

# Fi|r|st

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Q1 2018

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# The Fluid Workforce

## Letter from the Editor

Building up, tearing down, automating, relocating, merging, divesting, cutting, investing: when rapid change moves on such a large scale, how can the enterprise plan and execute a talent strategy?

Companies need an adaptable workforce. Employees must gain varied experience for the good of the business, and their reluctant bosses need to let them leave when it's time. And a different kind of employee base is playing a bigger role: contractors increasingly bring their skills to bear as needed; bots and programs work alongside humans to increase efficiency. The value of gender, racial, and generational diversity is also increasingly apparent, but building it takes effort.

This Q1 2018 issue of *Fi|r|st* addresses the swirling currents that pull at the people you need for your organization to grow—and how to manage the resulting risks. In these pages, you'll learn how to:

- Use assurance functions to support the board's increasing interest in cultural health,
- Predict whether a successful leader will fail,
- Get the most out of your contingent workers,
- Set up peer communities that reinforce the new behaviors you want,
- Root out the bias in talent algorithms that can undermine diversity initiatives, and
- Discover the invisible impacts of change.

*Fi|r|st* stands for the intersection of Finance, Risk, and Strategy—how companies expand, how they can be both bold and principled, and how they persuade employees and investors to join them for the ride. The journal addresses cross-cutting challenges that pressure the C-suite and executive teams.

Fluid talent is a must for a competitive edge. So is mastering how to control the rushing stream.

—Judy Pasternak

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This infographic shows the benefits and best ways to protect robust cultures of integrity, quality, safety, and innovation.

## 21 The Board Is Focusing on Culture: How You Can Help

After a spate of culture-based scandals, corporate boards are looking more closely at their companies' collective beliefs and behaviors. Top management—notably assurance functions and HR—must collaborate to get directors the information they need.

## 24 Finance Must Get Comfortable with Lateral Job Moves

Finance has a future leader problem: The capabilities for running large-scale, cross-functional projects alongside the day-to-day aspects of Finance roles can't be developed in a traditional career path. But it's going to take innovative tactics to overcome staff and manager attachment to tradition.

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How can you predict whether a high-performing leader will suddenly fail?

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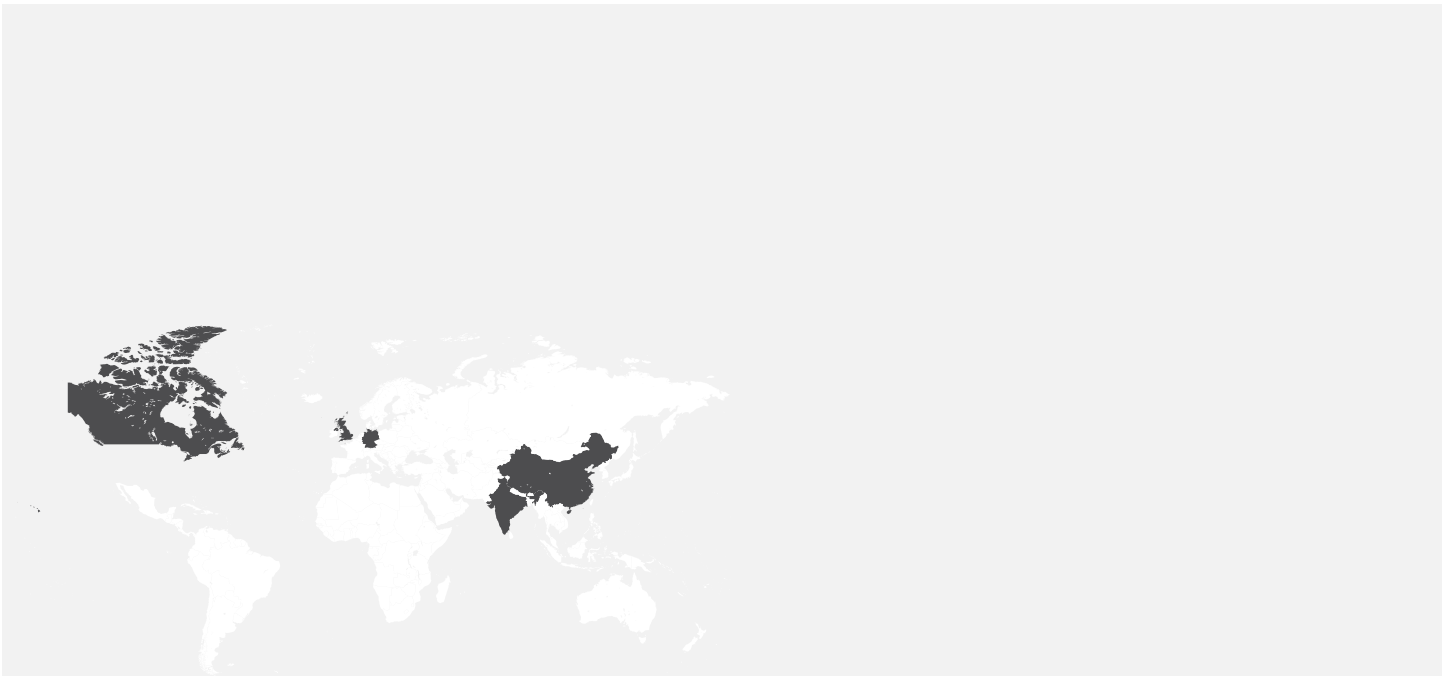
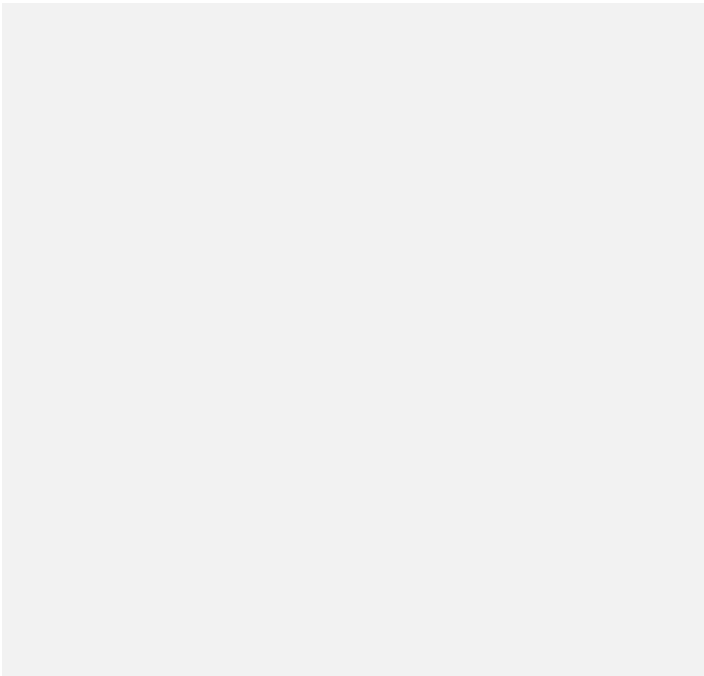
Their numbers are growing. Understand how your organization uses contractors and temporary workers to manage critical risks and get strategic.

## 34 Beware of Bias in Talent Algorithms

Algorithms offer a veneer of objectivity—but it's just a veneer. While building and tending the machine learning systems are not your responsibility, you'll need to ask probing questions of your HR and analytics partners to make sure they're not unwittingly screening by race or gender when hiring and retaining talent.

## 36 Talent Secrets from a Decade at Google

A Q&A with Laszlo Bock, former senior vice president of People Operations at Google





## The Data Privacy Talent War Is On



The average large-enterprise Privacy team has increased from three members in 2015 to five members today,<sup>1</sup> and a tiered organizational structure is starting to emerge.

Over the same time period, the median global salary for Privacy professionals rose 3.6%.



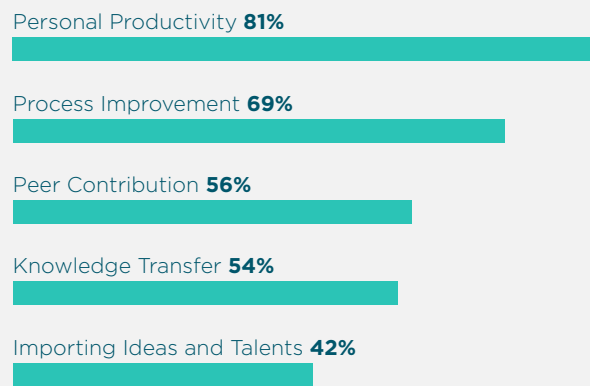
**Does your organization have the talent it needs to get ready for the EU's General Data Protection Regulation (GDPR) and face increased attention from US policy makers after the Equifax breach that affected 143 million people? The time to act is now.**

Source: CEB 2017 Future of Privacy Risk Benchmark; International Association of Privacy Professionals, *OneTrust Privacy Professionals Salary Survey*, 2017.

## Finance Leaders Are Not Effective Managers

While most Finance leaders are effective at getting their own work done and improving processes, half are not effective at helping peers, transferring knowledge, or bringing in talent and ideas from outside the function.

### Percentage of Finance Leaders Rated as "Effective" by Their Supervisor



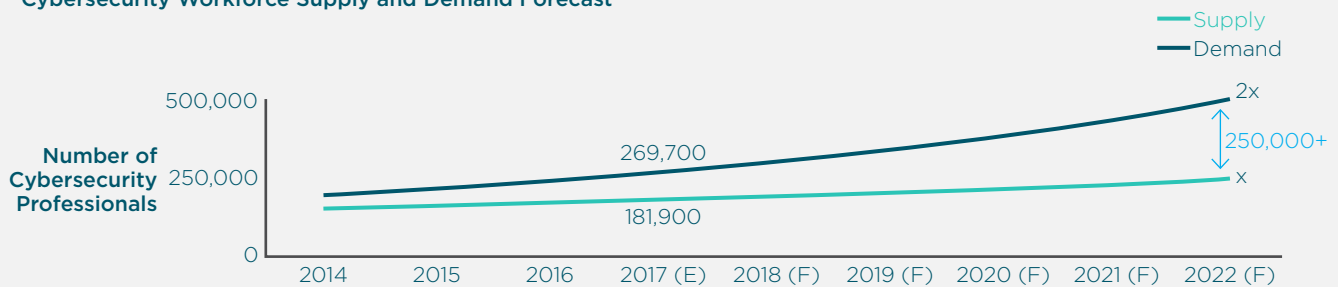
n = 367 Finance leaders.

Source: CEB 2017 Leadership Validation Study.

\*Receiving a 4 or 5 on a scale of 1 (very ineffective) to 5 (very effective).

## US Cybersecurity Talent Supply Likely to Fall Far Short of Demand

### Cybersecurity Workforce Supply and Demand Forecast



Source: CEB TalentNeuron™.

Note: Supply and demand figures include professionals related to IT, Sales, Marketing, Business Development, Account Management, Research, and Engineering functions in the cybersecurity field.

<sup>1</sup> Members of the CEB Data Privacy Leadership Council can learn more in our blog on the program site, "Privacy Staffs Are Growing—Should Yours?"

# Why, When, and How Change Scares Away the People You Need

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By Steve Shapiro and Jian Chen

Benjamin Franklin, the pithy eighteenth-century consultant, wrote that “when you’re finished changing, you’re finished.”

Hundreds of years later, hardly anyone in corporate life can expect a steady state. The typical organization has undergone five enterprise shifts in the past three years,<sup>1</sup> and the vast majority of workers say new circumstances come along more often and require more knowledge and skills than they did three years ago.<sup>2</sup>

But what happens when change finishes your workers? How can you successfully execute much-needed restructuring, expansion, or acquisition

when the turmoil scares away the very people you need to make it happen?

A first step is recognizing when and why your workers’ concerns will spike. Change at the enterprise level creates career stress for individual workers, but according to survey responses from more than 27,000 global employees, the pressure they’re feeling is not always readily apparent.

While “change fatigue” has become something of a buzz phrase (it ranked

as the top emerging risk in three of our quarterly surveys of assurance executives last year), an examination of employees whose jobs or tasks are in flux reveals it is more complicated than a cranky workforce with gritted teeth and bleary eyes. Your employees may be updating their résumés earlier—and later—than you might think, even if they still seem to be working hard and have bright futures at your company.

In other words, staff departures may surprise and upset you unless you make an effort to manage upheaval.

**Here’s a sketch of the true impact of change with three new insights from our dataset.**

## 1. Anticipating a career-level change hurts as much as experiencing change.

Workers who expect job-level changes in the near future exhibit the same drop in their intention to stay in role as those who have already experienced a “career moment”—an individual-level shift in their work.<sup>3</sup> This finding implies that fatigue starts before any alterations have actually taken place and that these attitudes will exist regardless of how new conditions are eventually executed and managed.

**Most workers expect a significant career moment in the next six months, making this a major issue for every organization.**

Figure 1: Percentage of Workers Reporting a High Intent to Stay

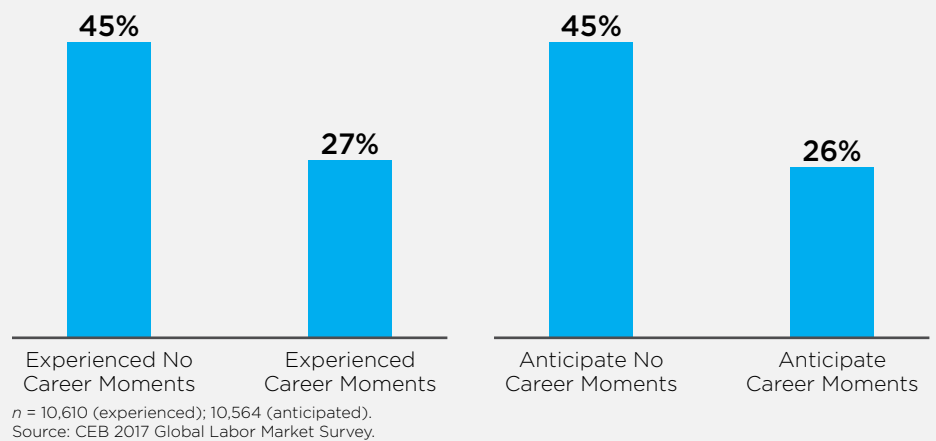
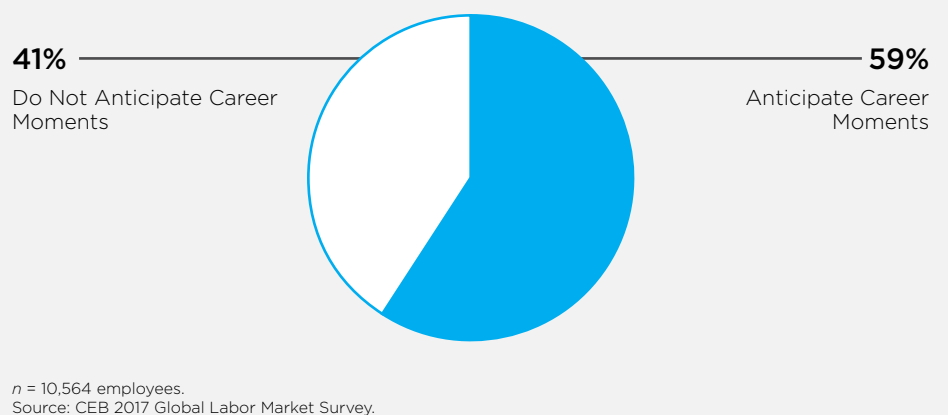


Figure 2: Workers Anticipating Career Moments in the Next Six Months

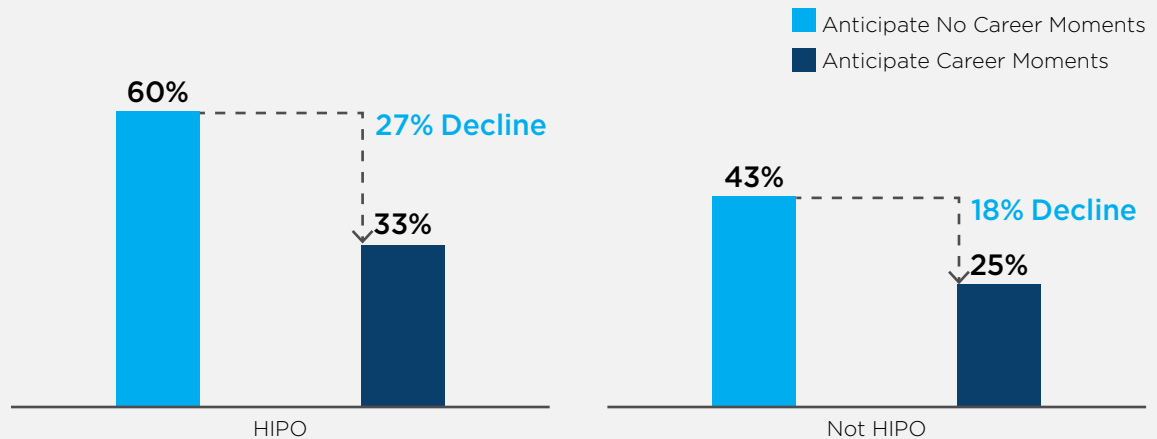


<sup>3</sup> Career moments include: layoffs or reduction of team members, a significant organizational restructuring, a significant change in job responsibilities, a substantial change in one or more senior leaders, a change of direct manager, a transfer to an entirely new team, a significant change in the skills used, a hiring freeze, a wage freeze or salary cap, a reduction or elimination in variable pay (e.g., bonuses), a reduction in benefits, mandatory unpaid leave, M&A, and a new early retirement offer to employees.

## 2. High-potential employees (HIPOs) are more sensitive to career-level changes.

The anticipation effect is particularly pronounced among future leaders. While HIPOs have a stronger commitment to their companies than their peers do, that commitment deteriorates by nearly half if they see a career moment in their future.

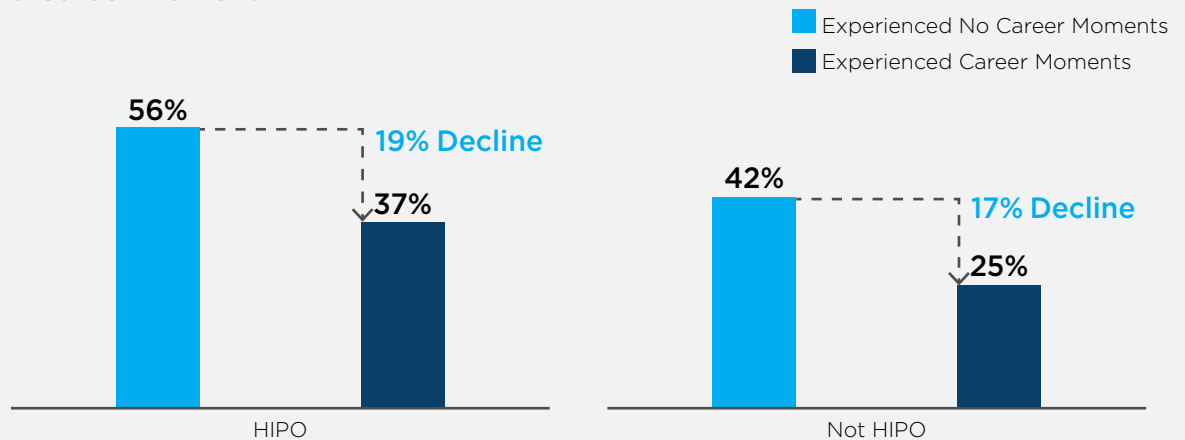
**Figure 3: Change in Workers Reporting a High Intent to Stay When Anticipating a Career Moment**



*n* = 1,175 (HIPO); 7,624 (not HIPO).  
Source: CEB 2017 Global Labor Market Survey.

In the wake of job-level change, HIPOs' strong commitment to the organization drops off slightly faster, and their desire to leave the company increases faster than their non-HIPO peers. This means that, unfortunately, changes are likely to cost companies their best talent.

**Figure 4: Change in Workers Reporting a High Intent to Stay When Experiencing a Career Moment**

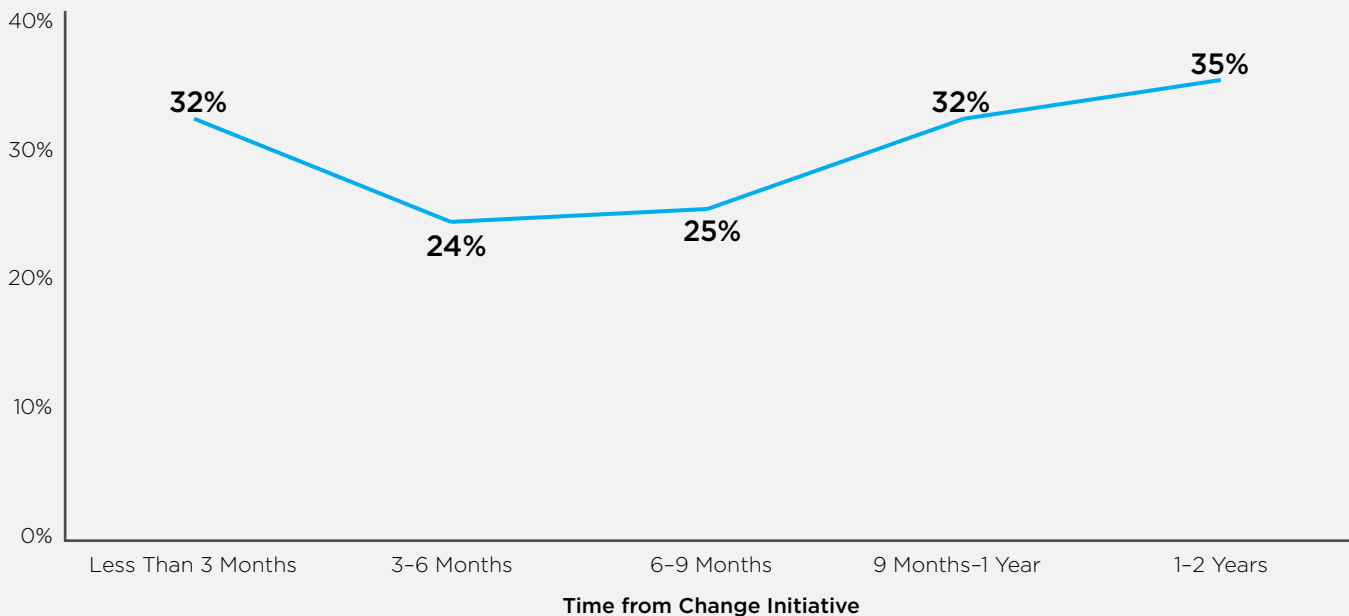


*n* = 1,143 (HIPO); 7,694 (not HIPO).  
Source: CEB 2017 Global Labor Market Survey.

### 3. Workers are most likely to leave three to nine months after an enterprise-level change.

A “danger zone” does not appear immediately following an enterprise change but on a three- to nine-month lag. Workers generally understand the reasons for corporate changes and are largely supportive. This lag may represent a growing skepticism with the change initiative after an initial “honeymoon” period. Most change initiatives fail, and absent clear signs of immediate success, workers may become disillusioned. It may also take that long for a resulting career moment to occur.

Figure 5: Percentage of Respondents Reporting a High Intent to Stay



*n* = 6,686 employees.  
Source: CEB 2016 Workforce Change Survey.

However, this period does not extend beyond nine months, possibly because at that point the most disruptive changes are over and those who were unhappy have already left. Workers in the three- to nine-month danger zone even report feeling more energized by their jobs and express more confidence in the company than during earlier or later periods.

These apparent paradoxes point to a workforce that is supportive of change at the enterprise level but ultimately concerned about what it means for their own careers. As these changes manifest in career moments, change becomes churn.

#### Endnotes

<sup>1</sup> These include cultural change, restructuring, market expansion, leadership transition, and M&A. Source: CEB 2015 Change Readiness Survey. *n* = 308 organizations.  
<sup>2</sup> This analysis was based on two surveys: the CEB 2016 Workforce Change Survey (*n* = 6,574) and the CEB 2017 Global Labor Market Survey (*n* = 21,178).

# The Best Way to Develop Your Direct Reports

By Taryn Ohashi and James Atkinson

If you're a typical manager with 8 to 10 direct reports, you likely spend about 35% of your day in meetings, almost as much time reading and responding to more than 120 e-mails, and nearly 10% of your time coaching and giving feedback to your team.

And yet Learning and Development (L&D) at the typical company would say you're not doing enough to upgrade employee capabilities; you should quadruple the time you devote to developing your people to 36% of your workweek.<sup>1</sup> This math does not compute. Who is going to give you more hours in the day?

At the same time, employees feel unprepared for their jobs today and their careers tomorrow. Only 40% of employees think their manager helps them develop the skills they need for their current role, and this falls to 36% for skills needed for the future.<sup>2</sup> A significant percentage (45%) of managers signal their agreement—they told us they lack confidence in their ability to develop the skills their reports must acquire.

Managers can do better. They should do better. And they should do it without counting the number of hours they put into development of direct reports.

It's simple: stop trying to coach continuously; instead, concentrate on making three distinct types of connections for your direct reports. This doesn't mean you should just pair up employees with colleague mentors and wish them

well. To be effective, you'll need to perform core coaching activities and systematically nurture the ties that help your reports improve where they must.

## Four Coaching and Development Styles

Managers exhibit four approaches to coaching and development, according to our review of more than 7,000 employees and managers worldwide:

- **Always-On Managers** provide continuous, frequent coaching; drive employees' development; and give feedback across a breadth of skills.
- **Teacher Managers** develop employees based on their expertise and experience, providing advice-oriented feedback and directing their employees' development.
- **Cheerleader Managers** take a hands-off approach to development, give empowering and positive feedback, and enable employees to direct their own development.
- **Connector Managers** introduce employees to others for coaching

and development, create a positive team environment, and provide targeted feedback to employees.

## One Clear Loser and One Clear Winner

Most heads of L&D want their organizations' managers to take an always-on approach to employee development. Yet Always-On Managers are the worst-performing manager type and actually degrade employee performance:<sup>3</sup>

- Their constant feedback can leave employees feeling disengaged.
- When that feedback is about an area in which the manager lacks know-how, the employee may receive

inaccurate and misleading coaching, leading to worse performance.

On the other hand, Connector Managers are the most effective at developing their teams—by a long shot:

- They improve employee performance by up to 26%.
- They triple the likelihood their direct reports will become high performers.

## How a Connector Manager Operates

Impressive results are the payoff for three types of relationships overseen by the manager: personalized development efforts for each employee, peer-to-peer development within the team,

and learning from others throughout the organization who can effectively teach relevant skills (figure 1).

The manager can play a significant role in creating each connection.

### 1. Diagnose Employee Needs

Just 32% of employees believe the coaching and development they receive from their managers are tailored to their needs.<sup>4</sup> When confronted with competing priorities, even the best-intentioned managers often default to convenient or relatively easy employee development activities. Instead, they should personalize development to employees' interests.

#### Case in Point: eBay

At eBay, leaders learned to coach direct reports in the context of their everyday interactions and development needs. Under the framework, which the company called Performance Success, leaders:

- Assessed their employees' development readiness to tailor development conversations,
- Chose from four key coaching conversations based on where employees were in their work (figure 2), and
- Practiced this new approach in safe, small coaching cohorts over a 10-week period.

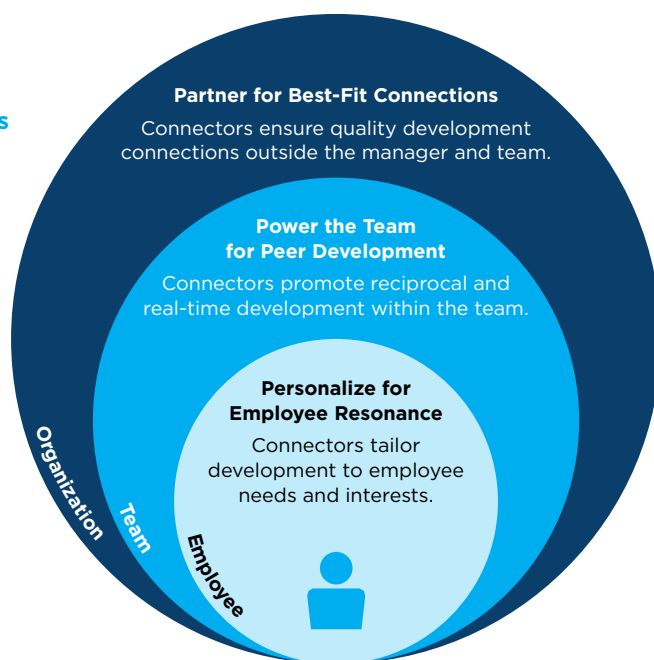
### 2. Encourage Team Development

Most managers restrict employee development conversations to one-on-one meetings and miss opportunities to have team members develop one another. It's hard, after all, to have

Figure 1: The Connector Manager's Approach

#### Core Manager Activities

- Onboard new employees.
- Provide feedback.
- Communicate performance standards.
- Identify employee skill gaps.
- Promote on-the-job development.
- Have career conversations.



Source: CEB analysis.

Figure 2: eBay's Four Key Coaching Conversations

#### Not Just More Coaching

Rather than simply asking leaders to coach more frequently, eBay created an architecture that allows leaders to prioritize coaching around four phases of work or projects.



#### Understanding Employees Is Key

Leaders must hone their knowledge of where employees are in their work to identify the right coaching conversation.

Source: eBay Inc.; CEB analysis.

team members teach each other; team turnover can be high, and employees hesitate to share their development areas, especially when individual performance is emphasized.

But managers can overcome these obstacles by gathering real-time feedback on the development environment and embedding skill-sharing opportunities into work.

### Case in Point: A US Government Agency

One US government agency used an “Each One, Teach One” exercise (figure 3) that made teams more cohesive while encouraging on-the-job development:

- The manager introduced the idea of sharing skills among the team, setting expectations and ground rules.
- Employees noted the skills they’d be willing to coach others on, and teammates signed up for the skills they’d like to learn.

### 3. Improve Quality of Relationships Outside the Team

Only 32% of employees think the development connections they make are effective.<sup>5</sup> Employees rarely expand beyond their immediate networks for development, and managers typically don’t help employees get development

value from the connections they do make. Managers should check in on the state of employees’ outside relationships and help sustain them.

### Case in Point: American Express

American Express helped managers support their direct reports’ development at key touchpoints even before they had made introductions. Using a guide provided by L&D (figure 4), managers laid the groundwork by:

- Explaining the relevance of the development connection to employees,
- Helping employees identify what they should learn during the experience, and
- Setting a clear timeline with employees to apply lessons.

## Benefits Beyond Development

In addition to accelerating employees’ development, making and sustaining these critical connections for your direct reports can boost:

- Discretionary effort by up to 38%,
- Engagement by up to 40%, and
- Intent to stay at the company by up to 20%.

### Endnotes

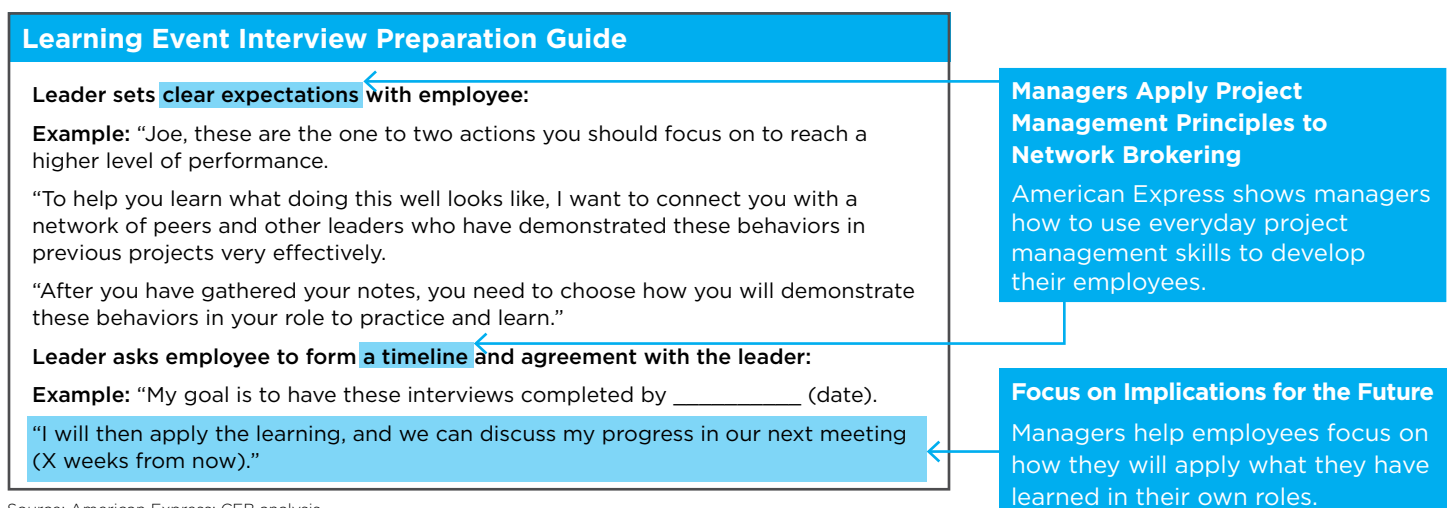
- <sup>1</sup> CEB 2017 Head of L&D Manager Effectiveness Survey, n = 225 heads of L&D.
- <sup>2</sup> CEB 2017 Manager Effectiveness Survey, n = 7,309 employees.
- <sup>3</sup> CEB 2017 Head of L&D Manager Effectiveness Survey.
- <sup>4</sup> CEB 2017 Manager Effectiveness Survey.
- <sup>5</sup> Ibid.

Figure 3: US Government Agency’s “Each One, Teach One” Plan Illustrative

Team Member’s Name	Skill to Be Shared	Who Would Like to Learn This Skill
John	Developing e-learning courses	Patrick; Keith
Kathryn	Developing workforce templates	Paula; Adam
Adam	Building Excel spreadsheets	John
Keith	Developing budgets	Kathryn; Rob
Paula	Editing PDFs	Rob
Rob	Crafting great PowerPoint presentations	Kathryn; John; Keith
Patrick	Conducting focus groups	Adam

Source: US government agency; CEB analysis.

Figure 4: American Express’s Manager-Employee Preparation Discussion



Source: American Express; CEB analysis.

# Where Do You See Your Digital Strategy in Five Years?

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7 in 10 strategists report having too few transformational digital investments, and only 22% of Procurement organizations have a long-term digital strategy.

Gain confidence in your digital investments:

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- **Prioritize your digital investments for 2018** using our Technology Roadmap.
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# Harness the Power of the Peer

By Peter Young

As a functional leader, the signals you send and expectations you set affect employee behavior more than training programs or targeted hiring practices do. These messages and norms can be reinforced in many ways—and they shouldn't only travel from the top down.

Information sharing and community building among peers can help employees do their jobs more effectively while reinforcing the behavioral principles leaders want staff to exhibit. Still, action and support from the highest levels of the department are necessary to get the peer loop up and running—and to sustain it.

## Sharing Is Caring

Sometimes peers need an extra push to be open with one another because they aren't inclined to talk about their mistakes. Leaders should encourage employees to talk about their negative experiences so they can learn from one another. In IT, for example, employees are typically afraid of failure, but when no one talks about their errors, no one learns.

This is why IT leaders at DIRECTV launched a failure learning program in which employees shared their tales through videos, case studies, and lunch-and-learns (figure 1). Gamification

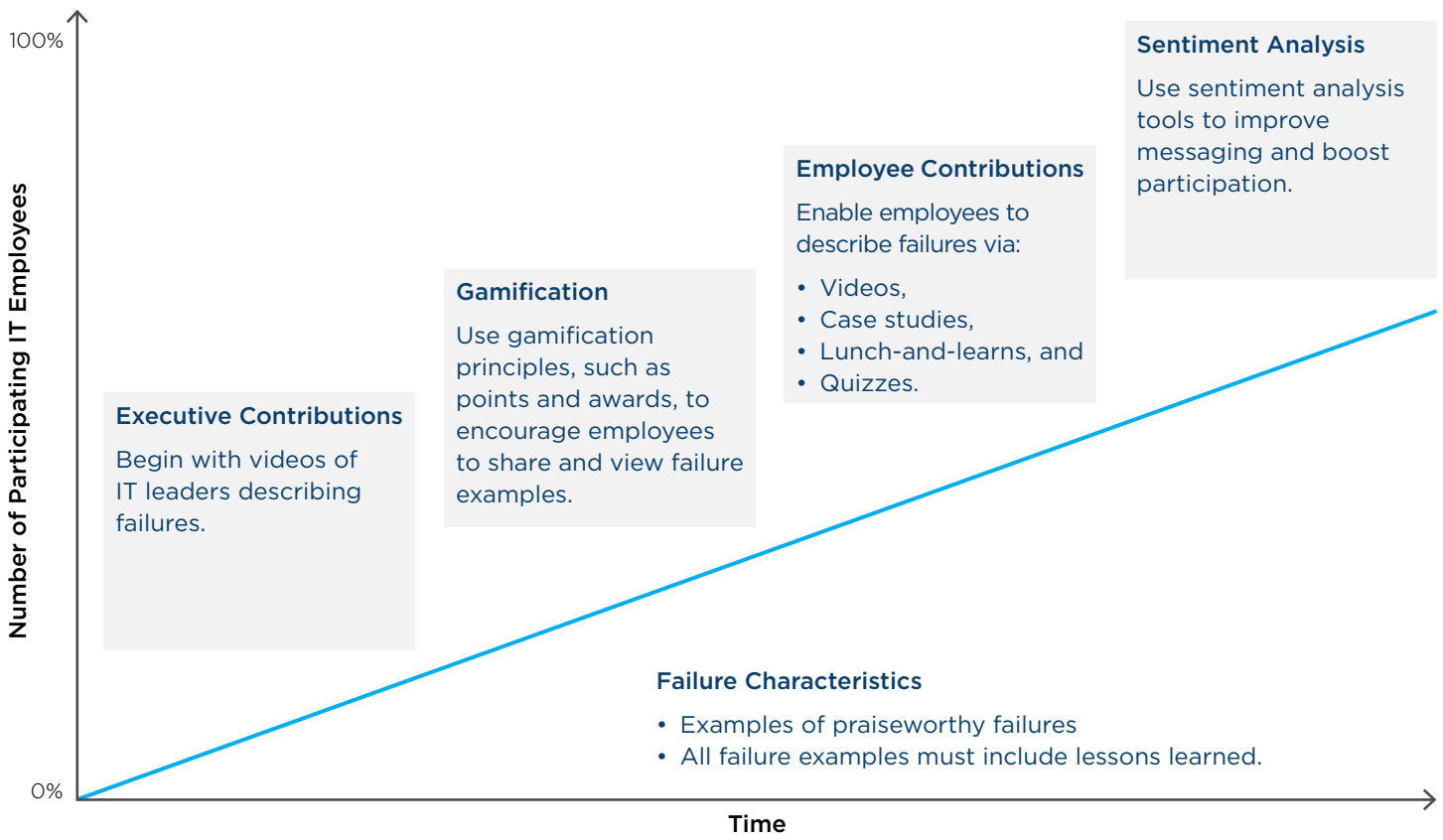
encouraged staff participation; points and prizes went to employees who submitted their examples or reviewed the content sent in by others.

"The program has created a new openness to failure," DIRECTV's former senior vice president of IT told us. "We now ask, 'Who can we teach?' and not, 'Who can we blame?'" As a result, employees grew more comfortable discussing missteps and were eventually more willing to take necessary risks.

Sharing tales of triumph can be just as important. For example, Bayer's Procurement team created a simple template for documenting its successes in collaborating with business partners (figure 2). Employees received compilations of these stories, which they could then use as a showcase for internal partners on future projects. Each entry in Bayer's catalog included contact information for the person who wrote it, so employees knew where to turn for additional details or support.

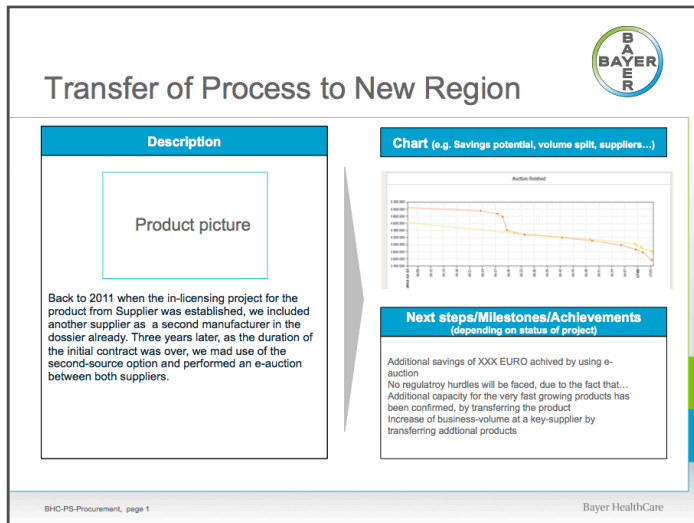
What's more, employees felt proud to be selected to contribute to the

**Figure 1: DIRECTV's Failure Learning Program**



Source: DIRECTV; CEB analysis.

**Figure 2: Bayer's Success Story Template**



Source: Bayer AG; CEB analysis.

**Template Guidelines That Help Staff Act Independently**

**Helps Presenters Lead Good Discussions**

The template helps presenters structure conversations around the following elements:

- **Context (Description)**—Context helps connect the example to the larger proposal.
- **Illustrated Data (Chart)**—Data makes the example believable.
- **Results**—Results make the example compelling.

**Helps Authors Write Compelling Stories**

The template helps authors construct compelling stories with the following guidelines:

- **Section Titling**—The titling clearly outlines what to include.
- **Flexibility**—The template allows for adjustment when not all information is available.
- **One-Page Format**—The format reduces the time commitment to fill in the template.

collection, as leadership recognized only exceptional projects in this way. Staff could use stories they had written to demonstrate high performance to their managers. And because the narratives helped engage stakeholders more effectively, the writers received additional validation as they saw their colleagues using the anecdotes.

## Creating Community and Accountability

Another way to harness the power of the peer in influencing employee behavior is to create a sense of community among staff.

Many Quality executives tell us they want their teams to better understand business problems, imagine solutions, and effectively sell those solutions to internal partners. To encourage

these habits, Quality at one consumer products company organized staff with similar experiences and constraints into small “true-peer consulting” groups to discuss challenges, offer work-specific feedback, and provide solutions that have worked in the past (figure 3).

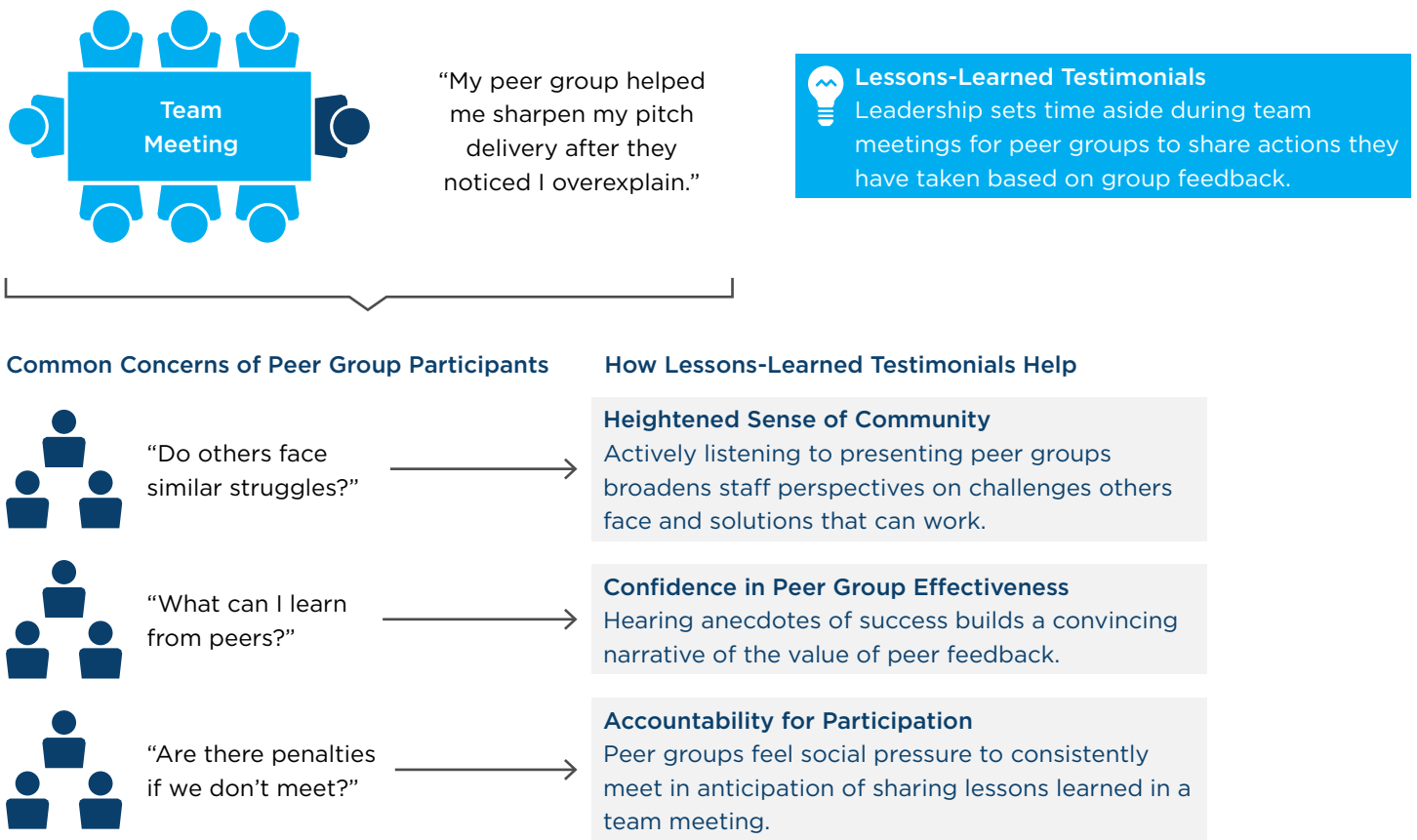
Team leaders needed to drive better solutions to business issues and improve staff’s ability to deliver presentations. They told us they got what they wanted.

Publicly displaying important departmental messages and team progress can also elicit natural human reactions such as competitiveness. This is why Sales teams frequently announce everyone’s progress against goals—no one wants to be the one who lags behind. This tactic can work for any function.

For example, Internal Audit teams always want to be able to connect their work to the business value it creates, but doing so isn’t always easy. To remind auditors of this connection’s importance, the Internal Audit team at one US-based retailer publicly displays scoreboards on the department walls and holds weekly meetings in front of them (figure 4). Multicolored sticky notes track the progress of each audit, and the final note always documents the value the engagement added to the company (figure 5).

These scoreboards track metrics such as cost savings, customer survey results, and audit findings quantified. Since adopting this approach, the Audit department reports more empowered auditors, better-quality audits, and more responsive business partners.

Figure 3: True-Peer Consulting Groups



Source: Alpha Company;<sup>a</sup> CEB analysis.  
<sup>a</sup> Pseudonym.

## Peer-to-Peer Dynamics Support the Climate You Want

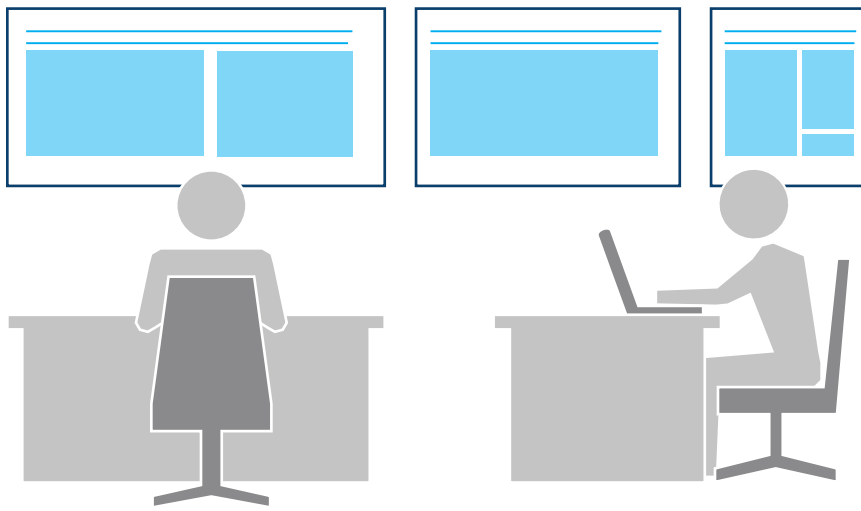
Creating a team climate where everyone knows what to do and how to

do it is the most effective and efficient way to encourage the employee behaviors you want. And according to our analysis of thousands of staff across 11 corporate functions, peers are an integral part of that equation.

### Next Steps

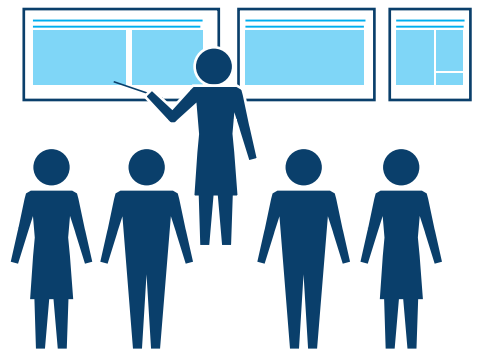
CEB members can learn more by accessing the full case studies for the companies mentioned here on the relevant program websites.

Figure 4: Weekly Audit Team Meetings with Scoreboard Backdrops



Every Monday morning, the team has a stand-up meeting in front of the boards, with the goal to “FUZE”: focus, update, share, and energize.

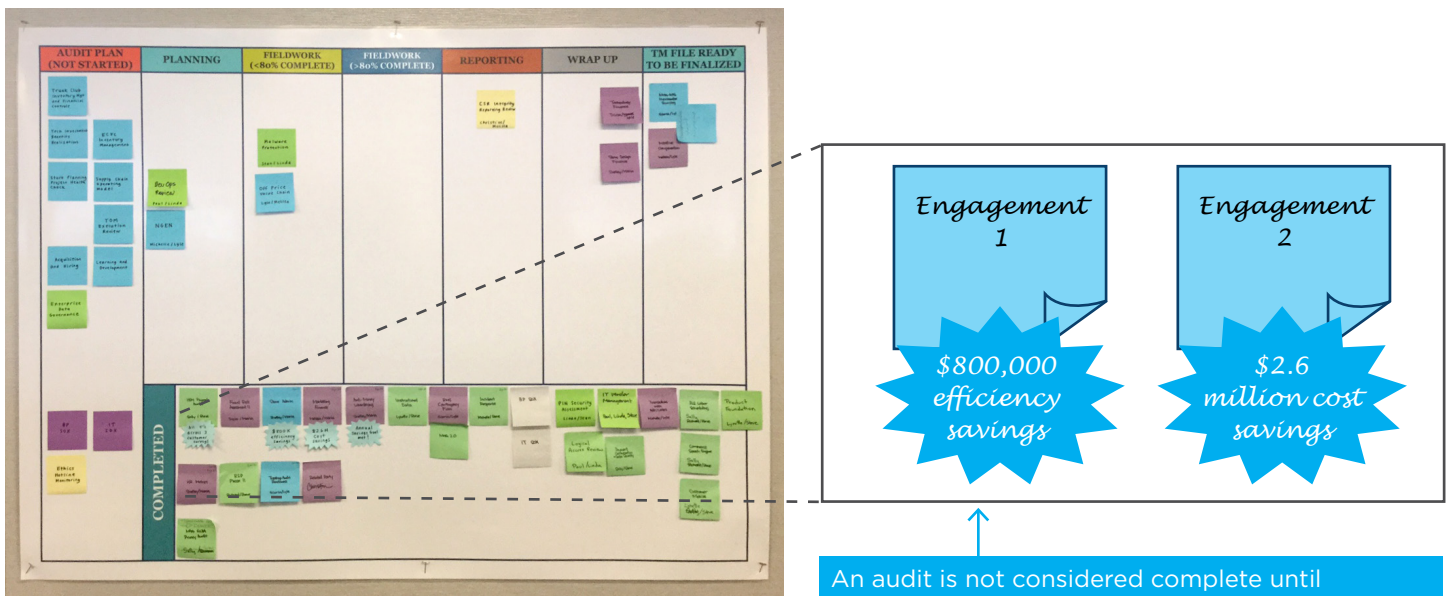
The meeting is short—no more than 30 minutes. All leads, and any others needing to share key information, take the floor.



The Internal Audit mission statement and the scoreboards are placed on the walls of the office to continuously reinforce the message to auditors.

Source: Beta Company;<sup>a</sup> CEB analysis.  
<sup>a</sup> Pseudonym.

Figure 5: Audit Progress Scoreboard



Source: Beta Company;<sup>a</sup> CEB analysis.  
<sup>a</sup> Pseudonym.

# You're Not Too Late: Best of 2017 Events

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Making the Right Digital Investments  
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Navigating the Digital Transformation  
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27 February, Atlanta

**Unless noted, these events are reserved for the head of function and limited to one attendee per organization. Events are offered to members of each respective leadership council.**

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# Talent Principles for a Fast-Changing World

Managers, not HR, hold the keys to building and nurturing great teams. But when they seek talent advice, the sheer volume overwhelms while the platitudes underwhelm. To bring precision and simplicity to bear, we analyzed millions of data points over more than three years, identifying 20 fundamentals for effective team management—even when nothing seems to stay the same for long.

## A Hiring Process for Evolving Needs

1. **When you have an opening, don't reflexively fill that same slot.** Roles are no longer static. Consider: Should I automate some or all of the tasks this person performed? Should I outsource? Should I base the next hire elsewhere? Check with recruiters or HR analytics staff for the latest labor market information; you may need more than one person. For instance, amid tough competition for people with both digital and finance skills, does it make better sense to hire one with a technical background and another with finance experience?
2. **Assess how well candidates fit with the way their potential colleagues operate,** which can improve the quality of hire by 30% (more than twice the impact of a good fit with corporate culture). Work is more interdependent now. Look for competencies that complement—rather than conform to—those of collaborators. And remember, informal peers are even more important than those clearly marked on the org chart.

## Fast Starts for New Arrivals

3. **Your talent acquisitions need an integration plan.** Just 37% of new hires say they understand how they contribute to the organization's long-term objectives. Beyond the basics of their role, they must learn at the outset how their work supports corporate strategy. Expose them to enterprise goals and senior leadership soon after they come aboard.
4. **Begin managing performance right away.** Only 36% of new hires say they start with an accurate picture of what the job will be like. Clarify expectations early, including when and how you will evaluate your new hire's work. A good time for an off-the-record conversation about how he or she is tracking is between the first and third months.

## Performance Management for a Shifting Environment

5. **Informal, ongoing feedback trumps episodic evaluation.** Give assessments about specific actions or pieces of work. Offer this information proactively, not just when employees request it, and don't wait for a formal annual rating. If your company has eliminated scores (a mistake, for most), you must make a special effort on this front. Doing away with numerical ratings will, in theory, free up time for frequent performance talks, but most managers use it for something else; the number of hours spent on informal conversations actually drops from 36 to 24 per year for each direct report.

6. **Start performance reviews by discussing the future.** Talk about how to grow capabilities and how the employee's interests mesh with emerging corporate needs. A future-focused beginning takes the sting out when you cover development areas—your reports see how improvement can take them down the road they hope to travel. This approach doubles the impact of an evaluation that only discusses past performance.
7. **Focus pay conversations on a few high-impact themes.** Employees with negative pay perceptions demonstrate 14% less discretionary effort (costing the average Fortune 500 company \$55 million in annual revenue). Getting your compensation conversations right can increase loyalty to you, as a manager, by 60% and to the company by 45%. Sharing only the most relevant information doubles the impact on employee perceptions of pay. Dispense with lengthy explanations of philosophy or market comparisons. Explain instead: your total pay can grow over time, you can influence your pay through performance, and you can influence collective outcomes that affect your pay.
8. **If your staff isn't performing as you'd like, don't assume it's a skill issue,** especially if the expectation is relatively new. Probe for what might be holding your team back: Have you inadvertently set up conflicting objectives? Have you updated day-to-day work processes to reflect new expectations? How do you celebrate those who are modeling the behaviors you want?

## Coaching with Eyes on the Enterprise

9. **Offer coaching in the context of what your reports are doing now.** Take into account what phase of a project they are working on (e.g., planning, executing, evaluating).
10. **Don't coach "off the shelf."** Resist the temptation—even when you're busy—to default to a standard set of tactics. Target your suggestions to each person's interests in gaining specific skills or particular career trajectories.
11. **Establish a process for team members to coach one another—even when turnover is high or employees hesitate to share their development needs with colleagues.** Try an "each one, teach one" exercise where each report volunteers to share a skill and everyone signs up for instruction in the areas that appeal to them most.
12. **Oversee the state of your reports' relationships across the company and—this part is important—help sustain them.** Don't stop when

you make a connection beyond your report's immediate network. Explain to your staff member what he or she should seek to learn from each contact and how it will help improve their performance. Set a timeline for interactions, and follow up on the employee's application of lessons learned. Remember to help those on your team set up networks outside the company comprising vendors, contacts from trade associations, and former colleagues.

13. **If you manage a leader who is a millennial (one in four in this generation has reached the director level), you may need to shore up an important weak spot.** This generation tends to struggle with transactional competencies that keep the enterprise running smoothly day to day (e.g., adapting to change and coping with pressure, supporting others, planning and getting organized). Try simulations to help them make decisions under stress. Ask them (and their colleagues) how they contribute to others' success. Prod them to set priorities.

## A Workforce That's Ready for Change

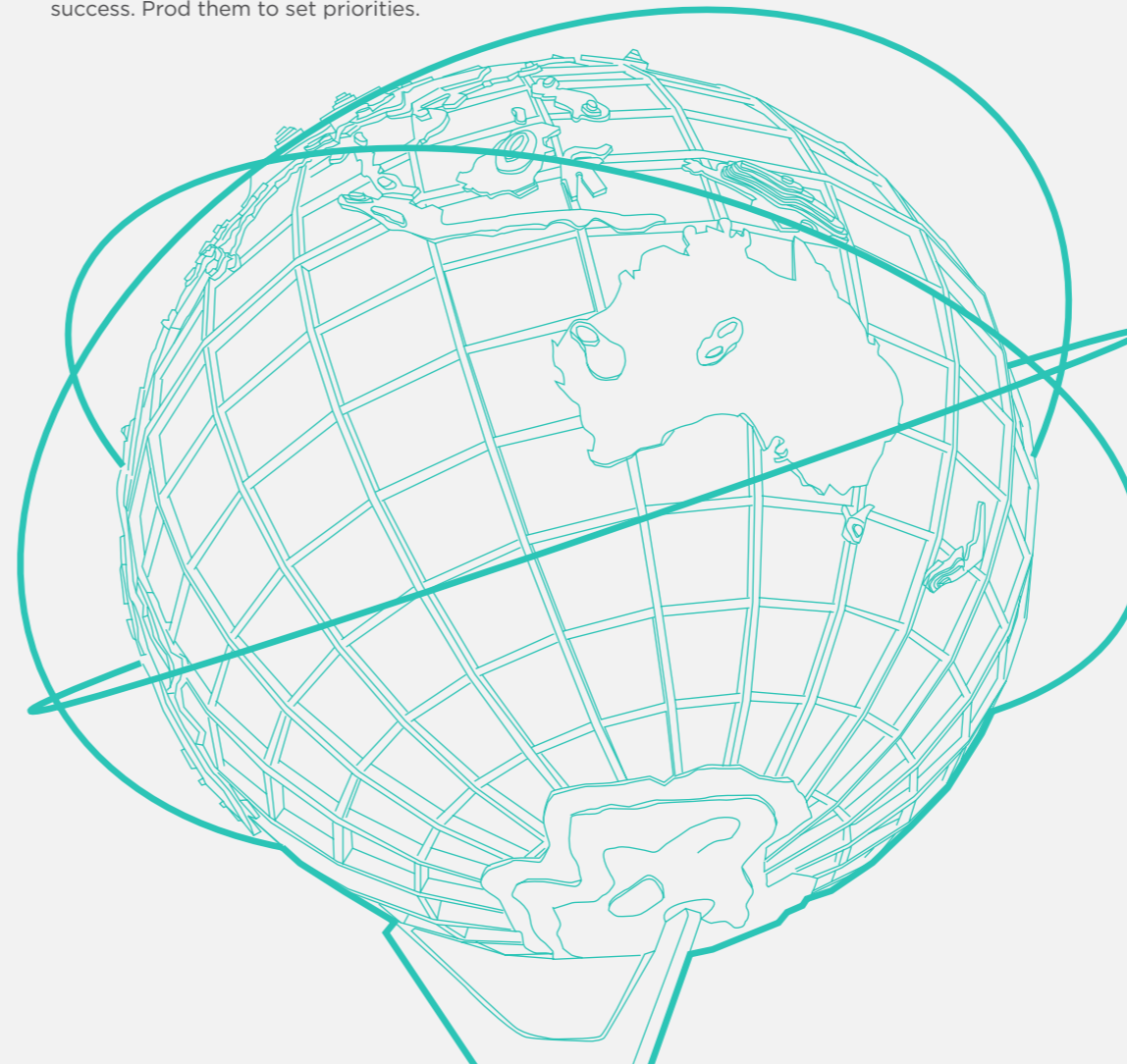
14. **Treat employees as copilots during change initiatives.** Give broad guidance on milestones to achieve, and let staff and their managers chart their own course. Employee involvement can increase engagement by 23%. Urge employees to challenge the people around them (even you) to think and work differently to support change or objectives.
15. **Give your team the information necessary to execute change.** Capability to change has about three times more impact on performance than employee commitment to the change. Explaining the rationale behind a change is important, but you must also ensure your reports know how to make correct decisions, what exactly is expected, and whom to ask for help.

## A Better Program for HIPOs

16. **Seeking out adaptable high-potential employees (HIPOs) may seem like the best hedge for uncertain leadership needs—but it's not.** It's true that a crisis is looming: more than two-thirds of companies expect over 40% of senior leadership roles to be significantly different within five years. In response, most businesses include agility as a criterion for HIPO selection. Yet those that focus on this trait are 17% less likely to have a strong leadership bench. There simply aren't enough highly agile people, and most of them aren't very good collaborators. Instead, expect that your HIPO pool will fluctuate: roles a HIPO may want can disappear, sapping interest in advancement, and new ones will emerge that bring out leadership ambitions in a different set of people.
17. **Offer progress, even when you can't offer a promotion.** To reduce frustration (and increase retention), try giving a HIPO more responsibility (while shifting some of his or her work to others on the team)—and consider a compensation bump that's still within the pay band. Rethink location requirements to give a HIPO international management experience (this works best if a multi-country perspective is helpful for success, if the HIPO can judge when travel for face-to-face presence is necessary, and if the team is efficient and able to manage ambiguity).

## Management for Inclusion

18. **Help ease the return to work after parental leave.** Millennials care about maternity and paternity leave 35% more than others. While you can't draft your own policy, you can consider part-time schedules, or a six-month rotation in a role with limited travel, for new parents coming back on the job.
19. **Set up check-ins with team members from different backgrounds.** Ask, "What is it like to be you working here, and what can we do better?"
20. **Encourage growth through differences rather than through groupthink.** For instance, connect mentors with mentees of different genders, ethnic groups, generations, or nationalities. Consider inviting junior employees to meetings they might not otherwise attend.



# 6 Truths About Culture

By Aaron Pinnick

A culture of integrity is a boon to the business and must be carefully tended. Over the past decade, we've studied corporate culture extensively, surveying over two million employees. As high-profile cultural failures continue to make headlines, these findings can also help you nurture cultures of quality, safety, and innovation.



## 3 Advantages of a Robust Culture of Integrity

### Truth 1

#### A Culture of Integrity Drives Business Performance

Companies with strong cultures of integrity have total shareholder returns that are seven percentage points higher than companies with weaker cultures of integrity.

#### Implication

**Make the Business Case for Ethics:** Given the potential impact on long-term performance, Legal and Compliance executives should ask internal stakeholders to allow the function to assess and improve the company's culture. This gives the department an opportunity to expand its influence in the company and better demonstrate value to business partners.

#### Shareholder Return for Higher- and Lower-Integrity Companies

Average 10-Year Total Shareholder Return



*n* = 75 companies.  
Source: CEB 2009–2016 RiskClarity: A Corporate Integrity Service™ Benchmark.  
Note: Results of Pearson Correlation:  $r = 0.25$ ;  $p < 0.05$ .

### Truth 2

#### Strong Culture Improves Employee Effort

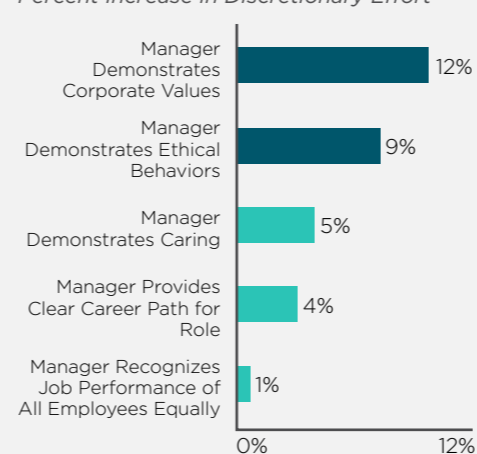
Employees with managers who demonstrate corporate values and ethical behavior perform up to 12 percentage points better and are 39% less likely than other employees to leave their organizations.

#### Implications

- **Reinforce the Importance of Modeling Ethical Behavior:** Legal and Compliance executives should provide managers with guidance on the importance of demonstrating ethical behavior and a commitment to corporate values to their teams.
- **Make Demonstrating Ethical Behavior Easier:** While most managers are likely ethical leaders, they may not prioritize sharing positive ethical behavior or cultural values with their team.

#### Impact of Manager Behaviors on Employee Discretionary Effort

Percent Increase in Discretionary Effort



*n* = 11,761 employees.  
Source: CEB analysis.

### Truth 3

#### Strong Culture Reduces Risk

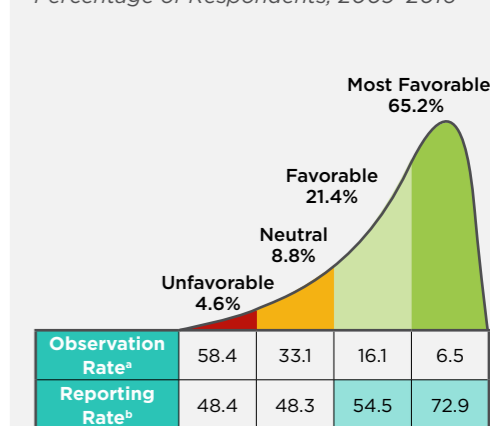
Employees with "unfavorable" perceptions of company culture observe nearly nine times more misconduct and report 36% less misconduct than employees with the "most favorable" perceptions of culture. Risky behavior occurs less frequently in strong cultures, and when it does executives hear about it more quickly.

#### Implications

- **Assess Cultural Risk:** Legal and Compliance executives should assess the organization's level of cultural risk to better understand its broader compliance risk exposure.
- **Ensure Comfort Speaking Up:** A fear of retaliation can negatively affect an employee's perceptions of culture and decrease the likelihood they will report observed misconduct. Legal and Compliance executives should explain the protections employees have from retaliation and work to dispel any myths about retaliation that may exist.

#### Impact of Culture Perception on Observed and Reported Misconduct

Percentage of Respondents, 2009–2016



*n* = 1,821,514 employees; 233 companies.  
Source: CEB 2009–2016 RiskClarity: A Corporate Integrity Service Benchmark.  
<sup>a</sup> Percentage of employees within category who observed misconduct in the past year.  
<sup>b</sup> Percentage of employees within category who reported the misconduct they observed.

## 3 Factors That Can Damage a Culture of Integrity

### Truth 4

#### Perceptions of Culture Erode Over Time

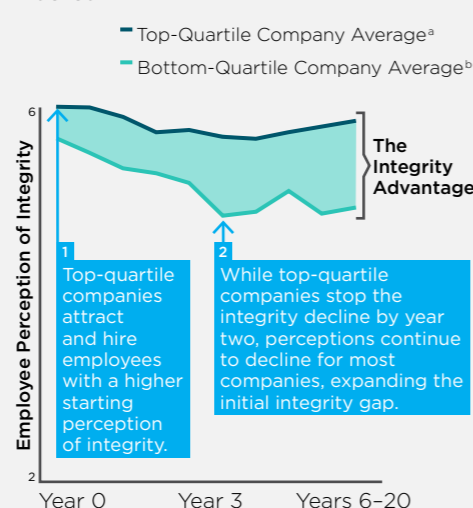
Employee perceptions of the company's ethical culture are never higher than when they first join an organization. Over time, their perceptions tend to decline, reaching their lowest point after employees have been with the company for about five years. However, companies with stronger perceptions of culture see a much smaller decline over time.

#### Implications

- **Establish Tone at the Start:** Legal and Compliance executives should work to maintain the strong cultural perceptions employee tend to have when they begin their career by ensuring the company's culture and values, such as ethics and integrity, are included in the onboarding process.
- **Intervene at Cultural Inflection Points:** Understanding that cultural perceptions tend to weaken over time, Legal and Compliance executives should consider targeting cultural messages, training, and resources to employees in years two through five of their careers.

#### Employee Perceptions of Integrity by Tenure, 2011

Indexed



*n* = 41 companies; 154,772 employees.  
Source: CEB analysis.  
<sup>a</sup> Companies with an average score on employee perceptions of integrity above 75% of participating CEB RiskClarity companies.  
<sup>b</sup> Companies with an average score on employee perceptions of integrity below 75% of participating CEB RiskClarity companies.

### Truth 5

#### Organizational Change Impacts Culture

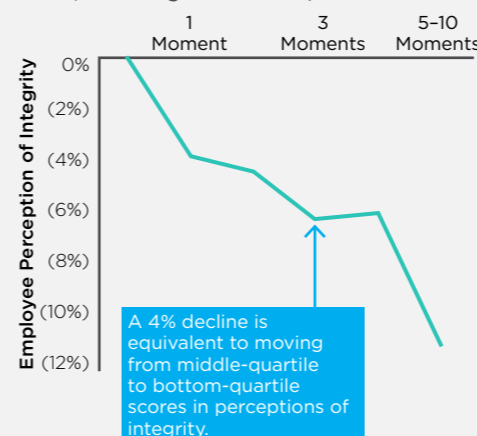
Corporate changes (e.g., restructuring, mergers, team changes) significantly impact employee perceptions of integrity, affecting everything from misconduct rates to retention to productivity. Employees experiencing just two career moments in a given year observe twice as much misconduct as other employees. As the frequency and pace of corporate change continues to increase, companies must do more to maintain culture, or they risk significant cultural decline.

#### Implications

- **Communicate the Importance of Integrity Through Change:** During times of instability, Legal and Compliance executives must communicate the importance of the company's culture and the importance of operating with integrity.
- **Monitor Culture Through Change:** While many Legal and Compliance executives may hesitate to measure culture during times of change, this is precisely when the culture may be the most unstable and therefore deserves the closest monitoring.

#### Impact of Career Moments<sup>a</sup> on Employee Perceptions of Integrity

By Number of Career Moments in the Past Year (Excluding Promotions)



*n* = 3,311 employees.  
Source: CEB analysis.  
<sup>a</sup> Career moments are defined as any significant professional change to an individual's career or work. Examples of career moments include layoffs of team members, organizational restructuring, reductions in benefits, M&A, and changes in senior leadership.

### Truth 6

#### Culture Breaks Down Among Teams

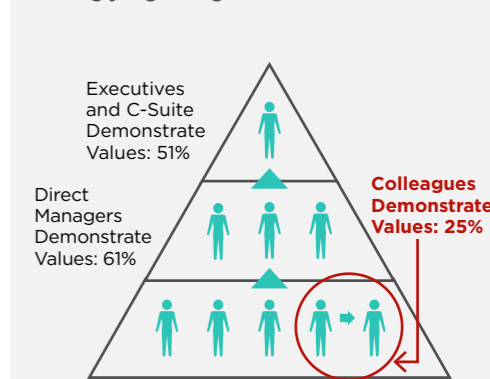
While employees tend to have favorable views of their senior leaders and direct managers, their perceptions of culture tend to break down among teams. Employees often view their teammates as likely to act unethically in order to advance in the company. This means that while managers and senior leaders may be saying and doing the right things when it comes to culture, those messages are undermined by the behavior people see around them every day.

#### Implication

**Create Opportunities for Employees to Share Positive Behaviors:** While most employees are likely to behave ethically, they are unlikely to have the opportunity to share their positive behaviors with teammates. Legal and Compliance executives should find opportunities to foster team discussions about culture and ethics.

#### Perceptions of Cultural Leadership and Role Modeling

Percentage of Employees Agreeing or Strongly Agreeing



*n* = 5,025 employees.  
Source: CEB 2017 Compliance and Ethics Global Culture Assessment.

# The Board Is Focusing on Culture: How You Can Help

By Dan McCarthy and Abbott Martin

After a wave of corporate scandals rooted in culture, boards are taking a strong interest in their organizations' collective beliefs and behaviors. For instance, Citigroup and CACI International formed board-level culture committees.<sup>1</sup>

One blue-ribbon commission organized by the National Association of Corporate Directors (NACD) also urges boards to oversee corporate culture as systematically as any other major organizational risk but calls for a different approach. It reports that culture should be a “full board” responsibility, embedded in all of the board's oversight and requiring clear accountability that is delineated across policy documents and charters. Culture is a corporate asset “similar to an organization's human, physical, intellectual, technological...assets,” the directors' group said.<sup>2</sup>

And we agree. Your company (and the board that governs it) must think about culture from more than a risk-based, compliance perspective. Take steps to view culture through a strategic lens—as something that can make or break large projects, contribute to talent acquisition and retention, or determine the success of an M&A deal.

You've heard it here for years: culture has the power to sway your entire enterprise for better or worse. As decisions happen faster and corporate functions cede control of processes to the business, getting individual employees to make the right ethical choices is more important than ever. A strong culture is the best way to make that happen.

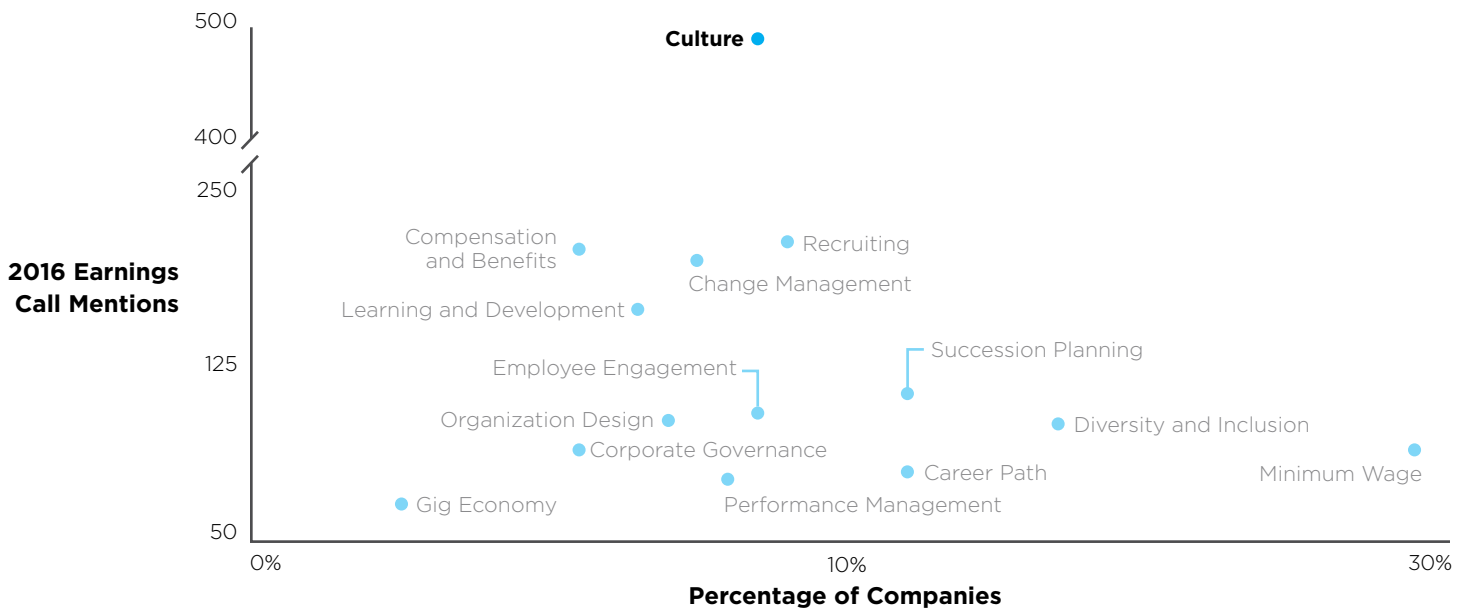
In fact, organizations with a strong culture of integrity<sup>3</sup> report 10-year total shareholder returns that are an average of seven percentage points higher than those of companies with a weak culture of integrity. What's more, employees at companies with a strong culture of integrity are 90% less likely to observe misconduct, 1.5 times more likely to report observed misconduct, and over two times more likely to be engaged and show high levels of discretionary effort.

## Rising Interest in Culture Has Reached a Crescendo

Regulators were the first outsiders to start scrutinizing corporate culture, particularly in the financial services industry, as tales of risky behavior spread in the wake of the global economic downturn. Investors followed suit, seizing on culture as one of the few remaining sources of competitive advantage. Indeed, culture was the most commonly discussed talent-related topic in 2016 earnings calls (figure 1). It's no wonder; companies as disparate as Fox News and Wells Fargo hit the headlines that year for negative cultural behaviors.

<sup>3</sup> Based on our index, which comprises seven factors including “tone at the top” and “comfort speaking up.”

Figure 1. Topics Mentioned During Earnings Calls



n = 1,600 earnings calls.

Source: CEB analysis; AlphaSense (accessed January 2017), <https://research.alpha-sense.com>.

Note: Searches were limited to the use of the terms in a talent management context and included synonyms and synonymous phrases of the terms. Search parameters were limited to earnings calls released from 1 January 2010 through 31 December 2016 from publicly listed companies in the S&P Global 1200 and S&P MidCap 400 indices as of 31 December 2016.

Then came 2017 and the exit of senior executives from Uber, the Weinstein Company, NPR, NBC, Amazon, and so on. By year-end, new allegations about an atmosphere of bullying or harassment seemed to surface every day. Many accusers told of enablers within the organization.

Corporate directors have taken note. They see the connections among culture, reputational damage, and business results. They also recognize that they need an early warning system that can help them avert a public disgrace. As one NACD commissioner said, “Employees’ behaviors and choices today can take months or even years to show up in results, so it’s important to have those ‘how’ discussions on a regular basis, including—and especially—when performance is good.”<sup>4</sup>

Functional heads now face a pressing need to collaborate in order to understand and establish their roles

in nurturing a healthy culture and to support the board’s cultural oversight. Assurance functions in particular—but also HR and Finance—have responsibilities in both areas.

### Creating an Effective System for Cultural Oversight

To establish effective oversight, assurance heads must treat culture as they do other components of risk. That means coordination—common definitions, shared information and work product, strong information flows, and a clear sense of individual responsibilities. A piecemeal approach breeds redundancies and, even worse, often results in coverage gaps.

Start with collaboration between the relevant functions. AT&T, for instance, formed an integrated governance committee, led by Compliance, to oversee culture (although Enterprise

Risk Management could take charge of this as well). “We wanted to pull together all existing knowledge across all the investigatory groups,” explained Susan Bounds, director of corporate compliance.<sup>5</sup>

Once a channel for coordination is set up, management should monitor the following and communicate red flags to directors:<sup>6</sup>

- The level of communication about the organization’s mission and values
- Employee engagement scores
- Existing diversity and inclusion practices in employee recruitment and engagement programs
- Existing cultural assessments during M&A due diligence
- The existence of a clearly articulated cultural integration strategy for merged or acquired organizations
- The level of noncompliance at target organizations

<sup>5</sup> Learn more in our CEB Risk Management Leadership Council blog post, “People Risk: A Cross-Functional Early Warning System.”

<sup>6</sup> Learn more in our 2018 Audit Plan Hot Spots report.

## Integrate Cultural Considerations into Recurring Processes

Boards will want to know whether processes support a culture that boosts future business performance. Most companies fall short in this area despite spending over \$2,200 per employee per year on culture management strategy.<sup>7</sup> Beyond tools and accountability, organizations must provide leaders with sufficient resources to address systemic barriers to reaching their desired cultural norms.

RTI, for example, gives culture a budget code—literally. The vice president of FP&A and the senior vice president of HR chair a “maximizing impact” culture team, bringing their influence, along with dedicated time and money, to bear as they pursue resourcing and policy changes.

Ideally, assurance heads should integrate cultural considerations into processes rather than tacking them on the end. It’s most important to integrate culture into processes that comprehensively assess enterprise-level risks (e.g., audit plans, M&A due diligence, formulation or evaluation of company risk appetite). For instance, heads of Audit should build cultural assessments into audit fieldwork to ensure the organization’s incentive systems align with its mission and strategy.<sup>8</sup>

In fact, the recent update to the COSO integrated framework<sup>9</sup> (an important standard for Enterprise Risk Management) calls for the consideration of how company strategic plans relate to company culture, mission, and values.<sup>10</sup> All assurance heads should heed this advice—and take it further, assessing risk appetite in light of company culture.

Assurance functions should also involve the board in setting limits on the amount of risk the organization is willing to take and rooting out any inconsistencies between the risk appetite statement and company

culture. Together, they should ensure the strategic plan, risk appetite, and culture allow for no mixed messages.

The work doesn’t end with setting up this system of collaboration and embedding it into processes. You must do those things to support the board, but if you don’t maintain and regularly update your framework, red flags, and risk appetite, you will not keep up with board demands going forward.

### Next Steps

Members of Gartner for Legal & Compliance Leaders and CEB Compliance & Ethics Leadership Council can access our Board Reporting Tool: Cultural Reporting Dashboard; our white paper, “Key Compliance and Ethics Risks Cultural Failures;” and many other tools and reports on a culture of integrity’s components and how to measure culture.

Members of CEB Audit Leadership Council can access the Auditing Culture content hub on the program website.

Contact your client partner to learn how to participate in RiskClarity: A Corporate Integrity Service™, which is a premium offering that assesses observed misconduct and reporting levels.

*Steve Shapiro and Peter Young contributed to this article.*

### Endnotes

<sup>1</sup> Joan S. Lublin, “After Uber and Wells Fargo, Boards Wake Up to Company Culture,” *The Wall Street Journal*, 5 October 2017, <https://www.wsj.com/articles/after-uber-boards-wake-up-to-company-culture-1507046401?mg=prod/accounts-wsj>.

<sup>2</sup> The National Association of Corporate Directors, *Culture as a Corporate Asset*, 2017, <https://www.nacdonline.org/files/NACD%20BRC%20Culture%20as%20Corporate%20Asset.pdf>.

<sup>4</sup> Ibid.

<sup>7</sup> Learn more in our report, “Creating a Culture That Performs.”

<sup>8</sup> Learn more in our CEB Audit Leadership Council blog post, “The Board Wants to Know About Company Culture, and Audit Can Help.”

<sup>9</sup> The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is an initiative of five private groups developing guidance about risk, control, and governance.

<sup>10</sup> Committee of Sponsoring Organizations of the Treadway Commission, *Enterprise Risk Management: Integrating with Strategy and Performance*, June 2007, <https://www.coso.org/Documents/2017-COSO-ERM-Integrating-with-Strategy-and-Performance-Executive-Summary.pdf>.

# Finance Must Get Comfortable with Lateral Job Moves

By Susheel Nalla and Paul Dennis

Finance has a future leader problem. In a survey of over 100 CFOs, 76% reported that identifying future Finance leaders (vice presidents and above) is a top priority, and 35% said they need to address this issue in the next 6 to 12 months.<sup>1</sup>

Discovering Finance staff who will succeed as leaders—never an easy task—has gotten harder. As recently as three or four years ago, CFOs appointing a new leader only had to assess whether the candidate:

- Was ready to take on more complex and higher-risk work,
- Could work directly with more demanding senior stakeholders, and
- Would make a good people manager.

These requirements still apply. But the new generation of Finance leaders must also excel in such areas as:

- Managing a global team in a more complex organization that often requires working with multiple stakeholders to get things done,
- Leading change initiatives within and outside the function, and
- Innovating with new technology to make the most of new capabilities such as robotic process automation and digitalization.

For example, the head of Financial Reporting at a US-based enterprise still needs to be an expert on SEC filing rules, but now he or she will also need to scope and deliver cross-functional projects that speed up the close or improve company-wide governance over new financial reporting standards. The head of FP&A is still expected to run the budget and deliver an accurate forecast but may need to simultaneously set up a center of excellence for business analytics in another part of the world.

## The Importance of Lateral Moves

The capabilities required to run large-scale, cross-functional projects alongside the day-to-day aspects of a functional leadership role can't be developed in a traditional Finance career path, where employees specialize in one area over many years. As a result, CFOs are telling us the people best placed to advance to these positions have one attribute in common: a greater diversity of experience built up through lateral moves earlier in their careers.

Horizontal role shifts will expose potential leaders to a wider range of business challenges and help them build broader internal networks. They'll operate outside their comfort zones early in their careers, when they have time to learn from mistakes and regain their footing.

## Overcoming Obstacles to Lateral Moves

Despite recognizing this advantage, few CFOs tell us they feel good about the level of mobility in their broader Finance team, and fewer still believe they are addressing the problem sufficiently. The underlying reason for this lack of traction is no secret: three fundamental obstacles prevent CFOs from reaping the longer-term benefits of internal mobility. Each, however, can be overcome.

### 1. Employees are skeptical about the short-term benefits of lateral moves.

The first obstacle is the easiest to fix. Finance must create a culture where mobility early in one's career is seen as a badge of honor and not a barrier to promotion. One of the biggest factors staff cite for "staying put" when they should be looking for a lateral move is the investment they've already made in their current role; they worry that moving into a new role will set back their next promotion.

This issue came up frequently when we gathered 50 Finance and HR executives in Chicago last September to discuss Finance talent. Staff can be skeptical about the motivation when a manager asks them to move laterally: is it really about helping the employee develop a new skill set, or is it more

about solving an urgent resourcing problem?

To change the image of the lateral move, CFOs should reward and recognize staff who take on a transfer, celebrate successes, and ensure these employees don't fall behind on the compensation scale.

Some Finance teams, including Ford Motor Company, also use "future résumés" in manager-employee development conversations. In this simple practice, employees document what they want their résumé to look like in three to four years, including new skills, experiences, and qualifications (figure 1). Managers then help employees realize these objectives through training, coaching, and often rotations or lateral moves. Positioning the lateral move as part of a map to

Figure 1: Ford's Future Résumé Conversation Guide

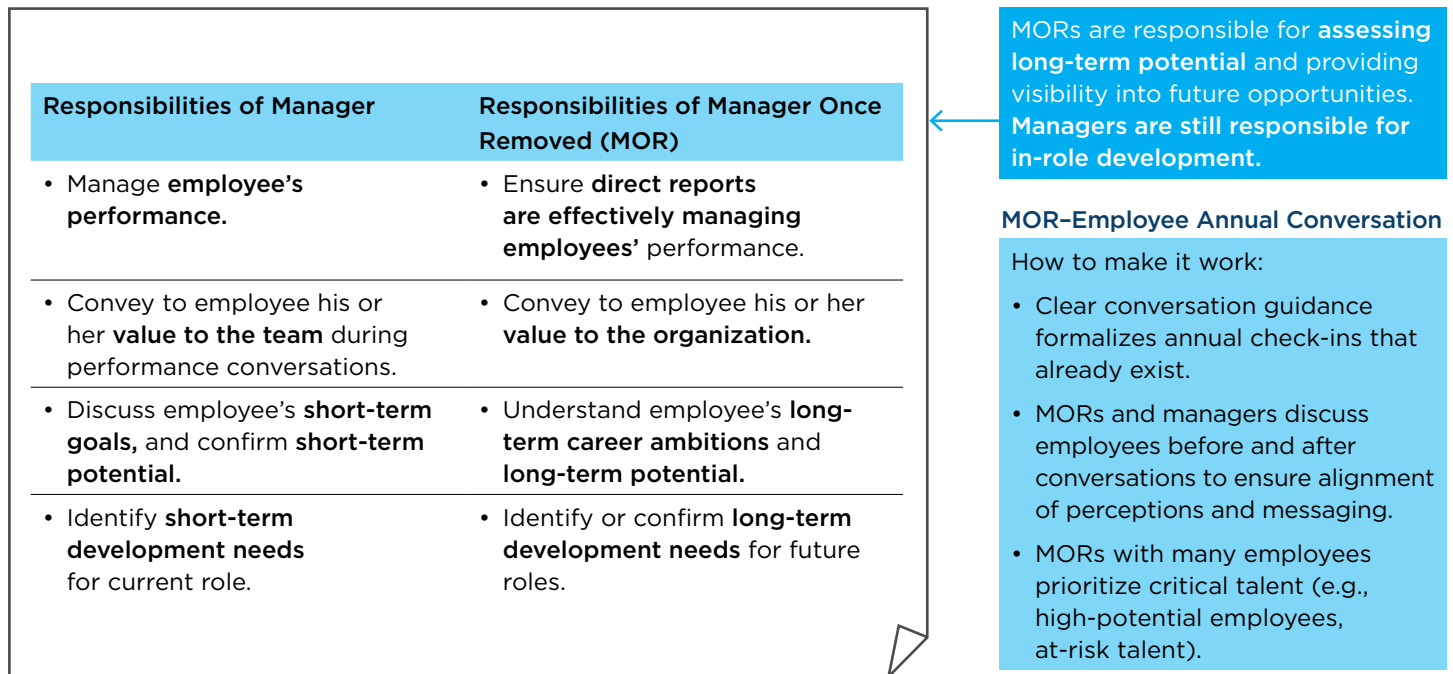
Employee Future Profile					
<i>For Internal Use Only</i>					
Name:		Current Position:			
Key Accomplishments					
Accomplishments	Position		Status Completed/In Progress/Pending		
Preferred Assignments/Experiences					
Organization/Function	Position		Assignments		
Willingness to Relocate Within 12 Months					
Yes/No	Domestic/International		Remarks		
Education			Year		
Degree	Major	School/College/University	Location	Received	Completed
Language Proficiency					
Language	Speak	Read	Write	Remarks	

### Key Discussion Points to Create a Future Career Plan

- Where do I see myself five years from now? What did I do to get to this position?
- What support did I receive from my manager, team, and senior leaders to reach this position?
- What is the possibility of success or failure several years into this job role?
- What should I start doing, stop doing, and keep doing to achieve this future state?

Source: Ford Motor Company; CEB analysis.

Figure 2: Guidelines for the Manager Once Removed as Career Coach



Source: Alpha Company;<sup>a</sup> CEB analysis.  
<sup>a</sup> Pseudonym.

the employee's career objectives will encourage employees to embrace mobility.

## 2. Managers are reluctant to share their best talent.

Getting managers to stop hoarding talent is a tougher challenge. Successful CFOs set clear objectives for managers to share talent and create an environment where staff feel empowered to move around without recrimination for appearing disloyal to their teams. Tying the outcomes to performance objectives and bonus eligibility is a good way to get managers' attention.

Some teams have gone further, making the "manager once removed" (generally the manager's manager) responsible for assessing long-term potential and providing insight on future opportunities. The line manager then focuses only on in-role development (figure 2).

## 3. Job mobility can damage functional productivity and efficiency in the near future.

The third hurdle is the most sensitive and thus the hardest to conquer. Most Finance departments are under great pressure to improve productivity, and many measure their efficiency by function cost as a percentage of revenue. Moving staff around to help their professional development can be disruptive to the business and, if done frequently, push that percentage up.

CFOs understand that mobility is important, but it must also be cost-efficient. To minimize disturbances, some CFOs have designed rotations where employees move around during quieter business times and come back to their primary role for peak demand periods.

Developing future Finance leaders should not come at the expense of operational excellence and supporting decision makers. On the other hand, these objectives should not be a reason

to fail at developing Finance leaders the company will need very soon—that would be an even greater disservice to the business in the long run.

## Next Steps

Members of CEB Finance Leadership Council and Gartner for Finance Leaders can access our full report, "Finance 2020: Stimulating Job Mobility in Finance," on our program websites.

## Endnote

<sup>1</sup> CEB 2017 Finance Agenda Poll.

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# How to Keep a Successful Leader from Derailing

By Justin Raines

Companies are struggling with what researchers call “the elephant in the boardroom”—a pervasive phenomenon of bad leadership, failure, and derailment. In fact, according to one estimate, more leaders fail than succeed.<sup>1</sup>

Surprisingly, more than 50 years of research have not diminished the challenge.<sup>2</sup> The findings from analyses of leadership failures are too quickly forgotten, and the successes are too readily celebrated.<sup>3</sup>

So we assembled a large and comprehensive dataset to identify the root causes of a particularly concerning phenomenon: leader derailment. Derailment occurs when a leader, once successful and “on track,” experiences failure that is unexpected, involuntary, and unintentional.

Although this definition seems straightforward, organizations generally need help identifying derailment in their own leadership population. The most severe cases result in terminal derailment—a leader’s exit from the enterprise—which is a good starting point from which to learn more.

Between 2014 and 2016, our Leadership Validation Study collected information about nearly 9,000 leaders from 85 different organizations. The leaders, their managers, and their teams reported on a leader’s background, traits, behaviors, priorities, performance, engagement, and context.

In 2017, we conducted a follow-up study, which includes over 1,000 leaders across nine of the original organizations,

to gain a better understanding of leader derailment and illuminate the complexity that exists between a leader and his or her environment.

## Tracking Derailment

Using HR data on each leader’s career status one to three years after our original study, we identified terminal derailment using the following criteria:

1. The leader had departed from the organization.
2. The departure was for negative reasons (i.e., the leader was terminated for underperformance or other unknown reasons).
3. The leader previously met or exceeded performance standards or was identified as having high potential.

We found that 20% of the leaders had left their organizations since the original study. Of those, 13% had been terminated and just over 2% were previously successful and therefore classified as derailed leaders. Terminal derailment may be rare, but each case represents extensive costs to the organization in the form of decreased productivity, replacement costs, and disrupted team functioning. Furthermore, terminal derailment was found at all organizational levels, from lower-level managers to executives.

## Predicting Derailment

In addition to using HR data to capture when a leader has already derailed, organizations can use a leader’s manager to assess his or her “derailment risk” and predict which leaders are likely to fall from their expected trajectory.

We found a strong relationship between actual derailment and managers’ assessment of leaders’ derailment risk from one to three years earlier. Of the small group of leaders rated by their managers as very likely to derail, over one-quarter eventually did derail; of the leaders rated as very unlikely to derail, less than 1% eventually derailed (figures 1 and 2).

## Preventing Derailment

Once a leader's derailment risk has been assessed, organizations can explore ways to mitigate the risk and prevent derailment from occurring. They should focus on both the characteristics of the leader (e.g., work priorities, traits) and aspects of his or her environment that increase derailment risk. The factors that lead to derailment often involve the fit between a leader's traits and the conditions in which he or she performs.

A leader's context is the most influential derailment driver, resulting in as much as a 10% difference in derailment risk. Specifically, leaders are at the highest risk of derailment when facing:

- Unprofitable business units,
- Products and services that require new markets,
- Frequent leadership change, and
- The responsibility of identifying new business opportunities.

In other words, circumstances change, and the leader can't cope.

## Take Action

Acknowledging the context is the most important step an organization can take in minimizing the risk of derailment; it is the basis of all other actions. When you realize a leader is

in a high-risk context, step in before derailment occurs:

- **Move the leader when you can**—In some situations, organizations have the flexibility to move the leader to another role and bring in someone better suited for the context. This is likely the most effective way to manage the risk.
- **Invest in leader development**—Many times, organizations can't replace leaders, or they decide it is important that leaders learn how to perform in the challenging context. Investing in their development is therefore a valuable approach for some previously successful leaders.
- **Select the right priorities**—The tasks that leaders rate as important to success on the job can increase derailment risk by up to 6%. Selecting the right priorities is particularly important for new-to-role leaders, who experience the highest rates of derailment. Avoid overemphasizing leaders' individual objectives, and encourage leaders to consider ways to use their team. Focus on tasks that include communicating goals, reducing barriers, and monitoring the progress of others.<sup>4</sup>
- **Consider personal traits**—Leaders' traits (e.g., outgoing and eccentric, self-confident and boastful, suspicious and mistrustful) have a

smaller impact on derailment than context and priorities, increasing derailment risk by only about 4%. However, critical interactions exist between traits and context. Certain leader traits may be associated with increased derailment risk in some contexts but lower derailment risk in another context.

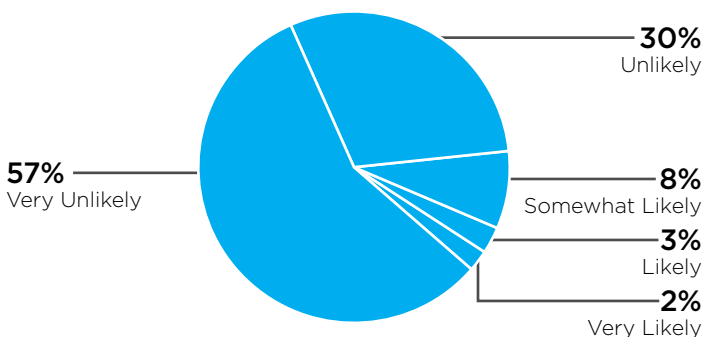
To avoid leader derailment, consider the challenges associated with each role, and focus on selecting the right leaders for the right roles. Monitor a leader's fit over time, and use it to inform career decisions, as context changes could cause the leader to unexpectedly struggle and derail. Frequent interaction between a leader and his or her manager can help a derailment candidate select the right priorities and receive the appropriate resources and development opportunities to manage this risk.

### Endnotes

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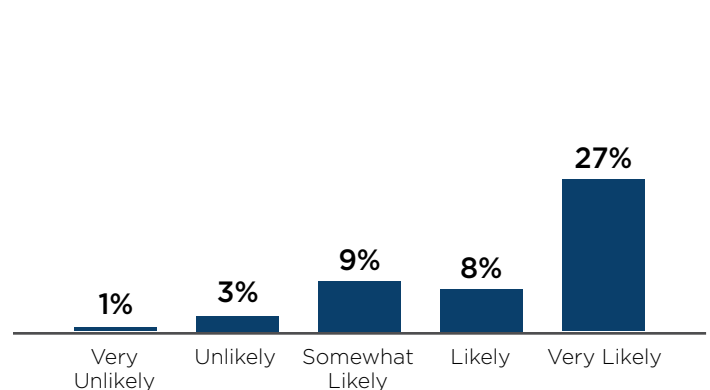
**Figure 1: Manager-Rated Derailment Risk**

Percentage of Leaders Identified in Each Risk Category



n = 1,146 leaders.  
Source: CEB analysis.

**Figure 2: Actual Derailment by Manager-Rated Derailment Risk**



n = 1,146 leaders.  
Source: CEB analysis.

# How Much Do You Know About Your Contingent Workforce?

By Oana Lupu and Matthew Braswell

At one US energy company, contractors wear green badges while IDs for permanent employees are a different color. When senior executives noticed they were seeing a lot more green on site, the visual cue prompted some reflection. It wasn't long, the head of its Enterprise Risk Management function told us, before top leaders started to inquire:

- What's the optimal mix of contingent workers and full-time employees?
- To what extent was the shift toward contingent workers deliberate?
- Is an overreliance on contractors associated with increased enterprise risk?

As organizations in many industries and geographies increasingly turn to contingent labor to get work done, questions like these are becoming more pressing. To maximize the benefits while mitigating the risks, senior leaders should understand how their company uses contingent workers and determine whether they need a broader strategy.

## Contingent Work Arrangements Are Increasing

In the United States, the percentage of the workforce engaged in alternative work arrangements rose from 10% in 2005 to 16% in 2015.<sup>1</sup> Strikingly, this increase accounts for

virtually all the net job growth following the Great Recession.<sup>2</sup> In addition, alternative work arrangements in 2015 spanned more occupations and industries than a decade earlier and were more likely to be associated with higher-wage work.<sup>3</sup>

This pattern is not confined to the United States. Fourteen percent of the working-age population of the EU-15 countries are self-employed or temporary workers.<sup>4</sup>

Some say we're approaching the end of the full-time employee,<sup>5</sup> but that's likely an exaggeration. Nicole Smith, chief economist at the Georgetown University Center on Education and the Workforce, told us that although "this trend has been amplifying for the past 20 or 30 years," she believes "there are some circumstances where the cost of contingent work exceeds the benefit of having it."

For instance, one giant retailer didn't want to invest in training temporary workers on new technologies only to lose them after a few weeks or months, so during the 2016 and 2017 holiday seasons, it decided to offer full-time and part-time employees additional hours instead.<sup>6</sup>

## What Is the Contingent Workforce?

We define contingent workers as those who are paid by task, assignment, or number of hours worked and don't expect the relationship with their clients to continue after a specific assignment is over.

Our definition includes independent contractors, freelancers, temporary workers, and professional services providers retained for a project, a period of time, or under a statement of work.

Our definition does not include part-time employees or employees of vendors and sub-contractors.

Nevertheless, this trend hasn't peaked. Contingent work arrangements help organizations bridge the technical skills gap caused by digitalization. They also let companies bring in the right talent at the right time, quickly adjust workforce size, and reduce labor costs by up to 30% by eliminating benefits and other employer contributions.<sup>7</sup>

In fact, Accenture projects that by 2026, at least one of the Global 2000 companies will have no full-time employees outside the C-suite.<sup>8</sup>

### Limited Visibility

Organizations typically let managers decide which type of talent to use, following either some (but not much) guidance from central functions like Procurement or broad organizational policies.<sup>9</sup> "It's not often there's this general philosophy toward contingent or full-time permanent work [at the organizational level]," Georgetown University Management Professor Brooks Holtom told us. "It's more of an accumulation of idiosyncratic factors." For example, managers may choose to hire contingent workers to fill in after an unexpected departure, to bypass lengthy hiring processes, or to work around budgetary constraints that limit head count.

This fragmentation makes it difficult to assess the full magnitude of the risks, much less develop plans to mitigate them. "If you have 10 departments, and they are all doing separate things with contingent workers, it could add up cumulatively to represent a material risk," Holtom said. "The organization needs to have a...pulse on this."

The lack of visibility also limits companies' ability to make the most of the contingent workers they hire.

### A Wasted Opportunity

Contingent workers are more motivated than you might think—65% are willing to put in extra effort when needed, according to nearly 300 contractors who participated in our 2017 Global Labor Market Survey. Yet they don't feel set up for success:

- Only 21% told us that onboarding helped them perform their jobs better.
- Only 7% report that their manager makes sure they have the right skills and knowledge before they need it.
- Only 8% say their manager helps them apply new skills or knowledge.

They tell us they feel sidelined, unable to contribute:

- 13% believe that, at their company, the norm is to share what you know with others.
- 14% believe good ideas are adopted regardless of who suggests them.
- 12% say their manager encourages them to help others across organizational boundaries.
- 12% say their manager helps them learn by connecting them with colleagues from different parts of the organization.

Companies can't afford to think of contingent workers as "gap fillers" or a cost to manage. As University of South Carolina Business Professor Robert Ployhart told us, if organizations "are really going to use contingent work to differentiate themselves and implement strategy," then the way this type of labor "is used within the company ought to be given the same level of focus as [the use of] full-time employees."

After all, like any third party, contingent workers expose companies to significant operational, information security, legal, and reputational risks. For example:

- In the United States, the National Security Agency dealt with many instances of contractors mishandling or leaking classified data, including the infamous Edward Snowden incident.<sup>10</sup>
- Microsoft and Amazon have faced allegations that they misclassified employees as temporary.<sup>11</sup> Such misclassification lawsuits can cost hundreds of millions of dollars.<sup>12</sup>

### Contractors Can Be Sensing Engines

Fortunately, contractor risks can be balanced by upsides. For example,

organizations can use contingent workers to learn where internal compliance processes break down and brainstorm potential solutions (figure 1).

## Getting a Handle on the Contingent Workforce

After senior executives at the US energy company noticed the profusion of green badges, the company's Risk team partnered with the heads of HR and IT, compiling information from multiple systems and internal stakeholders to determine how many contingent workers were on site and what type of

work they performed. This informed a stop-light analysis of the top risks the organization faced as a result.

The cross-functional team, comprising Risk, IT, and HR, presented its findings and recommendations to senior leadership, and the discussion led to the following action items:

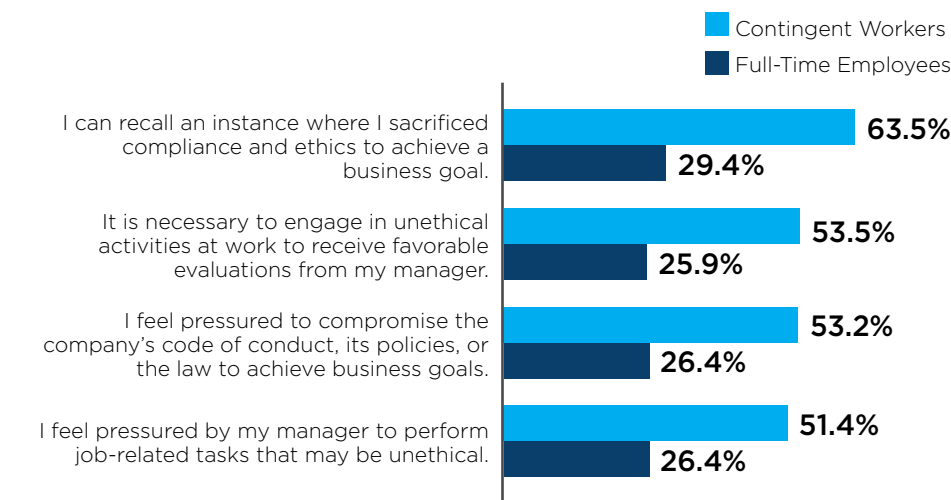
- Create a single database to compile all contingent worker information.
- Delineate responsibilities for managing contingent worker information.
- Revoke physical and electronic access privileges in a timely fashion at the end of a contract.

- Develop a strategy to proactively allocate contingent worker resources in the future.

To decide whether your organization needs its own contingent-worker strategy, consider these questions:

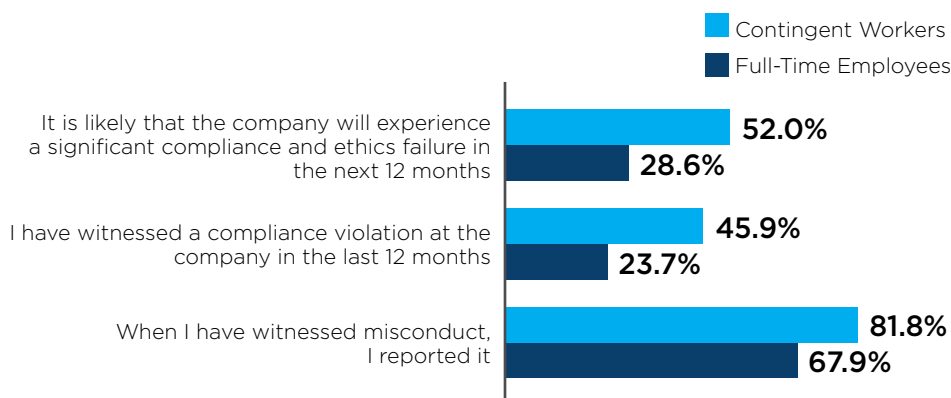
- How integral are contingent workers to achieving our business objectives?
- Has the volume or type of work performed by contingent workers changed?
- What concerns do stakeholders have about our use of contingent workers?
- How are we mitigating the risks associated with contingent workers?

**Figure 1: Compliance Risk of Contingent Workers Versus Full-Time Employees**



n = 1,909.  
Source: CEB 2017 Global Culture Assessment.

**Figure 2: Contingent Versus Full-Time Employees as a Source of Information About Misconduct**



n = 1,733.  
Source: CEB 2017 Global Culture Assessment.

Patricia Simione contributed to this article.

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# Beware of Bias in Talent Algorithms

By Cory Kind

*“We shape our tools, and thereafter our tools shape us.”*

- Marshall McLuhan  
Media Philosopher

Diversity and inclusion are increasingly valued in the modern workforce—and rightfully so: the correct mix of people is critical to organizational success. At the same time, more and more HR teams are turning to data analytics and algorithms to help make decisions related to hiring and retention.

The ability to learn from large quantities of data is what makes these algorithms so effective and efficient. However, there’s a dark side to them. We understand intuitively that humans are subjective; our decision-making ability is affected by our emotions, cognitive inclinations, and even by whether we’re hungry or not. The algorithm, on the other hand, offers a veneer of objectivity.

But it’s just a veneer. If the program is trained using information that reflects existing social patterns, the algorithm will learn those as well—even if race or gender, for instance, are not explicitly part of the model.

You can’t let algorithmic bias undermine your efforts to create a more diverse workforce. While building and tending the algorithm aren’t your responsibility, you’ll need to ask your HR and analytics partners probing questions as they develop and use the model.

## How Bias Creeps into the Formula

Start by understanding the challenge.

Imagine a team with a strong culture and the goal of hiring only those applicants who “fit” that culture—this scenario is likely familiar. If new hires don’t adapt to or feel comfortable with the strong team culture, their engagement and relationships with others on the team may suffer; ultimately, their performance suffers. Unintentionally or not, a cycle forms.

A talent algorithm might sort through the educational and work histories of high performers who fit in. As the program identifies the characteristics that lead to success, it may seem dispassionate, but it is actually rein-

forcing the team's existing patterns. What started as a human bias has now become an algorithmic bias.

Early adopters have been struggling for at least five years to balance the benefits of algorithmic efficiency with algorithms' unintended effects, both inside and outside traditional HR. In 2015, the *New York Times* shared an anecdote about an automatic photo booth: the machine, which locates the subject's face using a computer vision algorithm, kept positioning the lens incorrectly. It turns out the algorithm was confused by the columnist's bald head—the people it had “seen” during the training process all had hair.<sup>1</sup>

Another example is less amusing. In 2013, The Atlantic shared a story about tech startup Gild, which helped companies find software engineers. Gild used a huge number of variables available online to predict the skill level of these engineers, anything from involvement in open-source programming communities to behavior on social networks. One feature was affinity for a specific website of Japanese comics frequented overwhelmingly by men.<sup>2</sup>

While this feature had predictive value, including it in the model also conveyed information about the gender and extracurricular habits of the engineer. Multiplied across hundreds or thousands of variables in a model, these unexpected relationships can reflect and perpetuate bias in the hiring process.

## Steering the Algorithm

So what's the solution? Improving accuracy isn't necessarily the answer. In our imagined team with the strong culture, the algorithm's predictions would get more accurate over time as it learned to estimate cultural fit. The model might work, but it would reinforce bias on the team rather than challenging it.

The right approach is to engage in something we call “steering”—intentionally guiding algorithms with domain expertise and establishing

checkpoints to test for bias. Through steering, you can ensure any algorithms used by your HR and analytics partners support talent objectives safely and responsibly. First, explain to these colleagues that diversity objectives can't be compromised. Then follow six steps for effective assessment:

**1. Make them explain.** References to neural networks and deep learning litter the pages of business magazines these days. To the industry, these methods are “black box”—data goes in, magic happens, and predictions come out. Be skeptical of anyone who doesn't help you understand an algorithm's decision-making process.

**2. Carefully vet features before using them in an algorithm.** Do the model's variables convey only the information you want them to? This is surprisingly difficult. Excluding gender, ethnicity, religion, and socioeconomic status is an obvious first step. Next, exclude features that are proxies for the variables that were removed. For instance, attendance at a major public university may not convey demographic information, but attendance at a specialized university that serves specific demographic groups (e.g., based on race or gender) does.

**3. Check existing tools for adverse impact or accidental discrimination.** Build a quality control process where you actively look for bias in your automated tools, particularly those that were modeled after human decision makers.

**4. Involve domain experts.** Facilitate collaboration between technologists and domain experts. Your domain experts are your frontline defense, the people who are most likely to notice when an algorithm does something unexpected or counterintuitive.

**5. Rethink the meaning of accuracy.** In practice, an algorithm that makes more mistakes overall may be preferable to one that disproportionately makes mistakes for minority groups.

**6. Avoid automation unless you have enough data.** Machine learning systems learn from large quantities of data; more data makes for better predictions. Unfortunately, the reverse is also true: less data makes for worse predictions. By definition, less data will always be available on the minority groups in your workforce.

## Practice Algorithmic Ethics

For more general assurance, check that data leaders practice these pillars of sound governance:

- **Define the organization's approach** to analytics, identify accountable parties, and spell out mitigation strategies for potential risks.
- **Adopt incremental rollouts** that gradually test, verify, and challenge current thinking to overcome the effects of accumulated bias or error.
- **Continuously monitor model performance after deployment** to catch any errors or biases as they develop.

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# Talent Secrets from a Decade at Google

## A Q&A with Laszlo Bock

By Scott Engler

After working at McKinsey and General Electric (GE), Laszlo Bock spent 10 years as Google's senior vice president of People Operations, with responsibility for attracting, developing, retaining, and delighting "Googlers." During his tenure, Google received over 100 awards as an employer of choice. He told us about non-stop recruiting, improving training while cutting costs, and a very simple management rule. At the center of it all is an employee with power—and responsibility. (This transcript of his conversation with us was edited for length and clarity.)

**For a lot of our companies that are on that growth path, recruiting is "the thing."**

I was lucky; recruiting at Google was always everyone's job. It was just something we spent a bunch of time doing, so the executives, the senior folks, we spent one to two full days a week on recruiting. That included cultivating candidates, interviewing candidates, sitting down and assessing them, running the process for the company. But think about that—20% to 40% of our time. Jack Welch famously spent half his time on people issues; we were spending almost that much just on hiring.

**What did you find from the GE days and your experience with other companies versus what really worked?**

If you look at any HR department by head count, how much is Recruiting? I don't know, 10%—maybe 20%—and they have a ton of admin people on the back end doing things like payroll and benefits administration—all good and important jobs. But at Google, and this is public, we always had probably about two times as many recruiters per capita as most other companies.

Conventional wisdom is to have a lot of interviews (because you want to be really sure you're getting the right people) and involve a lot of people in those interview processes. Well, we found that if you have only four people interview a candidate, you can predict with 86% accuracy how that person's going to perform. And adding a fifth person only adds 1% predictive accuracy. So you only need to do four interviews. [Candidates] don't need to meet everybody.

You also shouldn't have the people who are interviewing make the final decision. You should have a separate committee make the final decision.



**Laszlo Bock**

Charge that committee with “all we care about is quality,” and [it] actually will do a better job of figuring out which of the people who’ve been interviewed to hire than the [interviewers] who actually met those people.

**What do you think are the most important things to talk to a prospect about?**

The most predictive thing you can do, and it predicts about 37% of how someone’s going to do at a job, is have them do a job simulation—what’s called a work sample test.

If it’s an assembly line or a call center or a proofreading or something, you can have somebody do that. If you’re hiring an engineer, it’s a little harder. If you’re hiring a marketer, it’s much harder.

So the next best thing to screen for, which is just about as predictive, is what’s called general cognitive ability, and that’s distinct from IQ. More important than anything else is to assess how good someone is at solving problems, and the way you do that is pretty boring. You just ask questions like, “Give me an example of a hard problem you solved. Why’d you do that? What happened then? How did

you approach it? What if this thing was different?”

And then the best thing to add to that is asking and looking for indicators of conscientiousness....It turns out, the same kind of person who will, when they leave a conference room, pick up the soda can that was sitting there that somebody left behind and throw it into recycling—that’s the same kind of person who, when a customer has a problem, will stay past 5:00 to solve it or will go out on a weekend to deal with something or pick up the phone when someone needs help.

**So we’re talking about molding with some basic clay here.**

That’s exactly right. One of the errors companies make—and every company does this—is they focus on what somebody did as a predictor of what they’re going to do, like “What were your sales achievements? How many lines of code? What did you launch? instead of focusing on what somebody is capable of. And when you focus on what someone’s capable of, you find you can get much, much better people, and you actually can uncover the undervalued assets.

I have a friend who says his whole recruiting strategy is, when he needs to fill a job, he looks for the number-two person at every (competing) organization because the number-two person is probably doing most of the job today and has the potential to do it, even if they haven’t done it. And they’re probably dying for it. It’s a much easier way to get exceptional talent...than going for somebody who’s done the same job again and again.

**And it opens up a world of possibilities, too. If you’re just building capability, that means I can just add X into the role that you currently have versus always having to promote and pay and promote and pay, which is the treadmill that companies are stuck on.**

I think there are a couple of responses that you need to make as a company. One is, [that] at the end of the day

you need to be responsible for your own growth and development. Part of that is practical because you care more about it than anyone else does anyway.

The second is [that] no one knows better than you what you actually need. There are all kinds of assessments and tests and things like that, [but] you know best. You just have to go out and connect with people, learn from people, and observe people all the time.

At Google, for example, 70% of all internal training was actually delivered by other employees who volunteered to deliver that training. Instructional designers would help figure out how to deliver it.

What you then get is you solve this “how I grow” problem by saying, “Well, you’re going to get taught by people who were doing your job two years ago, so they know it backward and forward. And those people are going to enjoy teaching you because they want to do it; they signed up.”

From a people operations perspective, it means I don’t have to spend any money on this. I spend money on the other 30% and on the recruiting. It was a tremendous source of free leverage, but it’s also the best training and learning people get.

**And if you have people from different parts of the organization teaching interested people, those are ideas that are forming about “I could work over here, that’s a star person, I’d love to have that.”**

That’s actually a great point. We never restricted what the topics could be. There were really popular topics, like presentation skills. But there were other ones, like “History of the Bicycle,” that people just felt like teaching, which gave you exactly that opportunity to bump into people from a completely different area and bond over a new area of knowledge and get to know one another.

And then there were technical ones. There was one called “Life of a

Query,” which basically talked through what happens from a technology perspective as soon as somebody starts typing in the Google search box. And we kind of walked it through where that goes, what happens in the data center, and how it comes back to the user. And that’s an amazing thing to learn if you’re not a computer scientist.

**We would take issue a little bit. What we’re finding is that people are starting to get a little overwhelmed by choice and making poor decisions. How would you argue back?**

What you’re describing is a very real need. I think the company has an obligation, since they want value out of their people, to say, “Here are the areas where we think you would be most valuable,” and to offer things in those areas.

I think the drive and the impetus should still be on the employee—not because the companies don’t want to invest in the people but because, if I’m an employee, my odds of success are higher if I own it than if I depend on somebody else, even if somebody else’s input is going to be fabulously helpful.

**We’re kind of dancing around the manager. What we found is the direct manager is actually a terrible conduit and that we have to go one or two levels up—or even maybe go to a talent broker situation, where we have people who are playing eHarmony across the enterprise.**

Where you sit in an organization has a huge impact on what visibility you have into what’s going on in the organization, what opportunities are. So there are a couple of issues. One is a manager who doesn’t know what is out there. Number two, a lot of managers don’t actually want their people to move because it makes their own jobs harder. Number three is, as an employee, it’s not always obvious how you need to develop and grow—either for your own personal development [or], certainly, to climb the ladder wherever you are and succeed.

So [there are] a lot of efforts to automate that—to have internal search departments.

One thing we actually explored was [to] have a team of recruiters just inside the company, and they basically call everybody and try to find them and convince them to move and switch their jobs. You can imagine there are some challenges with that.

**Everyone’s competing for tech talent.**

You have to have a mission that people feel personally connected to. A mission is not “I want to be number one or number two in the market”; it’s something human, something meaningful: you’re improving people’s

and I’m doing it with cool people,” they’re not going to leave for 10% across the street.

There’s a professor at Yale University named Amy Wrzesniewski, who is absolutely brilliant. She looked across a range of jobs—white-collar jobs (dentist, lawyer, software engineer) and very blue-collar jobs (janitor, housekeeper, construction worker). Across the board, she found one-third of people, roughly, find a way to connect to meaning, to mission, in their work.

She went to a hospital and talked to the janitorial staff, the housekeepers. They would do things like move the art around in a coma ward. She went

“The golden rule—it’s not more complicated than that. If you’re a manager, you think about what...you want from your own boss.”

lives, you’re having an impact on the world. That’s a huge, huge draw for people.

The second is the quality of the people you’re surrounded with. Think very early Google—again, no money, great mission (organize the world’s information), no profits. But the pitch was, “You get to work with people like this guy and this woman and this other person.”

**Do you feel like some companies are just missing the boat on both attraction and engagement?**

Do people feel they have a voice in how the place is shaped? If I could talk to someone, and they would say “I’m working on something cool that’s helping me grow that I know is aligned with some overall mission and purpose,

to them and said, “These patients are totally non-responsive, why are you moving paintings from one room to another? Your job is to change the bedpans, not to change the decorations.”

And she was told by one of these housekeepers, “I feel like I’m making their lives better. I feel like, even if they don’t see it, they feel a difference in the room. And if they do happen to open their eyes, they’re going to see something, and it’s going to be good for them. I just want to take care of them.” That’s a very different perspective than, “Well, I just have to get through my job; I have to hit [a] certain number of rooms.”

What’s powerful about it is [it’s] not a job where you would expect somebody

to see mission and meaning in their work. So the potential is there in every organization, and all you need to do is identify that and connect other people to that same thing. And then you win.

**I'm going to play devil's advocate and say, "Where's the person who's in Accounts Receivable in a mid-size company, so they're essentially in a widget type of role? Can you help me build mission for that person?"**

Let's assume for a second you're right. The job's awful and drudgery and can't be any better.

The greater mission, if you're in Accounts Receivable, may be that you're doing collections for a company that is in education. Or let's say you're in oil and gas; you can say that getting energy to people is a life-sustaining thing. Finding over time more sustainable ways to get energy—because eventually we're going to run out of oil—you actually are going to do great things.

Yes, all I'm doing is doing Accounts Receivable for some department, but I'm making sure the wheels keep running.

**What do you think is step one?**

You have to know what your mission is, and it has to be authentic. I was talking to the founding CTO of Dropbox recently, and he said the trick is you can't make up the mission 10 years in. There's a reason you started this thing, and it probably wasn't purely to make a buck....When Ray Kroc started

McDonald's, it may have been because he wanted to be rich, but he also saw an opportunity for improvement and [bringing] something to the masses, and [doing] it efficiently. There was something a little more there.

It's the company's job to let you know, to tell you and make that clear—explaining how it all works together and how every piece is a part of the whole.

**How do you give voice in a big corporation? Most of us say we want it, but then we hear it and we disregard it, and people feel disempowered.**

Part of "voice" is not just raising it but [also] seeing that people take action. The way you get people to realize that it's worth stepping forward is [to] reward them by saying, "We did this because of you."

**The other thing is celebrating failure.**

There's parlor tricks; there's a lot of different levers you can pull to get people comfortable with it. Start small because it's a terrifying thing to share. If you have an environment where people just refuse to talk about it, someone's going to out-compete you, to learn from their mistakes faster than you do, and they're going to win.

**If you could wrap that up at a high level, how we should we treat our employees?**

The golden rule—it's not more complicated than that. If you're a

manager, you think about what...you want from your own boss. And what you want is some coaching and help, some political support; mainly, you want him to let you get your job done and let you make things happen, make things work.

And then you think, "What do I want as a manager from my employees?" What you want is high-quality work, delivered on time consistently. Effectively, what you want is lots of freedom from your manager as an employee, but what you typically give your people is control and oversight.

Stop and think: "I'm about to act like a manager, but if I were an employee, what would I want?" And it's usually more freedom, more mission transparency, and voice.

We're social hierarchical animals. That's just how we evolved. We roam in packs; we look for who the lead dog is. So as soon as you put a little structure in place, people gravitate toward it. If you want to have a high-freedom environment where people give you a ton of discretionary effort—and where, by the way, they're happy—you actively need to fight it.

[One way is to limit] manager power and authority. Don't let them make hiring decisions; don't let them unilaterally make promotion decisions or pay decisions. And what they're left with is, how can they help their people get more effective?

