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ARTICLE COLLECTION

# The New Rules of Talent Management

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# HR GOES AGILE

BY PETER CAPPELLI AND ANNA TAVIS

Agile isn't just for tech anymore. It's been working its way into other areas and functions, from product development to manufacturing to marketing—and now it's transforming how organizations hire, develop, and manage their people.

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You could say HR is going "agile lite," applying the general principles without adopting all the tools and protocols from the tech world. It's a move away from a rules- and planning-based approach toward a simpler and faster model driven by feedback from participants. This new paradigm has really taken off in the area of performance management. (In a 2017 Deloitte survey, 79% of global executives rated agile performance management as a high organizational priority.) But other HR processes are starting to change too.

In many companies that's happening gradually, almost organically, as a spill-over from IT, where more than 90% of organizations already use agile practices. At the Bank of Montreal (BMO), for example, the shift began as tech employees joined cross-functional product-development teams to make the bank more customer focused. The business side has learned agile principles from IT colleagues, and IT has learned about customer needs from the business. One result is that BMO now thinks about performance management in terms of teams, not just individuals. Elsewhere the move to agile HR has been faster and more deliberate. GE is a prime example. Seen for many years as a paragon of management through control systems, it switched to FastWorks, a lean approach that cuts back on top-down financial controls and empowers teams to manage projects as needs evolve.

The changes in HR have been a long time coming. After World War II, when manufacturing dominated the industrial landscape, planning was at the heart of human resources: Companies recruited lifers, gave them rotational assignments to support their development, groomed them years in advance to take on bigger and bigger roles, and tied their raises directly to each incremental move up the ladder. The bureaucracy was the point: Organizations wanted their talent practices to be rules-based and internally consistent so that they could reliably meet five-year (and sometimes 15-year) plans. That made sense. Every other aspect of companies, from core businesses to administrative functions, took the long view in their goal setting, budgeting, and operations. HR reflected and supported what they were doing.

By the 1990s, as business became less predictable and companies needed to acquire new skills fast, that traditional approach began to bend—but it didn't quite break. Lateral hiring from the outside—to get more flexibility—replaced a good deal of the internal development and promotions. "Broadband" compensation gave managers greater latitude to reward people for growth and achievement within roles. For the most part, though, the old model persisted. Like other functions, HR was still built around the long term. Workforce and succession planning carried on, even though changes in the economy and in the business often rendered those plans irrelevant. Annual appraisals continued, despite almost universal dissatisfaction with them.

Now we're seeing a more sweeping transformation. Why is this the moment for it? Because rapid innovation has become a strategic imperative for most companies, not just a subset. To get it, businesses have looked to Silicon Valley and to software companies in particular, emulating their agile practices for managing projects. So top-down planning models are giving way to nimbler, user-driven methods that are better suited for adapting in the near term, such as rapid prototyping, iterative feedback, team-based decisions, and task-centered "sprints." As BMO's chief transformation officer, Lynn Roger, puts it, "Speed is the new business currency."

With the business justification for the old HR systems gone and the agile playbook available to copy, people management is finally getting its long-awaited overhaul too. In this article we'll illustrate some of the profound changes companies are making in their talent practices and describe the challenges they face in their transition to agile HR.

### IN BRIEF

**THE REASON FOR THE SHIFT**
Companies' core businesses and functions have largely replaced long-range planning models with nimbler methods that allow them to adapt and innovate more quickly. HR is starting to use agile talent practices to reflect and support what the rest of the organization is doing.

**THE AREAS OF TRANSFORMATION**
Organizations are radically changing how they manage performance and evaluate talent, what skills they emphasize and develop, how they approach recruitment and rewards, and what they do to facilitate learning.

## WHERE WE'RE SEEING THE BIGGEST CHANGES

Because HR touches every aspect—and every employee—of an organization, its agile transformation may be even more extensive (and more difficult) than the changes in other functions. Companies are redesigning their talent practices in the following areas:

**Performance appraisals.** When businesses adopted agile methods in their core operations, they dropped the charade of trying to plan a year or more in advance how projects would go and when they would end. So in many cases the first traditional HR practice to go was the annual performance review, along with employee goals that "cascaded" down from business and unit objectives each year. As individuals worked on shorter-term projects of various lengths, often run by different leaders and organized around teams, the notion that performance feedback would come once a year, from one boss, made little sense. They needed more of it, more often, from more people.

An early-days CEB survey suggested that people actually got *less* feedback and support when their employers dropped annual reviews. However, that's because many companies put nothing in their place. Managers felt no pressing need to adopt a new feedback model and shifted their attention to other priorities. But dropping appraisals without a plan to fill the void was of course a recipe for failure.

Since learning that hard lesson, many organizations have switched to frequent performance assessments, often conducted project by project. This change has spread to a number of industries, including retail (Gap), big pharma (Pfizer), insurance (Cigna), investing (OppenheimerFunds), consumer products (P&G), and accounting (all Big Four firms). It is most famous at GE, across the firm's range of businesses, and at IBM. Overall, the focus is on delivering more-immediate feedback throughout the year so that teams can become nimbler, "course-correct" mistakes, improve performance, and learn through iteration—all key agile principles.

In user-centered fashion, managers and employees have had a hand in shaping, testing, and refining new processes. For instance, Johnson & Johnson offered its businesses the chance to participate in an experiment: They could try out a new continual-feedback process, using a customized app with which employees, peers, and bosses could exchange comments in real time.

The new process was an attempt to move away from J&J's event-driven "five conversations" framework (which focused on goal setting, career discussion, a midyear performance review, a year-end appraisal, and a compensation review) and toward a model of ongoing dialogue. Those who tried it were asked to share how well everything worked, what the bugs were, and so on. The experiment lasted three months. At first only 20% of the managers in the pilot actively participated. The inertia from prior years of annual appraisals was hard to overcome. But then the company used training to show managers what good feedback could look like and designated "change champions" to model the desired behaviors on their teams. By the end of the three months, 46% of managers in the pilot group had joined in, exchanging 3,000 pieces of feedback.

Regeneron Pharmaceuticals, a fast-growing biotech company, is going even further with its appraisals overhaul. Michelle Weitzman-Garcia, Regeneron's head of workforce development, argued that the performance of the scientists working on drug development, the product supply group, the field sales force, and the corporate functions should not be measured on the same cycle or in the same way. She observed that these employee groups needed varying feedback and that they even operated on different calendars.

So the company created four distinct appraisal processes, tailored to the various groups' needs. The research scientists and postdocs, for example, crave metrics and are keen on assessing competencies, so they meet with managers twice a year for competency evaluations and milestones reviews. Customer-facing groups include feedback from clients and customers in their assessments. Although having to manage four separate processes adds complexity, they all reinforce the new norm of continual feedback. And Weitzman-Garcia says the benefits to the organization far outweigh the costs to HR.

## WHY INTUIT'S TRANSITION TO AGILE ALMOST STALLED OUT

The financial services division at Intuit began shifting to agile in 2009—but four years went by before that became standard operating procedure across the company.

What took so long? Leaders started with a "waterfall" approach to change management, because that's what they knew best. It didn't work. Spotty support from middle management, part-time commitments to the team leading the transformation, scarce administrative resources, and an extended planning cycle all put a big drag on the rollout.

Before agile could gain traction throughout the organization, the transition team needed to take an agile approach to *becoming* agile and managing the change. Looking back, Joumana Youssef, one of Intuit's strategic-change leaders, identifies several critical discoveries that changed the course—and the speed—of the transformation:

- Focus on early adopters. Don't waste time trying to convert naysayers.
- Form "triple-S" (small, stable, self-managed) teams, give them ownership of their work, and hold them accountable for their commitments.
- Quickly train leaders at all levels in agile methods. Agile teams need to be fully supported to self-manage.
- Expect that changing frontline and middle management will be hard, because people in those roles need time to acclimate to "servant leadership," which is primarily about coaching and supporting employees rather than monitoring them.
- Stay the course. Even though agile change is faster than a waterfall approach, shifting your organization's mindset takes persistence.

**Coaching.** The companies that most effectively adopt agile talent practices invest in sharpening managers' coaching skills. Supervisors at Cigna go through "coach" training designed for busy managers: It's broken into weekly 90-minute videos that can be viewed as people have time. The supervisors also engage in learning sessions, which, like "learning sprints" in agile project management, are brief and spread out to allow individuals to reflect and test-drive new skills on the job. Peer-to-peer feedback is incorporated in Cigna's manager training too: Colleagues form learning cohorts to share ideas and tactics. They're having the kinds of conversations companies want supervisors to have with their direct reports, but they feel freer to share mistakes with one another, without the fear of "evaluation" hanging over their heads.

DigitalOcean, a New York–based start-up focused on software as a service (SaaS) infrastructure, engages a full-time professional coach on-site to help all managers give better feedback to employees and, more broadly, to develop internal coaching capabilities. The idea is that once one experiences good coaching, one becomes a better coach. Not everyone is expected to become a great coach—those in the company who prefer coding to coaching can advance along a technical career track—but coaching skills are considered central to a managerial career.

P&G, too, is intent on making managers better coaches. That's part of a larger effort to rebuild training and development for supervisors and enhance their role in the organization. By simplifying the performance review process, separating evaluation from development discussions, and eliminating talent calibration sessions (the arbitrary horse trading between supervisors that often comes with a subjective and politicized ranking model), P&G has freed up a lot of time to devote to employees' growth. But getting supervisors to move from judging employees to coaching them in their day-to-day work has been a challenge in P&G's tradition-rich culture. So the company has invested heavily in training supervisors on topics such as how to establish employees' priorities and goals, how to provide feedback about contributions, and how to align employees' career aspirations with business needs and learning and development plans. The bet is that building employees' capabilities and relationships with supervisors will increase engagement and therefore help the company innovate and move faster. Even though the jury is still out on the companywide culture shift, P&G is already reporting improvements in these areas, at all levels of management.

**Teams.** Traditional HR focused on individuals—their goals, their performance, their needs. But now that so many companies are organizing their work project by project, their management and talent systems are becoming more team focused. Groups are creating, executing, and revising their goals and tasks with scrums—at the team level, in the moment, to adapt quickly to new information as it comes in. ("Scrum" may be the best-known term in the agile lexicon. It comes from rugby, where players pack tightly together to restart play.) They are also taking it upon themselves to track their own progress, identify obstacles, assess their leadership, and generate insights about how to improve performance.

In that context, organizations must learn to contend with:

*Multidirectional feedback.* Peer feedback is essential to course corrections and employee development in an agile environment, because team members know better than anyone else what each person is contributing. It's rarely a formal process, and comments are generally directed to the employee, not the supervisor. That keeps input constructive and prevents the undermining of colleagues that sometimes occurs in hypercompetitive workplaces.

But some executives believe that peer feedback should have an impact on performance evaluations. Diane Gherson, IBM's head of HR, explains that "the relationships between managers and employees change in the context of a network [the collection of projects across which employees work]." Because an agile environment makes it practically impossible to "monitor" performance in the old sense, managers at IBM solicit input from others to help them identify and address issues early on. Unless it's sensitive, that input is shared in the team's daily stand-up meetings and captured in an app. Employees may choose whether to include managers and others in their comments to peers. The risk of cutthroat behavior is mitigated by the fact that peer comments to the supervisor also go to the team. Anyone trying to undercut colleagues will be exposed.

In agile organizations, "upward" feedback from employees to team leaders and supervisors is highly valued too. The Mitre Corporation's not-for-profit research centers have taken steps to encourage it, but they're finding that this requires concentrated effort. They started with periodic confidential employee surveys and focus groups to discover which issues people wanted to discuss with their managers. HR then distilled that data for supervisors to inform their conversations with direct reports. However, employees were initially hesitant to provide upward feedback—even though it was anonymous and was used for development purposes only—because they weren't accustomed to voicing their thoughts about what management was doing.

Mitre also learned that the most critical factor in getting subordinates to be candid was having managers explicitly say that they wanted and appreciated comments. Otherwise people might worry, reasonably, that their leaders weren't really open to feedback and ready to apply it. As with any employee survey, soliciting upward feedback and not acting on it has a diminishing effect on participation; it erodes the hard-earned trust between employees and their managers. When Mitre's new performance-management and feedback process began, the CEO acknowledged that the research centers would need to iterate and make improvements. A revised system for upward feedback will roll out this year.

Because feedback flows in all directions on teams, many companies use technology to manage the sheer volume of it. Apps allow supervisors, coworkers, and clients to give one another immediate feedback from wherever they are. Crucially, supervisors can download all the comments later on, when it's time to do evaluations. In some apps, employees and supervisors can score progress on goals; at least one helps managers analyze conversations on project management platforms like Slack to provide feedback on collaboration. Cisco uses proprietary technology to collect weekly raw data, or "breadcrumbs," from employees about their peers' performance. Such tools enable managers to see fluctuations in individual performance over time, even within teams. The apps don't provide an official record of performance, of course, and employees may want to discuss problems face-to-face to avoid having them recorded in a file that can be downloaded. We know that companies recognize and reward improvement as well as actual performance, however, so hiding problems may not always pay off for employees.

*Frontline decision rights.* The fundamental shift toward teams has also affected decision rights: Organizations are pushing them down to the front lines, equipping and empowering employees to operate more independently. But that's a huge behavioral change, and people need support to pull it off. Let's return to the Bank of Montreal example to illustrate how it can work. When BMO introduced agile teams to design some new customer services, senior leaders weren't quite ready to give up control, and the people under them were not used to taking it. So the bank embedded agile coaches in business teams. They began by putting everyone, including high-level executives, through "retrospectives"—regular reflection and feedback sessions held after each iteration. These are the agile version of after-action reviews; their purpose is to keep improving processes. Because the retrospectives quickly identified concrete successes, failures, and root causes, senior leaders at BMO immediately recognized their value, which helped them get on board with agile generally and loosen their grip on decision making.

*Complex team dynamics.* Finally, since the supervisor's role has moved away from just managing individuals and toward the much more complicated task of promoting productive, healthy team dynamics, people often need help with that, too. Cisco's special Team Intelligence unit provides that kind of support. It's charged with identifying the company's best-performing teams, analyzing how they operate, and helping other teams learn how to become more like them. It uses an enterprise-wide platform called Team Space, which tracks data on team projects, needs, and achievements to both measure and improve what teams are doing within units and across the company.

**Compensation.** Pay is changing as well. A simple adaptation to agile work, seen in retail companies such as Macy's, is to use spot bonuses to recognize contributions when they happen rather than rely solely on end-of-year salary increases. Research and practice have shown that compensation works best as a motivator when it comes as soon as possible after the desired behavior. Instant rewards reinforce instant feedback in a powerful way. Annual merit-based raises are less effective, because too much time goes by.

Patagonia has actually eliminated annual raises for its knowledge workers. Instead the company adjusts wages for each job much more frequently, according to research on where market rates are going. Increases can also be allocated when employees take on more-difficult projects or go above and beyond in other ways. The company retains a budget for the top 1% of individual contributors, and supervisors can make a case for any contribution that merits that designation, including contributions to teams.

Compensation is also being used to reinforce agile values such as learning and knowledge sharing. In the start-up world, for instance, the online clothing-rental company Rent the Runway dropped separate bonuses, rolling the money into base pay. CEO Jennifer Hyman reports that the bonus program was getting in the way of honest peer feedback. Employees weren't sharing constructive criticism, knowing it could have negative financial consequences for their colleagues. The new system prevents that problem by "untangling the two," Hyman says.

DigitalOcean redesigned its rewards to promote equitable treatment of employees and a culture of collaboration. Salary adjustments now happen twice a year to respond to changes in the outside labor market and in jobs and performance. More important, DigitalOcean has closed gaps in pay for equivalent work. It's deliberately heading off internal rivalry, painfully aware of the problems in hypercompetitive cultures (think Microsoft and Amazon). To personalize compensation, the firm maps where people are having impact in their roles and where they need to grow and develop. The data on individuals' impact on the business is a key factor in discussions about pay. Negotiating to raise your own salary is fiercely discouraged. And only the top 1% of achievement is rewarded financially; otherwise, there is no merit-pay process. All employees are eligible for bonuses, which are based on company performance rather than individual contributions. To further support collaboration, DigitalOcean is diversifying its portfolio of rewards to include nonfinancial, meaningful gifts, such as a Kindle loaded with the CEO's "best books" picks.

How does DigitalOcean motivate people to perform their best without inflated financial rewards? Matt Hoffman, its vice president of people, says it focuses on creating a culture that inspires purpose and creativity. So far that seems to be working. The latest engagement survey, via Culture Amp, ranks DigitalOcean 17 points above the industry benchmark in satisfaction with compensation.

**Recruiting.** With the improvements in the economy since the Great Recession, recruiting and hiring have become more urgent—and more agile. To scale up quickly in 2015, GE's new digital division pioneered some interesting recruiting experiments. For instance, a cross-functional team works together on all hiring requisitions. A "head count manager" represents the interests of internal stakeholders who want their positions filled quickly and appropriately. Hiring managers rotate on and off the team, depending on whether they're currently hiring, and a scrum master oversees the process.

To keep things moving, the team focuses on vacancies that have cleared all the hurdles—no req's get started if debate is still ongoing about the desired attributes of candidates. Openings are ranked, and the team concentrates on the top-priority hires until they are completed. It works on several hires at once so that members can share information about candidates who may fit better in other roles. The team keeps track of its cycle time for filling positions and monitors all open requisitions on a kanban board to identify bottlenecks and blocked processes. IBM now takes a similar approach to recruitment.

Companies are also relying more heavily on technology to find and track

> **"Upward" feedback from employees to team leaders is valued in agile organizations. But it takes work—people aren't used to voicing opinions about management.**

candidates who are well suited to an agile work environment. GE, IBM, and Cisco are working with the vendor Ascendify to create software that does just this. The IT recruiting company HackerRank offers an online tool for the same purpose.

**Learning and development.** Like hiring, L&D had to change to bring new skills into organizations more quickly. Most companies already have a suite of online learning modules that employees can access on demand. Although helpful for those who have clearly defined needs, this is a bit like giving a student the key to a library and telling her to figure out what she must know and then learn it. Newer approaches use data analysis to identify the skills required for particular jobs and for advancement and then suggest to individual employees what kinds of training and future jobs make sense for them, given their experience and interests.

IBM uses artificial intelligence to generate such advice, starting with employees' profiles, which include prior and current roles, expected career trajectory, and training programs completed. The company has also created special training for agile environments—using, for example, animated simulations built around a series of "personas" to illustrate useful behaviors, such as offering constructive criticism.

Traditionally, L&D has included succession planning—the epitome of top-down, long-range thinking, whereby individuals are picked years in advance to take on the most crucial leadership roles, usually in the hope that they will develop certain capabilities on schedule. The world often fails to cooperate with those plans, though. Companies routinely find that by the time senior leadership positions open up, their needs have changed. The most common solution is to ignore the plan and start a search from scratch. But organizations often continue doing long-term succession planning anyway. (About half of large companies have a plan to develop successors for the top job.) Pepsi is one company taking a simple step away from this model by shortening the time frame. It provides brief quarterly updates on the development of possible successors—in contrast to the usual annual updates—and delays appointments so that they happen closer to when successors are likely to step into their roles.

## ONGOING CHALLENGES

To be sure, not every organization or group is in hot pursuit of rapid innovation. Some jobs must remain largely rules based. (Consider the work that accountants, nuclear control-room operators, and surgeons do.) In such cases agile talent practices may not make sense.

And even when they're appropriate, they may meet resistance—especially within HR. A lot of processes have to change for an organization to move away from a planning-based, "waterfall" model (which is linear rather than flexible and adaptive), and some of them are hardwired into information systems, job titles, and so forth. The move toward cloud-based IT, which is happening independently, has made it easier to adopt app-based tools. But people issues remain a sticking point. Many HR tasks, such as traditional approaches to recruitment, onboarding, and program coordination, will become obsolete, as will expertise in those areas.

Meanwhile, new tasks are being created. Helping supervisors replace judging with coaching is a big challenge not just in terms of skills but also because it undercuts their status and formal authority. Shifting the focus of management from individuals to teams may be even more difficult, because team dynamics can be a black box to those who are still struggling to understand how to coach individuals. The big question is whether companies can help managers take all this on and see the value in it.

The HR function will also require reskilling. It will need more expertise in IT support—especially given all the performance data generated by the new apps—and deeper knowledge about teams and hands-on supervision. HR has not had to change in recent decades nearly as much as have the line operations it supports. But now the pressure is on, and it's coming from the operating level, which makes it much harder to cling to old talent practices.

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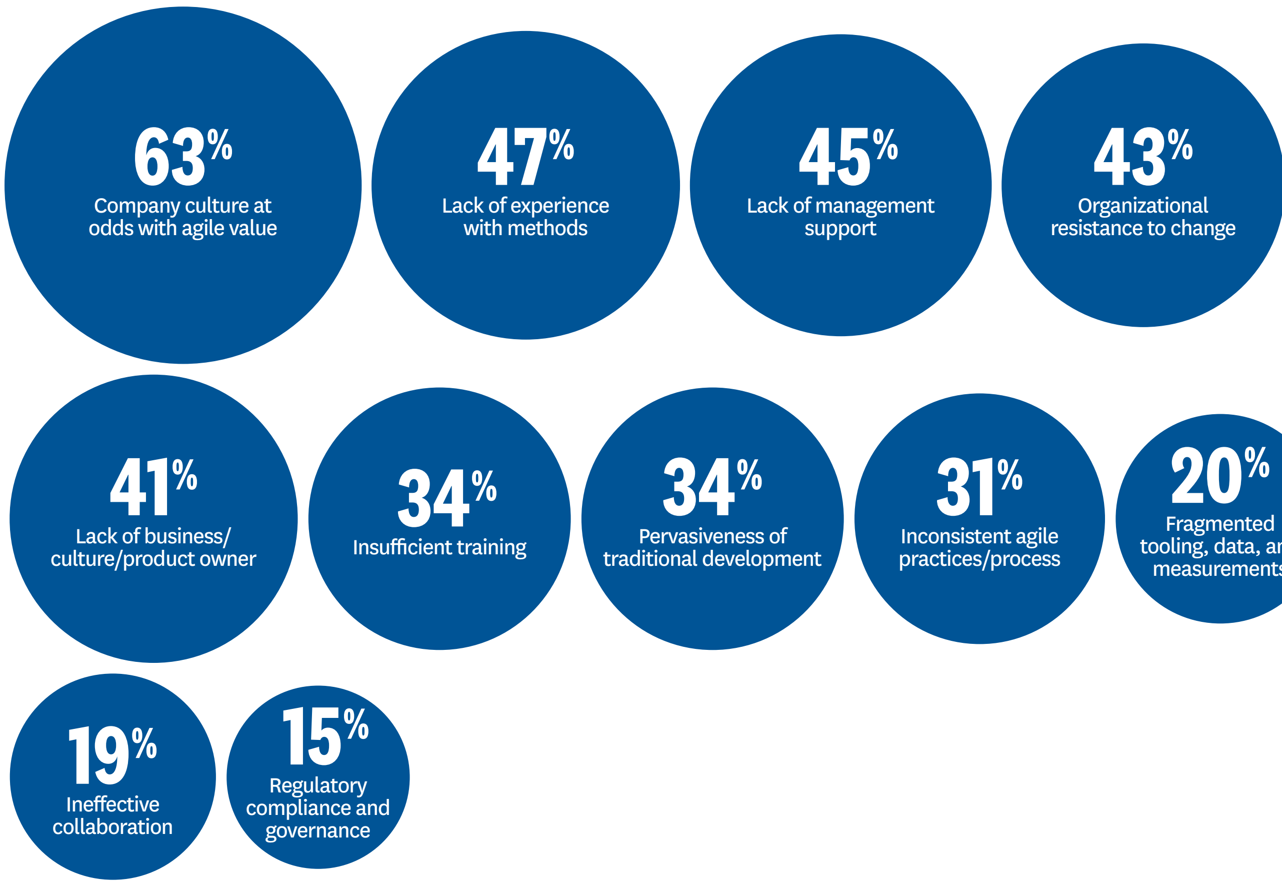
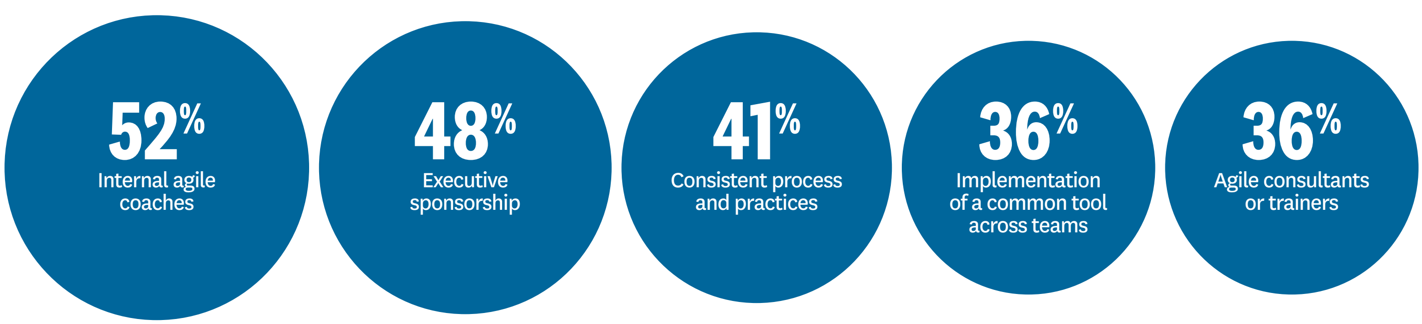
# What HR Can Learn from Tech

The agile pioneers in the tech world are years ahead of everyone else in adopting the methodology at scale. So who better to provide guidance as managers and HR leaders grapple with how to apply agile talent practices throughout their organizations? In a recent survey, thousands of software developers across many countries and industries identified their biggest obstacles in scaling and the ways they got past them.

## TOP CHALLENGES WITH SCALING…




## …AND ELEMENTS NEEDED FOR SUCCESS




**NOTE** RESPONDENTS COULD MAKE MULTIPLE SELECTIONS. **SOURCE** VERSIONONE'S 2016 STATE OF AGILE SURVEY

# Co-Creating the Employee Experience

## A CONVERSATION WITH DIANE GHERSON, IBM'S HEAD OF HR

BY LISA BURRELL

Companies that are adopting agile talent practices are giving a lot of thought to how employees experience the workplace—in some ways, treating them like customers. Diane Gherson, the chief human resources officer at IBM, recently spoke with HBR about how that's playing out as the iconic tech company revamps its business model. Edited excerpts follow.

**HBR: In what sense is IBM putting employee experience at the center of people management?**

**GHERSON:** Like a lot of other companies, we started with the belief that if people felt great about working with us, our clients would too. That wasn't a new thought, but it's certainly one we took very seriously, going back about four or five years. We've since seen it borne out. We've found that employee engagement explains two-thirds of our client experience scores. And if we're able to increase client satisfaction by five points on an account, we see an extra 20% in revenue, on average. So clearly there's an impact. That's the business case for the change.

But it has required a shift in mindset. Before, we tended to rely on experts to build our HR programs. Now we bring employees into the design process, co-create with them, and iterate over time so that we meet people's needs.

**What does that look like in practice?**

A good example is employee onboarding—the first process we took a very hard look at. We knew we wanted people to walk out thinking, "I'm superexcited I'm here, and I understand what I need to know to get going." But we started too small. We approached it in a traditional way that made it all about the orientation class, all about the experience you have on your first day. Once we began asking new hires how their onboarding had gone, we heard things like "I didn't get my laptop on time," or "I couldn't get my credit card in time to get to my first meeting," or "I had problems accessing the internal network." All those things affect how someone feels about having joined the company.

Once you realize that, the remit for the onboarding team becomes how people experience the whole process, end to end.

COLORMOS/GETTY IMAGES

To get it right, you have to work with a broader set of players. You bring in Security to make sure the ID badges are there. You bring in Real Estate to make sure people have a physical space and know where to go. You bring in Networking to make sure their remote access is up and running. All that is part of onboarding. It's not just having a great meeting with a bunch of other new hires on your first day.

It took a while for us to understand that. You have to broaden your scope and stop thinking in silos in order to create a great employee experience.

**How has IBM's approach to learning and development changed?**

People consume content on their phones and tablets now—they use YouTube and TED talks to get up to speed on things they don't know. So we had to put aside our traditional learning-management system and think differently about education and development. Again, we brought in our Millennials, brought in our users, and codesigned a learning platform that is individually personalized for every one of our 380,000 IBMers.

It's tailored by role, with intelligent recommendations that are continually updated. And it's organized sort of like Netflix, with different channels. You can see how others have rated the various offerings. There's also a live-chat adviser, who helps learners in the moment.

We measure HR offerings such as learning with a Net Promoter Score—the ultimate metric for an irresistible experience. Before, we used a classic five-point satisfaction scale. Even if someone rated you a 3.1, you ended up saying they were satisfied, whereas with Net Promoter, you have to be at the far end of the scale for it to mean anything, because you have to subtract all the detractors. It's much harder to get that, and it gives you much better feedback on what people are experiencing. For learning, at last count, our NPS was 60. That's in the "excellent" range, but of course there's still room to improve.

**What kinds of tools do you use to customize learning?**

With Watson Analytics, we're able to infer people's expertise from their digital footprint inside the company, and we compare that with where they should be in their particular job family. The system is cognitive, so it knows you—it has ingested the data about your skills and is able to give you personalized learning recommendations. It tells you, "OK, you need to increase your depth in these areas—and here are the offerings that will help you do that." You can then pin those or queue them up in your calendar for future learning. The system also looks at how close you may be to earning a digital badge, which we've started using in just the past couple of years to demonstrate which employees have applied skills. The tool then helps you achieve the badge by recommending specific webinars and internal and external courses. It's all based on artificial intelligence. Skills inference is at about 96% accuracy at this point.

**How do you know that?**

We used to have this laborious manual process of getting people to fill out skills questionnaires and having their managers sign off on them. But that gets outdated really fast. So we stopped doing that. Instead, leaders in particular job families or industries do spot checks on how well we are inferring. They interview employees and identify where they are, comparing that with what the inference was in our system.

**IBM has given its performance management system an overhaul as well. How have employees been involved in that process?**

As you know, performance management is kind of a lightning rod in most companies. Rather than do the typical thing—which would be to do some benchmarking, pull together a bunch of experts, come up with a new design, and pilot it—we decided to go all out and co-create it with our employees in a sort of extended hackathon. We used design thinking and came up with what you might describe as a "concept car"—something for people to test drive and kick the tires on, instead of just dealing with concepts. We did that in the summer of 2015 and implemented it across the company five months later. That's the power of engaging the whole workforce—people are much less likely to resist the change when they've had a hand in shaping it.

To start the co-creation process, I blogged about it one day and said, "We'd love your input. If you hate it, we'll start over, no problem. But we really want your thoughts." We made a few videos about what we thought it might look like. I got 18,000 responses overnight. Fortunately, we had the technology to analyze it all and see what people liked and didn't like.

At first some people said, "This is such a sham—you already know what you want to do." But we explained that we really wanted to hear from them, and we got them into various discussion forums. It took a while, but I think we did turn them around. We kept communicating, saying, "OK, you liked this; you didn't like that. And here are areas where you can't seem to agree." Meanwhile, we were putting together prototypes to show people.

I was clear up front that there were some ground rules. For example, we were not going to get rid of performance discussions, and we wanted pay-for-performance. But in general, it was wide open. The whole process took less time than most companies take to redesign their performance management programs, and we involved about 100,000 employees. Finally, we asked, "What do you want to call it?" Tens of thousands of people

"People are much less likely to resist the change when they've had a hand in shaping it."

PHOTOGRAPHY BY SALLY MONTANA

voted. We had three names in the end, and Checkpoint was selected.

Performance management can never be perfect. But your baby is never ugly. Our employees created their own program, and there is pride in that. You can see it in their ongoing blogs, where we ask them to talk about what's working and what's not and to tell us how we can improve the system. We've been doing that ever since we put it out there. Their overall message has been "This is what we wanted." It was cited as the top reason engagement improved. People are getting much more feedback out of this system, in much richer ways. And more important, they are not feeling like spectators in our transformation; they are active participants.

"We've been able to swiftly detect problems and commit to doing something about them."

**How are you using "sentiment analysis" to further address employees' needs?**
Sentiment analysis is very helpful in a world where people are always commenting online. Our cognitive technology looks at the words people choose and picks up the tone. It identifies whether it's positive or negative and then goes deeper, saying whether it's strongly positive or strongly negative. In that way it's almost like looking at music—seeing where there are very high notes or very low notes that are loud. It's always behind our firewall, never external. It's not looking at any of the information people pass around or at their e-mail content or browsing behavior. It's just looking at tone in their blogs and comments inside the firewall.

With this approach you can pick up pretty quickly if there's an area you need to dive into. We've been able to swiftly detect problems that are starting to brew and, more important, make a commitment to do something about them. This is the most exciting part of having a social platform to work with. We've had several examples of things we did wrong. Some of my folks decided we wouldn't reimburse for ridesharing. Employees became agitated, and I could quickly respond to a concern that had turned into a petition. "I read all your comments," I told them, "and you made some great points we hadn't thought of. We were trying to look out for your security, but on balance, this wasn't the right choice. Let's return to our original policy." All this happened within 24 hours. People felt listened to and were very appreciative.

We had a similar situation about a year ago. We had to impute income when you were traveling to a client site for a full week and, instead of returning home right away, you had your spouse or a friend join you for the weekend. Because we would reimburse the guest's travel, it created a tax issue. We altered the program because that was getting messy, and again employees were incensed. I can certainly understand why. If you're on the road all the time, of course you might want your spouse to join you for a weekend. People didn't want us making the decision for them. That was another case where we quickly got together and said, "Hey, if they want to be responsible for their own taxes, they can do it." It was a good wake-up call for us to not be so paternalistic.

In organizations where people aren't physically all together, you can use sentiment analysis to get a sense of where you've got trouble spots, where your management isn't strong enough, where groups of people are expressing negative opinions. It allows you to check in on those sites or groups and find out what's going on.

**Do employees have more power now than in the past?**
Yes. So much more weight is now given to what is said inside an organization, because it can be heard outside as well, through social media. Glassdoor is a perfect example. In the past you might have had companies that weren't great to work for, but only a small circle of people knew about it. Now the whole world knows about it, because it's on Glassdoor—and that's turned companies into glass houses. People can look in and see what's going on and make judgments about whether they want to work there in a way that they weren't able to before.

**Let's go back to the business reasons behind IBM's shift to agile talent practices—can you say more about those?**
I mentioned client satisfaction. Clients today are looking for speed and responsiveness like never before. In an earlier era what they really wanted was the best product at the best price—efficiency was important, but speed was less so.

In the early 2000s we would have staffed a project with experts from all over the world, and they would have spent a fraction of their time on that project, because they were also working on other projects. They would have joined conference calls, which is always hard because people are in different time zones. And I'm sure they were multitasking while they were on those calls. That project might have taken six months to a year. Now we would take a smaller group of dedicated people and put them together for three months, and they would get it all done using agile methodology. It's a different way of thinking about how to create value for clients. It responds to their need for speed.

**Is there some hope that an agile approach to talent will help IBM make up ground in revenue and growth that it lost in its transition to cloud computing and other businesses?**
We're a company that's transforming itself: 45% of our revenue comes from businesses we were not in five years ago, and we are an $80 billion company. When you're going through that kind of shift and seeing a downturn in some of your legacy businesses, and you're renovating those while you're launching new businesses, you may see some unevenness in performance. You're basically changing the tires while you're driving the car. And yes, that takes agility.

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# One Bank's Agile Team Experiment

## HOW ING REVAMPED ITS RETAIL OPERATION

BY DOMINIC BARTON, DENNIS CAREY, AND RAM CHARAN

When web and mobile technologies disrupted the banking industry, consumers became more and more aware of what they could do for themselves. They quickly embraced what Ralph Hamers, CEO of the global banking group ING, calls "banking on the go."

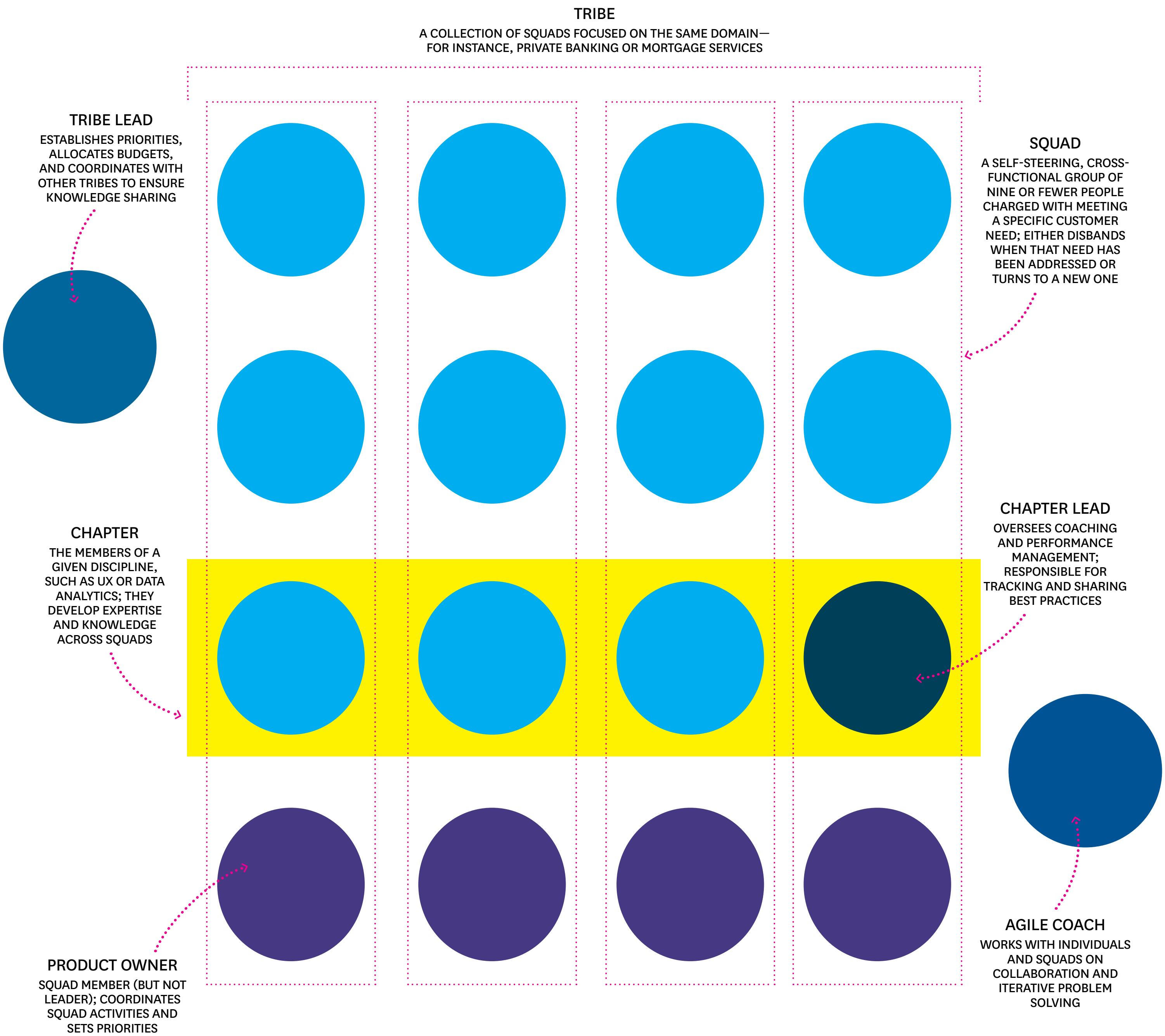
By 2014 about 40% of all interactions with ING retail customers were coming in through mobile apps. (Now the figure is closer to 60%—and branch visits and calls to contact centers have dropped below 1%.) Even then mobile customers expected easy access to up-to-date information whenever and wherever they logged in. For instance, someone who started a loan transaction during the train ride home from work wanted to be able to continue it on a desktop that night. "Our customers were spending most of their online time on platforms like Facebook and Netflix," says Hamers. "Those set the standard for user experience."

That meant ING needed to become nimbler and more user-focused to serve its 30 million–plus customers across the world at every point in their financial journeys.

So Hamers worked with Nick Jue, then the CEO of ING's Netherlands group, to launch a pilot transformation in the headquarters of ING's largest unit, its Dutch retail operations. The first step was to help other senior leaders and the board envision a new agile, team-based system for deploying, developing, and assessing talent. (ING had already adopted agile and scrum methodologies in its Dutch IT unit, but those ways of working were new to other parts of the organization.) Hamers and his leadership team then met with people at tech companies they admired, learning how their talent systems enabled better customer service. By the spring of 2015 the headquarters of ING Netherlands, home to some 3,500 full-time employees, had replaced most of its traditional structure

## Tribes, Squads, and Chapters

ING's new agile system for deploying talent and managing performance organizes people by domain, customer need, and function. After experimenting with this structure in its Dutch retail unit, the company decided to roll it out more broadly.




**SOURCE** ING

with a fluid, agile organization composed of *tribes, squads,* and *chapters.*

Thirteen tribes were created to address specific domains, such as mortgage services, securities, and private banking. Each tribe contains up to 150 people. (Employees in sales, service, and support functions work outside this structure—in smaller customer-loyalty teams, for instance—but they collaborate with the tribes.) And each has a lead who establishes priorities, allocates budgets, and ensures that knowledge and insights are shared both within and across tribes.

The tribe lead has one other critical responsibility: to create, with input from tribe members, self-steering squads of nine or fewer people to address specific customer needs by delivering and maintaining new products and services. These squads are cross-disciplinary—typically, a mix of marketing specialists, data analysts, user-experience designers, IT engineers, and product specialists. One squad member is designated the "product owner," responsible for coordinating activities and setting priorities. The squad stays together as long as is required to meet the customer need from start to finish—whether it is, for example, improving user experience on the mobile app or building a particular feature. Some tasks are completed in two weeks; others might take 18 months. Sometimes the squads disband and the members join other ones. Most often, however, squads that are working well stay together and move on to address other customer needs.

By working in such small units and with colleagues from various disciplines, squad members can quickly resolve issues that might previously have bounced from department to department. Information sharing is encouraged through mechanisms such as scrums and daily stand-ups—the kinds of gatherings you'd find at a tech start-up. Seeing a project through from start to finish gives each squad a sense of ownership and connection to the customer.

Implementing an agile talent system doesn't mean embracing chaos. In fact, a system that's well designed observes clearly defined rules and safeguards to ensure institutional stability. Every tribe, for example, has a couple of agile coaches to help squads and individuals collaborate effectively in an environment where employees are encouraged to solve problems on the ground rather than pass them on to someone else. Although you might think adapting would be most difficult for long-term bank employees, that's not so, according to ING Netherlands CIO Peter Jacobs. Many of them "adapted even more quickly and more readily than the younger generation," he says, perhaps because their expertise now has more impact than in the past, when so many sign-offs were required.

Then there are the chapters, which coordinate members of the same discipline—data analytics, say, or systems processes—who are scattered among squads. Chapter leads are responsible for tracking and sharing best practices and for such things as professional development and performance reviews. Think of chapters as a way of retaining the helpful parts of traditional management even while dispensing with time-consuming handoffs and bureaucracy.

**Working in small, cross-functional units, squads can resolve issues far more quickly than in the past.**

Regular assessments are built into the system. Every two weeks squads review their work. Says Hamers, "They get to decide how they will continue to improve the product for our customers, or if they want to 'fail fast.'" (Learning from failure is applauded.) Squads also do a thorough self-assessment after completing any engagement, and tribes perform quarterly business reviews (QBRs), looking at their biggest successes and failures, reviewing their most important learnings, and articulating goals for the next three months.

These safeguards help counter what Vincent van den Boogert, the current CEO of ING Netherlands (and part of the team that launched the new organizational structure), sees as the two biggest challenges of a squad-based system. One is the possibility that self-empowered squads responding primarily to the needs of customers might embark on changes that aren't in sync with company strategy. The QBRs mitigate that risk. The second challenge is somewhat counterintuitive. Self-evaluating squads are sometimes content with the incremental improvements they make every two weeks. The QBRs help in that regard, too, because top management uses them to formulate and reinforce stretch goals.

More than two years in, Hamers considers the talent experiment a big success. Customer satisfaction and employee engagement are both up, and ING is quicker to market with new products. So the bank has started to roll out this new way of working to the roughly 40,000 employees outside its home country. For Hamers, the change can't come soon enough. The apps for each of ING's 13 retail markets vary in appearance, design, and function. Hamers wants to make things much simpler so that any customer, anywhere, will encounter the same ING. "Tech companies have one platform across the globe," he says. "No matter where you use Netflix, Facebook, or Google, you get the same service. ING must do the same. That is the only way we will bring all our customers along into the future of banking."

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