

Creating a Foundation for Leadership Development

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How can organizations establish a leadership strategy and implementation process that goes well beyond the typical approach of using training as the primary or only methodology? The short answer is that they need to develop a *talent mind-set*—an orientation in which the organization's talent (its people) is recognized as a significant part of the organization's competitive advantage.

But an orientation is not enough. Organizations must also have internal systems that value and support using development and other talent management processes to maximize results, and they must hold leaders accountable for employing these processes.

This requires assessing performance accurately and *investing differently* in the development of talent. In this context, development has a firm foundation because it is recognized for what it should be: a means to maximize performance and therefore results.

About five years ago, Toyota Financial Services (TFS) began an incremental process of establishing a leadership strategy that reflects both an orientation toward performance and a firm foundation for development. (See the sidebar on page 16 for the TFS story.) The strategic initiative started when the CEO, George Borst,

Editor's note: Case Study is an occasional series that reveals how specific organizations or leaders have dealt with their leadership challenges.

and the organization's human resource department (HR) realized that TFS needed to change the way talent was being managed and developed. TFS also recognized that several things needed to occur to accomplish this.

When TFS began its initiative, it was already exceeding goals and expanding into new markets. But the CEO wanted to create an organization in which leaders maximized their results by developing and growing the capabilities of their people. Borst understood that this was a long-term investment that ultimately would strengthen TFS's organizational capabilities.

He also knew that key cultural and infrastructure changes would be needed to sustain lasting change. The result was that the CEO partnered with HR, giving that department the opportunity and challenge to help lead TFS in this new direction—becoming a *higher-performance organization*.

For TFS, a higher-performance organization is one that values performance, development of people, accountability for results, and strong leadership—and that is always ready for change. (The word *higher* in the term *higher-performance organization* was deliberately chosen to imply that even after the organization becomes better than it is today, there will always be room for more improvement.) Although TFS had many attributes that supported achievement of its objective, several

key cultural areas needed to be addressed.

CHANGE AND CULTURE

Merely acknowledging that an organization needs to change rarely leads to deep and fundamental change. Fundamental change requires a large amount of preparation and work. That is why TFS's approach has taken years, not months, to implement. For every two steps TFS took forward, it took one step backward. It is no exaggeration to say that without extensive efforts to prepare the organization for change, TFS's initiative could easily have failed.

Organizational change begins with the organization's culture, whether that culture is approached directly or indirectly. Some attributes of TFS's culture are

- A high respect for people and relationships (very associate focused).
- A focus on improving quality of life and supporting the communities in which we live.
- Zero tolerance when it comes to issues of integrity.
- The pursuit of *kaizen*, a philosophy of continuous improvement. TFS is always striving to be better. This translates into placing a high value on performance and results.

TFS's culture has enabled it to achieve many successes over the years. But at times the organization lived out its cultural values inconsis-

The Toyota Financial Services Story

TFS, a wholly owned subsidiary of Toyota Motors, was founded in 1983. It has grown into an organization with more than \$65 billion in assets and about three thousand employees. It is the third-largest captive

finance company (a subsidiary that provides financing to customers buying the parent company's products) and eighth-largest finance company in the United States. TFS provides retail and wholesale financ-

ing, retail leasing, and insurance products and services to Toyota and Lexus dealers and their customers. TFS also provides similar services to dealers and customers for Toyota forklifts and Hino trucks.

tently. For example, respecting people and relationships is a strong value, as is continuous improvement. But these values were sometimes seen as conflicting. As a result, strong performance was sometimes treated about the same as average or even poor performance. This led associates to question why they should work harder when strong performance was not rewarded. Consequently, associates felt a sense of entitlement. Factors such as length of tenure had become key drivers for career advancement.

Changing the way management and associates thought about TFS's value of performance required a delicate balance—honoring the parts of TFS's culture that would serve as the foundation for change while redefining other aspects. In essence, what TFS needed to do was create a culture in which leaders could

- Hold associates and managers accountable for performance, and align rewards and consequences accordingly.
- Differentiate based on performance, and develop associates differently based on their individual needs.
- Produce strong managers who value the development of people.
- Provide regular and honest feedback to associates to help them maximize their performance.

These changes may seem simple. But they fundamentally affect every aspect of the work experience, including leadership expectations, hiring decisions, performance man-

agement, compensation, talent management, succession planning, and associate development. They require much more than simply rolling out new HR tools or training programs.

For a start, the CEO needed his senior management team to understand and buy into the fact that his expectations of them would change. Broadly speaking, the vision was to get senior managers to rethink how leaders are selected, developed, and rewarded. The focus was on leadership skills rather than technical skills. The senior managers needed to support and lead these changes through their daily actions and decisions.

HR knew that it would also need to partner differently with the business to demonstrate how HR itself added value. HR redefined its own performance expectations and capabilities and how it held itself accountable for performance. The changes included

- Acquiring and developing stronger analytical, strategic, and consultative capabilities
- Reshaping HR consulting teams, and locating them geographically with the department's business partners
- Creating an organizational development team to infuse stronger organizational design and development capabilities
- Enhancing the recruitment function to respond more effectively to the need for new talent

This was a long and sometimes painful process. Ultimately, it

resulted in a stronger HR team that could partner with business leaders to navigate through the changes to come.

Initially, HR presented only the concept of becoming a higher-performance organization. Senior managers agreed with the concept and wanted to support it. However, because there were no specific implementation plans or infrastructure changes, the senior managers didn't really understand the details of what was being requested, what they would need to do differently, or how it would change the way they made leadership decisions. The process stalled.

In spite of this, many supporters on the business side pushed forward. Some embraced the overall direction and made gradual changes as well as they could; others struggled. Several groups started grassroots efforts and began to change how they evaluated and rewarded performance. They volunteered to pilot new programs, or led the way by differentiating pay. Success persuaded those who were more reluctant to get involved. These efforts created a critical mass of supporters.

TFS also did the unprecedented and filled some executive leadership positions with outside candidates. This helped introduce new skills, knowledge, and ideas into the organization, illustrated that the changes touched every level of the organization, and sent a clear message that in the future, getting ahead at TFS would be more about the leadership skills and knowledge necessary to

move TFS forward and less about who was next in line.

These efforts to prepare TFS for change were slow, deliberate, and often difficult—but they were essential. They validated that things were changing and that the organization was moving in the right direction.

Many organizations miss or quickly pass over the importance of readying an organization for change. Instead they focus on introducing new programs or tools, assuming that these will create the change. TFS believes that leaders must own and drive change, using the appropriate tools. At TFS, the initial steps set the stage for change and began to create experiences for managers to use as anchors as TFS continued to move forward.

CORE STRATEGY

How do you get people to make required significant changes in behavior and mind-set? From some perspectives, the solution is fairly clear:

- Conduct a study of competencies as they relate to business goals.
- Design and roll out a performance management system, using the competencies as a base for performance measurement.
- Integrate the competencies into the recruitment and compensation systems.
- Create or align the compensation process.
- Conduct coaching workshops to support more effective communication during performance discussions.

The steps TFS took were very similar to these. However, TFS wanted an organic process that would adapt to the organization as it grew. And it wanted a specific focus on transferring accountability and ownership to the business leaders. TFS believed that without such a shift, the tools would just be tools. TFS firmly believed that leaders, not tools, make leaders.

TFS's core leadership strategy is built on two fundamental levers: *accountability* and *differential investment*. In a performance-based organization, managers and associates must hold themselves accountable and think of themselves as owners. TFS decided to differentiate how it invested in associates, based on performance. Rewards and consequences were more strongly linked to performance and results. TFS wanted to tailor how it developed and rewarded associates to maximize results.

To implement its leadership strategy, TFS needed to integrate the concepts of accountability and differential investment into every existing and future HR program, including performance management, development and succession planning, compensation, and recruitment.

MAPPING THE WAY

TFS began with performance management. This decision was based on the belief that a performance-based organization needs to have a practical and credible assessment and measurement system so associates can be accurately differentiated and held accountable. At TFS, this program is called Maximizing Associate Performance, or MAP. It provides the foundation for all current and future HR programs.

TFS also needed a common language for describing its expectations for associates and their work. In 2005, TFS defined core competencies by band or grade level across the organization. Evaluation on these competencies constitutes half of a person's overall performance assessment; assessment of results makes up the other half. The competencies described how TFS wanted managers to act. It then was necessary to create the conditions that would encourage them to act in the desired ways—to engage in coaching and developing.

What TFS did next made this possible. Two important competencies, *performance accountability* and

coaching and development were shifted to the “results” section of the managers' performance appraisal. This sent the message that meeting or exceeding traditional results was not enough and that focusing solely on these results created a short-term view for the organization—which also was not enough.

In the past, managers had felt conflicted about which was most important—immediate business results or development. They tended to focus more on these results because more weight tended to be placed there. Now managers were being told that developing associates was as important as results and that they were accountable for current performance *and* for investing in expanding capabilities to achieve long-term profit growth.

Another change came in the way performance was managed. The focus shifted away from documenting performance only at the end of the performance period. This meant

- Accepting that performance management is an ongoing process that occurs throughout the performance period, not just at the end
 - Establishing clear expectations at the start of the performance period
 - Providing honest feedback frequently and with an emphasis, when needed, on performance changes that could be made
 - Tailoring feedback to each person, and providing developmental direction based on that person's current performance level

The conceptual shifts were from managing performance to maximizing performance, from assessment to action, from annual appraisals to ongoing feedback, and from compliance to commitment.

The data that emerge from performance management are essential to how associates are rewarded and developed. There are many opportunities in this model to build effective leadership development processes.

Concurrent with the establishment of MAP, some changes were made to the compensation programs. This was to reinforce differentiation based on performance. More focus was placed on rewarding higher-performing associates, to ensure they felt valued and recognized. MAP performance ratings were also used as the primary driver of compensation programs, to further reinforce the link between pay and performance.

Additionally, TFS expanded its talent review process, using the new competencies and focusing developmental and promotional conversations on leadership capabilities. The CEO also initiated leadership strategy conferences at which the elements of strong leadership were reinforced. Borst led many of the discussions and used these conferences as an opportunity to broaden the perspective of members of his leadership team and to clarify his expectations of them as leaders. These additional steps served to drive home the fact that TFS was following up its words with actions.

LIVING IT

Currently, TFS is in the process of *rooting* MAP to ensure that it is integrated into the organization and is sustained over time. Most organizations experience an initial dip in performance when implementing a change initiative; although managers may understand the reasons for the change and what is expected of them, they are often uncertain about how to implement the new behaviors.

TFS has invested significant energy over the past year into minimizing this dip and helping managers identify ways to “live” MAP. TFS has focused on three main areas: communication, education, and (most important) leadership.

Communication. Efforts have focused on helping managers and associates acclimate to the new MAP schedule and processes. Ongoing

communication was developed to keep associates up to date on MAP activities and to ensure that MAP stays at the forefront of managers’ minds. The CEO played a significant role, using oral and written channels to reinforce his support by communicating that MAP is a top priority. Managers incorporated messages about MAP at the departmental level via meetings, town halls, and other forums.

Education. Efforts have focused on upgrading the coaching skills of managers. Tools have been developed to enhance knowledge levels and guide managers through the MAP cycle and integrate it into their daily routines. The MAP message is being made available to new managers and associates through e-learning and recurring course offerings.

Leadership. Efforts have focused on incorporating measures (such as 180-degree surveys) into evaluation to ensure that managers are effectively adopting MAP, that ownership and accountability are shifting, and that new experiences are being created for managers to reinforce MAP.

MORE WORK AHEAD


TFS’s leadership effort began slowly and progressed incrementally, using a lessons-learned approach. The focus was on building understanding and creating a shift in mind-set. Three primary elements figured in the design and implementation of the effort: *strategy* (where the organization is going), *culture* (what the organization values and how it behaves), and *readiness* (leaders’ willingness to embrace and lead these changes).

Working to create an accountable organization means rethinking how business decisions are made to ensure that the elements of TFS’s organizational design are aligned to support an accountable culture. Specifically, accountability levels should be consistent with levels of control and

influence. Leaders will resist being held accountable for areas over which they have little or no control. This will be an important area for TFS to focus on if it is to sustain an accountable culture.

As a result of TFS’s efforts, performance management and leadership development planning are now an integral part of the organization’s annual planning calendar. But the work is not yet done. Measurement and accountability systems continue to be built, the reward system is being modified, and the leadership development strategy is extending downward into the organization as the succession process develops. Talent reviews are being used to identify those who exhibit leadership abilities as well as those with high potential to do so.

Some people at TFS are adapting to performance management and MAP more easily than others. In keeping with the Toyota culture, the HR team will use the *kaizen* philosophy to ensure that the performance management process is accomplishing what it was intended to do. HR will incorporate changes that make sense for the business and ensure that the new system remains practical for facilitating good coaching and development discussions.

It’s too soon to tell whether TFS’s leadership strategy will be successful. Success will largely depend on how well these concepts continue to be embraced and owned by the business leaders. 

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