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The Talent Lie

by Edward E. Lawler III

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The Talent Lie

"Putting people first" can be more than a slogan.

by Edward E. Lawler III

It is hard to find a recently published book or article about management that doesn't refer to the importance of people. Authors speak of the war for talent and the relationship of human capital to the market value of a company. CEOs declare in annual reports that people are their company's most important asset. Surveys of executives confirm that many believe that finding and developing the right talent should be one of their top priorities.

It is a positive sign to see so many executives and management writers stress the importance of human capital, and one would expect the companies they work for and consult with to behave accordingly. But few organizations seem to walk their executives' talk when it comes to the management of talent. Most companies are operated in ways that downplay the importance of people. They have bureaucratic structures that optimize the value of financial capital, machinery, equipment, and natural resources, at the expense of talent development and the opportunity for people to use their skills. Work processes are designed with simplified, standardized jobs, and individuals are controlled through well-defined hierarchical reporting relationships, highly monitored budgets, and close supervision.

The contrast between what executives say about the importance of people and how they manage their organizations is unfortunate at best. At worst, it is a major contributor to poor organizational performance.

To be sure, there are some companies — for example, some high-volume commodity producers — for which the quality of human capital doesn't matter very much. When all is said and done, natural resources, cash, other tangible corporate assets, and even government regulations are more important to the success of these enterprises.

But for the vast majority of companies today, people do matter. The market value of most companies depends in large part on intangible assets, the most important being human capital. Particularly in developed countries, businesses need workers to perform complex work at a high level. Outstanding talent is scarce, and it can be a critical source of competitive advantage.

When executives say people are important but the organization's

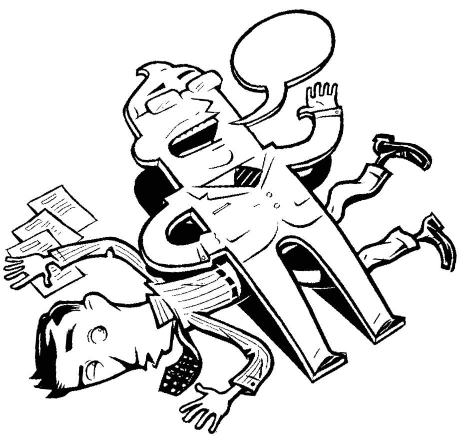

Illustration by Lars Leetaru

practices and structures do not reflect this view, the unspoken message is the one that gets heard: People are not a source of competitive advantage after all. Employees are, in effect, told that the company is managing them incompetently and that their bosses know that this suboptimal approach is wrong. As a result, executives come across both as hypocritical and as poor managers and strategists, which in turn undermines their ability to lead.

Closing the gap between rhetoric and reality is not easy, but it can be done. Three features of any corporate structure clearly show whether management truly believes in the importance of human capital or is merely paying lip service to it. They are the corporate board, the human resources management function, and the information systems. If you are interested in building an organization in which people are treated as a valuable asset, then you must focus on these three critical areas.

The board should have access to the expertise and information needed to understand talent issues across the organization.

Boards of Ignorance

When a corporation values human capital, the board of directors should have access to both the expertise and the information needed to understand talent issues at all levels of the organization. Consider the issue of expertise. A good deal of research-based knowledge exists about the retention, motivation, and development of human capital. Acquiring this knowledge and putting it to use requires in-depth expertise. Thus, a board should have at least one member who has a sophisticated understanding of the research related to human resources management, organizational effectiveness, succession planning, and learning and development. These are the anchors of effective human capital management.

A good comparison point is the presence on just about every board of at least one individual with financial expertise: someone who understands capital markets and can give advice on them. In addition, every board has someone with an accounting background. If a company's most important asset is its people, it is reasonable to expect that its board would have a similar level of expertise in human capital available to it.

Board members should receive regular information about the condition of an organization's talent and the way it develops and deploys that talent. Among other things, this should include information about people's attitudes and skill development levels; assessments of the availability of backup talent for key positions; and evaluations of the organization's ability to attract, retain, and develop new talent.

Moreover, the board should spend at least as much time on human capital issues as it does on the allocation of financial and phys-

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ical capital. It is particularly important that corporate boards spend time on succession planning for top-level management positions. Nothing is more important for the future of an organization than the type of talent it has available to fill its most senior positions. Thus, the board should have up-to-date, in-depth knowledge of what executive talent is available and how well developed it is.

Talking to employees is not a good substitute for rigorous analytic information.

Research on existing boards suggests that most organizations fall far short of these ideals. For example, although it is hard to come up with exact figures on how many boards have members with expertise in human capital management — from consulting, academic, or practitioner experience — my research suggests that most boards do not have many, if any, such members. Almost no U.S. boards have a member who has been or is a vice president of human resources with a major corporation. (Starbucks is a current exception, and TRW and United Parcel Service of America both formerly had their vice president of human resources on their board.) And virtually no HR consultants sit on today's corporate boards. This relative scarcity stands in stark contrast with the number of venture capitalists and financial experts on corporate boards.

When it comes to academics being on boards, the pattern is similarly clear. Finance and accounting professors sit on numerous corporate boards, but membership on a board is a rarity among professors of HR management and organizational behavior. One of the few exceptions is David Ulrich, a human resources management professor and consultant based at the University of Michigan, who sits on the board of Herman Miller Inc., the office and home furniture company. But Herman Miller is itself atypically preoccupied with human capital issues; one of its former CEOs, Max De Pree, is known for his book *Leadership Is an Art* (Doubleday, 1989), which outlines a humanitarian approach to management.

When I ask board members who they rely on for HR expertise, they often mention one or more of the CEOs who are on their board. They point out that CEOs have considerable management experience and therefore must have expertise in human capital. But CEOs rarely have a deep expertise in HR management. And the comparison to finance is revealing: Most CEOs have at least as much experience managing financial assets as they have managing people, but they are rarely the "go-to" experts on boards for decisions about financial capital. They simply don't have the requisite depth of knowledge. If human resources is as important an area as many executives claim, why should it be treated any differently?

There is little question that boards spend more time on financial issues than on human capital issues, particularly since the fall of Enron and the passage of the Sarbanes-Oxley Act. Boards also spend more time on operations issues. One reason is that they do not get systematic information about the condition of an organization's talent; they don't see the results of attitude surveys, turnover analyses, and succession plans. In some cases, this is because those materials don't exist; in others, it's because management does not share them with the board. Particularly likely to be missing is good analytic data showing how HR metrics relate to organizational performance.

Some boards do encourage their members to visit company facilities and talk to employees. Although this is certainly a step in the right direction, it is not a good substitute for rigorous analytic information. Nor is it a good substitute for having the board review an organization's succession plans and assess the quality of its management talent. One way boards can accomplish the latter is by asking managers to make presentations to the board; another is to have managers participate in board meetings.

In short, most corporate boards simply do not have the expertise or information they need to set a strategic direction for recruiting, developing, and assessing their company's talent.

Inadequate HR Departments

In any organization that believes human capital is its most important asset, it follows logically that the HR department should be its most important staff group. This means that HR should contain some of the top talent in the company, along with the best information technology resources, and HR should be a valued expert resource when it comes to strategy development, change management, organization design, and talent management.

The HR function should be staffed with individuals who understand the business — and who know the intricacies of human capital strategy and management systems. The department shouldn't be staffed only with individuals who are planning on a career in HR. To be sure, some professionals will devote their careers to human resources, and they should have advanced degrees and in-depth expertise; however, the HR department should also be seen as an important career stepping-stone for anyone who aspires to a senior management position — just as experience in operations and finance are seen as critical in organizations that treat financial capital as their most important asset.

HR department leaders need to be involved in business strategy discussions. Sometimes this requirement is expressed as HR's need to be at the table when key business strategy decisions are made, but a seat at the strategy table is not enough. If human capital really is an organization's most important asset, human resources should "set the table" for strategy discussions by framing the issues in terms of the current condition of the organization's human capital and what talent is available in the market. This can illuminate strategic opportunities that might not otherwise be seen, and can make it clear when strategies are not feasible.

There is a great deal of evidence to suggest that the HR departments in most major corporations are far less involved in strategy than they should be. With a few exceptions, HR departments get neither the talent, nor the resources, nor the access to the knowledge they need to be an expert resource on strategy, change management, organization design, and talent management. Even the best HR departments rarely reach this standard.

The best people coming out of business schools typically do not choose careers in HR. The field pays lower salaries and is not seen as a great starting point for the career of any would-be senior executive (except, of course, for HR executives). As a result, human resources is not a preferred concentration in most MBA programs. Almost none of today's top executives have ever worked in an HR department. (A couple of exceptions are Anne Mulcahy at Xerox and John Hofmeister at Shell Oil.)

In most organizations, the HR function itself is staffed with competent professionals, but few have had middle or senior management jobs outside HR. As a result, they don't have the experience that helps them think of their work in the context of the larger business and its priorities.

The HR department should be an important career stepping-stone for anyone who aspires to a senior management position.

This in turn means that they often have difficulty providing the kind of strategic direction and advice that is needed. PepsiCo, General Electric, and IBM are often cited as leaders in the deployment of HR, but even these companies do not systematically rotate their top management talent into the HR department. (They do, however, *recruit* top talent into the HR department.)

Rarely are corporate HR programs subject to the same kind of analysis and effectiveness tests that are applied to the other key assets of a corporation. For example, HR seldom knows or asks about the return on investment of its various policies, practices, and programs. HR people typically lack the analytic skills to assess the cost-effectiveness and impact of their programs and to determine the likely effect of proposed changes in job designs, organization structure, and HR-related policies. The HR function also often lacks a true "decision science" process (an analytic means of weighing choices and reaching optimal outcomes) when it comes to allocating human capital or planning learning and development programs for key talent.

The paucity of analytics is particularly apparent in the areas of rewards and talent management. HR generally does not calculate the return on such key reward-related decisions as how to allocate stock options, when to change benefit programs, and how to build a pay-for-performance program. Usually little, if any, data is available about the return on training programs, developmental coaching, and most other talent development practices and programs. Again, the contrast with tangible assets is obvious. There is good information in most organizations about the performance of equipment, products, and services against key financial indicators. The information is used to make decisions about the allocation of financial capital and the continuation of activities. But decisions about human capital are made without good data, and often on an ad hoc or intuitive basis.

Irrelevant Information Systems

There is an old saying that what gets measured gets attended to. The implication of this for human capital is very straightforward. The quality of an organization's people will be a central focus only if it has HR measures that are as relevant, rigorous, and comprehensive as the measures that pertain to financial assets and physical capital.

To be effective, a human capital information system needs to track the contribution of people to the organization's most critical and strategic objectives. It needs to provide a good indication of how productive individuals are and how their productivity relates to organizational performance. It needs to measure the condition of the organization's competencies and capabilities, especially those that are needed for superior performance.

It is particularly important for the HR department to have information technology resources that will enable it to produce the kind of comprehensive, real-time quantitative data that can be used by leaders to make fact-based decisions about talent management. This includes comprehensive data on the condition and use of the organization's human capital. HR leaders should not just generate and analyze this data, they should apply it to most critical decisions. The executive committee and the board should do the same.

But boards and executives are not the only ones who need human capital information. Given that an organization's intangibles account for an increasing percentage of its market capitalization, it makes sense for investors to request and receive information about an organization's human capital. Again, the comparison to financial capital is clear. If human capital is an organization's key asset, then investors both need and deserve to receive regular updates on the condition of that asset. They should have access to information on turnover rates, money spent on development, employee engagement, and the organization's competencies and capabilities.

The human capital metrics and analytics that are actually available to investors do not meet this standard. They tend to lack the precision and comprehensiveness of the financial metrics that are reported. Occasionally an organization includes in its annual report an accident rate or a turnover rate, but hard data about human capital is rarely presented in any systematic way in public documents.

Many organizations do make some attempt to find out about the condition of their human capital. They conduct attitude surveys, they measure turnover, they track the number of job offers accepted, and so on. But very few produce a regularly updated scorecard of human capital metrics, especially one tied to financial performance. The result: incomplete strategic planning, inadequate succession planning, and poor use of people.

Lingering behind the Curve

In all three areas we have considered — corporate boards, HR functions, and information and measurement systems — there are enormous gaps between the way organizations are managed and the way they should be managed and designed if human capital truly is their most important asset. The obvious question is, Why do these gaps exist? Is it because executives don't really believe what they say when it comes to the importance of human capital? Is it because they don't know how to design an organization in which human capital is paramount? Are they trapped by the past practices of their organization? Are they personally threatened by change? The answer is undoubtedly some combination of all these factors.

In the end, the reason is less important than the consequences. When senior executives resist designing and managing organizations in ways that treat human capital as their organization's most important asset, there are multiple negative effects. People feel exploited and undervalued. The best people migrate elsewhere; the midlevel people never get the development that allows them to make a real contribution; and the worst people linger, dragging the whole organization down.

It may take the emergence of a whole new generation of managers before most organizations walk the talk when it comes to talent. Perhaps there is a harbinger of what is to come in the cases of W.L. Gore & Associates, SAS, Whole Foods, and Starbucks. Why are these companies ahead of the curve? One common factor is suggestive: All four have a founding CEO who not only says that people are the company's most important asset — but personally acts as though it's true. +

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