EDWARD E. LAWLER III

Founder and Director of the Center for Effective Organizations

REINVENTING TALENT MANAGEMENT

PRINCIPLES AND PRACTICES FOR THE NEW WORLD OF WORK

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EDWARD E. LAWLER III

Reinventing Talent Management

For Patty
My love
My reason for being

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PREFACE

The people who work for organizations are usually referred to as their employees or workers or maybe their human resources. Despite this, I prefer to use the word *talent* to refer to them. Why? Because I think it is a term that better captures who they are and how they should be managed. They are very valuable, often the most valuable assets of organizations. Because of what they can do, they determine how effective their organizations are. Increasingly, they are highly skilled and need to be managed in ways that utilize and develop their skills.

An organization's talent is not just employees who are expected to do a job. Talent comprises individuals who differ in what they can do and can learn, and what they want to do. To be effective, organizations need to manage talent in ways that makes it a major contributor to their success. Doing this requires talent management systems and practices that are not common practice or best practice in today's organizations.

Most organizations still use a job-based bureaucratic talent management approach that does not fit today's world of work and workers and will not fit tomorrow's. It is not enough to modify the old approach; a reinvention is needed. There is a considerable amount of research that shows what practices and programs will be effective in the new world of work and workers. It is thus possible to identify and specify the direction in which talent management practices should head and to describe in detail those that are being used by some organizations today.

This book identifies the major direction in which talent management needs to go and identifies specific programs and practices that will take it there. Consideration is given to the design and management of the key activities of an organization's talent management systems: attracting, selecting, developing, rewarding, and appraising. The book provides principles and practices that will reinvent talent management so that it will be aligned with an organization's strategy and become a key source of competitive advantage. It concludes with how organizations should be designed and led to effectively manage their talent management systems.

The audience for this book is anyone who is interested in the development and implementation of talent management strategies, principles, and practices that are effective in the new world of work, workers, and organizations. This includes executives and line managers in all functions who hire, develop, and supervise talent as well as human resource professionals in all types and sizes of organizations. Thought leaders at consulting firms and universities who are drivers of talent management principles and practices are an important audience, as are students of human resources, since they are the future of talent management.

THE CHANGING WORLD OF WORK, WORKERS, AND ORGANIZATIONS

W ork, workers, and organizations are changing in significant ways, and at an ever increasing rate, and there is every reason to believe that both the degree and the rate of change will continue to increase. Most of these changes have significant and profound implications for how talent should be managed.

Simply stated, many of the old principles and practices concerning what makes for good talent management are obsolete as a result of the changing nature of work, workers, and organizations. What used to be good or best practice—or at least *good enough* practice—with respect to how people are recruited, selected, trained, developed, rewarded, and evaluated simply does not fit today's workforce and workplaces. These strategies, practices, and policies have become increasingly obsolete, and virtually every activity that organizations engage in with respect to how human capital is managed needs to be changed to become a best practice in this new world of work. This includes many of today's best reward, selection, and development practices.

So far the talent management principles and practices of most organizations have not changed significantly in response to this new world of work. They still follow a job-based bureaucratic model, focusing on job descriptions, equating fairness with sameness and seniority, and are managed by human resources (HR) functions that are not

changing as fast as the world of work is. This has resulted in numerous books and articles that are critical of HR, some of which suggest "blowing it up."

There is considerable evidence that the HR functions in most organizations are not strategy driven and are not changing as fast as they need to. Table 1.1 presents data from my global survey of large corporations. The survey, which is done every three years, measures the views of senior HR executives on talent management and their organizations' practices. It is the only study that has measured change in HR practices on a global basis. The results show that between 1995 and 2016 there were no significant changes in how HR spent its time. In every country

Table 1.1 Percentage of current time spent on various HR roles in the United States

	MEANS							
HR ROLES	**1995[1]**	**1998[2]**	**2001[3]**	**2004[4]**	**2007[5]**	**2010[6]**	**2013[7]**	**2016[8]**
Maintaining records: collecting, tracking, and maintaining data on employees	15.4	16.1	14.9	13.2	15.8	13.6	15.2	13.2
Auditing/controlling: ensuring compliance with internal operations, regulations, and legal and union requirements	12.2	11.2	11.4	13.3	11.6	12.5	13.0	12.0
HR service providers: assisting with implementation and administration of HR practices	31.3[7]	35.0[5,7]	31.3[7]	32.0[7]	27.8[2]	30.4	25.7[1,2,3,4]	25.9[2]
Development of HR systems and practices: developing new HR systems and practices	18.6	19.2	19.3	18.1	19.2	16.7	19.0	20.9[6]
Strategic business partners: being a member of the management team; involvement with strategic HR planning, organizational design, and strategic change	22.0	20.3[6,7]	23.2	23.5	25.6	26.8[2]	27.1[2]	28.1[2]

Source: Edward E. Lawler III and John W. Boudreau, *Global Trends in Human Resource Management: A Twenty-Year Analysis* (Stanford, CA: Stanford University Press, 2015). Results from 2016 are new, and were not included in the 2015 book.

Note: [1,2,3,4,5,6,7,8] Significant differences between years ($p \leq .05$).

studied HR has spent and continues to spend most of its time on record keeping and providing administrative services.

The good news is that the major changes that have and will occur in the world of work are identifiable and will likely to continue to be. As a result, it is possible to make fairly definitive statements as to what the world of work will be like in the future. This in turn means that it is possible to specify what organizations should do with respect to talent management to be effective moving forward.

Talent management should become increasingly strategy driven, skills based, performance focused, agile, segmented, and evidence based. Before specifying in detail what talent management should look like, it is important to identify recent key changes in the world of work and why they demand new approaches to talent management.

GLOBAL AND COMPETITIVE ORGANIZATIONS

Organizations now increasingly operate in global business, social, and political environments because the products, services, and customers of most large corporations are multinational. Many industries are dominated by major competitors that are global in their operations; they produce products that are created on a global basis and targeted at global markets. This is true for the energy, automotive, and information technology industries, and for major services such as finance, consulting, and advertising.

Yes, there are still many businesses that are local, but they represent a decreasing percentage of the total business that is done in such places as China, the European Union, and the United States. Even those organizations that do not operate globally are significantly affected by the organizations that do; they compete for labor with them, and often find themselves doing business with and at times competing with global organizations.

One interesting example of the growth of globalization in the last twenty years is provided by food service and package delivery companies, both of which continue to "go global" at a rapid rate. McDonalds and Starbucks are prime examples of U.S. national food service organizations whose reach has become global in a relatively short period of time. FedEx and UPS have both gone global with their delivery

operations. Information technology concerns such as Google and Microsoft have also gone global and in turn made it possible to connect organizations' worldwide operations.

One of the most important features of the global business environment is the ability it provides to internationally source the production and delivery of products and services. Information technology has made it possible to globally source talent for software development as well as phone sales and customer service. Many of the most obvious examples of this global sourcing are in the manufacturing sector: many products are partly or completely produced in countries that have low labor costs and, in some cases, easy access to natural resources that aid low-cost production. As a result, an increasing number of organizations now face global competitors rather than just local ones. This is true of both service organizations and manufacturing organizations.

A major factor that has led to the highly competitive, rapidly changing global business environment that exists today is the availability of financial capital. There is—particularly in developed countries—an increasing amount of venture capital available; as a result, individuals and organizations who wish to create new businesses or grow existing ones can access the financial backing they need relatively easily. There is no reason to believe that in the foreseeable future this supply of capital will decrease; the best prediction is that there will be an ever greater number of start-ups on a worldwide basis in decades to come and, as a result, the business environment will become increasingly competitive.

Strongly supporting the argument that more competitors will be created is the reality that more technology will be available to create new businesses. What happened in the case of information technology—with smartphones, personal computers, and tablets replacing typewriters, telephones, adding machines, and mainframe computers, and with social media creating new businesses—is likely to happen in other areas.

The globalization of business makes talent a global resource, and that raises many talent management issues. Organizations increasingly can and need to go where the "right" talent is available for the best price to be competitive. They need not only to source talent globally to be competitive but also to make good strategic decisions about how they man-

age talent coming from different national cultures. One clear implication of this is that an increasing number of organizations will need to manage talent effectively on a global basis, dealing with governments and other cultures—and the complexities they create—with respect to all talent management issues.

Perhaps the greatest impact the global business environment will have will be on the need for organizations to consistently improve their performance. What is good enough today will not be good enough tomorrow. This point was captured in the quality literature decades ago by the argument for continuous improvement, and it is even truer today. In fact, not just continuous improvement but dramatic improvement is often needed—not just in quality but in speed, cost, and innovation.

TECHNOLOGY IS A MAJOR DISRUPTOR

Technology—particularly in the form of information technology and intelligent computing—will increasingly be a major disruptive force when it comes to how, when, and where work is done and how it should be managed. Many previously repetitive, tedious tasks have been taken over by technology, and virtually all organization communication has changed dramatically as a result of such advancements. They will continue to have a major impact on when, where, and how work is done as well as what work is done. Already many individuals can and do work anywhere, at any time and, in many cases, with anyone.

There is also little doubt that we are just at the beginning of the information technology revolution. What people do, and when, where, and how they do it, is going to change dramatically and continuously over the next decades. How their performance is monitored and measured is also sure to change.

Organizations are increasingly going to need to be able to quickly change what they do and how, when, where, and how well they do it, as well as deciding who will be responsible for doing it. And they will need to change as technology makes certain products and services obsolete as well as the means of producing them. Just as no one sits at a typewriter today and prepares letters, in the future it is very unlikely that people will sit at a personal computer and send e-mails. It is inevitable that, increasingly, manufacturing tasks will be done by smart

machines and by companies that globally distribute production based not just on labor costs but also on the quality and nature of the workforce, infrastructure, and technology in other countries.

Technology is driving and enabling the economy and organizations to use an increasing number of part-time and freelance crowdsourced workers who do work that has traditionally been done by full-time employees. The app economy is upon us, and it creates the opportunity for organizations to use various types of employment relationships that are flexible, adaptable, and can be driven by their changing needs for both skilled and unskilled workers.

Technology is impacting where and how work is done, and we are just at the beginning of this revolution. People will increasingly have the ability and all the tools needed to do many kinds of work and to connect with others around the clock and year round—virtually anywhere in the world. A key issue is how organizations develop a workforce, and how they coordinate and evaluate the performance of individuals who are not necessarily colocated but can communicate quickly and easily with each other.

Advances in computer hardware, algorithms, and data analytics will increase the work that machines do and migrate many kinds of work from individuals to technology-based operations. Intelligent computers are now capable of learning, playing complex games, responding to customers, and performing complex medical diagnoses and even some surgeries. This is an area where the rate of change is likely to accelerate as digital assistants are able to provide an increasing number of services in response to voice commands and IBM Watson–type computer systems are developed. In addition, the Internet is creating a world in which machines can connect and perform in ways that once required humans. Three-dimensional printing is changing manufacturing, and virtual reality is changing entertainment.

The challenge for organizations is to find the optimal balance between human- and machine-controlled operations and decision making. It is unclear how the new technologies will affect the total number of jobs that exist, but one clear outcome is that there will be fewer and fewer simple repetitive tasks, less human monitoring needed, and less supervision performed by managers. Another result will be that an increasing number of employees in complex organizations will be "knowledge

workers" of one kind or another. Others will be talent that will be asked to work anywhere, at any time, on complex assignments that involve developing new technology and programming it. And more and more knowledge work will be done by computers as they develop more analytic and decision-making capabilities.

The best estimates tell us that organizations are just at the beginning of the disruption caused by changes in how, where, when, and with whom people work. Technology is moving rapidly in terms of the capability it has to solve problems, process data, learn, manufacture products, monitor activities, and connect people. Global organizations are likely to be leaders in the use of technology to increase their effectiveness in the areas of cost control, product design, production, marketing, sales, and internal operations. In order to do this they will need to be leaders in changing how they manage talent.

WORKFORCE DIVERSITY

In most organizations, many changes in the composition of the workforce have already taken place. These organizations' workforces are much more diverse than they were just ten years ago, and there are many reasons to believe that we will see continued growth in their diversity; this is particularly true in developed countries that have laws against discrimination based on age, race, sexual orientation, gender, or gender identity. The growing emphasis in technical and management education on the inclusion of minorities and women is another major contributor to workforce diversity. The age range of the workforce is going to go up, the gender balance is going to shift, and the workforce is going to include more transgender and ethnic minority people. Overall, most organizations will have increasingly diverse workforces with respect to every important characteristic of human beings.

Different age groups think about careers, and the features of organizations, in different ways. This seems to be a product of not only aging and maturation but also of the reality that people from different generations have different experiences at any given age. As a result, they look at work differently at any given point in time. Every new generation is likely to think, act, and look at work and careers differently when

compared to how previous generations did when they were that age, because the world is in a constant process of change.

Organizations are just beginning to feel the full impact of age discrimination legislation and increases in life expectancy. These factors are leading more individuals to continue working into their seventies and eighties, and to a workforce that has more age diversity. This is likely to become even more common as health care delivery systems improve and people have longer life expectancies—particularly in less-developed countries as their health care systems improve. Another contributor to longer work careers is likely to be the need to earn enough money to "afford" retirement.

Organizations can no longer assume that they are dealing with a homogeneous group when it comes to the many features of individuals that are age related. They need to be able to manage and organize adults of virtually all ages.

Overall, organizations must be able to manage individuals that differ in age, gender, race, sexual orientation, and national origin. As a result, there will be very few organization and talent management issues for which there is an effective "one size fits all" approach.

SUSTAINABLE PERFORMANCE

The demand that organizations perform well has expanded over the last several decades in the sense that it is not enough for them to improve solely in terms of the quality of the products and services they produce and their financial performance. They are increasingly being asked to perform better in how they impact the environment, the society in which they operate, and their employees.

The social movement that demands that organizations perform better in the social and environmental areas has gained considerable momentum in the past decade and will continue to do so. It has resulted in new laws involving pollution and how employees are treated. Not surprisingly, it is putting the greatest amount of pressure on organizations in developed countries. They are under pressure to change the way they operate and to change the way their suppliers and subsidiaries in developing countries operate and do business when it comes to their impact on the environment and how they treat their talent.

As the world becomes more conscious of the importance of sustainable corporate performance, there is little doubt that corporations will increasingly be held accountable for their global impact on the environment, their employees, and the societies in which they operate. The demand that corporations meet what are often called triple-bottom-line standards and report on their performance is growing. As of yet this is certainly not being undertaken by a majority of the corporations in either the developed or the developing world, but there is significant movement in this direction.

Prime examples of organizations moving toward triple-bottom-line performance accountability are Google, Starbucks, and Unilever; they are ahead of the curve and showing some positive results. The more successful they are, the more pressure there will be on other corporations to follow their lead and perform well in all the areas of corporate sustainability.

ACCELERATING CHANGE

The changes discussed thus far in globalization, diversity, technology, and sustainability point to a very strong and important point: the rate of change is likely to continue to be rapid and increasingly disruptive with respect to traditional models of how organizations are designed and how they manage their talent. Most of our models of talent management and organization design assume a stance toward change that is episodic—that is, they argue for an analysis of the situation, an implementation of changes that are needed, and a period of stability until the next period of change needs to occur.

It is now well established that the traditional change model is no longer appropriate because it operates too slowly. What is needed instead is a continuous change approach in which organizations are agile and capable of constantly changing the ways in which they operate. They cannot rely on periods of stability during which they can perfect recent changes and plan for the next ones. Rather, they need to be constantly experimenting and changing what they do and how they operate in order to respond quickly to the rapidly changing environments they face. To do this they must have talent management practices that support experimentation, agility, and change.

TALENT IS CRITICAL

For decades, many chief executive officers (CEOs) and senior executives have said that talent is their organization's most important asset. In fact, this may not have been true for many of them, and it is clear that they have not acted according to this mind-set. Without question, for a few organizations talent always has been their most critical resource and they have treated it that way. But in the future talent will be the most important asset for virtually every organization. Simply stated, the changing nature of the work organizations do and the rapidly changing, highly competitive environment they face will make it impossible for most organizations to perform well without the right talent. As a result, talent will become the asset that makes the difference between winning and losing.

For most organizations, talent has always been a major expense. In developed countries, a common estimate is that 70 percent of the costs of a typical organization goes to pay and benefits. If you add to that the cost of recruiting and managing talent, the total cost of labor often exceeds 70 percent by a significant amount. Thus, it has always made sense to do a reasonable job of managing wages, benefits, staffing levels, and work performance.

But this situation has changed. Most of the changes mentioned so far in this chapter concerning work and organizations mean that decisions made about talent are increasingly becoming the difference-making determinants of organizational performance and not just key determinants of an organization's costs. Differences in talent performance effectiveness increasingly lead directly to differences in overall organizational performance. Because of this, superior talent management results in superior organizational performance. Those organizations that attract and retain the right kind of talent and treat it, reward it, develop it, and deploy it correctly, perform better than those that simply fill jobs with people.

Admittedly, in some organizations talent does not make a great difference with respect to organizational performance. Many bureaucratic organizations have been designed and structured so that individuals do not need to perform at a superior level; they simply need to perform at an adequate level. In many simple repetitive jobs in manufacturing, data

entry, and maintenance, there is no opportunity for talent to perform at an exceptional level, and there is little advantage to an organization if someone performs at an exceptional level; an adequate level is sufficient. This is particularly true with respect to the work in an organization that does not make a great difference with respect to organizational performance.

The situation is different, however, when the performance of organizations depends on advanced technology, knowledge work, and high-value-added work. In this situation, which exists in technology, financial services, the entertainment industry, and many other fields, the best-performing talent is many times more valuable than the rest because it can make a significant difference in organizational performance. Similarly, in customer service situations, when individuals have to deal with knowledgeable and discerning customers the difference between good service and outstanding service can have a direct and significant impact on the bottom line of the organization. Thus, it makes sense for such an organization to focus on attracting, retaining, and developing individuals who perform at not just an acceptable level but an outstanding one.

The globalization and growing complexity of work are two additional changes that make talent an increasingly critical resource for an organization; they make organizations and work more complicated and require talent to have a broader understanding of management, organizational effectiveness, the global economic situation, and local cultures and norms to perform well. This means that getting the right talent may be more difficult, but it also means that it can provide a significant competitive advantage when that talent is obtained and managed effectively.

There is one additional point to be made about attracting and retaining the right talent in today's and tomorrow's work settings: such efforts have become more costly, and they will continue to be. It has always been true that training, turnover, and replacement costs depend on the complexity of jobs that are being filled. For some simple jobs, the cost is often only equal to a few weeks of pay; as a result, high levels of turnover are not a major cost for an organization. With complex work, the need for talented and well-trained individuals makes the cost of turnover much higher: it is often equal to six months or a year's salary.

It is particularly important that organizations that perform knowledge work and complex customer service work do an outstanding job

of attracting, retaining, and developing the right talent. They can gain a competitive advantage by doing this simply because they have lower turnover costs, but that may be the least significant result when compared to the resulting performance improvements that come from having a motivated engaged knowledgeable workforce.

One direct effect of talent becoming a more important determinant of organizational effectiveness is that it brings more bargaining power: talented individuals can often "write their own tickets" when it comes to work deals. This has been true in sports and entertainment for decades, and has resulted in some amazing compensation and benefit deals; now it is increasingly becoming true for "superstar" executives and technical contributors. The amount of high-power talent most organizations need is going to increase as the complexity of their products, work, and services increases. Thus, the effectiveness of an increasing number of organizations is going to be determined by how effectively they attract, retain, develop, and manage their major talent.

Finally, the rate of change in the work environment and the agility required by organizations to deal with it increases the importance of maintaining talent agility. There is an increasingly high probability that yesterday's talent is not the right talent for tomorrow. As a result, organizations need to have agile talent management practices that allow them to continuously and frequently change the skill sets of their workforces. Talent agility is a difficult competency or capability to develop in organizations, and it increasingly makes effective talent management difficult. It requires organizations to take an agility point of view with respect to talent management issues such as pay, training and development, and job security, as well as the best use of part-time, contract, and temporary talent.

CONCLUSION

Recent major changes in work, the workforce, and organizations are shown in table 1.2. Each change is rated on its importance with respect to talent management and its potential for growth.

The globalization of work and organizations is rated as highly important. This reflects the tremendous impact globalization has on those who do work and how they should be managed. Moderate progression

in this trend is projected in the next decade. There are some parts of the globe that have not yet come into the world economy and are not likely to in the near future. But many regions are producing more educated workers and performing types of work that were not previously performed in those regions. Thus, globalization is rated as moderate in growth since the political instabilities that are likely to slow it down in some parts of the world are not likely to occur across the entire global business world.

Technology is rated as a highly important factor in determining what work and organizations will look like in the future. This reflects the expected accelerated rate of major advances in information technology, robotics, sustainably effective ways to generate energy, and changes in transportation, as well as in manufacturing capabilities. Its high importance rating reflects technology's power to change the very nature of the work people do, where and how they do it, and how they are held accountable for doing it. It is rated as rapid in growth because of the many disruptive products that are likely to be created in areas ranging from communications to energy production.

Diversity is rated medium in importance; this is because although significant changes are required in how talent is managed, as diversity increases many of them are not as substantial as those required by technology and globalization. It is rated slow in future growth because the challenges that are involved in bringing new types of individuals (e.g., minorities, foreign nationals) into the workforce in many countries are and will continue to be significant.

The move to more sustainability in business models is rated as medium in importance for talent management and as moderate in future growth. It is an important factor in the careers and work choices of some individuals, but it is not an important universal issue. It is also likely to lead to changes in how some organizations operate, but it is not likely to quickly become a major objective for many. The reasons for this are clear: although in many developed countries there is increasing demand that organizations behave in a more sustainable manner, this is not yet a high priority global action issue (even though it should be). Many parts of the globe have not made a strong commitment to sustainability and, as a result, a rapid change by corporations with respect to how much attention they pay to it is not likely to happen.

Change is rated as highly important and as rapid in growth. These ratings reflect the cumulative effects of globalization, technology, and sustainability as major drivers of how organizations operate and perform. There is every reason to believe that this combination of forces will continue to increase in their impact and to create the demand for more agile and flexible organizations and talent management processes.

The final major change is the criticality of talent. This is of high importance because the many changes that are making talent more valuable and central to the effectiveness of organizations require major changes in how organizations are managed. It is rated moderate in growth because, though it may not grow at an extremely rapid rate, it is likely to become increasingly true as technology, diversity, and change require organizations to become more effective at talent utilization, talent development, and creating more agile talent management practices.

As can be seen in table 1.2, it is not a mystery where the world of work, workers, and organizations is going; it will be more diverse, competitive, complex, and challenging to manage. Workforces will be more diverse, technology will be increasingly disruptive, demands for sustainable performance will increase, and competitive demands will be greater. The convergence of these changes will create a new world of work that will not just call for it; it will demand new talent management principles and practices.

The challenge is to create organizations with talent management systems that are capable of responding to these changes. Talent management needs to be a priority in organizations because it can be a major

Table 1.2 Major changes: importance and growth

	Importance	Growth
Globalization	high	moderate
Technology	high	rapid
Diversity	medium	slow
Sustainability	medium	moderate
Change/Agility	high	rapid
Talent Critical	high	moderate

source of competitive advantage or, if managed poorly, a fatal flaw. This brings truth to CEOs' favorite adage: "People are our most important asset." Today's and tomorrow's challenges are to translate that philosophy into talent management and organization design approaches that recognize it and effectively act on it.

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