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A Talent for Talent

by Richard Rawlinson, Walter McFarland, and Laird Post

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In facing business complexities, a robust and creative human capital plan could be your most effective strategy.

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Illustration by Lars Leetaru

ThyssenKrupp AG, the major German industrial and steel company, has launched a multiyear advertising campaign, in large part to promote itself as a top employer. The Wachovia Corporation focuses training for its human resources staff on understanding the business and its strategic challenges. Royal Dutch Shell PLC uses its competence in learning and development to attract government partners, who are concerned with building the capabilities of their citizens as well as gaining access to oil and gas. These organizations are taking a creative approach to people management.

Indeed, a growing number of companies around the world are investing in innovative human capital strategies and tactics. The companies are diverse in both industry and heritage: Some are long-established companies in traditional industries, like Swiss pharmaceutical giant Novartis AG, with its 250-year history; others are relative newcomers, riding the whitewater of recent technological revolutions, like the Indian information technology services provider Satyam Computer Services Ltd.

But their industry or heritage aside, these companies confront the same realities: shifting geographic borders and the rapid flows of global capital and technology. In responding to such challenges, these companies have all recognized the compelling need to pay attention to the value of human capital. They are devoting unprecedented resources and, more important, the attention of their leaders, to redesigning their workforce-related practices. In this way, they are developing their human capital as a critical source of competitive advantage.

Some of the most pressing global challenges facing business today are directly related to human capital issues. First are demographic trends. In mature economies, the overall aging of the population has led to a brain drain of critical skills and institutional knowledge in the workplace. Too many people are retiring and too few skilled people are available to replace them, especially in critical sectors like energy and health care. Further complexities stem from the willingness of people to migrate to regions where economic growth creates demand for expert labor — places that currently include centers of oil production, such as parts of the Middle East; booming emerging economies; and some industrially active areas of Europe and North America. Companies whose facilities are located at the origin points of migration will have to cope with talent shortages; companies that attract workers will have to cope with a greater degree of ethnic and gender diversity than they have known in the past.

Skills deficits represent another pervasive challenge. In many nations, education systems aren't properly preparing young people for work, and employers must pick up the slack. In 2003, according to *Newsweek*, employers in the United States spent US$1.3 billion to teach basic writing skills. Employers elsewhere report similar problems. C.K. Prahalad, a University of Michigan professor who has written extensively about innovation in emerging markets, notes that realizing the immense aspirations of the new global entrepreneurs of Asia, Africa, and Latin America will require an equally immense acceleration of skill development. "How do you take farm boys and create Six Sigma quality in four years?" he asks.

Finally, the changing needs and expectations of today's workforce are challenging traditional practices. Organizations need flexibility, but employees have their own needs. Some are reluctant to travel, others want flexible or part-time work, and still others want a global career. The real story in HR is not that of a monolithic shift in employee expectations, or even of a generational shift, but of variation in individual expectations.

The Portfolio Approach

Different companies are tackling these challenges in a variety of innovative ways. That was the underlying theme in a series of in-depth interviews that we and our colleagues conducted recently with distinguished business and HR executives and academic experts in the United States, Europe, the Middle East, and Asia. The interviews were published in August 2008 in *Capturing the People Advantage: Thought Leaders on Human Capital* (strategy+business Books). We asked the participants for their perspectives on the trends in human capital and for their view of their companies' most effective people-related strategies. We asked them what works in the real world, not just in theory. Their answers show how a people-related strategy can be a key differentiator in business success.

Many innovations are aimed at more effectively attracting and recruiting talent:

- **Applying a "market segmentation" strategy.** Just as customer segmentation is the basis for modern marketing, employee segmentation is becoming the basis for modern HR. To be sure, basic standards of HR practice need to be in place and must apply universally, and every employee needs to be treated with dignity and respect. But just as marketing responds to different customer segments with customized offers, so must HR create customized career alternatives for a diverse workforce.

This means differentiation at the employee level. "When somebody tells me he wants to move to France and work from there for a year, I've got to ask, 'How can we make that happen?'" says Shannon McFayden, Wachovia's senior execu-

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tive vice president for human resources and corporate relations. Shannon Brown, the senior vice president for human resources at FedEx Ground, comments that "people have very similar objectives when it comes to their work," but he adds that "people want different opportunities at different phases in their lives…. I think our work is going to be more reflective of the individual."

This also means that employers will end up prioritizing their commitments to employees in a more varied fashion. Different workforce segments merit different levels of investment. As Professor John Boudreau of the Center for Effective Organizations at the University of Southern California's Marshall School of Business says, organizations should manage human capital like a portfolio, identifying their most "pivotal" talent segments and focusing learning and development efforts accordingly.

• **Attracting and retaining talent through employer branding.** A strong employer brand can maximize an organization's position with the labor pool. Witness Novartis. In his interview, HR head Jürgen Brokatzky-Geiger told us that the company hired 17,000 people worldwide in 2006, but received more than 300,000 applications. "This is clearly an extremely popular place to work," he says.

The best employer brands focus on just a few key attributes, often articulating a clear shared purpose that rises above the profit motive. As Prahalad says, a compelling brand includes "a big idea and a noble goal. It goes beyond shareholder wealth; it's something intellectually demanding and emotionally satisfying." So far, relatively few companies are taking full advantage of the concept of employer branding, but those that do will reap the benefits as they strive to attract and retain talented people.

• **Creating unconventional talent acquisition strategies to look ahead and act with prescience.** In tight labor markets, accurately forecasting and buying into future talent needs is an essential skill. E.ON AG, Germany's fast-growing energy service provider, realized this when a wave of privatization overtook the power generation sector in central and eastern Europe. "We have learned to launch an ambitious and proactive recruitment drive in anticipation of those needs," says Chief HR Officer Christoph Dänzer-Vanotti. "This might cause a temporary managerial 'underload,' in which some of our managers are not sufficiently occupied. But when the rapid expansion comes, we can hit the ground running."

At ThyssenKrupp, "when we find great people, we'll hire them first and then look around to see what they should do."

Organizations must also be prepared to act whenever exceptional talent appears. ThyssenKrupp did this by establishing a special hiring fund in its technologies business. "This budget is for building our talent pool in that specific business, not for traditional hiring," explains Ralph Labonte, executive board member and labor director. "When we find great people, we'll hire them first and then look around to see what they should do."

Developing Leaders

Some significant innovations involve the development and retention of people after they are hired:

• **Recognizing that high performance requires great leaders.** Successful leaders are those who, as Satyam founder Ramalinga Raju says, "can enable ordinary people to achieve extraordinary results." These leaders, through their example and influence, directly drive higher levels of employee engagement and retention.

Some companies look externally for great leadership talent. That makes sense when speed and culture change demand it. Thus, Kraft Foods Inc., newly independent in 2007 after decades as a subsidiary of Altria Group Inc., shifted its leadership development strategy along with its business strategy. "In the past, we always tried to build all our talent," says Executive Vice President of Global Human Resources Karen May. "But our focus on growth means we don't always have time to do that. So ramping up our talent buying skills has become an urgent matter."

For many companies, the battle for talent is won or lost in the field of internal leadership development. And the prevailing view of leadership is evolving away from the headhunter mind-set of the past, in which effective executives were hired from outside, not mentored and fostered from within. The habit of seeking outsiders, warns Jay Conger, senior research scientist at the Center for Effective Organizations and professor of leadership studies at Claremont McKenna College, can "undermine development…. It sends a powerful message to promising junior leaders about the lack of future opportunities."

This is why leading organizations are designing rigorous development processes to ensure depth on their executive and managerial benches. ThyssenKrupp, for example, defined seven key management competencies and built a standardized appraisal process to create cross-segment transparency and consistency. It also created a central placement process for its top 300 managers to promote mobility among its five business segments, and to accelerate the development of leaders no matter where they might emerge in the organization.

The goal is to create a virtuous circle: Sound human capital development attracts high-potential leadership candidates, who deliver the consistently superior business performance that generates the profits needed to invest in better leaders.

• **Rethinking the connection between learning and strategic goals.** It has been clear for decades that an organization's competitive advantage depends on its ability to adapt new practices and innovations into ingrained, habitual activity. Nonetheless, several decades after the concept of a learning organization became widely known, many companies still struggle to embed learning in their organizations. The practice is much more difficult than the theory.

The first mistake is to direct learning initiatives toward training individuals and building job skills, rather than toward developing team and organizational capabilities. The value of human capital, as Prahalad says, is in building "the capacity to work together toward common tasks on a programmatic basis." That is also the most productive focus for organizational learning.

Another common mistake is positioning learning as a standalone function, with the proof of success being the establishment of the function itself, rather than results in the form of business outcomes. There are still many workplaces where corporate learning programs have ambiguous ownership (in other words, it's unclear which sponsors are committed to them) and an underdeveloped support base of internal clients. In many companies, the spending accountability for training is fragmented, costs are not managed tightly, and business outcomes go unmeasured. And attendees at many learning programs sign up simply so they can check off the relevant box on their appraisal forms the following year. As a result, the value of the investment, in terms of greater skills and capabilities that can be put into practice, is lost.

The cure is closer integration with the business. At Novartis, for example, business units drive the content of learning programs to ensure alignment with strategic objectives. Through linkages like these, the learning function itself becomes more like a sophisticated adult-education enterprise, focusing on efficient and cost-effective delivery of learning services to a segmented audience, with measured outcomes and ROI.

In this way, the concept of a learning organization is translated into a series of capacity-building efforts at the group and individual levels, all linked to business outcomes. Employees are held accountable for learning (with the acquisition of skills and capabilities reflected in their career advancement), and the learning function is held accountable for enabling and reinforcing learning through effective human capital programs. Satyam has accomplished this through the rigorous solicitation of stakeholder appraisals, competitive benchmarking, and effective metrics. These metrics include a set of simple questions to individuals embedded in their development plans that seek to discover what employees have learned, what they could have done differently, and what they need to learn to deliver the next wave of business outcomes.

Some companies also establish corporate universities at the center of their learning functions. These facilities serve as hubs for executive and employee education, centers of excellence, vehicles for building relationships with suppliers and key customers (who may be invited to send people to courses there), and visible symbols of the organizational commitment to learning. Most important for their success is a position at the center of the business. Thus, visitors to Royal Dutch Shell's learning center in The Hague find it co-located with the offices of the company's senior leaders, and ThyssenKrupp's new academy is rising in the heart of its new headquarters in Essen, Germany, not in some bucolic setting far from the action.

• **Emphasizing resiliency and adaptability in your workforce.** "Change management is at the very core of success these days," says Satyam's Raju. Business today demands resilient organizations that adapt to many changes: the integration of acquisitions, privatization and deregulation, globalization, shifts in technology, and the adoption of radical new strategies. This resilience, in turn, depends on having people on board who can quickly and effectively adopt new ways of thinking, working, and behaving.

One company with a proven method for building the adaptable workforce is Kraft. This consumer products enterprise is transforming itself from its old identity as a cost-driven business unit to an independent company "rewired for growth," as Kraft's May puts it. She illuminates how she navigates change "by acting on all our people issues — current talent, recruiting, workforce of the future, culture — to align them with the business strategy as it relates to growth, innovation, and technology."

In the best examples, the HR function can become a change leader itself. For example, when Saudi Telecom Company was privatized and job rotation was introduced to stimulate leadership development, Vice President of Human Resources and Training Salah Al-Zamil rotated the six general managers on his own staff first, sending each of them for short periods of time to take on the job of a peer in another HR function. "We worked it out at HR," he recalls, "and now it's company policy that 25 percent of our organization should rotate every year."

Demonstrating Business Impact

Saudi Telecom's example of leadership from the HR function is still rare. Many HR professionals have not changed their performance or practices significantly since they started their careers. "The field is basically operating on a model that's about 70 years old and has a history of being wedded to compliance," observes FedEx Ground's Brown. "And that approach simply doesn't work anymore."

HR underperforms in companies where its capabilities, competencies, and focus are not tightly aligned with the critical business priorities. "A major risk in HR is that we become seduced by the theory alone," warns Barclays PLC HR Director Cathy Turner, speaking of abstract ideas about human capital, leadership development, and talent management. "[We] forget that the primary reason the company employs us is to enable business leaders to run their businesses better…. [At Barclays,] our driving principle is to avoid all the 'fluff' surrounding HR and focus on what we actually need to do to help the business operate in a controlled and effective way."

This business focus is particularly important because, as several of the thought leaders observed in our interviews, the global HR profession lacks the same kind of standard, widely accepted, and proven methodologies that disciplines such as finance and marketing enjoy. In leadership development, for example, theories of effective leadership abound, but none are dominant or commonly accepted.

Pending the development of more consistent and accepted performance frameworks, the only way for HR to prove — and improve — its business impact is through business-aligned metrics. The best HR organizations are building that precise capability. They strive to measure their effectiveness by business outcomes, even when that measurement is difficult. For example, they track the performance records of people who have attended training and compare them to those who have not, in light of desired strategic business outcomes such as revenue or profit targets.

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In many companies, HR leaders who restructure their function around business results are earning a "seat at the top table," as full participants in the highest level of executive leadership. But the greatest value of innovative HR is not reflected in the elevation of the leader or function. It is the elevation of an idea: that people are a primary asset and competitive advantage, and that a compelling people strategy is required to realize their value. This strategy will work by habituating high performance in the people who work in every function, region, and business unit of the company.

In the end, without a focus on human capital, nothing else will change. Those who understand this hold the key to capturing the people advantage. +

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