



Bonsai or big fish?



Consider talent. That is, you, your peers, your staff – within any organisation are those with drive, intelligence and leadership ability – ergo ‘talent’. Brian Dive looks at financial institutions and ponders the reasons for the lack of true leadership during these trying economic conditions

The great scandal of the 21st century is the waste of talent by financial institutions, far exceeding that of any other industry in the private sector. Since September 2008, we have seen the CEOs of financial institutions falling like nine pins. Managers are highly paid. Financial institutions spend more of its cost base on management than any other industry. And yet these managers have not stood out as beacons of leadership during the whole of this financial crisis. Why is this?

Despite the mantra, top pay clearly does not correlate with top talent. I have acted as a consultant in an HR (human resources)/talent capacity to financial institutions in more than one country. The picture is alarmingly consistent and depressing. They are notoriously weak at holding leaders throughout their organisations to account. They are invariably over-managed with cluttered, unwieldy management structures, which produce forests of ‘bonsai managers’ (on this, more to come). They seem to confuse the needs of compliance with

accountability. Legal initiatives such as Sarbanes Oxley do not help. Heavy emphasis on control actually makes fraud and collusion easier when it results in hierarchy-heavy structures devoid of clear accountability.

Arguably these excesses grow because such institutions do not encounter the intensity of real competition evident in other industries, such as retail and consumer goods. Less charitably, some might say ‘Mammon is their god’ so talent and mammon can’t mix. I recently worked with a financial services company that

felt it had a leadership and management capability problem. It had decided it needed to 'clear-out' most of its current management in order to 'improve results'. Yet, unbeknownst to top management it had a hierarchy of more than 10 layers in many parts of the organisation. Given its tough, simplistic, task-minded mentality it was all set to embark on the flawed 'rank or yank' approach to leadership development.

Rank or yank is the 'salmon fallacy' approach to performance (in the HR sense) management. In effect it states that '...if 100 salmon are swimming upstream and you cull 10 the other 90 will swim faster'. It is, of course, obvious that if you ignore the current of the river (or context of the job), no amount of focus on the swimming skills of the salmon will solve the real problem. It is amazing that some companies still seriously espouse this philosophy while pretending to understand that the management of scarce talent is the major challenge of the knowledge age.

Certainly financial services companies are not the only ones at fault. In 2007 I ran a WebCast for the New York Conference Board on the subject of the link between organisation design and leadership. In answer to a poll question, 72 per cent of participating companies (about 40, mostly North American) indicated they felt they had too many layers of management and did not know what the right number should be. And yet they were all spending huge amounts on leadership development.

If companies do not know how many value-adding layers of management they need, several other problems follow. They cannot identify the top jobs; therefore they cannot construct reliable career paths for developing leaders and, of course, they are very wasteful. They squander talent and add unnecessary millions to the cost base. Most companies are

not short of talent. The evidence suggests they invariably have too many leaders and are *wasting* talent.

How can this be so? There are three common drivers of talent-waste in most large organisations. Let's look at them below.

Heavy hierarchies

If a company does not know how many value-adding layers it needs there are two likely scenarios. Either it has too few layers — which occasionally occurs. Or there are too many layers of hierarchy (more leadership roles than were required) — which frequently occurs. Surprisingly, most companies are hierarchy heavy.

Worse than this, though, is the fact that even if institutions — or even departments — become aware of their unwieldy structure, they do not know how to fix the problem. If they do not know how many layers they need, they do not know which ones are currently a waste. Good people cannot perform in a 'non' job. Thus top management cannot determine whether they have a talent problem since they cannot identify who is performing well and who is not.

It is too tempting to say: "Our results are not as good as they should be therefore we must have a talent problem, which is not surprising since we know talent is in short supply." Thus the circular myth is born and propagated, to the comfort of mediocre CEOs and HR directors.

Misuse of grading systems

Grading of jobs is another major issue. Grading systems were originally implemented to help design equitable pay systems. They were never intended to be instruments of organisational design and talent development. But most companies in the public and private sector have misused job evaluation schemes in this way. Many organisations, especially in the public sector, are

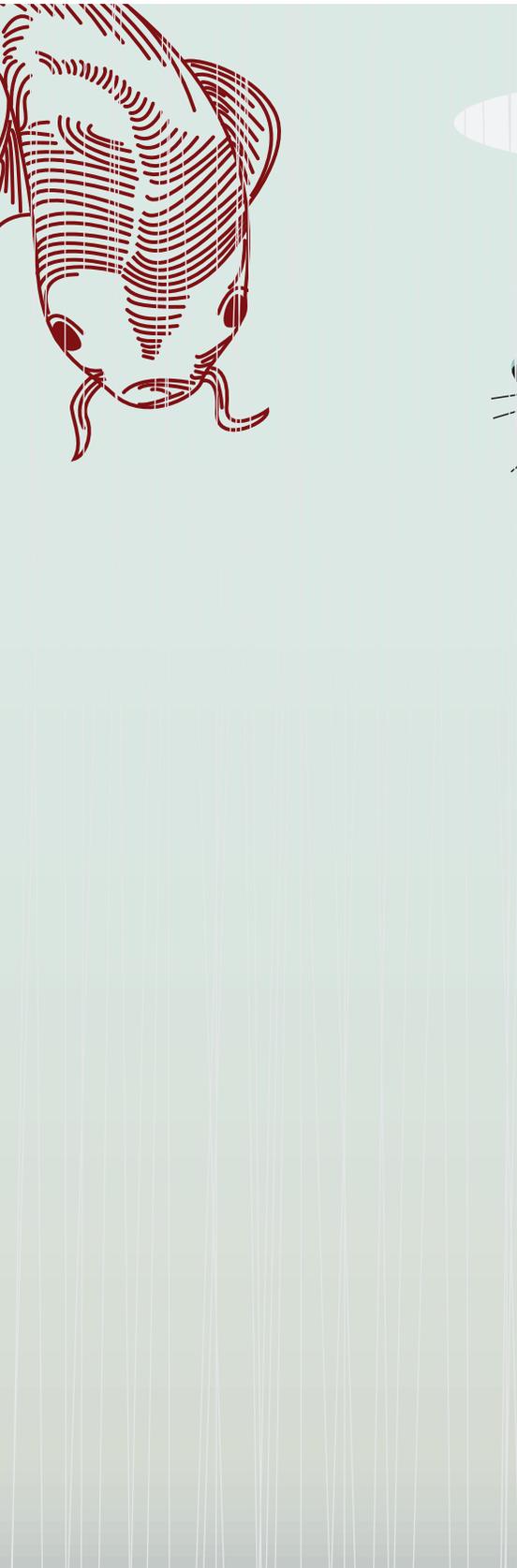
grade-driven. The pursuit of grades by way of promotion encourages the insertion of non-value-adding layers in the hierarchy. It is not uncommon to see situations where nearly every layer of management in an organisation is given a separate grade — this amounts to grade-driven organisational architecture. It is based on the need for administrative promotions (a change in grade) rather than real promotions based on a change in accountability.

The recent popularity of the broad-banding of money into wide pay bands has led, in some cases, to too few grades. If there is no underlying logic or set of principles driving the pay bands then grade-to-grade (or band-to-band) reporting results creating an accountability blancmange. Broad-banding only works if is based on sound principles of accountability which are then priced in the talent marketplace.

Career dead ends

If an organisation cannot identify its genetic code of decision zones, it cannot build an architecture of accountable jobs. It relies on guesswork. Field work over the last 20 years has established that only one layer of management is needed for each decision-making level above the front line. This in turn means there are no reliable career paths for developing leaders. Most so-called career paths in hierarchy-heavy confused organisations lead to a dead end. A clear indication of this is narrow average spans of control — the number of people an individual directly manages. These are often smallest in middle management. An average span of less than eight correlates with over-layering. This means the organisation is also likely to be carrying millions of dollars of excess cost. Waste of talent is always associated with waste of money. This waste of talent produces 'bonsai managers'.





Bonsai managers

This is why they have inadvertently built a cadre of bonsai managers. A bonsai plant is one that is capable of growing to its full height but remains stunted and undeveloped because it is kept in a small container which blocks it from growing. A bonsai manager is one unable to grow to full potential because (s)he has been placed in a cluttered hierarchy of hollow jobs leading to career dead ends. In a forest of bonsai managers a company does not know whether it has a talent problem or not. Such companies lack clear accountability, their structures are ineffective and as a result they cannot reliably assess the true capability of their management, despite a plethora of bureaucratic leadership and ‘competency’ models. They need a key to unlock this situation. They are wasting their talent. An aggressive hiring and firing regime will not solve the problem. The problem is the cluttered hierarchy of non jobs, the current of the river, the bonsai container — not the talented manager, the fit salmon or the new oak sapling.

The ‘fat or muscle’ test

Much of the world is effectively now in recession. This is already evident in the behaviour of a significant number of CEOs hell-bent on cost reduction because their margins (and bonuses) are being squeezed. But any fool can cut costs in a large organisation. That is not the challenge. The trick is knowing where and when to stop cutting and why. Before setting out down this cost reduction path a CEO should ask him-or herself this question: “Am I cutting fat or muscle?” If that question cannot be answered with any certainty they should not start. Otherwise experience suggests they are going to damage the talent in their business. Culling bonsai managers does not do much for the growth prospects of those who remain.

Accountability is the answer

Most CEOs and HR directors are weak in the area of organisation development (OD). By OD I am not referring simply to training and development, I am referring to the agenda that entails the successful linking of purpose, strategy, people and organisation design. There are four critical components of effective OD which facilitates talent development:

- an accountable job;
- an organisation structure with a minimum number of such jobs;
- an individual with the requisite skills and abilities capable of discharging the accountabilities of the role in question;
- a reliable and valid way of identifying whether that individual has potential to move to a higher level of accountability.

These four factors require an approach that can identify discrete levels of accountability. The problem in reality is that most CEOs are long on platitudes in this area but short on comprehension of the issues involved. Most cannot describe and identify the different shades of accountability in their companies. Effective organisation development is a black hole for many CEOs. They are at their strongest when working on the back of an envelope. If you think I am being too harsh on our beleaguered colleagues then ponder this question: Why is it that the virtually every large organisation you can think of is over-managed and under-led?

The secret of success in the knowledge age is the management of talent. That is widely accepted. But the number one talent problem today is not a shortage of talented people — arguably there have never been so many educated people available — but a shortage of organisations that know how to manage and harness them. Too many are wasting their talent. **PMCR**

An earlier version of this article was published by Emerald Publishing in *Industrial and Commercial Training* Vol 41:1;15-19