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Why do banks continue to waste talent?

By Brian Dive

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Editors' Note: The following article describes work based primarily on the theoretical concepts of Wilfred Brown and Elliott Jaques, further developed by David Billis and Ralph Rowbottom working in the Brunel Institute for Organisation and Social Studies. Brian Dive, a senior manager in Unilever's HR department, worked in tandem with David Billis as an external consultant to Unilever. Later they worked together at Tesco. Brian Dive directed, tailored, and supported the implementation of these concepts in these companies. He went on to write several books on how these concepts can be effectively implemented including a book-length case study of the work at Unilever entitled, "The Healthy Organization" and has consulted to numerous companies in different sectors and countries. The following article summarizes some of his insights about effective implementation under the name Decision Making Accountability (DMA), which is how he describes his own interpretation of the levels of work complexity.

Why do banks continue to waste talent?

Brian Dive

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Abstract

Purpose – *The purpose of this paper is to respond to a claim in a recent McKinsey publication (24 July 2008) that European banks are short of talent. The paper argues that banks generally waste talent. They are not short of talent. It argues, based on the author's book* The Accountable Leader, *also published in July 2008, that accountability is the key to effective leadership and management of talent.*

Design/methodology/approach – *The material is based on case study work done in a number of banks. The paper is therefore a blend of viewpoint, case study material and concepts. Although the initial focus is financial institutions, the theme is applied to other organizations. Supporting evidence of this viewpoint is provided from a 2007 Webcast for The Conference Board of New York. Case study material based on 40 years' experience in 70 countries, provides evidence of key concepts outlined: hierarchy heavy organizations, their misuse of grading systems and the reality of career dead ends as a result.*

Findings – *The paper demonstrates how the above problems lead to the stunted development of bonsai managers. This is a metaphor to illustrate the extent and reason for the waste of talent in banks for example, the root cause of which is their inability to accurately define accountability.*

Originality/value – *The paper sets out four pre-requisites for effective leadership. It argues that most CEOs do not know how to establish the first – an accountable organization. It debunks the superficial but popular myth about the shortage of talent. The real problem is the shortage of organizations, which know how to manage talent. They have too many leaders, not too few!*

Keywords *Management accountability, Hierarchical organizations, Job grading, Careers*

Paper type *Research paper*

Although a recent *McKinsey Quarterly* (24 July 2008) claims there is ''a talent shortage for European banks'' this is not the issue. The real issue is there is a shortage of banks that actually know how to manage the talent equation.

The great scandal of the twenty-first century is the waste of talent by banks that exceeds that of any other industry in the private sector.

The year 2008 has seen the CEOs of banks falling like nine pins. Managers in banks are highly paid. More of a bank's cost base is spent on its management than in any other industry. And yet these managers do not stand out as beacons of leadership. Why is this?

Despite the mantra, top pay clearly does not correlate with top talent.

I have consulted to banks in more than one country. The picture is alarmingly consistent and depressing. Financial institutions are notoriously weak at holding the leaders throughout their organizations to account. They are invariably over-managed with cluttered, unwieldy management structures, which produce forests of bonsai managers[1].

They seem to confuse the needs of compliance and 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.

> “**Waste of talent is always associated with waste of money.**”

Arguably these excesses grow because banks do not encounter the intensity of real competition evident in other industries such as retail and consumer goods for example. Less charitably, some might say ‘‘Mammon is their god’’ so talent and mammon cannot 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, unbeknown to top management (!) it had a hierarchy of more than ten layers in many parts of the organization.

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 management’’. It states in effect:

> 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!

But are only financial services companies at fault?

In 2007 I ran a WebCast for the New York Conference Board on the subject of the link between organization design and leadership.

In answer to a poll question, 72 percent 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 (wasting?) 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 (100) jobs; therefore they cannot construct reliable career paths for developing leaders and of course they are very wasteful organizations. 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 organizations.

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 in the twenty-first century this is still a common failing. Most companies are hierarchy heavy.

Worse than this though is the fact that even if companies 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 wasting talent. 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 HRDs.

Misuse of grading systems

Grading of jobs is another major issue[2]. Grading systems were originally implemented to help design equitable pay systems. They were never intended to be instruments of organization design and talent development. But most companies in the public and private sector have misused job evaluation schemes in this way.

Many organizations, 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 organization is given a separate grade – this amounts to grade driven organization 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 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 which creates an accountability blancmange. Broad-banding only works if is based on sound principles of accountability which are then priced in the talent marketplace[3].

Career dead ends

If an organization cannot identify its genetic code of decision zones it cannot build an architecture of accountable jobs. Fieldwork over the last 20 years has established that only one layer of management is needed for each decision making level above the front line. Without this laser an organization cannot identify its top 100 jobs. It relies on guesswork. This in turn means there are no reliable career paths for developing leaders.

Most so called career paths in hierarchy heavy, confused organizations 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 less than eight correlates with over layering.

This means the organization 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[4]. 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 that blocks it from growing. A bonsai manager is one who is unable to grow to full potential because he/she has been placed in a cluttered, top-heavy 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 secret of success in the knowledge age is the management of talent.”

The ‘‘fat or muscle’’ test

Much of the world is effectively now in recession. This is already evident in the behavior of a significant number of CEOs who are hell-bent on cost reduction because their top lines are not growing and their margins (and bonuses!!) are being squeezed.

But any fool can cut costs in a large organization. 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 he or she (or the HRD) cannot answer that question 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 HRDs are weak in the area of organization development (OD). By ‘‘OD’’ I am not referring simply to ‘‘training and development’’, which is the understanding of OD in the USA. I am referring to the agenda that entails the successful linking of purpose, strategy, people and organization design.

There are four critical components of effective OD that facilitates talent development.

1. An accountable job.
2. An organization structure with a minimum number of such jobs.
3. An individual with the requisite skills and abilities capable of discharging the accountabilities of the role in question.
4. 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 in an organization. The decision making accountability solution set provides the platform for the first two. The second two require a competency model that can identify the behaviors needed to succeed at each level of accountability. The behaviors must be linked to the components or ‘‘elements’’ that make up the levels of accountability[5].

The problem in reality is 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 organization 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 organization 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 organizations, which know how to manage and harness their talent. Too many are wasting talent.

Notes

1. A bonsai tree is one that has been blocked from growing to its full potential because it is placed in a small box which constrains its growth. Bonsai managers in banks are similarly constrained from reaching their full potential by their hierarchy heavy companies. See *The Case of the Bosai Manager* by R. Gopalakrishnan (2007).
2. I use the term ''grading'' synonymously with terms such as job evaluation and job classification.
3. For more detailed treatment of this problem see chapter 6 of my book, *The Healthy Organization*, Kogan Page (Dive, 2007).
4. See *The Case of the Bonsai Manager*, Gopalakrishnan (2007).
5. For those who are interested in pursuing this in greater depth, this approach is explained in *The Accountable Leader* (Dive, 2008).

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>
> Promoting among potential users of the methods, appreciation of the variety of uses and benefits of science-based management, and access to resources.

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