Foreword by Susan R. Meisinger, retired CEO, SHRM

REINVENTING TALENT MANAGEMENT

How to Maximize Performance in the New Marketplace

William A. Schiemann

Foreword by Susan R. Meisinger, retired CEO, SHRM

REINVENTING TALENT MANAGEMENT

How to Maximize Performance in the New Marketplace

William A. Schiemann

Table of Contents

REINVENTING TALENT MANAGEMENT

How to Maximize Performance in the New Marketplace

William A. Schiemann

SOCIETY FOR HUMAN RESOURCE MANAGEMENT

John Wiley & Sons, Inc.

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.

Published simultaneously in Canada.

Library of Congress Cataloging-in-Publication Data
Schiemann, William.
Reinventing talent management : how to maximize performance in the new marketplace /
William Schiemann.

p. cm.
Includes bibliographical references.
eISBN : 978-0-470-52635-4
1. Personnel management. 2. Ability. 3. Performance. I. Title.
HF5549.S224 2009
658.3’ 14-dc22 2009008839

To Valeria, Wotan, and my family for their unconditional love
and to the
Metrus team for their extraordinary support.

Foreword

“Our people are our most important asset”

This is the management mantra I have heard during my career of more than 30 years in the field of human resource management. But where this phrase was once rattled off by executives and managers as trite and meaningless rhetoric (because they never really meant or acted on it), today it’s quite different. Today, this phrase is uttered in hushed and fearful tones by executives and managers acknowledging and contemplating the challenges of delivering value within their organization through people. In short, the rhetoric has been taken over by the reality.

As business and organizational leaders have confronted this new reality, they have looked for new ways to better understand, measure, and manage this important asset. While they may understand intuitively the importance of their talent strategies to organizational success, they yearn for a model that allows them to conceptualize, measure their progress, and leverage this asset to add greater value.

For many, the push for a new model arose in the context of rapid growth and change in their organizations or industries. How do we get a handle on the value of the growing enterprise when so much of it is related to the talent we find, keep, or lose? But the value of such a model becomes even more important during significant economic turmoil. How can we fully value our organizations in a chaotic environment when we can’t really assess the equity we’ve built through our talent management? How do we make decisions regarding our very survival when we don't fully appreciate whether or not we can execute new strategies with the talent we have, and don't fully appreciate the talent we'll need?

With this book, Dr. Schiemann has provided such a model. The book represents a fresh approach to talent management by presenting a fresh concept in the People Equity framework.

Based on sound research, insight and experience garnered from more than 70 academics, C-suite executives, practitioners, and talent Thought Leaders, Bill has provided information, tools and ideas for challenging old ways of thinking. And thankfully, yours doesn't have to be a huge organization to apply them. In short, the People Equity framework provides the human resource management field with a model similar to what Process Re-engineering, the Balanced Scorecard, and Six Sigma did for other elements of the business.

In a global economy with periods of booms and bust, Bill's People Equity framework is a welcome addition to the knowledge we'll all need to survive and thrive.

—Susan R. Meisinger, SPHR, JD
Retired CEO, Society for Human Resource Management

Preface

I am writing this book for three reasons:

1. Many companies are leaving a lot of value on the table—unfocused activities, wasted labor resources, skill mismatches, service shortfalls, underused technology, low innovation, and disengaged workers—all because they don't have an adequate understanding of the full set of factors that drive peak performance in this newly emerging market. In the past, organizations could afford "human spillage" as one executive put it and still succeed in the marketplace; those firms are in the process of being weeded out of the market as you are reading this. Those who can leverage their talent better than their competition will have a significant advantage.
2. Few organizations are measuring their talent management effectiveness well. Measures are woefully inadequate in this nascent field. At the local level, managers often lead by intuition or by time-tested experimentation. However, few have gauges—like the fuel gauge on your automobile dashboard—telling them how full or empty their human capital is. Unfortunately, "empty" is discovered only after there is a talent drain or customers go elsewhere.
3. Talent management is not just a business issue; it's also a societal issue—How will society engage talented people in organizational life? How will organizations attract and retain these talented people in a world of increasing competition for the 'right' talent? What is it about organizational life that can be not only financially rewarding, but also fulfilling?

This book is equally applicable to both large and small organizations, for profit or not, regulated or unregulated, local or global, public or private, service or manufacturing. Why? Talent is a core ingredient to all of these organizations—a necessity for success. For example, while you may think of an organization such as the Girl Scouts as simply an important local developmental experience for your daughter, the Girl Scouts is also an organization that employs over 9,500 people, has 109 boards of directors for regional councils, and has over 900,000 volunteers, all supporting over 2.5 million Girl Scouts. What may have appeared to the casual observer as a local community group is also a major business with all the attendant challenges that large organizations encounter: managing a global and local brand, finding the best talent, managing values, acculturating it, developing skills, optimizing talent, and retaining the best talent. And the Girl Scouts must do that with employees, part-timers, volunteers, and parental oversight; that is, they cannot command the direction, the values, the work ethic—no, they must set a direction and then engage those stakeholders in the mission.

The Girl Scouts are not alone. When you stop to think about it, there are thousands of other organizations that face the same challenges, whether they are large or small—finding, growing, and retaining the best talent that will be a good match for their particular organization. And conversely, it is in the best interest of the individual to seek, find, evaluate, engage, and stay with an organization that is enabling that person to increase his value—to grow monetarily, intellectually, socially, and emotionally.

The Economic Crisis

When we began the research for this book, many of the people we interviewed were focused on the emerging talent shortage taking place in a number of industries, functions, and geographies. As the book was being finished, the market had drastically changed because of the economic recession in many parts of the world. And yet, the most successful organizations that we studied were still intently focused on doing a better job in managing talent. Why? As you will discover throughout the book, these organizations have come to realize that talent management is a key competitive advantage regardless of the economy. In fact, for many of these firms, this lesson was driven home even more effectively during prior recessions. For some, it truly meant survival.

For others, it meant positioning to become dominant leaders in the next growth wave. When economies rebound in the next few years, the fight for the ‘right’ talent will be ferocious—not just challenging or tough, but ferocious! No, short-term economics will not determine the winners; they will be determined by their ongoing ability to manage talent more effectively than their competition does.

With Baby Boomers and their knowledge and values departing (albeit at a slower rate than anticipated before the economic downturn of late 2008), a new set of workers with different values, skills, and expectations will replace them, creating new challenges.

The book is intended for a variety of audiences:

- Anyone who has responsible for leading people. The principles discussed will significantly help managers of people be more effective in achieving their goals through more effective management of people.

- Finance professionals, such as chief financial officers and controllers, who are being called upon to measure human capital, and the value it contributes.
- Those who are responsible for strategic planning and execution. The principles and approaches of this book will provide invaluable help in developing people strategies and integrating them into the overall business strategy.
- Anyone interested in or responsible for succession planning and leadership development. The elements of this book provide insight into why high potential leaders falter, and methods for assessing and improving leadership effectiveness.
- Anyone who is teaching or is a student of human resources or related disciplines, such as organizational behavior, productivity and performance, organizational psychology, and labor relations.

I hope that the People Equity model will provide readers with new ways to think about talent management, and about the factors that enhance it. I have provided some ideas and tools to enable readers to apply the new thinking to their own organization. There are also references throughout the book to additional information and tools, which can be found at reinventingtalentmanagement.com. Finally, I hope that the concept of true value creation through organization talent is one that will help companies work through difficult environments and emerge stronger than ever.

Acknowledgments

I began writing this book during an economic boom and completed the task as companies around the world continued to battle the effects of a severe economic downturn. As market conditions deteriorated, the central People Equity concept of this book was put to a severe test. I am indebted to the diverse pool of contributors whom you will encounter in the pages that follow for their insights in helping me shape and reshape the core set of ideas presented in *Reinventing Talent Management*. Those ideas have taken on greater force and value for managing talent regardless of the vagaries of economic cycles.

While I take sole responsibility for the content of this work, it would not have been possible without the support from so many wise and insightful people who care deeply about this subject.

First, I want to thank the many human capital thought leaders—over 70 executive, academic and association leaders—who have added rich cases, insightful research findings, and a wealth of practical applications. In addition to them, I would also like to thank those who reviewed and provided numerous valuable suggestions to earlier drafts of the book, particularly the major contributions of John Boudreau, Wayne Cascio, Judy Clark, Edward Gubman, Peter Hom, Mark Huselid, Robert Liden, Jeffrey Marcus, Richard Reilly, Joseph Rosse, Dean Spitzer and Howard Winkler.

Emily Smith and Lena Ogan contributed many hours of research support that yielded countless great cases and information included in this book. Cristina Matos-Kober, Bret Weinshank, and Jerry Seibert were invaluable in providing research and database information from the Metrus Institute that helped to quantify many of the issues discussed in the book. I owe enormous gratitude to Susan Bershad, John Lingle, and Brian Morgan for their insightful input to the book's concepts and ideas. I'm also indebted to my editor, Lauren Lynch, for her early support of the concept and her valuable insights.

And finally, this book would not have been possible without the enormous dedication of three people. The first, Peter Tobia, has served as both the godfather of editing and my publicist and literary agent for longer than either of us can remember. The second, Colette Tarsan, has been the organizing force that has kept me on track through the long days (and nights) of planning, interviewing, writing, and editing of the book. She worked tirelessly to ensure the success of this project, and I owe her a huge debt of gratitude. And finally, to my wife Valeria, who has given me unwavering support, taking on some of my roles at the office, providing innovative ideas for the organization of the book, and motivating me to stretch to new heights during the toughest hours of writing. This group has been my lifeline for the past year. I can't thank each of you enough!

SECTION I

New Rules in a Changing World

This book is about the lifeblood of organizations: people and value creation. I have been particularly attracted to this subject because of its profound effect on the quality of life for individuals, organizations, and even civilizations. Countries have risen and fallen based on value delivered. We have witnessed marginal organizations, including some great brands, being eliminated in the recent economic recession, and individuals have either been displaced or are thriving in new roles based on their value contribution. Whether you think about it daily or not, most of us go through life engaging in activities that create more or less value for ourselves and others. We go to school to increase our personal knowledge and our potential value to institutions of various types. We join social groups to become more socially adept—or valuable—to those groups and to satisfy our own social needs. We join sports teams to grow physically and to become better team members. And we go to work to find value of various types: monetary, social, intellectual, artistic, competencies, increased self-worth, and so forth.

Organizations, like living organisms, are also value-producing entities. A symbiosis between organizations and people has existed since early time: Organizations depend on the effectiveness of their people to create value in the market while at the same time people depend on organizations not only for their wages, but to increase their sense of self-worth. Given the time that most people spend with their work organizations, these organizations can't help but be a major influence on their employees' identity, sense of fulfillment, and overall satisfaction.

For much of the twentieth century, this relationship was understood and predictable. But over the last decade or more, this individual-organization relationship is changing due to economic, cultural, technological, and political forces that require new ways of thinking about talent. Certainly the most recent recession has laid open many false assumptions about leaders, values, and the world of work. Copycat, vanilla approaches to talent management created many mediocre firms that were talent-depleted or bankrupt. Many were simply trying to follow the "best practices" formulas of the apparently successful firms without fully understanding the connections with their own unique strategy. Some of those are now gone because of gaps in their ability to attract top performers, their approaches to productivity, or their ability to retain the best performers. Their middling approach to talent management was adequate in booming markets when all boats were rising, but it has been fatal in a major market downturn or in environments with serious competition. I have seen this in the betrayed, blank faces of employees in organizational ghost towns.

And yet in other organizations, I find bright-eyed, exuberant, and engaged employees. The difference is both in value creation and the match between individuals and organizations with the means to accomplish that. Firms that have already positioned their talent for tough competition; created hungrier, more engaged and talented people; and developed winning cultures that enabled them to grow even closer during the downturn have been the most successful. Those organizations have moved beyond the placards, wallet cards, and banners to vibrant talent-driven cultures.

Value creation requires people who focus on agreed-upon goals, who bring knowledge and skills that will enable the organization to satisfy its customers, and who are willing to put in whatever it takes to help the organization succeed. What are the ingredients that enable this to happen? What is it that outstanding organizational leaders are doing to attract and retain superior performers who are willing to work tirelessly for the organization? What systems and tools are in their talent arsenals that enable them to leverage their human capital investments far better than most? And, how do individuals best grow their personal value by affiliating with the right kinds of organizations?

We know how to address these issues—and we can no longer waste the valuable resource represented in our talent. At the Metrus Institute, we have witnessed a wide performance spectrum and have discovered some underlying factors that differentiate the winners from all others. There is no magic bullet, but there are proven principles. Some of the principles have been around for a long time; others are new, based on emerging challenges in the new marketplace.

The newly emerging concept of People Equity described in the pages that follow is a useful framework for strategy makers and talent implementers alike. This framework will:

- Guide understanding of what optimizes workforce performance and capacity, and hence the return on talent investments
- Help senior leaders align talent with their business strategy, ensuring that sufficient talent exists in the right configurations to compete in the marketplace
- Enable talent leaders to do a better job of attracting, selecting, and retaining the best talent
- Enable Human Resources professionals to be more successful in building and executing their talent-

related programs and processes, thereby enabling them to justify human capital investments more effectively

- Provide a structured set of tools that senior leaders can use to assess their current and potential leadership talent, and enable them to target resources to close leadership talent gaps
- Provide a playbook for managers to grow and develop as leaders of people, giving them the key success ingredients in managing their employees
- Give employees and team members a better sense of how personal and organizational value dovetails, and what they need to do differently to become fulfilled in their roles in a variety of organizations

Organizational Darwinism will favor workforces that are highly aligned and efficient in executing strategy, that have the right capabilities to meet customer expectations, and that are highly engaged in the mission of the organization. Having a highly productive culture is no guarantee of success, but the reverse is a guarantee of failure.

Let’s explore the possibilities . . .

1

The Talent Challenge

> "*While some businesses skated by with mediocre talent management in the past, they will no longer be able to do so, given the fiercely competitive world ahead.*"
> *—Susan Meisinger, retired CEO, Society for Human Resource Management*

Think about any important goal in your life—getting an A in an important course, seeing your child graduate, completing a successful journey, getting that promotion, learning a new language, mastering a favorite hobby, even getting your golf handicap to levels that your friends envy. Why do some people seem to breeze through these life hurdles while others struggle? Is there some secret that they possess, or are they just lucky?

Early mentors in my life filled me with insights that at first mystified me, and later settled in at a more profound level. One lesson that I remember well was from a relative who frequently reminded me that "The harder he worked, the luckier he got." That was generally true, but he had so many setbacks that I began to question his advice. Why was it that he could never hit the mark despite all the hard work?

My father-in-law was famous for reminding a smug 20-something, "It's not only what you know, but who you know!" Wait a minute, I had more education than he did and I thought information was power! It sounded too political and unfair to a purist coming out of school, but I began to appreciate his wisdom when I struggled with getting my right answers accepted in my first major corporate experience. But even with his extensive network, he seemed to struggle to achieve some aspirations. Why was that?

And my graduate adviser was quick to tell me, “Work smart and not hard!” Wow, was I wasting that much time? What was he really telling me? Was he implying that I was not competent enough to earn my doctorate? I began to realize that I was spending too much time on interesting classes and research activities, but perhaps low- or no-value activities in pursuit of a key goal—my dissertation.

And finally, my parents saw the importance of creating value with advice such as “Make a difference!” It sounded like a noble thing, but little did I realize that it was *the* primary idea that would enable me to achieve success along the way.

Each of these admonitions (and I’m sure that you have many similar examples) intertwined throughout much of my life as I struggled to uncover the ingredients of success in college, in my academic career, in my life in a corporate behemoth that employed nearly one million employees, in a firm that I started over 20 years ago, and in my personal hobbies and aspirations. I began to realize that there were underlying factors that drive success.

But were these my own instincts? My own formula? As I examined the world informally, I began to recognize that these were not unique to me, but seemed to apply to others as well. In observing people who were successful and comparing them to those who were less so, I realized that you cannot control all of the factors in life that lead to success versus failure, but that there seemed to be some important ways in which you can stack the deck in your favor to increase the odds. As I began watching, studying, and later scientifically researching successes and failures across the globe—in sports, in business, in life—I came to realize that those who are successful increase their odds of succeeding by leveraging certain success factors, whether knowingly or unwittingly.

This book is about stacking the deck, and about growing value, both personally and in organizations as they realize the value contribution of people to organizational success. And it is not only about exploring what has guided others to success, but also about how those underlying success factors will become even more important in a world that is dramatically changing. In short, it is about making a difference!

Let’s take a look at two situations. While the names have been changed for confidentiality, the stories are based on real firms. We will begin with a smaller organization because many of the underlying issues are multiplied across the many smaller units of larger global organizations, frequently becoming lost in its complexity.

Bob’s Service Star

Imagine you own a small business like Bob, and you generate $500,000 a year in sales. For the past five years, you have cleared $50,000 annually. Not bad for a small business. After asking a few questions, and doing a few calculations, what if you were told that you might have earned $100,000, or double your existing profit. I’m sure that you would want to know what could make such a difference. And when you were told that much of that gain is in your people, you might step back and say, “Wait, I manage my people as tightly as anybody, and I don’t see how that would be possible!” And what if you further heard that, based on your answers to a few of my questions, you have a good chance of being out of business in five years?

You would almost assuredly laugh and say, “You don’t know my business as well as I do.” You are right that no one can know the intricacies of your business as well as you do, but armed with a few questions about your business, a look at recent research and best practices, and an understanding of emerging trends, even an outsider could have a good chance of being correct.

Recent research conducted by the Metrus Institute in partnership with the American Society of Quality tells us that:

- Firms that receive high scores in managing their human capital are more than twice as likely to be in the top one-third of their industry in financial performance, compared to those who manage labor poorly. If the average small business is earning a 10 percent profit, recent research and best practice information suggests it could be earning as much as twice that.
- Firms in the top 25 percent on key people practices are losing far fewer of their top performers—8 percent on average compared to 18 percent in low people-practice businesses. For Bob’s service business, which has 16 employees, with an employee replacement cost (finding, training, and getting them to peak productivity) of $12,000 per employee and a turnover rate of 50 percent, turnover costs are $96,000 per year. By adjusting some key people practices resulting in higher employee engagement, turnover costs could be cut in half—bringing $48,000 more to the bottom line!
- Quality provided to customers is substantially higher with highly engaged and capable people who are aligned with their customers. Companies in the top quarter of firms on those people factors have over twice the chance of being in the top third in quality

among their competitors. As the competition gets tougher, top quality firms are retaining and growing their customers far better; low quality firms are seeing significantly reduced financial results or dropping out.

Bob’s Service Star is losing 20 percent of its customers each year—over half because they are looking for higher quality. Assuming that this 20 percent of the customers represent 20 percent of the revenue, then $100,000 of revenue must be replaced each year. By bringing the right talent, information, and resources to customers at the moment of truth in service delivery, that replacement number can be cut in half. In other words, the company earns $50,000 by having employees with the right service mentality.

- Typically, 15 to 30 percent of an employee’s time is wasted in low- or no-value activities (for example, low priority e-mail, meetings without actions, socializing, phone calls, peripheral projects), because of misalignments of one type or another—employees don’t understand your goals or policies, their values are not in concert with the organization’s, or they get themselves involved in activities that are not as meaningful or productive. As my academic adviser suggested, they may be working hard, but not smart.

  Highly aligned businesses can often bring that unproductive time below 10 percent. This recapture of employees’ time yields $40,000 of bottom line savings in found labor time to redeploy on additional customers, new products or services, or to scale back labor costs.

- Market trends will have an adverse impact on Bob’s Service Star. First, if Bob’s region follows national demographic projections, Bob will have to cope with a substantially different labor force, one with a different

> availability and mix of skills and interests. Howard Winkler of Southern Company has struggled with this issue in the Southeast, for example. He notes that there has been a great deal of commotion concerning the shortage of engineers, but in many locales around the world, basic skilled trades are not in great supply—plumbers, electricians, welders, machinists, and yes, even, auto mechanics.

During recessionary periods, there will be greater competition to secure customers, meaning that Bob will face competitors, (some new and often with lower costs), that will drive prices down. Second, some competitors, such as the dealerships that compete with Bob's, may well be outsourcing a portion of their backroom work (for example, diagnostics or advisory services) to India, Latin America, China, or other lower-labor-cost locations. This will not only create pricing pressures, but could also increase the standards for quality or speed to compete effectively.

During the next economic expansion, organizations like Bob's will likely face double jeopardy. First, misaligned or disengaged employees who stayed put during the recession may be eager to leave, leading to a further strain on the existing talent pool. Many organizations will go from talent feast to talent famine. Second, because of the global demographics and skills mix, the world will face a talent vacuum in many of the most desirable and critical skill areas. Organizations that are not well positioned are apt to be stripped of top talent without much warning.

This combination of trends has the potential to create the perfect storm—for Bob and for millions of other business leaders, small and large. The prediction that Bob and other firms might be out of business may not be wacky after all.

Large Corporations Face Perhaps Even Greater Challenges

We started with an example that resonates with many of you—a local small business of the sort that employs millions of workers across the globe. Large corporations, however, employ nearly half the population in many industrialized countries.

If the statistics presented here are applied to large corporations, the impact is dramatic. Imagine the success of a $3 billion firm that could be 5 to 15 percent more profitable and more sustainable in the future. That’s a lot of money to the bottom line!

Let’s take a look at GlobalCompute, a global technology giant. Martha Werthing[1] had been a successful business executive who rose through the finance ranks, taking on key operational assignments, and finally assuming the leadership of a major Fortune 500 firm. She was a charismatic speaker who talked brashly about her competitors and was fearless of their might and reputation.

She fought hard to restructure the organization to acquire missing core competencies. Internally, she challenged her global leadership team to take on important competitive battles. She articulated a clear future strategy for the business and could bring even the most cynical managers to tears with her vision of bringing the competition to its knees.

But execution is often the Achilles heel of strategy, even when it is clear and compelling. Given the speed with which GlobalCompute’s formidable competitors moved, the challenge was implementing precise market plans that depended on speed, innovation, new products and capabilities, and a highly effective internal team. While