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Managing 21st-Century Diplomacy

Lessons from Global Corporations

By Kristin M. Lord and Richard Fontaine

Center for a New American Security

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MANAGING 21ST-CENTURY DIPLOMACY
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SUMMARY OF KEY LESSONS AND RECOMMENDATIONS

The U.S. State Department must evolve in order to manage America's diplomacy more effectively. As the Department's first Quadrennial Diplomacy and Development Review (QDDR) recognizes, this requires both new ways of thinking and new methods of management. As a modest step toward that end, this paper examines the management strategies of four global corporations and identifies concrete lessons that could be applied to the U.S. Department of State.

Balance Agility with Unity of Effort, Local Nuance with Global Impact

- **Lay the foundation for agile and diffused leadership.** Provide a consistent shared vision, operational guidance and more leeway for employees in the field – especially ambassadors – to make decisions in line with the State Department's objectives. Develop new methods of holding staff accountable for performance and results, and reward staff for their leadership.
- **Build economies of scale.** Share administrative functions like human resources and information technology globally and make those units accountable to the Under Secretary for Management.
- **Review the chain of command.** Adopt a more "matrixed" organizational structure to institutionalize collaboration across the Department's regional and functional bureaus.

Align Vision and Action

- **Rethink strategic planning.** Tie together strategy development, execution and performance evaluation in order to measure progress toward goals more systematically.
- **Focus on execution.** Empower staff to responsibly implement policies and programs and then hold them accountable. Strengthen performance evaluation processes, and create new regional hubs to coordinate and oversee the execution of policy.
- **Get the facts.** Use information more systematically in decision-making. Employ assessment teams that contribute to planning, evaluation and promotion processes.

- **Reform performance evaluation.** Reward leadership, collaboration and the performance of teams as well as individuals.
- **Budget strategically.** Adopt a three-year rolling budget plan, or even the five-year budget plan used by the Department of Defense.
- **Reward responsibility and calculated risk-taking.** Reward individuals who solve problems at lower levels instead of "delegating up."

Get the People Part Right

- **Hire for the future.** Determine the key characteristics necessary for employees to achieve the objectives in the QDDR. Survey existing employees about the kinds of leaders they need and want.
- **Take advantage of the State Department's meaningful mission.** Emphasize the Department's unique contributions and highlight employees who go "above and beyond" in diplomatic service. Visibly reward employees who epitomize model performance.
- **Stay put.** Lengthen tours of duty to reduce costs of moving families frequently. This would also allow embassy staff to develop deeper relationships with local leaders and opinion-makers, and enhance their ability to learn local languages and cultures.
- **Recognize the truly exceptional.** Limit the number of employees ranked as exceptional to set a high bar and encourage calculated risk-taking.
- **Build a pipeline of qualified candidates to step into vacancies.** This requires long-term personnel planning but benefits include rewarding talent, creating career ladders and providing opportunities for targeted mentorship.
- **Embrace new patterns of collaboration.** Institutionalize teams of individuals from across the Department and reward employees based not just on their performance within their bureau, but also across project teams.
- **Get more out of training.** Train office personnel together as a group to increase impact, build stronger teams and enhance office-level planning.

MANAGING 21ST-CENTURY DIPLOMACY

LESSONS FROM GLOBAL CORPORATIONS

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I. INTRODUCTION

American diplomats today face a formidable range of new challenges and unprecedented opportunities. They must confront transnational threats such as terrorism and the proliferation of weapons of mass destruction, balance the need to engage both traditional allies and new partners, and cope with competing challenges such as the need to both address climate change and rebuild the global economy. They have new tools at their disposal, such as social media technologies, and with them new means to aid dissidents and engage directly with foreign publics. Meanwhile, they must operate in a complex and changing environment in which an increasing number of varied actors exercise power and influence, from a wider range of localities, with greater speed and impact than ever before.

Adopting the right policies in this environment is difficult enough; executing them effectively may prove harder still. As the State Department prepares to implement recommendations from its first Quadrennial Diplomacy and Development Review (QDDR), its leadership team must inevitably focus on management. Secretary of State Hillary Clinton and her senior staff must grapple with reforming the Department in order to align its dispersed global activities with the president's foreign policy and development agenda, while at the same time making the Department more nimble and responsive to events in the field. They must determine how to hire, retain and cultivate the type of employees and leaders the Department needs to be successful now and in years to come.

Reforming the State Department is vital to America's national security. A range of security challenges – from the degradation and defeat of global terrorist networks, to Iran's nuclear weapons program – simply cannot be resolved by military force alone. Moreover, even when the U.S. military assumes a central role as it has in Iraq and

Afghanistan, American service members need and deserve a strong Department of State to create the diplomatic and political conditions necessary for their success. Finally, the State Department is often the U.S. agency on the front line of preventing deadly conflicts and fostering a global environment conducive to peace, prosperity and the promotion of universal human rights. Diplomacy and development, along with defense, comprise the three pillars of U.S. national security policy. But simply elevating diplomacy and development is not enough. They must be enhanced and made more effective and efficient.

Executing the State Department's mission has been a daunting challenge throughout its history, and it certainly remains so today. The Department operates in over 180 countries with over 57,000 employees. It must maintain discipline in order to ensure the government of the United States of America speaks with one voice, and represents the country as the secretary of state and ultimately the president wish it to be presented. It must be agile enough to respond to rapidly evolving circumstances in far-flung locales, sometimes in competition with American adversaries. It must be a talent-rich organization that attracts and cultivates leaders who can make the right choices while operating quickly and decisively. At the same time, it requires diplomats who have the wisdom to know when to elevate decisions and engage Washington-based leaders.

The Department has not evolved fast enough to effectively implement the policies required in today's world, as a range of studies and the last three secretaries of state themselves attest.[1] To be sure, the State Department has a proud history of stewarding America's relationships with governments and international organizations around the globe. It has evolved markedly since its creation and even in the two decades since the end of the Cold War. Yet, the speed of global change has outpaced transformation within the Department. Information, people and world events are moving faster than the State Department can currently handle.

Reforming the State Department requires new modes of thinking, some of which can be found in the corporate world – a domain in which most diplomats have little experience. Global corporations have adapted to today's ever-changing world economy, building organizations that balance the flexibility that comes with diffused leadership and the close coordination and focused pursuit of a core mission that stems from centralization. Although the structure and objectives of multinational corporations differ from those of the State Department, they can offer many relevant lessons for improving diplomacy in today's new global environment.

Researchers from the Center for a New American Security (CNAS) and Business for Diplomatic Action conducted extensive interviews over the course of last year with executives from four major global companies – GE, McDonald's Corp., FedEx and IBM – along with other business leaders and experts. These four organizations rival or exceed the State Department in size, global reach and complexity (see Table 1). They have experimented with a variety of management approaches that hold lessons for State Department reform. The companies vary in size though each is larger than the State Department. And they all grapple daily with many of the same challenges as the Department's far-flung operations. Like the State Department, each is a truly global operation. They also offer insight into a corporate mindset that, while not always directly applicable to the challenges of diplomacy, could spark needed conversation about how the Department might approach its own challenges differently.

Readers should bear our methodology and circumscribed objectives in mind. The authors attempt neither a broad-brush examination of all corporate

TABLE 1

COMPANY	NUMBER OF EMPLOYEES	ANNUAL REVENUE	NUMBER OF COUNTRIES WHERE COMPANY HAS PRESENCE
GE	304,000[2]	156.7 billion[3]	160[4]
McDonald's	1.6 million[5]	22.7 billion[6]	117[7]
IBM	399,409[8]	95.7 billion[9]	Over 170[10]
FedEx	Over 280,000[11]	35.5 billion[12]	Over 220[13]

lessons for State Department operations, nor a comprehensive blueprint for State Department reform. We do not attempt to survey the voluminous literature on organizational management and change. Rather, this is a study of four companies based on structured interviews and supporting research. After reviewing numerous past reports on State Department reform, we consulted with State Department officials, including those active in the QDDR process. We then developed a list of key management questions that continue to challenge the Department and posed those questions to executives from the four companies during lengthy, structured interviews. The results of the interviews, plus additional background research, are summarized below. Findings were not independently verified; nonetheless, we believe that the executives who volunteered so many hours of their time did so with candor and in the spirit of public service.

Corporations plainly do not have all the answers, and it may well be that companies themselves could learn something from the State Department. Yet the findings here suggest a number of corporate lessons that could, if properly implemented, enhance the functioning of the Department of State. This exercise is meant to spur discussion of these lessons.

Different Organizations, Different Missions

While the State Department could benefit from a number of these corporate lessons, readers should be clear about the many ways in which government agencies differ from corporate entities. In the corporate world, a single metric – profits – surpasses all others in importance. By contrast, a government organization such as the State Department must achieve success across a wide spectrum of activities. There is no equivalent to the simplifying discipline of a corporate balance sheet. Corporations must adapt or risk bankruptcy, and publicly held companies are accountable to shareholders who scrutinize their performance and profitability each quarter. These factors present strong incentives for corporations to invest in and drive change. The State Department, in contrast, adapts only because of the will of its leaders and staff. If it dawdles, it does not come under threat of bankruptcy or risk the ire of shareholders. However, the consequences of strategic failure at the Department of State can be far greater than that of a corporation. America's diplomatic agency cannot simply enter bankruptcy proceedings. And although the demand for diplomacy ebbs and flows, the State Department is, for the most part, a monopoly provider. No non-governmental organization can take over its mission, and legislative action is required before any significant reform can be achieved.

Corporations are also more immune than the Department to the exogenous and unpredictable pressures of politics. While corporations may feel the impact of electoral changes, it cannot compare to the Department, where a new election often brings new leadership, new styles and a new foreign policy philosophy. Corporations are free to act without the direct intervention of Congress, and can appoint senior leaders without thought to the Senate confirmation process. These congressional realities can leave top Department positions vacant for long periods and can chill the activities of junior staff fearful of getting out in front of their soon-to-be-bosses.

Despite all these differences, there is still much State can learn from global companies. The very fact that corporations face more direct pressure to adapt to changing global circumstances, and have incentives to do so proactively, suggest they may grapple with relevant organizational challenges before government agencies do. This presents an opportunity: Government can examine the experiences of corporations and tailor their lessons to suit its own needs. The fact that global corporations also have substantial resources to invest, and cultures that reward experimentation, further enhances their value as laboratories for organizational reform. Moreover, despite their differences, multinational corporations and government agencies share many basic characteristics: large organizations, staffed by people with limited resources to achieve their missions. Many of the operational functions of corporations are similar to those of government, such as human resources, information technology, communications and public affairs, financial management, procurement and supply chain management. The need of corporattions for centrally driven strategies coupled with local engagement in markets around the world parallels the demand of modern diplomacy.

In the following pages we discuss first how four multinational corporations balance the need to make quick, locally-informed decisions in the field, with the necessary discipline and unity that flows from decisions handed down from a central headquarters. Second, the authors discuss how the companies align vision with action. (As one IBM executive told us, "If you don't change your execution, you are still implementing the old strategy.") Third, we summarize how these global companies hire and cultivate the right kinds of employees and leaders. At the conclusion of each section is a summary of specific lessons for the State Department to more effectively manage 21st-century diplomacy.

II. BALANCING AGILITY WITH UNITY OF EFFORT, LOCAL NUANCE WITH GLOBAL IMPACT

The executives interviewed stress the need for agility in the global marketplace. The pace of change is rapid, with circumstances unfolding too quickly to manage from a central headquarters. These corporations give their business units, divided by major geographic regions, significant latitude to make decisions themselves as long as those decisions align with overall corporate strategy. This allows mammoth organizations much larger than the State Department to adapt quickly to local conditions, thrive in complex markets and keep pace with technological innovation and changing modes of communication.

Corporate executives emphasize the need for a clear, shared vision; a strong organizational culture; ways of doing business that leverage the size and reach of the company; and an institutionalized process that ensures the alignment of the corporation's vision and its widely dispersed activities. Hierarchical, highly centralized, command-and-control models no longer work for most global organizations. Such models reduce speed and agility, hinder innovation and prevent valuable collaboration. Yet, many companies take advantage of their large size, scope and reach. For instance, executives at FedEx said the company's various entities try to share processes and systems wherever possible, and in the process build scalable, global systems. They look for ways to implement what they call "5Xing" – taking what works and adapting it for all five FedEx regions. Indeed, an entire team – in a unit called "FedEx Solutions" – is dedicated to identifying "best practices" and taking them global.

IBM has a similar outlook. One IBM executive said, "Our business units, all multiple billion dollar businesses, must be fast and nimble enough to deal with competitors and change within their respective segments of the industry, but they also need to align with each other for maximum value to common customers."

The State Department faces similar challenges. It needs consistent and coherent policies articulated with a clear voice. Close coordination across the Department is required; the effects of diplomacy in one country can impact other countries and other policies. But in order to be effective in the field, embassy staff and country teams must be allowed to adapt quickly to local conditions, seize opportunities when they arise and speak to the media before the restless eye of the camera moves on and narratives are cemented. State Department leaders speak of the need for agility, but such agility is difficult when so many words and deeds must be cleared through a relatively small staff in Washington, and on Washington's clock. State Department leaders should adopt a level of discipline and restrain themselves from micromanaging embassy staff in the field; just because information technology makes such micromanagement possible does not mean it is a good idea. This, however, is easier said than done. A key distinction between the Department and the companies under consideration here is that words themselves are the State Department's primary output. As a result, there is an entirely understandable desire to maintain centralized control over communication. Nevertheless, the Department's leadership should look hard at expanding the boundaries within which officers in the field can operate. The institution of a culture that rewards leadership, beyond simply executing Washington-based directives, would create tangible changes in how diplomacy is conducted.

The key, according to executives at several global companies, is to strike the right balance between global and local approaches, centralization and decentralization. Executives at GE underscore the need to balance the company's objective – as articulated by the CEO and top corporate leaders – with empowering people at the local level who are better able to understand how to achieve those goals on the ground. Employees around the world are evaluated both on how well they implement the global strategy, and how well they are doing from the standpoint of their local constituents.

To facilitate quick decision-making, GE designed a rapid-response communication system for customers called the "Quick Market Intelligence System" to speed the flow of information used to evaluate business decisions, including data regarding competitor moves, sales forces and quality problems. Every Friday, weekly meetings of 60-70 business unit leaders explore and plan action based on the issues raised by customers. Discussions are recorded and sent via television to regions and plants to get instant feedback on whether particular solutions are workable, and decisions are changed quickly if not. The system is designed to identify decision points requiring an immediate response while simultaneously allowing for a collaborative, multi-level effort to find the best and most effective solution. Executives said the speed of the process energizes decision-making and has overcome resistance to change by involving customers, management and workers in the action plan.[14]

McDonald's executives said their company once erred too much on the side of decentralization, leading to inconsistencies in quality. Every restaurant had its own hamburger bun maker and country managers had an exceptionally large amount of autonomy. Management was so distributed that regional business units could not "leverage the system" to gain efficiency. Local franchises could not take full advantage of the company's size or reliably apply lessons learned in one place to another. To address this imbalance, McDonald's installed a new management system, with presidents of four world regions (Europe, Asia Pacific, Middle East/Africa, and U.S./Canada/Latin America) who each have functional departments (such as human resources or communications) under their domain. These new presidents have created a middle ground between headquarters and the country heads. They are responsible for the whole region but interact regularly with senior executives and their counterparts around the world. McDonald's executives underscored the importance of these presidents living in their designated regions. Formerly, for instance, the head of McDonald's European business would live near the corporate headquarters in Illinois. This physical distance between president and operations risked missing out on opportunities or misreading challenges. It also ran the risk of more locally oriented competitors gaining an advantage.

The key, according to executives at several global companies, is to strike the right balance between global and local approaches, centralization and decentralization.

Executives at IBM underscore the need for both agility and a shared global vision. They acknowledge a constant push and pull to determine the proper division between centralized activities and those that are better done at the local level. The center pushes out major new initiatives, such as cloud computing or a new company-wide business analytics system. Meanwhile, employees and businesses at the local level try to attract assistance and resources from the rest of the company to help them grow their businesses and meet clients' needs. This division of labor can be productive, but only if it is managed effectively.

To invoke the language of the business world, IBM is a highly "matrixed" organization, meaning that the organization has vertical business units responsible for specific regions and units with specialties that cut across the entire company. Teams of employees from across the company come together to work on specific projects. These teams are flexible and employees may be on several teams at once, each with different members and different project directors. IBM is "matrixed" along four dimensions: regional business units that operate in 20 world markets, global business units in profit centers like consulting or hardware, sectors differentiated by client type such as public or commercial, and global functions and processes that span the world, e.g. marketing, human resources, etc. Employees tend to have more than one boss, one in their geographically defined business, and another in the global business units. They are then held accountable by global processes that integrate the company across the 170 countries where it operates. Employees are expected to work horizontally across the organization, as well as up and down their own leadership chains.

Such decentralization presents new challenges, including, according to IBM CEO Samuel Palmisano, "how to maintain trust in enterprises based on increasingly distributed business models. A company's standards of governance, transparency, privacy, security and quality need to be maintained even when its products and operations are handled by a dozen organizations in as many countries. A reliance on hierarchies contained within one function, enterprise or nation must be supplemented by new ways of establishing trust, based on shared values that cross borders and formal organizations."[15]

A Shared Vision

Executives at every company we interviewed underscore the importance of having a clear, centrally directed vision guiding the behavior of its many components. For instance, McDonald's is organized around a unified "Plan to Win" (see pages 14-15).

McDonald's also develops a shared vision and plans for global functions such as human resources, marketing, communications and corporate social responsibility. These major initiatives are first developed by teams of corporate leaders who come together from around the world, not by a few executives in headquarters who push it out. For example, 12-15 human resources leaders from across McDonald's developed the company's human resources plan. Another cross-company marketing team produces themes (such as the recent marketing slogan "I'm lovin' it") so that the company does not have a different theme in each of the 120 countries where it does business. However, McDonald's has 120 adaptations of the theme, allowing countries to modify global marketing campaigns to fit local tastes. All aspects of the "Plan to Win" hinge on the ability of local talent to apply the frameworks to their local cultures and the unique circumstances around their restaurant.[16] This flexibility is not unlimited and employees are held accountable for their results, especially the impact on the customer. Once the common practices are identified through a consultative process, people are expected to act within the framework. If they do not adapt, they are "not going to have a long career at McDonald's," one executive told us. These common practices are reinforced through shared training and consistent execution at the working level. McDonald's credits these innovations with producing company-wide change, leading *Fortune* magazine in March 2010 to rank McDonald's number one in "quality of management." Executives candidly said that this would not have happened 10 years ago.

Similarly, FedEx attributes much of its success to an ability to create shared philosophies and proven successes throughout more than 220 countries and territories around the world while still adapting and maintaining a sense of cultural identity and individuality on a local level. FedEx calls this combination of global and local sensibilities

MCDONALD'S PLAN TO WIN

More Customers | More Often | More Brand Loyal

Where We Want to Be

Brand Mission

Our customers' favorite place and way to eat

Brand Promise

To provide Simple Easy Enjoyment to every customer every visit

Customer Experience

McDonald's food is my favorite. I appreciate that the people are friendly and welcoming. They get my order right and get it to me quickly. I go often because they have modern, convenient locations that are open day and night, it's affordable, and there's always something on the menu I want. Whether I enjoy my meal there or get it to go, I know I can count on an effortless and delightful experience. That's how I know McDonald's values me as a customer.

How We Plan to Get There

Critical Success Factors

PEOPLE — We will provide a superior customer experience by properly staffing our restaurants with a team of highly engaged, well-trained and diverse people.

PRODUCTS — We will serve food and beverages people prefer to enjoy regularly.

PLACE — Our restaurants and drive-thrus will be clean, comfortable, relevant, and highly functional to the customers of today and tomorrow.

PRICE — We will deliver the best value to the most people because of our total system efficiency.

PROMOTION — We will communicate and deliver a Simple Easy Enjoyable brand experience so our customers and employees will each feel "i'm lovin' it."

Core Values
How we will behave

We place the customer experience at the core of all we do.

We are committed to our people.

We believe in the McDonald's System.

Source: McDonald's

More Profitable » » » » Enduring Profitable Growth

What Actions We Will Take Now

How We Will Measure Progress Each Year

System Must Do's

DELIVER THE SERVICE PROMISE
• Support and empower restaurant managers
• Adequately staff, train and resource our restaurants
• Ensure entire system is focused on being knowledgeable about and accountable for improving CSO

ATTRACT AND RETAIN THE BEST TALENT
• Offer competitive pay and benefits people value
• Reward and recognize achievement
• Provide a clear path of opportunity
• Provide a safe, respectful and legally compliant workplace
• Be recognized as a great place to work

DELIVER THE QUALITY PROMISE
• Attain the Gold Standard on all food quality

MAXIMIZE THE CORE AND BUILD ICONIC/BRANDED FOOD AND BEVERAGE OFFERINGS
• Offer a range of great tasting and portable products that are popular with the most customers
• Develop relevant products across all dayparts
• Present and package food for enjoyment now or later

INCREASE OUR CONVENIENCE ADVANTAGE
• Extend and maintain operating hours to match consumer demand
• Provide best-in-class drive-thru speed and accuracy

DELIVER THE CLEANLINESS PROMISE
• Present spotlessly clean restrooms and restaurants, inside and out

CREATE AND MAINTAIN RELEVANT, MODERN DINING ENVIRONMENTS

MAINTAIN COMPELLING EVERYDAY AFFORDABLE PRICE

DELIVER VALUE IN EVERY OFFERING
• Ensure an effective pricing strategy in each marketplace that delivers exceptional value at every price tier and grows guest counts and profits

BE THE MOST PRODUCTIVE PROVIDER
• Continuously improve restaurant operating efficiency
• Leverage supply chain for cost and quality advantage
• Achieve targeted G&A efficiency, capital expenditure targets and new restaurant return minimums

DELIVER MARKETING LEADERSHIP
• Differentiate the brand through communications
• Increase impact of marketing expenditures

STRENGTHEN RELEVANCE WITH KEY AUDIENCES
• Differentiate the kid and family experience
• Increase connection with young adults

BUILD TRUST BANK
• Ensure entire McDonald's system is contributing to their local communities
• Be a socially responsible company
• Provide menu choice, nutrition information and promote physical activity

Key Metrics

OPERATION
• CSO (Customer Satisfaction Opportunity)
• Employee Commitment Survey (Manager/ Crew)

CONSUMER
• Customer satisfaction
• Taste of food
• Value for money
• Has food choices you can eat regularly
• Place adults/kids enjoy
• Company I trust

FINANCIAL
• Comp sales/GCs
• Individual restaurant profitability
• New restaurant openings and returns
• Combined operating margin

We operate our business ethically.

We give back to our communities.

We grow our business profitably.

We strive continually to improve.

a "rigorous cascade of objectives." When asked how they do it, FedEx executives point to what the company calls, "The Purple Promise." The philosophy, known to every FedEx employee around the world, is "I will make every customer experience outstanding." It doesn't matter if that employee is a sorter at a FedEx hub or a senior executive at FedEx's Memphis headquarters. Executives believe this philosophy unites their disparate personnel to achieve a common purpose.

IBM developed three values that guide its operations worldwide: dedication to every client's success, innovation that matters to the company and the world, and trust and personal responsibility. IBM executives said these are widely held principles that influence how employees think about the company and their own work. The process of developing these values is worth noting. Soon after Sam Palmisano became Chairman and CEO of IBM, he launched a "ValuesJam," in which 140,000 IBM employees chose to participate. He created a 72-hour web chat about what IBM stands for and opened it up to all IBM employees in all of the 170 countries where IBM is active.[17]

Lessons for the State Department

- **Lay the foundation for agile and diffused leadership.** In order to become more agile and responsive to rapidly changing events, the State Department should devolve more power to the field. This step is difficult and will require major changes in culture and management. However, the QDDR boldly embraces this vision, calling for ambassadors to serve as, and be treated like, the CEOs of multiagency missions abroad.

  A shared vision helps steer the actions of large and globally dispersed organizations. Providing such a vision and operational guidance linked to that vision is the great hope of the QDDR, as this type of guidance has been in comparatively short supply in the Department. Based on the experience of global corporations, however, this vision must be consistent and continually linked to operations and individual performance. This is more difficult at the State Department than at corporations. There is only one FedEx and only one GE. While there is only one State Department, there may be competing visions (at the Pentagon and the White House, for example) of U.S. foreign policy aims. Nevertheless, both groups and individuals at the Department must be evaluated rigorously to ensure their performance is consonant with a coherent overall vision. We suggest various ways to connect vision and execution below.

  A necessary basis for devolving power from leaders at headquarters and personnel in the field is trust. The State Department should invest substantially more effort into cultivating people with the kind of skills and talents necessary for a decentralized approach that includes leading multiagency teams, rapid decision making that adheres to the secretary's intent, and engaging organizations outside of government channels more effectively. Once they trust they have people with these types of skills in place, senior leaders will have the confidence to loosen day-to-day control over decisions in the field. A Department characterized by more diffuse leadership will require greater effort to hold staff accountable for their decisions and performance and a careful look at how staff is evaluated. A new system of evaluation may be required. This new system should be based on an analysis of what skills, knowledge and capabilities the Department values now and over the next 5 to 10 years – rather than the capacities it has valued in the past.

- **Build economies of scale.** Stunningly, the Department – unlike global companies – has not yet globalized administrative processes such as information technology, administrative support, human resources and financial management. Many bureaus currently maintain their own executive offices that report to assistant secretaries rather than the Under Secretary for Management. These assistant secretaries are typically policy experts appointed for their diplomatic skill and knowledge rather than management ability. This system naturally undervalues management reform. Some greater centralization of shared processes has taken place, with a few regional bureaus sharing executive offices, but such changes do not go far enough. The State Department would do well to adopt the model used commonly in large corporations. Shared functions would operate globally, but managers of those functions in particular bureaus would have a "dotted line" to the heads of those bureaus. They would be evaluated based on their performance in the eyes of both their boss in the management office and their bureau boss. Such changes would allow reform to occur more quickly and would save money and employee time that could be redistributed to support core functions of the State Department that are often starved for resources.

The State Department faces unique challenges in transforming its operations to better support 21st-century diplomacy. One little known obstacle is the fact that the Department does not independently control many of its own operations. It relies on an interagency system, known as the ICASS (International Cooperative Administrative Support Services) system, which is intended to streamline administrative services, avoid redundancy, share costs and reduce overall government expenses across agencies by creating economies of scale.[18] Despite ICASS' worthy goals, a 2004 Government Accountability Office report revealed that it did not streamline operations, eliminate duplication of services or result in more efficient delivery of administrative support.[19] The State Department and the broader U.S. government should review the need for ICASS and evaluate whether its benefits exceed its costs.

Efforts to "leverage the system" should also extend to non-administrative functions. Shared themes and materials developed by functional bureaus, such as International Information Programs (IIP); Democracy, Human rights and Labor (DRL); and others, could be tailored at the regional and embassy levels. Some of this does take place, but too little and too infrequently. In the realm of public diplomacy, for example, these sorts of activities occur far less frequently than they did in the days of the U.S. Information Agency, which supported field activities as its core activity.

Secretary Clinton should consider following the path charted by Secretary of Defense Robert Gates, who reallocated Pentagon resources to higher priority activities. Though the State Department would benefit from a significant increase in resources, it is far from clear that major budget increases are forthcoming. The new era of fiscal restraint places a premium on the Department's ability to streamline functions, cut costs and reinvest those resources in higher priority activities. Doing so will not only free up resources but also help persuade Congress that money invested in the State Department is money well spent.

- **Review the chain of command.** The State Department should consider a more "matrixed" organization that borrows from corporate models. This would allow the Department to take advantage of collaboration opportunities and reduce longstanding tensions between regional and "functional" bureaus. Currently, regional bureaus within the State Department are divided by geographic region. "Functional" bureaus focus on topical issues such as democracy, human rights and labor; or oceans, environment and science. Individual staff from these bureaus could be brought together on teams for specific projects, as, indeed, many are now. Learning from companies like GE and IBM, however, these teams could be institutionalized in order to give them higher priority. Employees could be evaluated based on their performance in both their horizontal and vertical business units instead of the current system in which one boss and one set of responsibilities take priority over all others. This change would reward State Department employees who work well across the organization rather than just up and down their own leadership chains. It would also empower the Department to address the complexity of today's multidimensional issues more effectively. For instance, the State Department recently created new deputy assistant secretary (DAS) positions for public diplomacy and public affairs located in each of the regional bureaus. Those DAS's report to the regional assistant secretaries, but have a "dotted" reporting line to the under secretary for public diplomacy and public affairs. They are expected to consult and coordinate with the under secretary but do not report to her formally. Innovations like these increase the likelihood of integrating functional expertise into regional policies and strategies and that valuable information from the regions is incorporated into broader public diplomacy efforts.

- **Get the right people in the right jobs.** It is worth recognizing that a major obstacle to adopting corporate best practices in the federal government is the much greater difficulty of hiring and firing in government service. Government agencies have a much more difficult time removing people who are simply not a good fit with the current direction of the organization compared to the corporate world. While legitimate protections for government employees are in order, such rigidity fundamentally threatens the agility and quality of 21st-century diplomacy. While it is important to protect and reward those who take proper risks, a review of the Department's hiring and firing system is long overdue. The first step is to move toward more fluid movement between the foreign and civil services. For instance, the Department should examine rules that permit skilled civil servants to bid on particular positions only after foreign service officers have declined to do so (and thus the position is deemed "hard to fill.") The Department should also establish an effective mid-career entry program for the foreign service and eliminate the required consular tour for all foreign service officers, which anecdotal evidence suggests is a major disincentive to joining the service.

III. ALIGNING VISION AND ACTION

All of the companies interviewed stress the importance of establishing an overarching strategy. Each also has rigorous processes in place to establish strategic objectives for the company; guide and evaluate the performance of business units; manage both specific business units and cross-company processes; share information; and evaluate individual employees, especially those in leadership positions.

Developing Strategy

To develop overall corporate strategy, firms use an array of different processes. IBM has significantly changed how it establishes corporate strategy. Many years ago, the company had a large central strategy staff of approximately 400 people. Now, individual business units are responsible for developing strategy, and only a handful of people are responsible for overall strategy, assessing world markets and the implications for IBM. Once the company has a shared vision, IBM executives emphasize, large global strategy efforts become less important.

McDonald's CEO Jim Skinner notes, "Everything is now aligned with our 'Plan to Win.'" Alignment is cited as a key ingredient of the company's recent success. Within that plan, McDonald's develops strategy collaboratively. Every year, the company pulls together its top 30 executives to look at strategy for both the next year and the next three years, as part of a three-year rolling plan. Work teams across the company address particular issues throughout the year and develop a strategy to pull together these separate threads. Employees use this strategy to look at what prevents the company from improving, cognizant that success can make organizations complacent and prevent them from changing. Executives highlight the benefits of a particular planning method: The company invites key managers from around the world to "strategic debates" on particular subjects, with the aim of creating conversations that will put tough issues on the table. Executives then assign employees to debate the pros and cons of different approaches – regardless of where individuals actually stand on those issues. In addition, McDonald's has changed its strategic planning process to emphasize big, scalable themes – system-wide changes that will have a notable impact on the corporation as a whole. Examples include redeveloping restaurants to give them a more modern look, which is one of the company's big initiatives over the next five years. Finally, its planning is highly data driven. For example, the corporation invested significant resources in determining precisely when people order particular sandwiches within peak hours and then used that data to drive a 2 percent sales increase.

FedEx also emphasizes research as a critical basis of planning. The company carefully monitors its customer and investor expectations over the medium and long terms and then maps out ways to best meet those expectations. This process is designed to look roughly seven years into the future and develop specific strategies to achieve overall corporate growth targets. In addition to research and ideas that arise organically from corporate departments, FedEx maintains a separate staff, physically separated from the rest of the company, which conducts research and develops ideas that can be put before FedEx's strategic planning committee.

Strategy at GE is driven by its different business units, such as aviation or energy, which vary significantly in focus. Each business unit brings its three-year strategy to GE headquarters twice a year. These strategies must address the current state of the marketplace, relevant events and trends in the world, the activities of its competitors, technological change, organizational changes the business wishes to make, and so on. After the business units complete their own plans and organizational reviews, the chairman of the company visits each business unit and reviews its key issues, along with the two to four big themes for the company as a whole that year. This represents one of two annual visits from headquarters to review budgets, people, plans and business units' implementation of those plans. Senior employees revisit the plans every quarter and integrate them into an overall GE strategy – a big change from past behavior when corporate strategy was set centrally. Corporate planning has largely been pushed to the individual business units. Then, the leaders of those businesses come together to set the corporation's direction as a whole.[20]

The real test of a strategy, however, is not its development but its implementation. If formal strategic planning processes become what management consultant Andrew Erdmann calls "annual rituals with little impact," they will not be taken seriously either by the decision makers who most need to contribute to strategy development or the employees who most need to implement strategies.[21] Moreover, organizations should recognize that many strategies will simply emerge rather than result from a formal, deliberative process, especially if the company has a strong culture that encourages innovation and prudent risk-taking. Adopting this sort of "emergent" strategy, according to Harvard Business School professor Jan Rivkind, requires a process through which strategy is not just designed but also uncovered.[22] In other words, the essential ingredients of strategy may already exist but need to be discerned, articulated, embraced and spread throughout the organization. As Erdmann puts it, "planners do not make strategy; they should help those who do."[23]

Instead of maintaining a large office to develop corporate-wide strategy and vision, IBM invests in fact-driven assessments of how well leaders across the company are achieving the vision laid out for both individual business units and the corporation as a whole. In other words, IBM sees execution as the key to strategy. The focus on carefully assessing progress instead of simply identifying goals has led individual regions and business units to proactively call on the central strategy office to conduct "deep dives" – intense explorations of an issue – on how to address particular challenges in order to prepare for assessments directed by headquarters.

Managing Horizontally and Vertically

Like the State Department, most global companies have business units focused on particular regions but also have interests that cut across those regions. This requires organizational solutions to address both regional and functional interests.

To address this issue, GE has established "cross-company councils" that focus on all of the major areas that span the company: human resources, regulation compliance, and so on. These councils are permanent and institutionalized; they are not simply established to respond to a particular crisis. They are designed to move intellectual capital around the company quickly.[24] In addition to a given employee's "day job," he or she participates in a number of these cross-cutting councils. In their evaluations, employees are assessed not only on how well they perform their regular work, but also on their performance within their vertical team and the cross-company focused activities. Compensation and promotion are tied to overall performance.

GE officers underscore three processes that bind the company together: the human resources process, the budget process and the strategic planning process. These processes continue each year, regardless of significant changes in the company. Executives emphasize the need to stick with the processes that are developed; if the company's personnel believe that the processes will soon change, they will simply wait them out and put off embracing changes they see as challenging or unattractive. To really penetrate the culture over the long term, therefore, officials must institutionalize these unifying processes.

Chevron Corp., a company interviewed in a more limited fashion, has established regional managers covering functional issue areas related to policy, public affairs, and corporate responsibility. These regional managers serve as a regular point of contact between the company's regional business units and the corporate center.

At IBM, an interlocking team structure manages strategy for the company. The chairman chooses all representatives of these teams, and it is considered an honor to serve on them. Appointments are made annually, and representatives need to re-earn their positions. IBM personnel who earn a reputation for focusing only on their own agendas, rather than the greater good of the company, are not typically re-appointed.

IBM executives cite the imperative to balance an "agile, flexible, adaptable enterprise within IBM's matrixed structure" with mechanisms that align the company's business units to achieve the targeted results. IBM's corporate leaders stress the necessity of an annual planning process that spans strategy, budgeting and ongoing "real-time" mechanisms to operate successfully in a fast-paced market. It's a system of coordinated activities facilitating the periodic adjustment of strategies, aligning tactical and financial plans across business units, and allocating resources strategically in order to achieve the company's short-term and long-term objectives. IBM's "strategy cycle" in the first part of the year focuses on the longer-term horizon. It is followed by an "execution cycle" in the second half of the year, which sets a one-year budget for each business unit within the context of the strategy cycle results. This process drives the allocation of operating funds across the company and aligns the business units in support of IBM's strategy and financial objectives. The ongoing execution of these plans is monitored through a financial reporting and management system.

IBM executives recognize a tension between the needs of the horizontal business processes and the vertical business units. Ultimately, the push and pull of these organizations can compete and put demands on individual personnel who must balance them. They can go up the line to adjudicate disputes, but the company incentivizes employees to work across the organization horizontally to solve problems. To reinforce this aim, IBM consciously seeks to hire individuals able to work across the company without needing to raise issues to a manager.

Similarly, executive managers at FedEx have an unwritten rule: "Don't delegate upward." In other words, work out the issue and then bring possible solutions to the table. Management teams must work collaboratively, which in turn requires communication. Many high-impact initiatives have cross-operating and cross-functional teams that incorporate points of view from all parties. Most officers hold regularly scheduled calls with their own management teams, which provide a channel for lateral communications. If Team A is working on something that impacts Team B, one team can ask for help by requesting time on the other's call.

Evaluation

To ensure employees execute strategies properly, many of the companies interviewed have made a major commitment to the evaluation of individuals and the company as a whole. FedEx uses a system called "Quality-Driven Management" to ensure that the company is meeting customer needs and removing anything that impedes its ability to do so. Evaluation is a key part of this process. In addition to having a shared vision, the company makes a strong commitment to a "fact-driven philosophy for decision-making" and to measuring performance.

Chevron keeps a type of scorecard for each business unit in the company, and the company's leaders review these scorecards regularly. This ensures Chevron employees are performing well against measures laid out in management plans. In addition, every few years teams travel out to the units around the world to assess how well the business plans are being implemented.

McDonald's also emphasizes the need to collect data. The company surveys all employees every year, with a 93 percent participation rate. It asks for feedback on the management's leadership abilities and whether employees would recommend working at McDonald's to a friend or relative.

Information Sharing

In order to maximize the benefits of a large and dispersed organization, information must move to those people in the organization that most need it. Though the State Department is understandably focused on how to contain unnecessary information sharing after the unfortunate release of thousands of classified documents by the organization Wikileaks, the sharing of unclassified information and some classified information across the Department remains important to the State Department's success. FedEx executives say information sharing is as much an attitude as a tactic. Thus, while information sharing must be a priority for all employees, this is especially true for those at the highest levels as they set a tone for the whole company. Transparency gives employees vital information that helps them do their jobs. Moreover, leaders should also share information that infuses what employees do with meaning and shows how employees' roles are related to FedEx's overall objectives, goals and vision. For example, each year FedEx sends a "From the Chairman" message to all FedEx employees' home addresses. Executives believe the letters send an unspoken message that "this is not an interoffice memo – it is important information and you are important enough that we take the time to send it to your home."

FedEx uses a variety of communication vehicles to promote lateral and vertical communication, including:

- Shared intranet sites for all agents posting daily updates regarding regulations or service. The sites have portals with links to more region-specific information updates, information about employee recognition and best practices.
- Monthly online publications distributed to managers raising key topics for discussion during ongoing employee meetings.
- Social media tools facilitating both customer and employee information exchanges in real time. The company is implementing multiple social media pilot projects to promote workforce collaboration and increased corporate social media skills, including "The FedEx Citizenship Blog" and a blog called "I Am FedEx."

IBM places a premium on information sharing. Executives say "information flies around" the company. Since "people can't succeed at IBM without help," there is a heavy reliance on networking and reciprocal information sharing. The "hallway reputation" of employees is also extremely important in this network-dependent environment. Such reputations, in turn, hinge on whether employees are open and share what they know.

McDonald's emphasizes a reliance on communications technology to facilitate information sharing. The company uses webcasts extensively, routinely having as many as 300 people around the world on a webcast. Such webcasts give leaders exposure to employees in markets around the world, allowing them to then call on people individually in order to follow up on specific items. McDonald's also has cross-company councils that meet for long periods of time and are institutionalized. These councils, such as the corporate social responsibility council, which has met every month for the last 65 months, facilitate information sharing.

Lessons for the State Department

- **Rethink strategic planning.** The State Department has a rigorous planning process for missions and bureaus (mission strategic plans, or MSPs and bureau strategic plans, or BSPs), which is tied directly to the budgeting process. However, these plans have been used inconsistently depending on the leadership team in a given department. Under the leadership of Secretary of State Colin Powell, Deputy Secretary Richard Armitage (who is a member of the CNAS board of directors) devoted significant time to evaluating bureau plans and comparing past plans to actual performance. This high-level attention led Department staff to invest substantial time in the planning exercise and to conduct operations with the awareness that they would be evaluated against these plans later. However, that role has not been performed consistently by Secretary Armitage's successors, and is not institutionalized in the Department. The State Department would do well to tie strategy, execution and performance evaluation much more closely together, re-elevating it to the deputy secretary level and thereby reaping greater returns from its existing investment in planning. The examples described above suggest concrete models which could be tailored to the Department's own unique circumstances.

The State Department currently invests far less in evaluating performance and progress toward goals than do corporations, and perhaps even other government agencies. This is undoubtedly a result of inadequate resources and the difficulty of measuring achievement in the world of diplomacy. However, an improved process would ensure that existing resources are invested more wisely and that progress is measured more systematically. The resulting data could be used not only to address shortfalls but also to demonstrate progress and build a stronger constituency for the Department. It could, for instance, provide the basis of a strong case to Congress for the merits of investing in diplomacy.

"Red teaming" strategies – systematically challenging strategic plans to rigorous adversarial review – is done more often by corporations and the Defense Department and less often by State. The Department would benefit from experimenting with some of the techniques described above, particularly those that encourage dissenting voices to be heard on key issues.

- **Focus on execution.** The State Department typically faces challenges in managing the implementation of policy and specific programs. But unless policy and programs are well implemented, even the most brilliant strategy will have only limited impact on the ground. Aligning vision and action will require several changes that can be informed by the experience of corporations. First, the chain of authority in the State Department is not always perfectly streamlined, which can limit the ability of leaders to manage the execution phase of policy. Ambassadors formally report to the secretary of state, but given the close personal relationship between some ambassadors and the president, it is not unheard of for an ambassador to tell even the senior leaders at the Department, "If you have a problem with what I am doing, talk to the president." In addition, ambassadors have authority over most U.S. government personnel in their country but not over military personnel, who remain under the authority of their commander. The corporations interviewed have made concerted efforts to clarify the precise reporting responsibilities of country managers and local personnel, and the State Department should do the same.

- **Think regionally.** The State Department should consider ways to coordinate and oversee the *implementation* of policy at a level between individual embassies and assistant secretaries who must also lead strategy and policy development. One model used in the corporate world is to create regional hubs whose leaders reside in the regions they oversee instead of in Washington, which would then be free to focus on policy making and strategy.[25] The

State Department has already experimented with regional hubs in two areas – media outreach and environment, and science, technology and health. These hubs are responsible for developing, coordinating and implementing activities across particular world regions. The Department could expand such efforts and establish hubs tasked with other goals, such as democracy promotion.

- **Get the facts.** To evaluate progress towards strategic goals, self-reporting by individuals, offices and embassies is useful but not sufficient. Learning from the corporate world, the State Department should consider the broader use of assessment teams whose evaluations would feed into State's planning, evaluation and promotion processes. The Department does have an Office of the Inspector General (OIG), which performs much of this function, but its investigative bent has a slightly different focus, and this role is not directly integrated into the planning, evaluation and promotion process. Whether the OIG's assessments can be better integrated into the management process or whether new assessments are necessary is a worthy subject for further inquiry. The membership of such assessment teams is an additional question for review. The inclusion of former ambassadors is worthwhile from an investigative standpoint because they possess knowledge but have no vested stake in the current Department. But, from a management standpoint, the State Department should also include representatives who report to the current leadership team. To prepare for these assessments, embassies and bureaus should be encouraged to tap the expertise of the Office of Policy Planning (S/P) to perform their own "deep dives." This would require additional resources but would give S/P an opportunity to tie policy to day-to-day implementation.

Overall, the State Department is improving in terms of using tangible metrics to measure performance. However, research-driven development and evaluation of programs remains far too uncommon and unsystematic. As an important step in changing the Department's culture, the State Department should make fact-based evaluation an important part of implementing the recommendations of the QDDR, establishing

Addressing Climate Change

Like U.S. government agencies, global companies are taking steps to respond to global trends like climate change and the need for greater energy efficiency. For many companies these are issues related to corporate social responsibility and the bottom line.

FedEx has focused on energy efficiency as an area where the company could both be a responsible corporate citizen and reduce costs. As a result, the company is reducing its fuel consumption and carbon emissions. Fed Ex is replacing 90 Boeing 727 aircraft with the more fuel efficient Boeing 757s and will retire its last 727s within the next 10 years. According to executives, upgrading the FedEx fleet will reduce fuel consumption and greenhouse gas emissions up to 36 percent while providing 20 percent more payload capacity.

McDonald's focuses on environmental initiatives that can be taken at the company's 31,000 restaurants, consistent with the company's overall strategy to stay close to the customer. A key area in which the company can make a positive impact is energy usage by the restaurants, most of which are now open 24 hours a day and rely heavily on electricity. Increasing energy efficiency is also an area where the company can project an image of good corporate citizenship and attempt to reduce costs at the same time.

As part of the State Department's "Greening Diplomacy Initiative," the Department should identify similar means to reduce costs and its carbon footprint at the same time.

both metrics of success and a multi-year plan to measure and assess progress.

- **Reform performance evaluation.** Currently, compensation and recognition at the State Department are tied much more to individual performance and time in service rather than to the performance of teams. There is only a weak link between how individuals are evaluated and promoted and how their missions or bureaus perform. The Department should explore rewarding leadership, collaboration and the achievements of groups, using some of the models suggested above. In addition, the Department should share the performance evaluation of top Department officials, perhaps from the deputy assistant secretary level on up, with the Department's senior leadership. Knowing a review by senior leaders is coming would be a major incentive for good performance. It could also increase recognition of rising stars and contribute to a common understanding of what excellent performance looks like so it can be further encouraged. The Department's promotion board system, which reportedly rewards collegiality more than some other leadership traits, should be reviewed with an eye toward making it more meritocratic. Finally, a small but useful step would be to award the Department's Distinguished Honor Award for exceptional service to teams as well as to individuals.

- **Budget strategically.** The State Department should work with Congress to abandon its one-year budget cycle in favor of a three-year rolling budget plan, or even the five-year budget plan used by the Department of Defense. One-year budget cycles create short-term thinking, poor planning and deep frustration on the part of State Department employees who would like to act more strategically. Longer budget cycles would also lead to the more effective expenditure of resources since State Department employees would be able to reject responses akin to "fire-drills" when budgets are finally approved but must be spent in weeks, not months. A longer budget planning process might also encourage more multi-year appropriations such as those enjoyed by the Pentagon.

- **Reward responsibility and calculated risk-taking.** Many decisions are elevated to senior leaders within the State Department. This is viewed as necessary and acceptable because of the high stakes involved and because of the potentially enormous consequences of error. However, if the State Department wishes to be more nimble and strategic, it must devolve more power to lower levels and create a culture in which, like many corporations, people are discouraged from "delegating up." Performance evaluations, awards and other mechanisms should be used to reward people who solve problems at lower levels.

IV. GETTING THE PEOPLE PART RIGHT

Every company interviewed stresses hiring, cultivating and retaining the right people as essential to success. And each company invests considerable time identifying what kinds of leaders it needs and how to evaluate their performance. The following paragraphs summarize approaches major companies adopt when cultivating leaders and training, hiring and retaining employees.

Of note, each company defines the most important attributes of leadership somewhat differently. GE, for instance, emphasizes the values leaders must embrace to succeed at the company, including:

- A sensitivity to dynamics outside the company, allowing them to see success through the customer's eyes and stay in tune with industry dynamics; the ability to "see around corners."
- Clear thinking, especially the ability to seek simple solutions to complex problems and be decisive.
- Focus, allowing them to communicate clear and consistent priorities.
- Imagination, including the ability to generate new and creative ideas, be resourceful and open to change, and display courage and tenacity in advancing their ideas.
- Inclusiveness, especially the ability to work in teams, respect others' ideas and contributions, create excitement and encourage others to become engaged.
- Expertise, including depth of subject matter expertise in a particular domain, credibility built from experience, a commitment to continuous self-development and a love of learning.
- Unyielding integrity.

GE collects substantial data about its employees to determine attrition rates and why people leave. The company conducts focus groups, "pulse surveys" to get quick answers to discrete questions, and a survey of all 150,000 employees every other year. In the latter the company asks a core set of questions each time in order to identify long-term trends. The results of these surveys are then returned to any manager with more than eight employees so the manager and the employees can review the results together. The GE executive interviewed offered a word of caution: Surveys are useful but ultimately can be damaging if employees perceive that the company is not doing anything with the results. Thus, corporate leaders have to be vigilant and visible in assuring employees that they take the results seriously and are implementing specific actions to address any major concerns.

McDonald's executives recounted an experience several years ago in which the company sought to rethink its leadership concept and how best to cultivate the right kind of leaders for the future. It convened senior managers across the company and asked not what had made people successful at McDonald's up until that point but, rather, what kind of leaders McDonald's would need over the next three to five years to make the company successful in the future. In interviews with top executives across the company, McDonald's asked: What characteristics do we think the McDonald's executive of the future will need? What kinds of leaders do we need to support the "Plan to Win" in terms of goals and competencies? What will define success?

The result was a strong consensus that McDonald's would need leaders possessing two key qualities: innovative minds and the ability to execute. The company admitted that, historically, its leaders had been better at executing corporate policies. So the company built professional development programs to cultivate innovation, giving emerging leaders experience on cross-functional, cross-geographic teams working on real-life business problems and presenting their recommendations to the entire senior management team of the company. They identified key competencies

International Staffing with Costs in Mind

The executives interviewed for this study highlight a new level of cost consciousness that has permeated corporations in difficult economic times. Some of these may be relevant to the State Department and other federal agencies with large numbers of staff overseas.

IBM, for instance, recognizes that moving people around is hugely expensive. The company now sends people overseas for shorter periods of time to build international experience, since more temporary assignments do not require the high level of relocation expenses required when moving employees and their families. The company is also much more attentive to maximizing the impact of sending a person overseas, hoping to share that employee's expertise with the local staff as well as provide the individual with professional development experience.

GE also moves people less frequently than in past years due to cost concerns. This new approach reinforces the company's goal to build more "domain expertise" in particular industries and regions, creating a larger pipeline of experts to run particular businesses.

The State Department should seriously consider keeping employees abroad in place longer, not only to conserve resources, but also to help diplomats and staff in the field to establish longer and more robust working relationships with foreign officials and publics.

and core values essential to implementing the "Plan to Win," which include staying close to the customer, developing talent, building relationships, and operating with trust and integrity.

McDonald's executives emphasize the need to give employees at every level "freedom within a framework." CEO Jim Skinner said, "Sometimes I have to put up guardrails, but if I have to tell people what to do, I've got the wrong people."

Decentralized decision-making enables quick decisions closer to the customer. This model challenges staff and makes their jobs more interesting, producing an environment that McDonald's believes helps the company to retain top talent. Leaders must be willing to both delegate and innovate within a framework; managers who cannot do both must be "changed out."

Employees want to feel they are part of something important and greater than themselves, that they comprise an integral part of a common enterprise. FedEx executives spoke of the importance of corporate culture in motivating employees. At FedEx, people sometimes talk of "bleeding purple," the corporation's signature color, and corporate officers emphasize the genuine pride employees take in providing exceptional service. There are legends about the early days at FedEx, still repeated by the company's current personnel: employees being asked to not cash paychecks for a few days; pilots buying gas for planes with their own credit cards; and playing blackjack in Las Vegas in order to win (depending on the storyteller) start-up money or the cash necessary to cover payroll. These legends are supplemented with stories of FedEx aggressively entering the Chinese market or investing in new technologies long before others recognized the importance of those moves. Regardless of whether every one of these stories is true, they contribute to a shared sense of pride that FedEx is an innovative and "can do" company.

Interestingly, as IBM increasingly counts on the initiative of individual employees to achieve the corporation's objectives, the company is expanding its definition of leadership and incorporating larger numbers of its employees into leadership training programs. For instance, IBM has a longstanding and extensive global mentoring program for executives. This program has served approximately 12,000 leaders worldwide in the past. Now, however, the company is in the process of expanding the program to accommodate a larger group of 52,000 people – a major investment of time and resources. Eventually the company hopes to evaluate all of its 400,000 employees for both performance and potential.

IBM has identified the key competencies required for this sort of "transformational leadership." IBM cultivates leaders who partner with others in order to succeed for their clients, collaborate globally, act with systemic perspective, build mutual trust, influence others by virtue of their expertise, continuously transform themselves, and "communicate for impact."

Cultivating the Right Kind of Leaders

The companies we interviewed emphasize the importance of rewarding certain traits and skills that benefit the broader organization. Different organizations place varying weight on particular traits and skills, particularly for people in leadership roles. For instance, IBM executives note communicating for impact and personal reputation is critical for success in IBM's heavily "matrixed" organization and is judged in employee performance evaluations. To maintain efficiency in such a complex organization, it's sometimes necessary to convince large numbers of stakeholders to lend their support to a particular effort. IBM, therefore, needs leaders able to rally people and encourage them to see and pursue opportunities.

GE emphasizes the need to focus not just on what employees do but on how they do it – a focus captured formally in employee evaluations. In other words, the company rewards not just ends but means, and people who perform at the highest level on both are considered role models in the company. This approach has a strong impact on the corporate culture and also affects employee satisfaction and retention.

McDonald's focuses on leaders who are able to work in a team environment, noting that most of the time, when an employee does not work out in the company it is not because he or she is insufficiently intelligent but rather because the individual does not fit the team-oriented culture. One executive said, "If you can't operate in a team environment when you've got the lunch crowd coming in, then you've got problems." Similarly, "if you come into McDonald's and want to make your mark and really stand out, but can't play on a team, I will give you six months before there is a tissue rejection." The corporation's rewards program is designed specifically to reinforce team performance, with bonuses awarded based on how the team does as a whole and not just on the performance of individual members. For instance, if the European business does not meet its revenue projections, no one gets a bonus even if one person has performed outstandingly. The company recognizes teams are key to delivering value to its customers. "It's the difference between wanting to be part of something great and wanting to be great," said one McDonald's executive.[26]

At one point, 70 percent of McDonald's executives or officers in the company were rated "exceptional," which made for a low bar. Although the company had leadership roles to fill, it often had difficulty finding potential leaders within the company who were truly prepared to take on greater responsibility.[27] As a result, the company shifted to a process of evaluating roughly 20 percent as "exceptional," 70 percent as "significant," and 10 percent as "needing improvement" (a status employees cannot receive two years in a row if they wish to remain at the company). But McDonald's does not have a system in which a fixed percentage of employees at the bottom are removed from their positions, observing that the company needs to be both a high performance organization and a family in order to succeed. Most people wish to successfully work for companies that have high standards, not for companies that are viewed as simply ruthless. The commitment to differentiating exceptional performance also creates a culture more accepting of risk

A key step toward having the right people is creating a pipeline so that when one person leaves a position, qualified candidates are ready to step in as necessary. GE, for example, emphasizes its annual planning process that includes succession plans for all executives.

taking simply because employees must take risks in order to stand out, even though they must be calculated and result from a rigorous process. As an example of a calculated risk, when McDonald's designed a beverage strategy to compete against Starbucks, the company conducted long interviews of potential executives for four to five hours, and tested coffee in thousands of stores in order to mitigate the risk of error.

In 2003, McDonald's also began an in-depth global talent review that forecast future talent needs such as expected retirements, promotions and transfers, and evaluated the current pool of talent at the company against these needs to address gaps. This process allows the company to identify the "next generation" of leaders to ensure they are being developed for positions of higher responsibility. A "Leadership at McDonald's Program" builds a deeper "bench strength" for the company and decreases the ramp-up time for promotions by preparing high-potential individuals in the company. This development program not only cultivates individual talent but also creates peer networks that emerge horizontally, and facilitates mentoring relationships between high-potential employees and seasoned managers.[28]

This type of system is not unique to McDonald's. A key step toward having the right people is creating a pipeline so that when one person leaves a position, qualified candidates are ready to step in as necessary. GE, for example, emphasizes its annual planning process that includes succession plans for all executives. The company makes it a priority to have a full bench of talent for all key roles in the company. FedEx, meanwhile, has the "Purple Pipeline" geared toward preparing managers and directors to move up into leadership roles, and has established a training program to prepare vice presidents for more senior positions.

Training

Corporations use a variety of methods to cultivate leaders and train employees throughout their organizations.

GE adopts a "stair step" approach. At the bottom of the training staircase are online training programs that GE buys on the open market and makes available to anyone in the company who wishes to use them. Employees choose to pursue this sort of training on their own because of a perception that by building their workplace skills they will have more potential for advancement. At a higher step on the staircase, GE offers resident courses up to three weeks long. The content of these courses varies but GE highlights the need to cultivate key leadership skills such as managing people, leading change, project management and communications. Importantly, when an employee steps out of his role to pursue training, the corporation sees this as another training opportunity by turning the "loss" of that person into a development opportunity for another employee and letting that person step into the vacated role. This mindset, one GE executive notes, helps people think about training differently and circumvents the idea that there are not enough time or people to allow for training. Another training effort is a course that takes an intact leadership team and trains all of its members together. For instance, 15 people in GE's energy services business may all come together for a certain course. Many of the courses focus less on traditional issues, like marketing and competition analysis, and more on scenario planning, seeing around corners and building partnerships. A key lesson for GE is that the content of these courses is actually less important than bringing a team together for a focused period of time. Such interaction has produced many unexpected benefits for the company. Finally, GE emphasizes the need for leadership development on the job by giving people challenging assignments, stretch opportunities, visibility, candid assessment and feedback on performance.

Hiring and Retention

FedEx executives noted that their hiring philosophy is to hire attitude and teach skills. Their view is that the necessary skills can be learned but it is difficult to "teach" a good attitude. FedEx also has a longstanding practice of developing talent within the company and promoting from within instead of "bringing in new blood," which can be demoralizing to longstanding loyal managers. Hiring from outside may be necessary to bring in talent in new areas of operation (in social media, for example), since expertise and fresh ideas may not exist in the company already. However, promoting from within is seen as a way in which the company demonstrates to its employees that it cares about their futures, values their loyalty, and wants them to feel that they are growing professionally. A number of FedEx executives and leadership team members have spent their careers at FedEx, rising from the front lines to management positions.

McDonald's used to promote almost exclusively from within. But now, internal candidates are evaluated for positions along with external candidates in order to ensure the company gets top talent into senior positions. Longevity is rewarded in other ways. For instance, McDonald's has a paid sabbatical program, which gives employees eight paid weeks off after every 10 years of service. This is a signature benefit that people discuss with their friends and neighbors when they talk about the company, McDonald's executives report.

GE's philosophy is to prioritize "the bookends" in hiring, believing if the company hires the right people at the entry and most senior levels, the businesses can manage everything else on a day-to-day basis.

Motivation and Recognition

The companies interviewed stress the need to recognize outstanding employees. Though they are often well compensated financially – which is far more difficult in the U.S. government – employees are also recognized in many non-financial ways. Executives tend to view non-monetary recognition as important because of the message it sends to the company about the traits and behaviors it values. GE's internal research shows that two things motivate employees. The first is whether people feel they are working on something important, challenging and intellectually interesting. The second is that they have a good boss and consider that boss "a good person who knows and likes me." GE therefore puts significant time into ensuring that middle managers fit the bill, since they have such an important impact on employee satisfaction.

To recognize exceptional contributions, GE invites the top 600 people in the company (out of 150,000 in 100 countries) from around the world to its Global Leadership Meeting. An invitation to the event is considered a major honor within the company. Similarly, FedEx has an annual program in which a handful of exceptional employees are identified for a vacation-style retreat paid for by the corporation, and also offers prestigious awards to its highest performing employees.

McDonald's executives emphasize their commitment to recognizing exceptional performance. The company formally recognizes the top 1 percent of store managers and top staff employees from around the world by flying them and at least one family member to Chicago, where they receive the company president's award. Only 110 people are given awards and the entire senior leadership team is on hand to celebrate them. These employees are also awarded a bonus and an extra week of vacation. McDonald's also recognizes exceptional performance at its franchises through the Golden Arch Awards, which are awarded to the 50 or 60 highest-performing restaurants each year out of a total of 4,000.

Lessons for State

- **Hire for the future.** The State Department should engage in an extensive internal discussion about the skills and characteristics necessary to accomplish the objectives laid out in the QDDR and develop a plan to hire, reward and promote people with those traits. It should also evaluate how to create an environment in which people with those skills will feel challenged and valued. This applies to leaders as well as to staff. Department leaders could learn much by surveying existing employees regarding the kind of leaders they want and whether they feel that the proper leadership is resident in the Department.

- **Take advantage of State's meaningful mission.** Employees everywhere want to feel as if they are part of something important, something greater than themselves. In this respect, the State Department enjoys an enormous advantage. Most State Department employees are personally inspired to contribute to American diplomacy and many go beyond the call of duty to advance relations with countries around the world. The Department should build on this advantage, finding ways to emphasize these shared objectives and visibly reward the quintessential examples of an outstanding 21st-century diplomat, civil servant and other essential categories of employees. Such rewards might range from lunches with the secretary of state or other top officials through paid visits to the post of a winner's choice.

- **Stay put.** For reasons of both cost and policy effectiveness, the Department should seriously study reducing the frequency of staff rotations at its embassies. Moving people and their families is extremely expensive financially, and it reduces the ability of embassy staff to capitalize on longer-term relationships built with locals. Embassy staff invest substantial time in becoming familiar with languages, cultures, key opinion leaders, government regulations, and so on, but the return on this investment is diminished when people move on too quickly. For this reason, many other countries use longer rotations for their diplomatic corps. Embassy staff should still rotate, but lengthening tours of duty to four or five years is a matter worthy of serious attention.

- **Recognize the truly exceptional.** There is heavy pressure to give strong evaluations at the State Department, especially for foreign service officers who face an "up or out" career path. It is also common practice to award praise liberally. However, this practice diminishes the ability of the Department to recognize true superstars. The State Department should learn from the corporate experience and set a higher bar by limiting how many employees are evaluated as being exceptional, perhaps by setting a fixed percentage of employees who can receive such a rating. Differentiating truly exceptional service can encourage calculated risk taking since only those who take risks stand out. There is also a tradition at the Department of awarding particular assignments to foreign services officers bidding "at grade," meaning that, except in rare instances, more junior officers cannot take particular jobs no matter how qualified they might be. The Department should liberalize the rules under which foreign service officers and civil servants become eligible to bid on positions.

- **Build a pipeline of qualified candidates.** The State Department should focus more attention on proactively building a pipeline of qualified

The Department's ability to lead America's efforts to make and implement U.S. foreign policy will only improve if it invests more diligently in strengthening its own human and institutional potential.

candidates so that when one person leaves, other qualified candidates are ready to step in. Unlike GE, where succession is part of annual planning process, the State Department's process is highly focused on individuals rather than building teams. In that way, it is more akin to a free market in which individual job buyers and sellers evaluate each other to determine where there is the right fit. However, there is little long-term personnel planning and grooming of successors. Having a pipeline of candidates would also reward talented staff by creating attractive career ladders and opportunities for targeted mentorship. The Department should also reconsider its "up or out" policy for foreign service officers, which forces the Department to push out highly qualified individuals once it has invested tremendous resources in cultivating their talents – an unfamiliar practice for most corporations.

- **Get more out of training.** In addition to simply putting greater emphasis on and resources into training and education, the State Department could get more out of existing programs by training offices together as a group. This would enhance the impact of training and add value by building stronger teams and enhancing office-level planning.

V. CONCLUSION

To steward America's diplomacy more effectively, the State Department should commit to reforming management of the complex global organization it has become. With its mission of addressing some of the most pernicious global challenges of the day on behalf of the most powerful country in the world, it is understandable that the hard, long-term work of organizational management does not always get the prominence it deserves. Nonetheless, the Department's ability to lead America's efforts to make and implement U.S. foreign policy will only improve if it invests more diligently in strengthening its own human and institutional potential.

The experience of global companies, while different in many ways from the Department's work, carries valuable lessons for the State Department. Bold leaders at the Department should turn to America's best corporations for insights as they build a Department poised to excel at 21st-century diplomacy. The authors have not addressed here the full scope of corporate lessons for State Department management, but present the most salient observations from research into four large and successful global corporations. This brief look into the corporate world should begin, not end, this important discussion.

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