Talent

Making People Your Competitive Advantage

Edward E. Lawler III

Foreword by Dave Ulrich

Jossey-Bass
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Praise for Talent

“Leadership supply is a rate-limiting factor for advancing our global business strategy. We simply must continue to address the talent issue head-on. Ed’s new book gives some clear how-to advice we can start using today!”

—Sandy Ogg, chief human resources officer, Unilever

“Business leaders glibly talk about people as the most important asset in their companies. Ed Lawler challenges these platitudes with a book that answers the question, ‘Suppose we took people and human capital seriously—how would we design and lead our organizations?’ Lawler has summarized his years of research and consulting in a hard-hitting and tremendously useful guide for the true people-centric organization.”

—David A. Nadler, vice chairman, Marsh & McLennan Companies; author, Building Better Boards

“Human capital is the Holy Grail for creating sustainable competitive advantage, and Talent provides a step-by-step guide, chock full of the latest examples, to the strategies involved in achieving competitive advantage through people.”

—Peter Capelli, professor of management; director, the Center for Human Resources, the Wharton School
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As a discussion starter for doctoral students, I like to ask, “Who are the six most important and influential people in management thought in the last century?” Their answers often include such scholars and authors as Peter Drucker, C. K. Prahalad, Michael Porter, and Tom Peters—and Ed Lawler!—and business leaders such as Jack Welch, Tom Watson, and Bill Gates. This question is like opening a debate in a sports bar about the best athlete in a given sport or position, so regardless of what names the students give, I like to prod them by suggesting another six people.

In the 1920s and 1930s, organizations were designed and run by efficiency experts who worked to scientifically prove the best ways to manage the physical settings of work. One groundbreaking experiment, conceived by Harvard researchers, was conducted at the Western Electric Company’s Hawthorne plant. This experiment involved variations in the intensity of lighting and other factors such as pay rules, rest breaks, and work hours. In it, six workers were placed in a separate room doing assembly work similar to that of other employees, but under the watchful eye of management. While trying to find the ideal level of light and workforce practices needed to increase productivity, the researchers discovered that these six workers reacted more to their relationship to management than to their physical surroundings. That is, it didn’t seem to matter what the experimenters changed in the environment—more light, less light, or whatever—performance always improved as long as the experimental group was the center of attention. In many ways, these six workers began the modern management era, where attention to the human element at work matters at least as much as workers’ physical surroundings.

In the ensuing decades, people and their work in organizations have received enormous attention as researchers and executives
have tried to figure out how to create organizations that turn knowledge into productivity. We have seen insights on assumptions (Theory X and Theory Y), systems theory, sociotechnical processes, leadership, and organizations of all types (excellent, great, purposeful, and adaptive).

In recent years, attention to these more intangible aspects of organizations has increased, in response to the changing nature of business. Ed Lawler’s new book is a marvelous synthesis of this work, addressing four basic questions:

- **Why** are the softer, more intangible issues (broadly defined as human capital) in business increasingly important today?
- **What** is meant by human capital?
- **How** should human capital be created, sustained, and managed?
- **Who** is responsible for the management of human capital?

Answers to these questions are the essence of this outstanding book. It offers a snapshot of how much the study of organizations and people has evolved since the original insights gleaned from the Hawthorne studies. Consistent with Lawler’s earlier work, this book is a deft mixture of scholarship and practice. He synthesizes theory, reports research, but then advocates for practice based not only on the theory and research but on his unique insights from decades of observing and studying organizations.

**WHY?**

Recently my daughter and I were in Madrid. Before going, she checked out the travel guide and located a flamenco shop where she could get authentic clothing and music. We found the place, a very small storefront on a hidden side road. I marveled at how this small store could stay in business being away from the heavily trafficked shopping areas. Then, while my daughter shopped, I noticed that the two employees were very busy even when no one else was in the store. As I talked to them, they told me that the major part of their business was now done through the Internet. The store itself was a convenient warehouse for tapes, CDs, clothes, and other flamenco-related items. The local flamenco store in
Madrid competes worldwide in a modern business world shaped by a number of current business realities. The reasons?

- **Technology.** Automobiles and aircraft enabled people to be mobile and to remove space boundaries. Electricity removed boundaries of time (day and night). Today’s technologies remove information and connection boundaries. MySpace, Facebook, and other Internet sites change how people connect. Google allows people anywhere in the world to have access to information. Almost anyone with a Web site and computer can access global connections, even a small flamenco store in Madrid.

- **Globalization.** Corner stores may be housed anywhere in the world. Flamenco stores in Madrid sell to customers anywhere in the world. The much-touted “global village” is upon us.

- **Knowledge.** My colleague Arthur Yeung makes a fascinating point about how businesses are organized in emerging markets. (See Figure 1.) Many countries are trying to succeed by using technology to do manufacturing, assembly, or service work (India, Pakistan, Philippines), but real value is created by the focusing less on assembly and more on R&D and engineering (going backward), and on marketing, branding, and distribution (looking forward). Ultimately, more value is created in a
knowledge economy when countries or companies focus on high-value-added knowledge work.

- **Pace of change.** Few realize that Netscape, the firm that played a major role in forming the backbone of the Internet, is barely a decade old (incorporated in 1995). The Internet has become such a staple of society that we forget its novelty. Nokia has sold almost a billion phone devices, which now include not only voice but data, video, and access to the Internet. Companies that took fifty years to build can be lost in a couple of years in today's rapidly changing world. Netscape, purveyor of one of the first widely adopted Web browsers, still exists as a part of Time-Warner but is no longer a serious contender to the crown now held by Microsoft and its Internet Explorer.

- **Employees.** No one who interacts with those in their twenties or teens or preteens doubts that employees of this generation differ in significant ways from their elders. Sensitive to global issues, nimble with technology, and focused on short-term results, future employees will be the most talented and difficult to manage yet.

- **And so forth.** Customers, regulators, suppliers, investors, and others are going through dramatic change.

The world is changing. While companies used to be able to compete by accessing capital, creating products, and protecting their firm and product borders, the new source of competitiveness is shifting to the softer side of business—the people who create products, define borders, and raise capital, and the organizations in which they work. This book explains why human capital is so important and how it should be organized, managed, and developed.

**WHAT**

It is easy to fall into a trap of talking and thinking about human capital as “only” a talent issue. Organizations with talented employees are likely to outperform organizations with less talented employees, but not always. All-star pickup teams rarely beat an established and well-functioning team if the latter does not
match up player by player on talent. While talent is necessary, it is not sufficient. Successful management in today’s business world requires attention to both talent and teamwork, individual ability and organization capability.

Lawler captures both. He talks about talent and its importance, but then he defines the ultimate human capital (or organizational capability) not as an individual who has talent, but as the processes that create, manage, and organize talent (see Figure 2). Leadership as an organization capability matters more than gifted individual leaders. Leadership focuses on the processes used to create future leaders. Sustainable, long-term success is not just a matter of having the leaders but of having the processes that reliably create them.

This book finds the balance between the challenge to source great talent and the challenge to meld individual talent into collective organization capability. In focusing on organizations as bundles of capabilities, it moves beyond defining organizations by their hierarchies. High-involvement organizations are characterized less by the number of levels of management and more by their use of some basic processes to ensure that knowledge turns into performance.

**Figure 2. Mix of Individual Ability and Organization Capability.**
Leaders know that people and organizations matter. This book offers a language and approach to talking about people and organizations that is vivid and accessible.

How

Becoming a human-capital-centric (HC-centric) organization requires change, but where should those changes occur? This book offers an architecture that succinctly yet robustly defines how to go about organizing and leading an organization focused on human capital. Called the Star Model, it identifies the organization features about which choices need to be made to create the HC-centric organization.

- **Strategy.** Strategy defines the products, services, and markets an organization will focus on and how it will compete.
- **Competencies and capabilities.** Competencies are the knowledge, skill, and values possessed by individuals, while capabilities are the identity of an organization and what the organization is good at doing.
- **Structure.** Structure in an HC-centric organization focuses on turning individual competence into sustained organization capabilities. Authority is often shared throughout the organization.
- **Processes.** Information and decision processes in an HC-centric organization focus controls through values more than rules. Management by mindset replaces management by objectives.
- **Rewards.** HC-centric organizations allocate rewards less on tenure and hierarchy and more on performance. Individuals are rewarded for equity more than equality.
- **People.** People in an HC-centric organization are the centerpiece. Organizations that emphasize human capital are obsessed with finding people with outstanding talent, then working with them to make the whole work well together.
- **Identity.** An organization’s identity is what it is known for by those who use its services. When this external identity, which can be called a firm brand, is aligned with internal organization and people practices, it becomes the culture of an organization.
For an organization to be more than the sum of the individuals working there, Lawler shows, the systems in the Star Model need to be aligned and integrated so they drive and implement strategy. A customer-share strategy will differ on all these dimensions from a product-innovation strategy. Being integrated means that any changes in one of the elements will require modifications in others. Sharing information with people should show up in how rewards are allocated.

To build organizations that combine talent and teamwork, Lawler then dives deep into three systems. For the people, or talent, element, he offers tips on sourcing, screening, securing, orienting, and motivating employees. For the performance management, or rewards, element, he draws on his vast and deep knowledge of incentive systems to offer guidance on how to define performance, manage motivation, conduct appraisals, set measures, and allocate financial and nonfinancial rewards systematically. For information and decision processes, he defines the core features of human capital analytics and proposes what human capital should look like.

WHO

So who is responsible for making this organization of the future operate successfully? It is not one person or role; in a true human-capital-centric organization, the responsibility must be shared. HR professionals must learn to deliver the administrative work but not be defined by it or bound up in it. They need to relate to the business, tie their processes to strategy, and build effective organizations. Line managers need to lead through sharing power, ownership, information, and incentives. Boards are stewards over fiscal and strategic firm investments, but they are also stewards over organization and people. Boards should make sure that organization and talent audits are done as rigorously and as frequently as financial, strategic, and product audits.

By sharing responsibility for the people and organization, boards, executives, and HR professionals each bring unique insights into the creation and maintenance of people and organizations.