the benefits of a seemingly successful business. He lived the life of the most privileged and wealthy in our society—until his bubble burst and his criminal acts were exposed.

We do not claim that ethical behavior by the CEO and senior team will yield successful business results. Many, many factors impact business success—many of them external and some beyond the control of management or even their ability to predict. What we are claiming, however, is that *to obtain a fully engaged and committed workforce, the CEO and senior management have to be people of deep integrity*. Having integrity is, however, just "table stakes." To fully engage the workforce, a CEO and senior team also must demonstrate the

[45] Wilson, E.O. *Consilience: The Unity of Knowledge*. New York, Alfred A. Knopf, 1998.

 

competencies associated with responsibility, compassion, and forgiveness. And excellence in executing the business strategy requires an engaged workforce.

Our research into the beliefs and biases of CEOs required the accurate measurement of the level of workforce engagement. Once we created our workforce engagement model (detailed in the previous section) it allowed us to rank order our CEOs according to the level of workforce engagement they enjoyed.

The following table reveals the strength of the correlation between the CEO's and the senior team's moral competencies (integrity, responsibility, compassion, and forgiveness) and the level of workforce engagement.

Table 1

Pearson Correlation Coefficients
between Character Habit Scores and Workforce Engagement Index

(All significant at the <.01 level)

| Moral Competency | CEO | Senior Team |
|---|---|---|
| **Integrity** | .615 | .812 |
| **Responsibility** | .660 | .704 |
| **Compassion** | .673 | .805 |
| **Forgiveness** | .487 | .693 |

It is interesting to us that the correlations on the character dimensions for the senior team are quite a bit higher than for the CEOs themselves. We don't know at this point what to make of this but further analysis will likely yield some insight.

While "correlation does not prove causation," these data are, however, interesting and rather compelling. In our research we have not found one CEO or senior team with low ratings on these four character habits who also achieved a high level of workforce engagement. [46]

## Conclusion

We assert that the impact of senior leaders' ethical behavior on business results has been effectively overlooked in management literature and research except when the obvious impact of fraud on shareholder value is experienced. It is time to place this variable front and center in our study of organizational life.

If the reader is still questioning the connection between the character of the CEO and the senior team and workforce engagement, and thus, to the level of excellence in executing the business strategy, we'd like to point out that it is widely agreed that business does not just have an economic and a legal dimension—business also has an ethical dimension.

[46] See Appendix B for detail regarding the indices which we believe reflect the degree to which a leader displays the four moral principles.

 

John Dienhart, author of *Business, Institutions and Ethics: A Text with Cases and Readings*,[47] points out that ". . . there is no consensus, however, about the nature of this ethical dimension. Some argue for a *stockholder* view: managers have an ethical duty to increase returns to the owners. To meet this duty, managers should act only in accord with the impersonal market forces that demand efficiency and profit. Others argue for a *stakeholder* view: managers have an ethical duty to respect the rights or promote the good of all those affected by the firm. Stakeholders can include "suppliers, customers, employers, stockholders and the local community, as well as management in its role as agent for these groups."

It is our opinion, however, that this conflict between the *stockholder* and *stakeholder* is a false choice. We believe that managers have an ethical duty to both—and furthermore, taking a *stakeholder* viewpoint is ultimately good for the bottom line and thus for the *stockholder*. The reverse point of view—what's good for the *stockholder* is good for the *stakeholders*—has not held up in practice. For example, placing the stockholders' interests above all else has given us "the short-term focus on next quarter's results" pattern that has provided such a powerful incentive to cook the books.

Critics of the *stakeholder* point of view often point to excessive cost structures for personnel, training and development, and other items which are "nice to have but not necessary" in their point of view. We would do a gross disservice to our argument in this paper if we did not point out that much of what is in the best interests of *stakeholders* is not costly; it is simply human decency and a high level of moral behavior: telling the truth, showing forgiveness and compassion, keeping promises, honoring commitments and thinking first of others, whether that is your coworkers, customers, vendors, and last, but not least, your owners—the shareholders.

We think that Freidman got it wrong because he placed all his eggs in one basket. He stated in a *New York Times Magazine* article,[48] "In a free-enterprise, private-property system, a corporate executive is an employee of owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom."

We suspect that Friedman, if he were still living, would agree that telling the truth—keeping one's word—is important. Beyond that, he probably would fail to see the demonstration of responsibility, compassion, and forgiveness as legitimate management tools—which are essential, in our experience, if one is to truly engage the workforce and execute a business strategy in the most effective manner. To fulfill the responsibility to the shareholders, management must be more than honest—they must also demonstrate a sense of responsibility along with compassion and forgiveness.

[47] Dienhart, John W. *Business, Institutions and Ethics: A Text with Cases and Readings.* New York, Oxford University Press, 2000.
[48] Friedman, Milton. *The Social Responsibility of Business is to Increase Its Profits.* New York Times Magazine, September 13, 1970.

 

We are quite certain that Friedman would not believe that corporations have a social responsibility to the world at large either. Again, we disagree. Corporations are entities which have a great impact, both positive and negative, on the larger world community, and the people who run them have an enormous responsibility to make informed choices. We do not, however, believe that corporations have an obligation to give back via foundations and charitable giving. It seems to us as if this standard corporate practice is a bit phony—and done to appease those who believe that the corporate world is heartless. Far better if the corporation would give that money to the shareholders—the money comes from the company's profits, right?—or better yet, use it to further perfect the conditions in the business which support business execution, whether that is in further training and development programs, skill training programs for specific business practices, or reminder programs of the importance of ethical practices in maintaining a culture of positive compliance.

Classic economic models have assumed that the marketplace behavior of humans is rational and guided by self-interest, while being influenced by the "invisible hand" of market forces that yields stability and overall benefit for the players.

It is time to recognize that the assumptions about human nature implicit in these models have been incomplete and naively simplistic.[49] By bringing the character of the marketplace leaders front and center, we claim that we have come one step closer to reality.

[49] Fred Kiel. *Outside Shot: Don't Bet on Workers' Selfishness*. Business Week, October 6, 2008.

 

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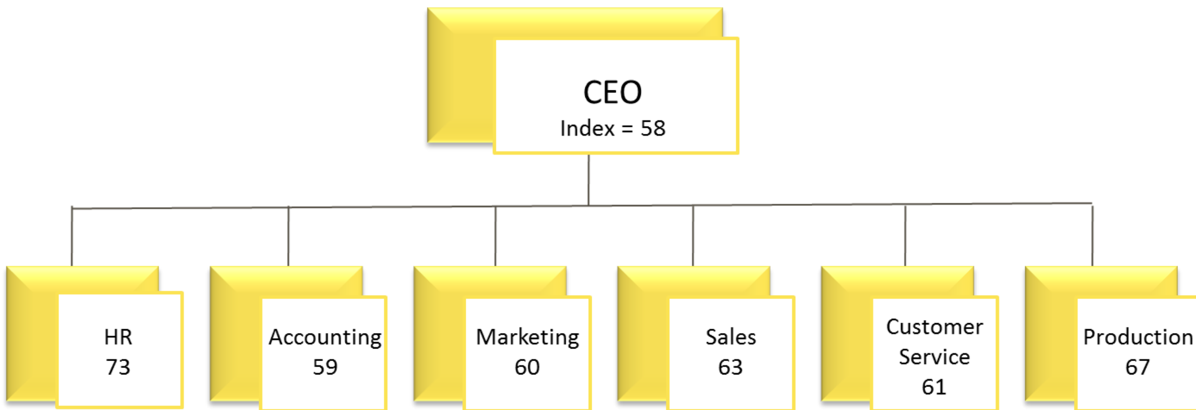
## **Appendix A:** Example of an Organizational Heat Map

### Organizational Chart



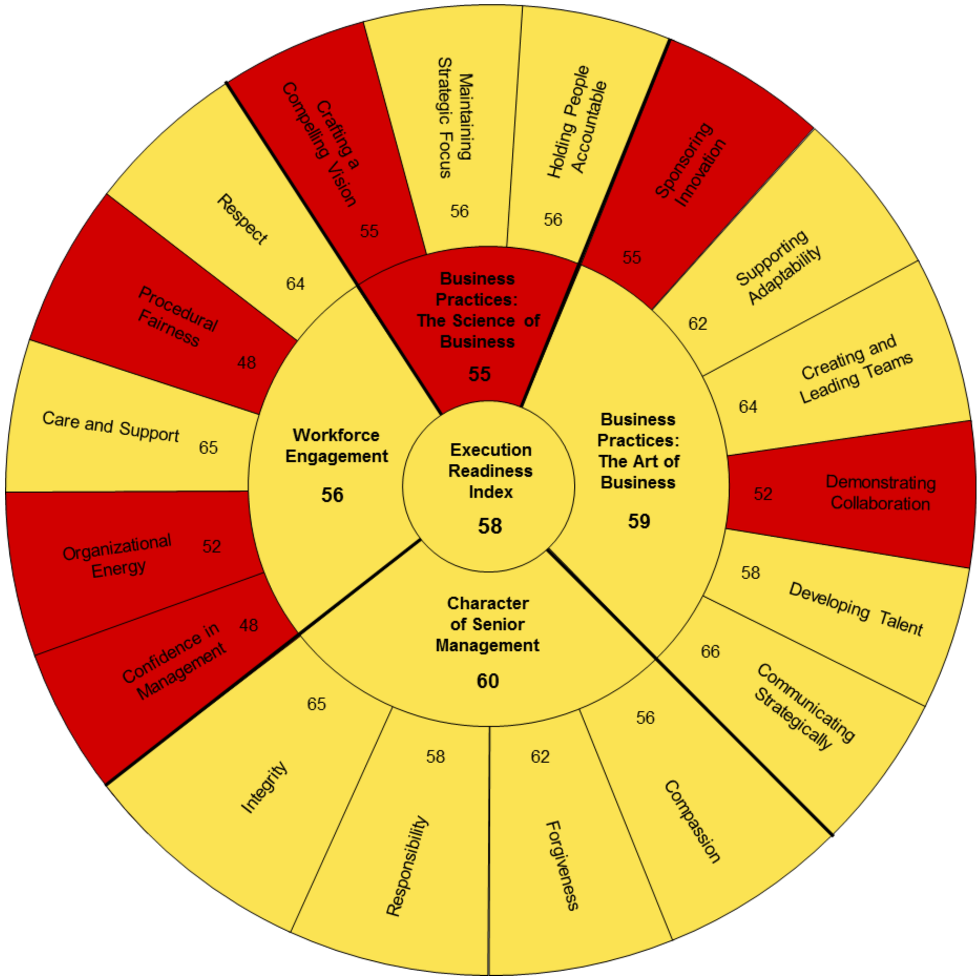

Scores are shown as arithmetic means placed on a percentile scale from 0 to 100. This percentile scale is color coded as follows:

**Excellent: Green** **= 80 and above**
**Mediocre: Yellow** **= 56 to 79**
**Poor: Red** **= 55 and below**

The Organizational Heat Map quickly reveals the parts of the organization which are subpar as well as those which are in great shape.

## Summary of the Organization

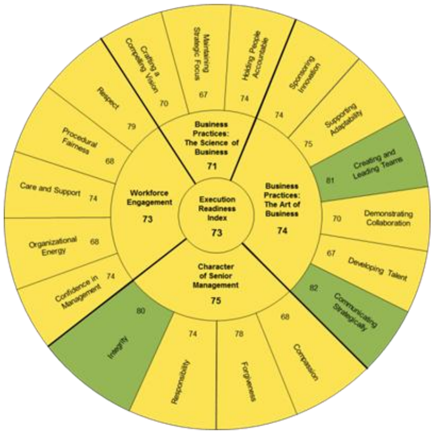



**Execution Readiness Index = 58**

| | |
|---|---|
| **Excellent: Green** | **= 80 and above** |
| **Mediocre: Yellow** | **= 56 to 79** |
| **Poor: Red** | **= 55 and below** |

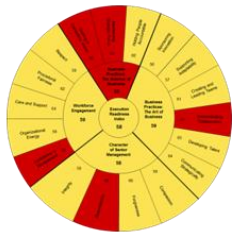
## Summary by Department

HR

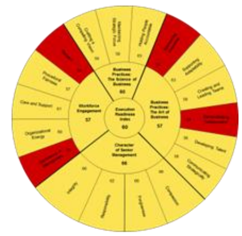



Accounting

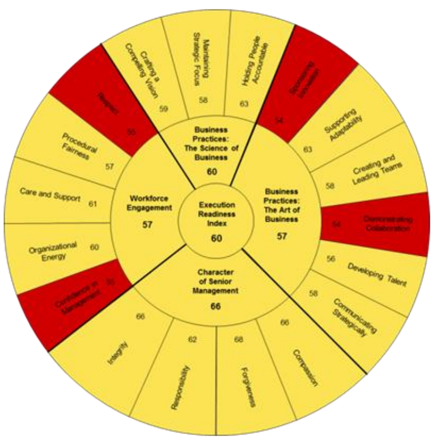
A/R



A/P



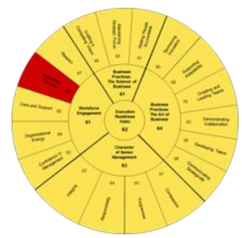
Marketing




Sales

East

West

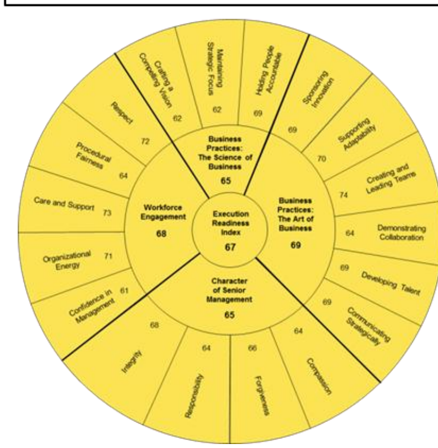


Customer Service

Eastern Region

Western Region

Production



## Crafting a Compelling Vision

| | Whole Organization 2015 | Department: Human Resources | Accounting | Marketing | Sales | Customer Service | Production |
|---|---|---|---|---|---|---|---|
| Our CEO talks about the vision our organization's future growth and success. | 66 | 73 | 59 | 73 | 60 | 58 | 70 |
| My manager talks about the vision for our organization's future growth and success. | 52 | 65 | 35 | 56 | 54 | 30 | 70 |
| *Management is focused on short-term goals rather than a long-term vision.* | 44 | 53 | 35 | 54 | 43 | 30 | 50 |
| I understand and can tell others what the vision and strategy is for Fillmore's future growth and success. | 59 | 80 | 40 | 60 | 56 | 50 | 65 |
| I understand the connection between what I do and the organization's vision and strategy, and how that vision applies to my day-to-day work. | 60 | 81 | 30 | 58 | 75 | 57 | 60 |
| I feel inspired and energized when I hear someone talk about the organization's vision. | 52 | 70 | 45 | 50 | 50 | 40 | 56 |
| **OVERALL CRAFTING A COMPELLING VISION** | 55 | 70 | 41 | 59 | 56 | 44 | 62 |
| N = | 213 | 25 | 30 | 33 | 42 | 40 | 43 |

## **Appendix B:** Utilizing the Findings of an Organizational Heat Map

When a company or business unit makes the decision to use the Organizational Heat Map, They are embarking on a process of continual improvement and change in how they execute their business strategy.

In addition to sponsoring change, executive teams must also manage stability. But managing change well is actually one of the better ways of providing stability. While continual change is desirable and necessary for growth, too much change is called chaos and too much stability is called stagnation! Managing change is the only strategy for avoiding stagnation and steering away from the edge of chaos.

Utilizing the Organizational Heat Map is *not* a passive method of finding out how satisfied or even how engaged the workforce is. Rather, it is a proactive diagnostic and ongoing monitoring tool for guiding a continuous improvement process in executing the business strategy.

There are several required steps a company must use to reach the goal of a true increase in execution readiness.

### Step 1: Senior Team Alignment

The process begins well before the survey methodology is launched. The first step is for the senior team to align around the goal of improving their execution processes by accepting some basic principles:

1. The process requires a partnership with the rank-and-file worker. Everyone is included. It is not a top-down project.
2. The vision for the business must be clear, compelling, and easy to understand and commit to memory.
3. Improvement will also require members of the senior team to look into the mirror about how to improve their own leadership skills.
4. Recognition that most of the knowledge about how to improve execution processes resides at the front-line level, not in the executive suite. The Organizational Heat Map is a tool to tap that wisdom.
5. A strategic communication plan is a necessity. Success or failure will depend on the success of effectively communicating to all corners of the company or specific business unit.

Senior team alignment typically requires one or more meetings to achieve. The goal is to obtain alignment around principles, clarity of vision, and agreement on the mechanisms for strategic communication throughout the entire company or business unit.

### Step 2: Obtaining Buy-In

The workforce may have been “surveyed to death” in the past with employee satisfaction or engagement surveys, Best Place to Work surveys, Most Admired Company surveys, and so on. Why another survey? Or the workforce may be so discouraged and disengaged that the average worker is not willing to participate in something that "human resources and the suits are pushing on us!" The challenge will be for senior management to communicate to the workforce that "this time, it's different." This is truly a process of partnering—of coming together and working to improve the company's effectiveness in executing its business strategy.

The senior team must convince the workforce that the data will be shared in full with them and will be used to gain insight into what can jointly be done to bring about execution improvement.

### Step 3: Launching the Organizational Heat Map Survey

How the survey is actually launched is determined by the communication plan and the digital sophistication of the company. It can be launched with a video from the CEO or with just an email introduction. If the company has an employee intranet or a CEO blog, these communication tools can also be used. And even posters, paper flyers, and mailings can be used if appropriate for the company's culture.

### Step 4: Insight

Approximately ten days after survey launch, the Organizational Heat Map results will be ready for review. The first step in this insight process is for the senior team to spend a day in an "Insight Session." By the end of the day, the team should be able to articulate the three or four key insights they have gained from the results. Their second task will be to agree to the plan for sharing the insights.

### Step 5: Sharing the Insights

This may require an uncharacteristic degree of vulnerability on the part of the senior team. There are often some glaring omissions on the part of senior management that are revealed by the Organizational Heat Map. However, owning up to these omissions is a major step in gaining the trust of the workforce.

Sharing the insights can be accomplished in a number of ways—through town hall meetings led by the CEO and selected members of the senior team; via the employee intranet; by professionally facilitated focus groups; or by business unit or functional area meetings led by the respective senior team member.

The objective of this step is to inform the entire workforce of what the Organizational Heat Map has revealed—to obtain company-wide understanding of the three or four key insights gained from the Organizational Heat Map.

### Step 6: Seeking Solutions

This is the creative, problem-solving step. Each member of the senior team is expected to solicit potential solutions for execution issues from every corner of their unit or functional area. Again, this can be accomplished via focus groups, town hall meetings, or intranet Web communications such as a Web-based survey tool.

## Step 7: Action Planning

Coordination of the multitude of potential solutions is a requirement. This is truly the work of the senior team. They must choose the half-dozen or so solutions which, when knitted together, truly make a difference. The skill the senior team needs to bring to the table is to choose the 20 percent of these suggested solutions which will deliver 80 percent of the improvement. Great care must be taken to not place resources on easy but relatively unimportant improvements.

## Step 8: Monitoring Progress (Driving the Scorecard)

Part of the strategic communication plan is to promote the publication of and understanding of the Organizational Heat Map Scorecard. Every two months (bi-monthly) a random sample of employees will be asked to complete the Organizational Heat Map so that progress in improving the conditions which enable effective execution (effectiveness of business practices, level of workforce engagement, depth of character of senior management) can be monitored.

March 2015 Note:

Since this paper was written in 2009, our research on the connection between the character of the senior leadership in an organization and business results has been completed.

Our findings are published by Harvard Business Review Press in *Return on Character: The Real Reason Leaders and Their Companies Win*, by Fred Kiel.