

# Viewpoints

# Q & A

## Tomorrow's winning organizations: Leaders' vital role in human capital strategy

### Human capital framework: Part IV



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This article is the fourth in a five-part series on Willis Towers Watson's human capital framework. In this discussion, our talent and reward experts examine the important role played by an organization's leaders in the successful implementation of its human capital strategy and the difference their influence makes to business performance.

**Part I** of this series – *The New Human Capital Framework* – covers the importance of linking human capital strategies and programs with business goals.

In **Part II** of this series – *Total Rewards Today: More Holistic, More Strongly Linked to Business Strategy* – we examine how the total rewards model is evolving.

**Part III** – *Work Trend: Traditional Jobs Give Way to Discrete, Dispersed Tasks* – is about how the nature of work is changing.

**Q Jesuthasan:** With business models evolving within an extremely volatile global economy, employers are paying considerable attention to leadership talent. Do organizations' leaders fundamentally underpin how work is changing and how human capital is deployed?

**A Sejen:** Across an organization, leaders play a critical role in the execution of the business strategy. When we're helping our clients think about how to meet their business goals through their human capital, we start by ensuring that their leaders thoroughly understand the business strategy.

That strategy reflects how the organization intends to distinguish itself among its competitors and position itself given various market challenges. To be effective, all leaders must fully understand the strategy and be able to articulate it in a very clear, compelling way for employees and shareholders. To the extent leaders do that, they're crucial elements of the organization's human capital capability.

Organizations need to design three human capital dimensions so as to drive strategy execution. First, they need a culture in which the organization can achieve its goals. Second, they must have the right type of human capital strategy in place. And third, they must have an employee value proposition, or EVP, that encourages and enables the workforce to successfully implement the strategy. Leaders directly influence all three of these elements. They need to agree on the desired culture and model the behaviors that will bring that culture to life; they shape and execute the human capital strategy; and they're responsible for delivering on the EVP.

Though leaders' influence is considerable, all types of talent play a role in business success. Whether you have a traditional workforce with many full-time employees or a mix of full-time, part-time and contract employees — and whether the work components, or tasks, are combined into jobs or dispersed among internal and external workers — it's through your talent that you'll achieve your business goals.

**Jesuthasan:** Our research over many years supports your point about culture: Organizations need their talent practices to be aligned with the type of culture that's required to execute the business strategy. This means all the varied methods for getting work done must be uniquely calibrated and aligned with that type of culture. Those methods involve some of the business practices, elements of the operating model and attributes of leaders — both those brought in from outside and those developed internally.

There's an important point to make here: Very often, employers believe that a good leader in one organization or group will be a good leader anywhere. But our experience, research and expertise suggest that's not always true. Aligning the culture and the human capital strategy with the business strategy while meeting other leadership demands requires a methodical approach. Leaders must factor in all of the many moving parts, and that requires careful orchestration. A person who does that effectively in one operating environment or culture might not be well-suited for it in another.

**Employee value proposition (EVP):** the employment deal that defines what an employer expects from its employees and what it provides in return

**Q Jesuthasan:** How does an employer determine the best way to attract, engage and retain talented leaders?

**A Hoover:** To secure the right types of leaders, it's important to first understand what type of human capital strategy the organization needs given its business strategy, culture, operating environment and the other attributes we've been discussing.

Then the employer should use both quantitative and qualitative measures to determine what attracts, engages and retains the type of leaders the organization needs. Such a data-driven approach isn't yet commonplace for HR, but it's really necessary to strengthen HR's position as a strategic partner to the business, as opposed to being strictly a support function.

Quantitative data on the drivers of attraction, engagement and retention are readily available in the marketplace, including the results of Willis Towers Watson surveys. The data can be analyzed by geography, industry and workforce demographics. Employers should examine these external findings in conjunction with the results of their employee engagement surveys. Taken together, these data show what really matters to employees and what will foster the behaviors required to positively affect business results.

**Q Jesuthasan:** In this process, what specific practices are optimal for leadership effectiveness?

**A McAndrew:** First, employers must recognize that today's leaders have a very complex role. They can be the difference between the organization having a winning or a losing human capital strategy and business.



We've identified five practices that can help leaders be successful.

The first is to ensure that the way your organization competes is aligned with its internal culture. This is about ensuring that the promise you make to your customers or clients directly matches how the organization and its leaders operate internally. Leaders are the bridge from the company's external brand promise to the internal employee promise, the latter of which comes alive through the culture and the EVP. When you've designed the culture very intentionally, leaders can align their behavior with that true north – and that behavior affects how you attract, engage and retain employees.

The second is to integrate all aspects of your organization's culture across the many talent touchpoints. It's one thing to define a culture and ask your leaders to shape it throughout the organization. It's quite another to ensure that your employees experience the culture as you'd originally envisioned it. Employees' experience of the culture depends on a variety of elements, including how performance is managed, the type of career conversations employees have with their managers, how well employees are supported and provided with needed tools and resources, and other elements of how they experience their day-to-day work. And leaders play a powerful role in the alignment of all of those elements.

The third practice is to clearly define the required leadership behaviors. Have you defined the critical behaviors for your leaders? Are you holding them accountable for exhibiting those behaviors – measuring them, assessing them using our Saville assessment tools, for example? Our 360s and assessment tools can help you to predict who in your organization will be the best leaders and to shape development plans for their various pathways to leadership.

Fourth is to keep the leadership pipeline full. Have you first identified the pivotal roles in your organization? And have you then implemented the necessary processes and disciplines to prepare the right people for those roles and to get them in those roles?

The fifth one is about rewards. If you hold leaders accountable, you must be very clear about how you measure, recognize and reward effective leader behavior.

**Q Jesuthasan:** What else do we know about what makes an effective leader?

**A Holmstrom:** We know that no universal model of leader effectiveness adequately explains how a leader can be wildly successful in one organization but fail miserably in another.

Assessing a leader's effectiveness starts with defining the special requirements necessary for leaders in your organization. As we've said, we know the business context directly influences what's expected of leaders. Market demands and the current phase of the organization's life cycle – for example, opportunistic growth versus desperate turnaround – help to shape what type of leader can create the conditions for business success. So, too, do the consumer promise, the culture and the EVP.

With all of that said, we know from our research that all leaders – including frontline managers, mid-level managers and executives – must focus to some degree on three key performance factors in their roles as leaders. We call these factors professional, people and pioneering.

The professional factor encompasses the way leaders use their expertise and deep knowledge to execute strategies and deliver results, as well as how they use their analytical and reasoning skills to investigate and solve problems. The people factor includes the way leaders handle people- and team-related issues, and how they interact and work with people to achieve results. Pioneering is the business growth factor. It involves how leaders drive change and growth to foster business success, and how they seize commercial opportunities and outperform competitors. To be successful pioneers, leaders must have imagination, intellectual curiosity and vision.

Our research has found that in each of these areas, leaders have distinct effects on the business. For example, leaders who are very strong in the professional area significantly affect product development and service delivery. They manage risk and the organization's reputation effectively and deliver on the brand promise. Leaders very strong in the people area build engaged workforces and successful teams, partly by delivering clear, compelling messages. And strong pioneers can successfully bring new products to market, open and leverage new market opportunities, and ultimately transform and grow the organization.

**Q Jesuthasan:** With that research as a starting point, how should an organization go about assessing the effectiveness of its leaders, given our earlier points about the need for the best fit?

**A Hoover:** HR and the senior leadership team should jointly define what a leader must deliver to be successful in the organization, given the market demands, strategic business priorities, desired culture and EVP.

You can begin with our 3P model of leadership: professional, people, pioneering. For each leadership role at each level, consider those three factors and identify the specific types of impact a leader in the role must make. From there, you can identify the critical capabilities and behaviors each leader must demonstrate. Then map out the primary experiences potential leaders should have gained in order to master those capabilities and behaviors and be ready for specific roles.

These leadership profiles will serve as the models for your leadership development efforts. Once you've created the profiles, you can use psychometric tools, such as Willis Towers Watson's assessment tools, to evaluate whether people already in the organization fit those profiles. Such tools provide rich data that reveal the organization's talent strengths and gaps. With that information, you can create a strategy for filling the leadership pipeline with people from within the organization. Those data also reveal what type of external people you must attract – potential leaders who will both fit with the culture and effectively lead the business into the future.

**Q Jesuthasan:** When executives consider whether someone is ready to be successful in a leadership role, very often the person's experience is the deciding factor. How can employers help potential leaders get the experience they need?

**A Holmstrom:** In the past, there was a rather straightforward path to reach the senior levels of an organization. Today, because economic, regulatory and environmental factors have significant implications for business decisions – and because predicting changes in these factors has become so challenging – it's not easy to map out that path. It requires an approach that can flex to meet changing demands. So today we concentrate on identifying the types of experiences senior leaders must have in their portfolio – experiences that have equipped them with skills important for the organization's future.

Talent 2021, our research effort with Oxford Economics, found that global operating skills and agile thinking will be crucial for leaders in the next decade. They can gain these skills by working in other cultures and with people from other cultures, leading people with varied demographics and from diverse backgrounds, working across functions and leading large-scale transformation projects. These pivotal experiences can be incorporated in the leadership profiles.

Understanding the needed experiences gives employers a powerful litmus test for evaluating external talent. And taking advantage of the experiences gained by leaders outside the organization can be a primary component of the organization's staffing strategy. The overall leadership and talent strategy can also incorporate the tools of social media, which provide employers with unprecedented access to the global talent pool.

**Jesuthasan:** That's a really important point you make about the visibility we have to external talent today. In some cases, it's almost greater than our visibility to internal talent.

We've seen considerable scrutiny of leaders, as boards of directors have shifted their focus away from primarily serving as stewards of areas such as executive compensation. Boards are increasingly thinking holistically about leadership performance, succession plans and the like. As just one example, regulatory agencies require financial services companies to have succession plans.

**Q Jesuthasan:** How can an organization develop a robust pipeline of leadership talent in order to comply with such regulations and minimize the risks related to filling leadership roles?

**A Drawhorn:** When it comes to filling leadership roles, I think it's crucial for organizations to adopt a build/buy strategy. There's typically a mix of both approaches: You develop some leaders internally, and you inevitably bring in some from the outside. Employers should purposely determine their target build/buy mix and plan their leadership pipelines accordingly.

For example, say your organization has significantly changed its business strategy, or say you're being pressured by activist investors to extract latent shareholder value. In either case, the organization will need significant transformation. So the senior executives should ask: Do we have the internal capability to execute this change, or do we need to bring in that capability from the outside, even if doing the latter is countercultural? Some organizations might hesitate to answer the question honestly because they assume they can shape and shift their existing leaders' attitudes, skills and behaviors.

Also, consider the fact that organizations need to have a degree of leadership churn, some of which should happen purposefully. If you don't have it — and you're not in a rapid growth phase — you aren't likely to have job opportunities for potential new leaders. New experiences are necessary to grow individuals' capabilities and skills. Without movement within the organization, emerging leaders miss opportunities to test, learn and make an impact in new ways.

**Q Jesuthasan:** Given an organization's culture and business model, how should the employer go about identifying and articulating the leadership talent requirements?

**A Drawhorn:** You need to answer a few questions: What do members of the senior executive team think about the organization's leadership needs in the context of its business strategy? Which leaders have gotten it right in recent years, and what's made them successful? And you'll need some market research to answer another question: How do successful companies get this right when they're thinking about their leaders?

Such information informs a very thorough process that involves deep analytics, leadership research, the documentation of leader requirements at each organizational level and market benchmarks that challenge assumptions.

**Jesuthasan:** And it really comes down to a couple of key questions: Are we building leadership capabilities that align with where we want our business to go? And are we building those capabilities at the optimal costs, while minimizing the risk of a need to pivot when market conditions change?

Organizations must continually assess whether their leaders are pointed in the right direction, with the right skills and the required breadth of capabilities. If they are, and then the business model changes, will they remain relevant or be ill-suited for the new scenario? Does the talent structure allow you to be nimble or agile in light of leaders' capabilities and the costs associated with developing the leadership talent pool?

From a risk management perspective, organizations must ensure that the talent profiles of their leader roles, as well as those of others roles, are sufficiently flexible to mitigate the negative effects of unforeseen shifts in the external environment.

**Sejen:** Regarding the importance of organizations being agile or nimble, we often find ourselves in conversations with clients about the pace of change in their organizations.

Whether those conversations are about the broad, macroeconomic trends affecting their company or the trends within their industry sector, the leadership skills that are needed today keep coming up. These include agile thinking, global operating skills, interpersonal and communication skills, relationship building, and of course, digital skills. These things are increasingly relevant and front of mind in many organizations. When you're developing leaders and measuring their effectiveness, these skills — and leaders' professional, people and pioneering capabilities — are what you need to build and track.

This is partly why the trends are to develop leaders who have broad experiences and to grow the talent already in the pipeline as potential leaders move up within the organization. This type of development yields strong engagement. It also creates leaders who can pivot quickly and nimbly to adjust to changes in both the external and internal environments, and to changes in the business's overall direction — leaders who can lead successfully in any number of scenarios.

Being able to assess a situation quickly and pivot effectively requires leaders not only to be agile, but also to have more creative thought processes than leaders have had historically — and be able to pivot while maintaining a sharp focus on managing risk, engaging the workforce and delivering results.

## About Willis Towers Watson

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