



STRATEGIC MANAGEMENT OF HUMAN CAPITAL

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STRATEGIC TALENT MANAGEMENT: LESSONS FROM THE CORPORATE WORLD

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STRATEGIC MANAGEMENT OF HUMAN CAPITAL (SMHC)

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For decades, many corporate leaders have declared that “people are our most important asset”. In the last decade more and more executives are making this statement and they are making it with greater frequency. In fact, there are a number of reasons to believe that people are increasing in their strategic importance and that corporations should act as they are one of their most important assets or their most important asset.

But are corporations increasingly behaving as if people are their most important asset? I think the answer is yes. There is some movement in that direction but it is slow, characterized by many missteps and frequent situations where people are not treated as a key, or the key asset of corporations. Despite the failure of corporations to do what they say they should do, there is a great deal that can be learned from how some leading corporations manage their talent and from the research literature on talent management.

1. ORGANIZATION DESIGN

Effective talent management is not just about attracting, developing, and retaining the best talent; it is about organizing and managing people so that they perform in ways that lead to excellent organizational performance. In other words, it involves creating a Human-Capital (HC) centric organization. The contrast here is to the structure centric approach to organizing which has been and continues to dominate in the corporate world. It focuses on well defined jobs, relationships, and control systems as the way to achieve performance excellence.

Two particularly visible and popular approaches to HC-centric management are being used by organizations today: the high involvement approach and the global competitor approach.

Both of them depend on the effective utilization of talent as a key differentiator and source of competitive advantage. Where they differ is in how they treat talent and how they expect to gain competitive advantage from it.

High Involvement

The high-involvement approach to management can be traced back at least to the early 1950's. It was then that a few companies began experimenting with self-managing work teams and other approaches to moving power to lower levels in the organization so that individuals could participate in important decisions about how work is done and take responsibility for their performance.

The high-involvement approach places a great emphasis on the nature of the work that individuals do. It argues for work that allows individuals to make decisions, gives them feedback about the effectiveness of their performance, and challenges them to develop and use their skills and abilities. It also emphasizes the importance of having employees who have the ability to self-manage, who are well trained, and who can reasonably expect to have careers with the organization as long as they perform well.

Much of the writing about the high-involvement approach to management focuses on the importance of leadership. It usually goes on to emphasize the importance of a democratic or participative management style. Group decision making led by a leader who is good at listening, building consensus, and incorporating individuals' input is seen as critical to an effective high-involvement approach to management.

Recent writing about high-involvement organizations has increasingly emphasized the importance of shared leadership. This approach is a natural next step in the evolution of high-involvement management. It argues that high-involvement organizations shouldn't depend on a

few individuals with exceptional leadership skills providing a charismatic environment that galvanizes the rest of the organization. Instead it argues that many individuals can and should be expected to take on leadership roles when situations present themselves. Shared leadership means that individuals throughout an organization take the lead when they have the appropriate knowledge and expertise. High-involvement organizations believe in a long-term, mutually beneficial relationship with their talent. High-involvement organizations commit to the training and development of their talent, and to retraining people as the nature of the work and technology changes. Consistent with a commitment to the existing workforce, most promotion is from within. High-involvement organizations also place a strong emphasis on egalitarianism. There are few signs of status differentiation in high-involvement organizations; managers and employees park together, eat together, and engage in social events together.

High-involvement organizations place a strong emphasis on their talent sharing in the financial performance of the organization. Typically most employees own stock in their company and may also participate in profit sharing or gain sharing bonus plans. Not surprisingly, high-involvement organizations are in large part committed to communicating financial results to all employees. They often have financial literacy programs designed to educate the workforce with respect to the financial performance of the company.

Figure 1 graphically captures the underlying management philosophy of the high-involvement organization in contrast to a traditional bureaucratic one. It shows that the traditional organization typically has a hierarchical structure with large amounts of power, information, knowledge, and rewards at the top and relatively little at the bottom. In contrast to this is the flatter structure of a high-involvement organization. Interestingly, the amount of power, information, and knowledge at the top is not necessarily less in a high-

involvement organization; in fact, it may be greater. The signature feature is the processes, structures, and reward systems that locate large amounts of information, knowledge, power, and rewards at the lowest levels of the organization.

Figure 1
Power, Information, Knowledge, and Rewards

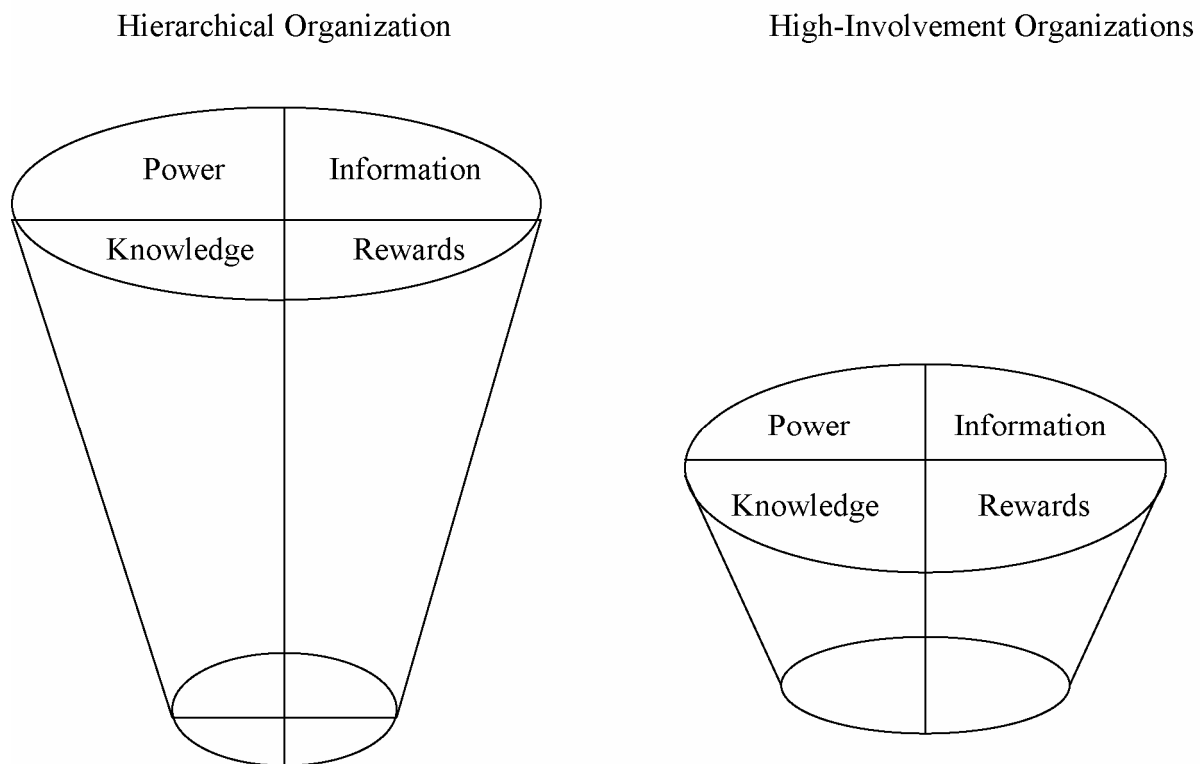


Exhibit 1 presents the major characteristics of a high-involvement organization, most of them need to be in place if a high-involvement organization is to perform effectively. They all point toward individuals' playing major roles and having their rewards tied to the success of the organization. These characteristics also clearly differentiate high-involvement organizations

from structure-centric organizations. None of them are typically present in structure-centric organizations.

EXHIBIT 1. CHARACTERISTICS OF HIGH-INVOLVEMENT ORGANIZATIONS

- Enriched work designs
- Participative decision-making structures
- Shared business information
- Committed to education and development of people
- Career oriented
- Rewards for organization performance
- Community
- Shared leadership
- Committed to talent management

Global Competitor Approach

They are very much a product of the rapid technological developments that have occurred in the last several decades and the need for organizations to constantly develop and apply new technologies. Global competitor organizations are the glamour companies of the current era.

Because global-competitor corporations offer their customers the latest technology and services, they often need complex organizational structures and the ability to innovate. They know that knowledge and talent are their primary sources of competitive advantage. Like high-involvement organizations, they realize that they can compete successfully only if they have the best talent available and have talent that is committed to high performance and continuous improvement.

Global competitor organizations are constantly searching for talent and are constantly concerned with upgrading their talent. They take a “travel light” approach to talent. To be agile,

they minimize their long-term commitments to employees. Rather than being strongly inclined toward building talent, they are much more likely to do a cost-benefit analysis or a return on investment analysis and decide to buy or build talent on the basis of the results.

Because global-competitor organizations often do buy talent, their employment contracts – or *deals*, as they are sometimes called – tend to differ from those in high-involvement organizations. High-involvement organizations typically have a single employment contract emphasizing employment stability and the willingness to invest in talent development; global competitors typically offer multiple contracts.

You will often find a small core group of employees in a global competitor who have employment relationships like the ones offered in high-involvement companies. These core people are the long-term members of the organization. But global-competitor organizations also often have a second larger group of employees who are subject to buy-build decisions when it comes to employment. These individuals don't have a high level of employment security. They are, however, expected to be strongly committed to their work and typically do have interesting and challenging work to do.

Unlike high-involvement organizations, global-competitor organizations place much less emphasis on their talent developing a commitment to the organization's success. Their focus is on individuals doing their jobs well.

In many respects, the relationship between global-competitor corporations and their employees is transactional, but that does not necessarily make it ineffective. Employees are expected to contribute their skills and to perform at high levels. Because this employment contract is clear to them and they are rewarded for their performance, they do provide what is

expected of them. In combination with the core employees, they create a knowledgeable and flexible pool of talent for the organization.

Exhibit 2 presents the major features of a global-competitor approach to management. The list has some overlap with the characteristics of a high-involvement organization, but is clearly quite different in the kind of employment relationship firms establish and how they manage their talent.

EXHIBIT 2. CHARACTERISTICS OF GLOBAL-COMPETITOR ORGANIZATIONS

- Interesting work
- Global talent pool
- Offshoring
- Outsourcing
- Employment depends on performance and skills
- Pay for performance
- Just-in-time training
- Career self-management
- Long-term core group of employees
- Pay what it takes to attract and retain talent
- Willing to buy talent

As with the high-involvement approach, global-competitor organizations are quite different from structure-centric organizations. They are designed to treat talent in ways that will allow it to make a major contribution to their success. They also are very much focused on creating an environment that will attract and retain outstanding talent.

Making the Choice

In considering the choice between HC-centric and structure-centric, it is important to distinguish between talent-critical and talent-intensive organizations. A company is not

necessarily talent critical or pivotal simply because it has a large number of employees and a large portion of its costs associated with labor. That makes it talent intensive, but not necessarily talent critical.

Further, just because an organization's performance depends on how well a few individuals perform relative to its competitors, it is not a talent-critical organization. (No one wants a second-rate CEO or head of research and development in a technology company. Having the best individuals in a few key positions is an important focus in most organizations; it is not a characteristic that makes an organization talent critical.) A company is talent critical only if its strategy calls for it to gain a competitive advantage as the result of a large percentage of its talent outperforming the talent in other organizations as a result of its quality and the way it is managed.

Adopting a strategy that calls for talent to be the critical difference maker is appropriate when an organization operates in a business where two conditions exist. The first is that the performance of an organization's talent is determined by how it is selected, developed, managed, retained, and organized. The second is that the performance of an organization's talent is a strong determinant of organizational performance. A particularly strong case can be made for an organization being talent critical when its talent is counted on to provide hard-to-duplicate types and levels of performance.

In most cases, talent-critical organizations should employ an HC-centric approach. The same is not necessarily true of organizations that are talent intensive. They may perform best by taking a structure centric approach. The one exception is when talent is scarce. It may be that in order to attract and retain the amount of talent they need, talent-intensive organizations are best off adopting the HC-centric approach even if they are not talent critical.

Choosing an HC-Centric Management Approach

HC-centric organizations have a choice: they can adopt the global-competitor approach or the high-involvement approach. When does one fit better than the other? The answer is that it depends first and foremost on the type and rate of change that an organization faces. The more an organization expects to face rapid change, particularly change that requires it to change or significantly improve the competencies of its employees, the more it should adopt the global-competitor approach.

The major advantage of the global competitor approach over the high-involvement approach is the ability to bring in new talent and quickly update or change the technological expertise of the workforce. Although buying talent has some dysfunctions, it is hard to argue with the point that it allows for rapid change.

High-involvement organizations take more time to build. Selecting the right employees and integrating them into the communities characteristic of this type of organization does not happen quickly. Thus, the high-involvement approach can limit the speed with which an organization can grow and develop.

Organizations that want to develop a customer focus are prime candidates for the high-involvement approach. Having a customer focus usually requires cross-function and cross-department cooperation and a willingness to sacrifice for the good of the whole.

Management in Public Education

It is not necessary to detail why the HC centric approach to management is the right one for school systems. Their product in many respects is their talent; it is not their buildings or even their books. Teachers are particularly critical because their performance requires well developed competencies and varies significantly from teacher to teacher. As a result the quality of the

product schools have to offer varies significantly. Thus it is critical that schools adopt a management approach that focuses on talent. But which one?

I believe the best choice for most school systems is the High-Involvement approach. It certainly is true that they need to change and that as a result the travel light approach has some appeal, but they are not subject to the same rate and type of change that high tech firms are. Further, schools work best when there is a sense of community and their talent (teachers) are committed to their customers. Finally, teamwork and coordination can be important and this is usually highest in high-involvement organizations.

What about the staff and management of public school systems? What is the best way to manage them? Most do knowledge work and thus the high-involvement approach is a reasonable fit there as well. In the case of those that do low value added work the best answer may be to do what most companies are increasingly doing; outsource the work. This approach usually is superior to either managing it with the wrong management approach or trying to run an organization with two or more approaches of management.

2. TALENT MANAGEMENT

HC-centric organizations excel only when they have an outstanding talent management system. Effective talent management systems don't just acquire and introduce highly qualified people to the organization—they ensure that the fit is right between employee and employer. They also monitor and manage an individual's relationship with the organization effectively for as long as it is in the best interest of the organization to have the individual as an employee.

Management Focus

It is not an overstatement to say that effective HC-centric organizations are obsessed with talent management. This is one area where Jack Welch, the former CEO of GE, has it right when he says that talent management deserves at least as much focus as financial capital management.

Unquestionably, the effective management of talent has to begin at the very top of the organization. The senior management team needs to spend a significant portion of its time focusing on talent management. Just how big a portion is hard to specify precisely, since it does need to vary depending upon the type of talent being managed, whether the organization has a buy or build strategy, and a host of other factors. However, a good rule of thumb is that senior managers, in particular, should spend 30-50 percent of their time focusing on talent management. In professional service firms (for example, law, accounting, consulting, and the entertainment industry), a higher percentage is likely to be appropriate.

The Employer Brand

Every organization is known for certain things when it comes to how it treats its employees. This “employer brand” is a key part of what attracts talent to a company. All too often, this brand is the result of happenstance and the uncoordinated actions of the organization with respect to its employment decisions and policies. For HC-centric organizations random branding is simply not tolerable.

The right employer brand is a critical asset and a competitive advantage for an HC-centric organization. It needs to be developed deliberately. An employer brand needs to speak to what individuals can expect when they join an organization and it needs to help individuals determine whether they are a good fit.

There are a number of ways to develop an effective employer brand. One way is simply to state it over and over again in all recruiting and other materials that go out from the organization. When individuals actually apply for a job, either online or in person, they should be given an introduction to the organization that emphasizes what life will be like if they join. This type of preview not only can help set realistic expectations, it can drive away individuals who are not a good fit and who would not stay long if they did get hired.

The employer brand should be featured in all communications about job openings. For example, in its employment ads, United Technologies points out just how much it has spent on educating its employees. According to one ad, “Since 1996 we’ve spent more than half a billion dollars sending employees to any accredited college or university.” United Technologies allows employees to obtain a degree in any field they choose and gives them company stock when they get a degree (\$10,000 for a bachelor’s degree).

Another way to convey an employer brand is to provide job applicants with copies of company attitude survey results so that they can get a realistic view of how employees feel about working for the company. In the case of some HC-centric companies, it makes sense to feature the brand in ads for products and services. This is particularly powerful when the employer brand is aligned directly and explicitly with the company’s branded offerings to customers. Southwest Airlines provides an example; the employee experience is often featured in its TV commercials because it involves upbeat employees who enjoy giving good customer service. The employee experience can also be featured on a company’s Web site, with videos that show employees talking about what it is like to work for the organization and what the company means to them.

Employment Contracts

An employer brand is an intangible. However, many tangible practices and behaviors contribute to it. A key practice that can contribute to an effective brand is the development and communication of an employment contract. Developing a formal statement of what they offer employees and what they expect from them is an effective way for companies to attract the right employees and form a positive relationship with the individuals who are hired. To be clear, I'm not talking about a legal document; I am talking about a statement that is designed to tell employees what the organization expects of them, and, in turn, define what individuals can expect from an organization. Exhibit 3 sketches the type of learning contract that high-involvement organizations should offer.

Exhibit 3.- High-Involvement Learning Contract

EMPLOYER	EMPLOYEE
•~Provide ongoing opportunities and support for education and training inside and outside firm.	•~Invest in own competence development.
•~Structure daily work and career paths to apply existing competencies and build new individual capabilities.	•~Use competencies to help achieve organizational objectives.
•~Encourage and reward individuals who develop and use capabilities effectively.	•~Help build competencies of coworkers.
•~Assist individuals to find new work opportunities internally (or if demand for existing competencies decreases, externally).	•~Contribute to organizational learning.

High-involvement organizations should not offer job security, because with change, those individuals who are unwilling or unable to learn new skills may not be retained. They need to stress that continued employment depends on individuals' performing at a high level and being willing to learn and develop. They also need to state that employees are expected to make a high-level commitment to the organization and to be highly involved in understanding the organization's business, work processes, and customers. High-involvement organizations may make some use of contract and temporary employees to protect the employment stability part of their employment contract with their regular employees, but they rarely have multiple contracts.

Individualized Deals

Organizations have always operated with multiple employment relationships. Hourly workers clearly have had and still do have a different relationship with their organizations from that of salaried employees. But this difference is based on the types of jobs, not on their holders' needs, desires, and skills. In an HC-centric organization, having different employment relationships for employees with different needs, desires, and skills makes a great deal of sense. It is an effective way to attract, retain, and motivate employees who are critical to the organization's effectiveness. This is equally true for a global competitor and a high-involvement organization.

In HC-centric organizations individualized employment deals make sense because they are a powerful, cost-effective way for organizations to attract and retain the very best talent. Because individuals differ greatly in their personal lives, ages, their preferences, and so on, it's impossible to create a single employment deal that works for all the employees of a large organization. The obvious solution to this is to give enough choices so that organizations can offer employment deals that fit a variety of individuals.

Potential choices include when to work, where to work, the type of compensation, the type of work, the amount of work time, the type of career, and the fringe benefits received. These are all among the key elements of the work relationship that potentially can be individualized. Of course, the kinds of choices individuals should be offered depend very much on the nature of the organization and the type of employees it needs.

Picking the Right People

Any HC-centric organization's employee selection process needs to do two important things. First, it needs to identify the right talent. Second, it needs to create the right first impression in the mind of potential members of the organization.

It is beyond the scope of this paper to go into the details of which selection processes will provide a valid and accurate assessment of individuals. A great deal of the selection process needs to be customized to the organization doing the hiring and the position being filled. That said, the process needs to take a comprehensive look at individuals, and in particular, a look at their past behavior. When all is said and done, past behavior is the best predictor of future behavior. Indeed, it is often a better predictor of future behavior than the impression people make in an interview or how they present themselves on paper.

Particularly in case of a high-involvement organization, there is no substitute for a rigorous selection process. The selection process must give the impression that working for the organization is a special opportunity, and that it hires only a select few. This is a critical part of the hiring message for any organization that wishes to gain competitive advantage through its human capital.

The importance an organization ascribes to talent acquisition can be communicated in many ways. One of my favorites is Microsoft's process. Microsoft uses multiple intensive

interviews during which applicants are asked brain-teaser questions. The first interviewers exchange information with each other and provide suggested questions to future interviewers. Some of the questions asked are intended to see how individuals think; no one is expected to know the right answer to “Why are manholes round?” or “How many gas stations are there in Seattle?”

Microsoft adds an interesting twist to the interviewing process: it has at least one outsider, a person who will not work with the applicant, meet and assess the applicant. Microsoft does this to avoid too much groupthink in the hiring process and to obtain a broader perspective on who gets hired. Part of the rationale is to avoid developing pockets of divergent culture because different parts of the organization engage in their own hiring and selection activities.

Hewlett-Packard and Microsoft are among the companies that have started using virtual job fairs and interviews. Job applicants can create an online avatar (a computer-generated image) to represent themselves. Applicants can navigate their avatars through the virtual space and use them to communicate with a company representative (also an avatar). HP, Microsoft, and other technology firms also use Web sites (for example, Facebook, YouTube) to attract technology-oriented job candidates.

One way to make the selection process valuable to applicants is to promise them feedback about their strengths and weaknesses and how they are evaluated by the firm. For individuals interested in learning and self-development, this can be quite attractive. In firms that use the high-involvement approach, these are just the kind of individuals that the organization should be recruiting.

I do not know of any organization that does this, but one option is to offer all job candidates an hour-long session with a career counselor at the end of the entire selection process.

This should be optional, but for some individuals, it could be a useful incentive for going through an extensive selection process that might take more time and effort than they would be otherwise willing to devote. It might also attract just the kind of individuals an HC-centric organization should hire.

An increasingly popular and effective recruiting strategy is to offer internships. In most cases, companies offer these to college students, but increasingly they are also offering them to high school students. It is a wonderful opportunity to both provide promising recruits with a realistic preview of what it's like to work in the organization and, of course, to test the students out with respect to whether they represent good long-term employees of the organization. In many respects, it's a low-risk way to hire important human capital.

Development Opportunities

An important consideration in talent management is the issue of whether the organization is committed to internal development. If it is, then it needs to focus on the balance between classroom education and job experience. One of the distinct talent advantages that a build-oriented high-involvement organization has is in this very area: it can afford to take a longer-term view of talent development and use job experiences as a way to develop its human capital.

Although a job experience approach can take longer than educational coursework, it is usually much more effective. This is particularly true when it comes to developing people who will have general management responsibilities. There is nothing like experience as a teacher. Of course, not just any experience will do; it needs to be based on a systematic program of development that considers the nature of the job, the type of management style that the organization wishes to develop, and the existing skills of the individual.

GE provides an interesting example of a company that has used an experience-based approach to developing its management talent. It rarely if ever hires a senior manager from outside the organization because it feels that it is too risky. Without seeing someone operate in GE, insiders feel they can never be sure that an outsider will be successful. As a result, they place a strong emphasis on providing job-based career development opportunities for managers.

Enabling Career Self-Management

In all HC-centric organizations, individuals need to take responsibility for their own development and career. In a high-involvement organization with a focus on talent development, this is less necessary than it is in a global-competitor organization, with its focus on buying talent and constantly adjusting its talent mix. But it is still an important consideration.

Effective career self-management by individuals is ultimately in the interest of both the individual and of the organization. It is obvious why effective self-management is good for individuals; it may be less obvious why it is good for organizations. For organizations it is simply better to have individuals who make the right decisions about developing themselves and feel good about their careers than to have employees who are confused and making poor career decisions. In the worst-case scenario, organizations that assume the burden of managing employees' careers for them in a rapidly changing world can end up with individuals who are difficult to employ effectively but are hard to dismiss.

An organization can do a number of things to help individuals self-manage their careers effectively. As will be discussed next, a major focus on talent appraisal is an important part of it. Particularly when the feedback from the talent review sessions is effective and timely, it can give individuals a clear idea about what their future in the organization can be, what kind of skills they need in order to achieve their career goals, and what they can do to develop their skills.

Simply having appraisal sessions and providing feedback is not all that organizations can and should do, however. One obvious addition is to provide employees with good information about the direction the organization is taking with respect to its technology and business model. This information can help individuals make decisions about how to develop themselves, what jobs make sense for them, and what kind of careers they can plan on in the organization.

As the use of company intranets grows, it is increasingly possible to implement virtual career centers. Organizations can put considerable amounts of assessment technology and career information on a career Web site to give people personal tutoring, advice, and feedback without their ever having to contact another individual.

An intranet-based development system also fits nicely with the increasing use of 360-degree feedback appraisals. In these appraisals, people are asked to nominate others who can give them feedback about their performance. The nominees receive an e-mail asking them to assess the individual seeking feedback; the replies are then fed back to the requesting individuals to provide a sense of how others see their performance and skills.

Pratt & Whitney, the aircraft engine division of United Technologies, has developed a particularly impressive Web-based approach to helping employees develop their skills. It includes regular updates on what skills the organization thinks it will need in the future and what skills are becoming obsolete. It includes push technology that alerts employees who are in danger of becoming obsolete. Finally, it serves as a resource for employees who want to learn new skills. It lists all training and degree programs available to employees and the names and addresses of employees who can act as resources in key learning areas.

Enabling Work Changes

Key to the development of individuals is the ease of movement within the organization from one assignment to another. This can be self-managed only when the organization has a well-developed posting system for job openings and a willingness to support internal transfers. Many of the new human resource information systems (HRISs) that organizations are using do include job postings. However, it is not enough to just post the job; the posting needs to include a great deal of information about the characteristics of the job, including the skills and competencies needed and what the application process involves. The posting should also provide good information about the rewards, challenges, and demands of the position.

A number of companies, including IBM and most professional service firms, have developed sophisticated systems that provide job information to employees. They also allow managers looking for talent to search the organization and identify people with the right skill set. Web-based systems make it especially easy for the internal movement of employees to be dynamic and interactive.

Current employees can provide profiles of their background, interests, and skills, which are then stored in the system. When jobs open, their characteristics can be matched to the database of profiles, allowing the technology to make a first determination about whether someone might be a good fit. Push technology can then be used to inform the individuals of the job opening. This has the obvious advantage of providing current employees with a strong assurance that their organization wants them to stay, values their skills and experience, and will help them develop their virtuous career spirals. It also sends a message to employees that the organization takes talent utilization and the concerns of individuals seriously. It contributes to an overall identity as an HC-centric organization.

Web-based systems can also help meet the staffing challenges of managers who must fill open jobs. These managers can use the technology to search the profiles of skills and competencies and identify any employee who fits a job opening they need to fill. This is a quick and efficient way for the people doing staffing to obtain a list of qualified internal candidates.

The willingness of organizations to let individuals make internal moves is the last and sometimes most difficult piece that needs to be put in place so that individuals can reasonably self-manage their careers. There are a number of reasons why it is difficult for individuals to make internal job transfers, but often the major factor is the lack of management support. The transfer of a valuable employee usually inconveniences the manager in whose work area the individual currently works. Any move causes disruption, and as a result, managers sometimes hide their most talented people or go out of their way to discourage movement. This type of behavior is not acceptable in an HC-centric organization. Just as financial capital has to be applied effectively, human capital has to be put to its best use.

Retaining the Right Talent

Losing talented individuals is a significant cost for every organization. For HC-centric organizations, turnover or loss of individuals can be tremendously expensive. This is particularly true of high-involvement organizations, which typically make an even greater investment in individuals than do global-competitor organizations. In addition, they use a management style that assumes people are going to be in the company for a long period of time.

Numerous studies have been done to estimate the costs of turnover. They vary significantly in how they compute turnover costs, but one finding is rather consistent. The higher the salary individuals receive, the more expensive it is to replace them. Thus, replacement costs are often estimated by taking a multiple of a salary. It is also generally agreed that the higher the

salary, the greater the multiple should be. For example, in replacing relatively unskilled individuals, often the cost is one or two times the monthly salary. However, in the case of a senior executive, the cost is more likely to be ten or fifteen times monthly salary.

Talent Retention

It is particularly important that organizations retain their high-performance and critical talent employees. This often takes special effort and a special focus. The following are keys to successfully retaining all employees but, in particular, to retaining the critical talent in an organization.

The research on why employees quit shows that in most cases people leave for a straightforward reason: they have found a more attractive alternative elsewhere. The implication of this for an organization that wishes to retain its employees is obvious: it must know the market. It must know who its competitors are, what those competitors are offering, and how it can gain a competitive advantage over those competitors when it comes to retaining talent.

There is no substitute for knowing what individuals want and value. Literally thousands and thousands of studies have addressed what employees value about work and how important features like pay, promotion opportunities, the work itself, and supervision are to them. Without question, the most consistent finding of these studies is that individuals differ in what they value. Some value money more than the work itself, some value promotion opportunities more than job security, and so on. What individuals value is determined by a plethora of factors, including age, gender, past experiences, and lifestyle. If an organization knows what someone values most, it can tailor the retention package to fit what that individual wants.

It is always dangerous to assume that all, or even most, employees in an organization place similar value on the rewards an organization gives them. It is important to find out what individuals want and to be sure to create a work environment that offers it to them. One recent study found that organizations often are not aware of why employees leave. In this study, top-performing employees reported that the number one reason they would consider changing jobs is money; promotion came in a distant second. Their employers, however, felt promotion was number one, while pay was a distant third. It turns out that HR managers are particularly likely to underestimate the importance of money to employees and overestimate the importance of social relations.

Studies vary greatly in whether they find that individuals most frequently leave for more money, better career opportunities, better work-life balance, or other factors; what they don't vary in is the finding that if individuals are dissatisfied with what to them is an important feature of the work environment, they are likely to leave. Thus it is critical that organizations know what their employees value and do everything they can to be sure that they are offering their critical employees rewards that will retain them.

It makes sense to focus retention efforts on highly performing talent. The most expensive talent to replace is high-performance talent. The organizational performance loss is greater when they leave, and they tend to command a higher market value. Retaining the best talent is critical to developing a virtuous spiral that results in better and better talent and increased organizational performance.

Two steps must be taken in order to retain high performers. The first is to identify them. I deal with this when I discuss performance management systems. The second is to be sure that they are rewarded at a high level. The key here is tying rewards to performance through an

effective performance management system and a reward system that delivers significantly greater rewards to high-performing individuals. Which rewards are offered, however, as already mentioned, should depend on what individuals value but, at the very least, high-performers should be paid more and have better career opportunities than others in the same organization.

Information about Talent

The starting point for any human capital information system should be information about individual employees. At minimum, organizations need to be able to answer these two questions: What skills and relevant competencies does each individual employee have? And to what degree are those skills and competencies used in their current work assignments?

To create a complete system, organizations also need to gather data from individuals about their motivation and about their attitudes toward work, career, and the organization. Specifically, they need data that reflect the degree to which individuals are motivated to perform their jobs, whether they plan to continue to work for the organization, and how well they understand the organization's strategy and organizational mode.

Adequate data on individuals are likely to be available only if, in addition to having an effective performance management system, an organization conducts regular (and well-developed) attitude surveys that monitor how individuals feel about their work and their organization. An annual survey should be a key piece of this data capture, and regular short "pulse" surveys should be used to provide important insights on employee attitudes about current events, business initiatives, short-term operational effectiveness, and changes in the organization.

Some corporations have established key performance indicators (KPIs) when it comes to human capital. These often get reported as part of a dashboard or balanced scorecard on the

condition of the organization and its human capital. For example, Cisco Systems considers building talent a priority and includes on its dashboard measures that show how many people change jobs and the reasons why they move. This KPI allows Cisco executives to quickly identify divisions that are developing talent and those that are not. Since talent management is a major objective, Cisco follows up by rewarding those managers and business units that contribute to corporate talent development.

Managing Performance

In an HC-centric organization, “talent management” is important, but “performance management” is even more so. Talent management is the critical factor in determining the potential performance of individuals, groups, and organizations, but the ability to *manage performance* is often the major differentiator between organizations that produce adequate results and those that excel. Without a focus on performance management at all levels of an organization, it is hard to see how it can find competitive advantage through its talent. Simply stated, in an HC-centric organization an effective performance management system is not optional; it is a must-have.

It is far from easy to get performance management right in any organization. The corporate world is littered with companies whose employees regularly game their performance reviews to their advantage. People at all levels go through the motions of formulaic performance reviews with astonishing insincerity and have little to show for it. There also are numerous examples of situations where individuals thought they were doing the right thing only to find out they were mistaken. Finally, in many organizations, performance reviews simply aren't done either because of employee resistance or because managers “dry lab” (fake) them.

An effective performance management system needs to accomplish four things. First, it needs to define and produce agreement on what type of performance is needed. The bedrock of any performance management system should be agreement on what needs to be done and how it should be done. Without a clear definition of what kind of performance is desired, it is impossible to develop and motivate individuals who can meet or exceed performance standards! It also is key to guiding the performance of individuals so that it supports the organization's strategy and plans.

Second, it needs to guide the development of individuals so that they have the skills, competencies and knowledge needed to perform effectively. To be effective, a performance-management system needs to help employees gain the skills and additional knowledge they need if they are to perform effectively.

Third, it needs to motivate individuals to perform effectively. Even the best talent will perform at a high level only if motivated to do so. When it comes to performance, high levels of both talent and motivation are needed.

Finally, it needs to provide data to the organization's human capital information system. It needs to be a primary source of information about how individuals are performing and what skills and knowledge exist in the workforce. This information is a critical input to succession planning as well as to strategic planning.

Defining Performance

Every performance management system in an HC-centric organization should include the explicit identification of what needs to be achieved and how performance will be measured. HC-centric organizations don't have bureaucratic control systems and detailed job descriptions, thus,

without effective performance management systems there may be ambiguity about what each individual should do and what constitutes effective performance.

What is needed for an effective performance review is more than agreement on what an individual will accomplish during a period of time; it requires agreement on how performance will be measured. In most cases, it is also important to establish how the agreed-upon performance will be achieved and what measures will be used to assess whether it was achieved in the agreed-upon manner. This is particularly important when managers are being appraised and the organization has a strong commitment to high-involvement management. Leaders who get results “at any cost” can destroy the credibility of the high-involvement approach. The best measures of performance focus on specific behavior and goals. They avoid attempts to measure traits such as *reliable*, *honest*, and *hard-working*.

Developing Employee Skills and Knowledge

From a human capital management perspective, it is particularly important for an organization to develop good measures of each individual’s skills, knowledge, and competencies. Without these indicators it is difficult to know what the human capital resources of an organization are and therefore what type of changes and performance it is capable of. At the very least, such knowledge can help a company decide how employees can contribute to a strategy, how much training needs to be done, and what kind of hiring is necessary to yield the skill mix the organization needs.

Information about skills and competencies is also critical in diagnosing the cause when business strategies run into difficulty. It may well be that the strategy is not flawed; the organization simply doesn’t have the capability to execute it. The skills of the individuals

charged with executing the strategy may be at the core of an organization's performance problem.

Last but not least, a skills assessment is an important source of information about what development activities individuals should engage in. This can help individuals understand what skills they need, provide them with a development plan that allows them to acquire those skills, and set the stage for their being rewarded when they develop new needed skills. Evaluating the skills of individuals and giving them advice on their development, then, should be a critical part of every appraisal process.

Managing Motivation

Motivation is the performance capstone—without it, good performance will not occur. Individuals can have all the right skills, knowledge, and expertise and still be poor performers if they are not motivated.

To say the literature on employee motivation is extensive is an understatement. The body of research on the subject is enormous and continues to grow, and the findings range from the obvious to the very complex. Fortunately, research makes it very clear what performance management systems need to do to motivate individuals to perform well. They need to create agreement on what needs to be done and to clearly tie valued rewards to doing it.

While much has been written about how a carrot-and-stick approach to motivation can actually de-motivate employees, the research evidence shows that rewards based on performance can motivate people to excel. What's important to understand is that the nature of the reward is critical—as is the way in which the reward is related to performance. Offer the wrong carrot, and

employees will feel insulted, misunderstood, or just apathetic. Motivation requires offering rewards that individuals value and that are clearly tied to their performance.

In any discussion of motivation it is important to distinguish between internal rewards and external rewards. Individuals give internal rewards to themselves (things like feelings of competency, achievement, and self-esteem) because they feel they have accomplished something or achieved something that they wanted to. External rewards are tangible things that individuals value; these can be given directly by managers and others (such as praise) or by organizational systems (such as pay). How motivated individuals are to perform is essentially the product of the degree to which receipt of the rewards (internal and external) they value depends on how well they perform.

HC-centric organizations need to do everything that they can to make sure that both the internal and external rewards that are valued by their employees are directly related to how well they and the organization perform. This of course is where the performance management system comes into play. It needs to be designed so that individuals are rewarded according to their performance and it needs to deliver the appropriate kind and amount of rewards to individuals based on their performance.

Rewarding performance sounds simple, and seems as if it should be relatively easy to do, but nothing could be further from the truth. It is complicated not just because performance measurement is difficult but because of the variation in what individuals value and the difficulty of establishing a clear line of sight from how individuals perform to the receipt of rewards they value.

The research on goal setting goes a long way toward establishing what the performance management system needs to do in order to tie the reception of internal rewards to performance.

When managers set goals, they need to keep in mind that the difficulty of the goal is a key determinant of performance. Easy-to-achieve goals tend to lead to poor performance, but so do goals that are too difficult. When goals are set too low, individuals settle for low levels of performance. When goals are set too high, people give up because they do not believe they can succeed, or they cheat to give the impression of success. Goals that are perceived to be achievable but challenging should be the objective because they are the most motivating and produce the highest levels of performance.

The nature of the work that individuals do is a second factor that has a major impact on internal motivation. When individuals use skills they value, produce a whole or meaningful part of a product or service, and receive performance feedback, their work is motivating. In order for individuals to reward themselves for performance, they need feedback about their performance. Often the results of their performance are obvious (in baseball the batter can see a home run leave the park), but in some cases workers can see the results of their behavior only if the measurement processes of the organization provide relevant feedback.

What is required for external rewards to be motivating is that they be large enough so that individuals feel the effort they are putting forth to achieve them is worthwhile. Rewards also have to be clearly tied to performance in ways that lead individuals to feel that they will actually be delivered if the appropriate level of performance is achieved. This occurs only when individuals trust the organization with respect to making good on its commitment to rewarding performance. This is why a culture of truth telling and transparency is needed for a performance management system to be effective. Without truth telling, trust will not develop and individuals will not trust or believe that performance on their part will lead the rewards they have been

promised. Without transparency it is often difficult for individuals to see how their performance will affect their rewards.

At this point I think it is useful to give a summary of the design features that separate good performance management systems from less effective ones. My list of characteristics is based on decades of research (my own and that of other researchers) intended to identify what distinguishes effective performance management systems.

In this case I am defining system effectiveness as producing a clear understanding of what performance is expected from an individual and measuring whether the individual accomplished what was expected. The system needs to do these two things in a way that leads to motivation and skill development.

These design features are the fundamental features that need to be incorporated in any performance management system in organizations that wish to achieve competitive advantage through their talent:

- The organization conducts appraisals top-to-bottom.
- Appraisal is itself evaluated for effectiveness.
- Goals are set in advance.
- Frequency fits rate of change.
- How goals are accomplished matters.
- Appraisee input is part of the process.
- Objective performance measures are used.
- Measures are strategic.
- Ratings are meaningful.
- Pay for performance discussions and development discussions are separate.

- The organization has (or is building) a skills/competency database.
- Ongoing performance feedback is the norm.

Talent Management Practices in Public Education

Most of the talent management practices that are used by the best high-involvement companies can be used in public education and there is good reason to believe if adopted, they will lead to improvements in classroom instruction and student achievement. Admittedly, not all the practices can be easily and quickly put in place. It is obvious, but still worth repeating that in order for talent management to be done well, management at all levels need to be obsessed with talent. Unless they are willing to spend a significant percentage of their time on talent issues, there is little or no chance that the best practices I have reviewed will work effectively.

The following are important talent and performance management features that can be utilized in public education organizations:

- How well talent is managed, is measured, and managers are held accountable for their talent management performance.
- A strong employer brand clearly identifies the organization is an attractive place to work for individuals who want to – and can – be a part of a high performance organization.
- The employment contract emphasizes the employee’s responsibility for personal growth and development and that the organization will help with the development but not guarantee employment stability.
- The reward package that individuals receive fits their preferences and needs.
- Critical skills and competencies are identified, and individuals with them are hired or developed.

- The selection process is used to identify who has or can learn the competencies that the organization needs. It is also used to determine whether a prospective employee will fit well in an HC-centric organization and to on-board individuals.
- Development opportunities for individuals for individuals are carefully planned and made available.
- Career self-management is enabled through information systems and creating the opportunity for individuals to change their work assignments on an as-needed basis.
- A major emphasis is placed on retaining high-performance talent.
- A top management led performance management system is in place that: appraises each individual's competencies and performance, sets clear stretch goals for individuals, is used to determine pay, promotion and retention, and provides data to the organizations human capital management system.

Selected Bibliography

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Work by my colleague John Boudreau has focused on HR becoming a decision science. His recent book (J. W. Boudreau and P. M. Ramstad, *Beyond HR: The New Science of Human Capital*, Boston, MA: Harvard Business School Press, 2007) does an excellent job of describing what this means and how to do it. My work on the HR function has tracked its evolution over the last 15 years. The best source of information on this is E. E. Lawler, J. W. Boudreau, and S. A. Mohrman, “Achieving Strategic Excellence: An Assessment of Human Resource Organizations” (Stanford, CA: Stanford University Press, 2006).

