# Creating a Performance Advantage

**An Interview with Max Caldwell,
Managing Principal, Workforce Effectiveness, Towers Perrin**



*Max Caldwell*

**EDITORS' NOTE** *In over 20 years of consulting for business leaders, Max Caldwell has focused on helping clients improve business performance through enhancing leadership, workforce, and organizational change strategies. Since joining Towers Perrin in 1993, he has served as a change management practice leader and helped to lead the firm's landmark Global Workforce Study, the most extensive research of its kind on what attracts, retains, and engages workers around the world. He currently leads the firm's global Workforce Effectiveness practice.*

**COMPANY BRIEF** *Founded in 1934, Stamford, Connecticut-based Towers Perrin (www. towersperrin.com) is a global professional services firm that helps organizations improve performance through effective people, risk, and financial management. The firm provides solutions in the areas of human capital strategy, program design and management, risk and capital management, reinsurance intermediary services, and actuarial consulting. Towers Perrin has offices and alliance partners in the world's major markets.*

**How has the concept of workforce diversity changed in the past few years?**

The basic definition of workforce diversity has changed in very meaningful ways. Companies are looking beyond the traditional definition of diversity, centered on gender, race, and sexual preference, which – though important – is incomplete. Now, organizations are defining diversity as a much broader idea that encompasses gender and race, as well as age, attitudes about the relationship between work and life, country and culture of origin, thinking styles, career ambitions – basically all of things that define the texture of the workforce. Our definition also includes an understanding of what engages people in the workplace. Our recent Global Workforce Study, for example, shows the top drivers of workforce engagement vary widely by age. People aged 35 and older say that their top engagement driver is a belief that senior management is sincerely interested in employee well-being. Yet, this barely makes the top 10 for those aged 25 to 34, for whom career advancement opportunities are paramount, and it comes in third for those aged 18 to 24, for whom developing leaders at all levels is the top driver. The workforce is anything but homogeneous, and it's interesting to note that technology, combined with broader management spans of control, is intensifying the awareness and impact of diversity. We are increasingly collaborating with, communicating with, and even managing people from a wide range of cultures, disciplines, ages, perspectives, and so on.

**Why is the topic of diversity of such interest to CEOs and senior leaders?**

Enlightened leaders don't view workforce differences as obstacles, but rather as opportunities to leverage different styles and perspectives to create a performance advantage. I think it's ultimately this harnessing of diversity to create competitive advantages, in addition to the values-based dimension of it being "the right thing to do," that explains why leaders are interested in the topic. More specifically, CEOs and chief human resources officers are focused on creating greater diversity in the executive ranks, both for the team in place and the pipeline of future leaders. Talent management – the systematic creation of great leaders from within the organization – is one of the hottest topics in the area of human capital management. The business leaders I talk with are intensely interested in the talent topic and how to build more diversity in the broadest sense into their talent management processes. Frankly, this is driven less by an altruistic desire to develop people than it is by an acknowledgement of the huge shifts occurring in the business world and the daunting new requirements these shifts are placing on the organization and on the next generation of top leaders.

**Exactly what kinds of shifts are occurring in the business world? And how do they relate back to talent and diversity?**

Think about what's happening in most industries: Even as organizations cope with an unsettled U.S. economy that is having repercussions globally, they are expanding into developing countries to open up new markets; they're focusing on new products and services and growing into adjacencies; they're intensifying their focus on customer engagement; they're aggressively pursuing acquisitions; and they're continuing to raise their game on operational excellence. And, at the same time, they're coping with significant demographic, social, and political shifts that are changing the dynamics of the labor market. If you put all of these things together, what emerges is a set of corporate strategies that is more people-dependent than ever before – the way you win is by having the best and most creative brains deployed to these tasks. You also win by having the most diverse perspectives on your leadership team, people who embody the diversity of your markets, customers, partners, and workforce. And this is a struggle for many companies, and many leaders.

**Why do you say it's a struggle for leaders? In what ways is it so?**

As a leader, it's all too easy to select and advance those people "like me" – those who have had similar life experiences and grew up in a similar culture, people who share my outlook, values, and personal style, even people who look and sound like me. We all unconsciously gravitate to people with whom we're comfortable, but this can be dangerous for a leader seeking to develop and deploy a diverse pool of talented leaders. So-called "group think" can be absolutely deadly in a fast-changing business environment. A number of recent studies indicate that diversity, by and large, creates a financial and competitive advantage for organizations. According to a 2005 report sponsored by the Society for Human Resource Management, at least three studies showed that diverse groups are more likely than homogenous ones to be creative, embrace change, and make high-quality decisions.

**You make it sound as though, in the future, work will be very different than it is today.**

It already is. Globalization and technology have taken care of that. Now we need to

develop future leaders at various levels who can successfully lead in this very different business environment, one that is even more global and culturally linked and more competitive, with ever-narrower margins of competitive differentiation. In short, the world will become even more complex and interconnected, and it needs business leaders who can thrive in this kind of environment. In addition, companies have to respond to new demands from stakeholders as varied as customers, shareholders, regulators, rating agencies, employees, and partners. For example, our own research shows that the company's values, brand integrity, and reputation for corporate social responsibility are essential drivers of discretionary workforce performance. These factors affect customer decisions too. Look at the demand for green products, for example, or the public outrage over companies that experience ethical lapses.

**How can organizations build and sustain diverse talent pools, and what role do current leaders play in ensuring that happens?**

First, it's crucial to understand that building a diverse pool of great current and future leaders cannot be done without the commitment, direction, and active involvement of the CEO and the executive team. This is not fundamentally human resources' job, although the HR function can support and enable the process. Like anything else, developing a diverse pool of leaders starts with a shared leadership mindset and clear accountabilities.

With this leadership commitment in place, there are some specific steps that high-performing organizations tend to follow, as they build a diverse talent pool. Start with talent insight. How well do you really understand your top talent? How have you identified them, and what criteria did you use? I am always struck by how well leaders understand their customers, but how poorly many really understand their workforce and their top talent group. Be wary of generalizing your top talent. They may all be great performers with high potential, but they are also individuals with varying perspectives, life experiences, cultural references, needs, and so on.

Next, think about your evolving business needs and the talent implications. If you're focusing on emerging markets, what might this tell you about cultivating the next generation of culturally savvy, culturally diverse, multilingual leaders? If you're focused on innovation, what does that imply in terms of thinking styles and values, intellectual curiosity, and collaboration? How does your organization respond to risk takers? In addition to rewarding new ideas, do you accept the "noble failures"? If customer intimacy is an important future focus, do you have leaders who excel at listening and processing consumer insight, with the flexibility to change on a dime to anticipate consumer needs? If you are shifting into high gear on top-line growth and expanding via aggressive organic growth, as well as acquisitions, what kind of leader will excel here? In short, talent strategy should serve the business, not some abstract notion of what's on the leading edge in human resources.

**What should companies do once they understand their talent pool in the context of their business needs?**

To continue with what companies can do, their talent processes should reflect and support the goal of diversity. For example, how does the organization identify and assess high-potential leadership talent? Are you using outdated selection criteria or forward-looking criteria? Are you relying too heavily on the opinions of current managers, who may not be looking at as broad a group of potential candidates as possible? If you use assessment tools, are these as culturally neutral as possible? Is diversity, broadly defined, an explicit objective, as your team conducts talent reviews and looks at placing leaders into new jobs? Are you creating a diverse set of development experiences that stretch people beyond their familiar frames of reference and experience? Do you expose them to different perspectives and situations to test and develop their agility as leaders? Perhaps most importantly, is your organization executing on the talent agenda? Does the walk match the talk? It's this last point, in particular, that demands the active involvement of senior leadership.

**What specifically should leaders do to help drive talent diversity?**

First and foremost, CEOs need to think about where and how they show up as a leader. As a CEO, you need to champion the importance of leadership diversity, or it won't happen – at least not consistently and deeply. Beyond just sending the right message, you need to hold others accountable to deliver upon that message. Also, think about how you can get personally involved to model the right behaviors and send a signal to the rest of your team and to the organization. Do you champion leadership diversity in your executive talent reviews? Are you mentoring candidates who don't fit the traditional mold? Are you challenging your current team to expand their points of reference and view problems from more diverse perspectives? The example of the CEO and executive team matters – I'll go so far as to say it matters most. I think it's also important to recognize that building a strong pipeline of diverse leaders is deeply gratifying for the senior executive. What could be more satisfying than creating a legacy of great leaders who drive the organization to still higher levels of performance? That's not a bad way to be remembered.

# Common Workforce Myths Debunked

## Study Reveals That Stress, Technology, and Bosses Are Not Always the Enemy

The findings of the Towers Perrin 2007 Global Workforce Study challenge some of the most pervasive beliefs about the workforce – among them, that workers are highly stressed, that they resent the demands of new technologies, and that they dislike their bosses.

### "Good Stress" Has Its Place in the Workforce

Concerns about the negative effects of a stressed-out workforce appear to be overstated, according to the findings. In fact, 68 percent of those surveyed reported being neutral to energized by on-the-job stress, and, according to Max Caldwell, Managing Principal of Towers Perrin's global Workforce Effectiveness practice, the findings indicate "challenging work helps employees remain focused and interested throughout their daily routines, and more eager to contribute." That said, employees look to their employers to help them achieve a work/life balance "in ways that support both their own career aspirations and the company's needs."

### Technology Is Not the Enemy

The increased use of technology can help employees achieve such a balance, and – contrary to widely held beliefs – such technological adoption is viewed as a positive factor in the workplace. While cell phones, laptop computers, and personal electronic devices allow employees to access e-mail, voicemail, calendars, documents, and presentations from virtually anywhere at anytime, Caldwell says, "the vast majority of our survey respondents [86 percent] feel this is actually helping them achieve some level of balance between their personal and professional lives. This positive response not only contradicts the common belief that technology keeps employees chained to their jobs and dominates their time away from the office, but also signals that employees are realistic about the demands of today's global business environment, and they're willing to do what's necessary to achieve work/life balance in a world that operates literally around the clock."

### Working to Live

Yet another prevalent myth is that today's workforce "lives to work," choosing to put work at the center of their lives. While people are working hard putting in, on average, almost 45 hours per week, with almost one-fifth working 51 hours or more routinely, few employees actually share that view. More than half (59 percent) of Towers Perrin's survey respondents reported that they work to support their lives and the needs of their families, versus 18 percent who agreed that work actually is the most important aspect of their lives. The distinction was more apparent in the United States, despite a common view that "workaholism" has spread outward from the United States. Among the U.S. respondents, almost three-quarters (72 percent) agreed that they essentially work to live, with only 9 percent putting work at the center of their lives.

"Globally, we found that the ability to balance personal and professional life is the fifth most critical factor in employee retention," said Caldwell. "With work/life balance playing a major role in an organizations' ability to retain employees, it makes sense for employers to take an active role in helping the workforce achieve the right combination of personal and professional satisfaction."

In fact, 42 percent of the respondents agreed that their organization had policies and programs to help them balance work and personal life responsibilities; only 24 percent disagreed. And 51 percent said their manager was fair and consistent in enabling work/life flexibility. In the U.S., this percentage was even higher, at 63 percent. Globally, however, 59 percent also noted they were sometimes or frequently frustrated by their own efforts to balance work and personal life, suggesting that a disconnect remains in how employers and employees perceive the "deal" and their respective responsibilities in this area.



### Workers Have a Positive Outlook on the Company and Themselves

While comic strips and television shows make light of workforce negativity and malaise, the Towers Perrin survey found that most workers are satisfied, with a positive outlook about themselves and their organizations. Some key points:

Nearly two-thirds of the respondents (63 percent) were confident that they would be successful, and a full 60 percent were optimistic about their future. Among U.S. respondents, the picture was even brighter, with 75 percent believing they would succeed and 67 percent optimistic about the future.

The majority of respondents (69 percent) indicated that work was either completely energizing (16 percent) or lifted their spirits somewhat (53 percent).

An overwhelming 86 percent of employees worldwide liked or loved their job, 77 percent liked or loved their company, and 73 percent liked or loved their boss. In the U.S., this optimism was even greater, with 82 percent of respondents saying they liked or loved their company and 83 percent saying they liked or loved their boss.

At the same time, the research shows that employers are not fully harnessing employees' confidence and energy. Globally, the study found a substantial "engagement gap," with only 21 percent of the workforce fully engaged at work and 38 percent disenchanted or disengaged. While the gap in the U.S. was somewhat smaller – with 29 percent of U.S. workers engaged and 28 percent disenchanted or disengaged – it remains substantial enough to concern U.S. employers, particularly as they focus on sustaining and enhancing performance in a more challenging market environment.

### Manager Relationships Are Important, but the Company Has More Impact

Finally, the study debunks a widely entrenched view that the first-line manager is the single most important factor in employees' engagement and performance. While a good relationship with one's direct manager remains very important, the actions of senior leadership and overall workplace programs and policies hold even greater weight. Indeed, the organization itself is one of the most powerful influences on employee engagement. Senior leadership's decisions and visibility, along with learning and advancement opportunities, ranked higher than the direct manager relationship as a driver of higher employee engagement.

"We've found that a company's reputation and its senior leadership wield enormous influence over employee attitudes," said Caldwell. "When these factors combine with positive direct-manager relationships, organizations can cultivate even more positive environments for their workforce, leading to greater productivity, engagement, and success."

# Key Findings From the Towers Perrin Global Workforce Study

### Definitive Connections Drawn Between Employee Engagement and Financial Performance

According to the Towers Perrin Global Workforce Study, employees do not believe their organizations or their senior management are doing enough to help them become fully engaged and contribute to their companies' success. In fact, just 21 percent of the employees surveyed around the world are engaged in their work, meaning they are willing to go the extra mile to help their companies succeed, and 38 percent are partly to fully disengaged. Furthermore, the study found that companies with the highest levels of employee engagement achieve better financial results and are more successful in retaining their most valued employees than companies with lower levels of engagement.

The Towers Perrin Global Workforce Study draws upon two sources of data. First is a survey of nearly 90,000 workers in 18 countries, which calculates both engagement levels and the impact that those levels have on performance, retention, and a host of other factors. The second is the world's largest employee normative database updated annually, with more than two million employee records in total, including data from organizations with both above- and below-average financial performance.

The most striking data link between employee engagement and financial performance comes from a study of 40 global companies, which found that firms with the highest percentage of engaged employees collectively increased operating income 19 percent and earnings per share 28 percent year to year. Those companies with the lowest percentage of engaged employees showed year-to-year declines of 33 percent in operating income and 11 percent in earnings per share. In a related three-year study, the firms with the highest levels of employee engagement achieved a 3.7 percent increase in operating margins, while those with the lowest levels of engagement suffered a drop of 2 percent.

Engaged employees also are more likely to see a direct connection between what they do and company results, according to the study. More than 80 percent of engaged employees believe they can and do contribute to the quality of products and services and to customer satisfaction. Only half as many of the disengaged share that view.

In addition, engagement has a direct impact on employee retention, with half of engaged employees reporting no plans to leave their company, compared with just 15 percent of the disengaged and roughly a third of the workforce overall. Less than 5 percent of engaged employees said they were actively looking for another job compared with more than one in four of the disengaged employees.

The Towers Perrin study also debunks a widely held view that engagement is an innate trait. Rather, it is the organization itself – and most particularly, its senior leadership – that has the biggest impact on engagement levels. In other words, according to Julie Gebauer, Managing Director and leader of Towers Perrin's Workforce Effectiveness consulting practice, "The organization itself is the most powerful influencer of employee engagement. Personal values and work experience factors have less of an impact on engagement than what the company does, particularly the extent to which employees believe senior management is sincerely interested in their well-being. This was the number-one element driving engagement on a global basis and also in the U.S." Gebauer further contends that, "People's views about the company are also shaped more by what senior leaders say and do than by what the individuals' direct bosses say or do. This too contradicts conventional wisdom and suggests that companies have a real opportunity to dramatically improve both engagement levels, starting with listening to what their own employees have to say."
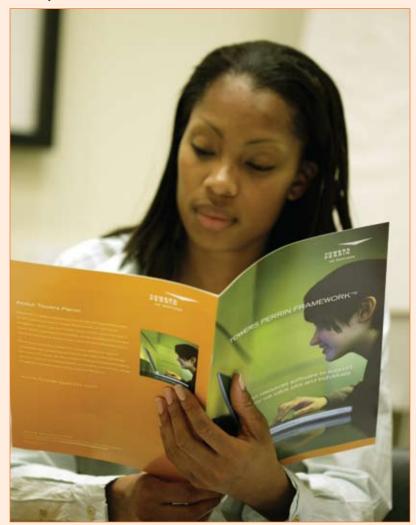
The study's findings point to three areas of focus for companies to increase engagement and tap the reservoir of employee discretionary effort.

Employees need their senior leaders to demonstrate inspiration, vision, and commitment. Only 38 percent of employees felt senior management communicates openly and honestly, and just 44 percent agreed senior management tries to be visible and accessible. In addition, only 10 percent of employees responded that "senior management treats us as if we're the most important part of the organization." More than half felt that senior management "treats us as just another part of the organization to be managed" or "as if we don't matter."

Employees want to give more to their companies and their jobs, but also want a clearer picture of what is "in it for them." The study shows that employees are optimistic about their jobs and have a strong desire to learn and grow. More than three out of four employees love or like their job (86 percent) and their organization (77 percent). In addition, 83 percent "look for opportunities to develop new knowledge or skills," and 84 percent "enjoy challenging work that will allow them to learn new skills." But, as the engagement scores show, they are not delivering the full discretionary effort these views would suggest, because they do not feel their companies and leaders are meeting these needs and creating conditions that sustain engagement. For instance, just 36 percent agreed they have excellent career opportunities at their organization, and more than two thirds said they are sometimes or frequently frustrated by their organization's people-related decisions. While 68 percent agreed their organization has a reputation for financial stability, only 54 percent agreed it had a reputation as a great place to work.

Employees want to work for a leading company. An organization's reputation is important to employees worldwide, who show a desire to work for an organization that strives for excellence in the eyes of its employees, customers, and the world at large. According to the survey, top drivers of higher engagement include senior leadership behavior, a commitment to corporate social responsibility, the company's reputation, and sufficient opportunities for learning and development. ●



*Additional information on the Towers Perrin Global Workforce Study is available at www.towersperrin.com/gws.*