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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 employees left her town meetings ready to take the hill, they soon bogged down on defining the hill, battling internal customers over who was right, jockeying for power, and struggling to find an identity. The company was simply not agile enough to beat the competition to the punch. While her vision was initially compelling, people quickly reverted to their historical patterns of behavior and functional silos. The misalignments were deeply embedded in the *how* not the *what*.

Moreover, the company's capabilities were falling short of market expectations. Products were late to market, inconsistent in quality, had features that did not meet market promises, and were delivered by a disconnected sales force. No one took action to address historical values and structures that were now only obstacles to the new business plans. Without a deeper base of understanding and trust that would help create the alignment needed to execute, her beginning-of-the-week words of wisdom were only faint echoes on Friday morning.

Employees knew and trusted their earlier world; they knew what to expect and how to operate in the old ways. Many were still very much committed to the old vision and values, believing that "this too shall pass." And even those who wanted to embrace the new vision didn't know how.

Not surprisingly, the new strategy went nowhere, and Martha Werthing was asked to resign. She left behind a highly talented, but siloed and demoralized culture. Rather than creating a more committed and engaged workforce, an atmosphere of cynicism, a distrust of leadership, and frustration torpedoed the goals and brought the house down.

Werthing was considered near the top of her competitive class, and yet she failed. She was astute at the 50,000-foot level, but couldn't align and mobilize people to execute the business strategy. She had a deep understanding of the business dynamics of her industry, but could not surmount the people challenges, which proved fatal to strategy execution. She failed when:

- People—including her board and executive suite—were not a*ligned* with her vision. The organization could not succeed as a house divided.
- She miscalculated her ability to bring the right *capabilities* to the marketplace—great skills and technology alone were not enough. Talent needed to be calibrated to the vision, brand, technology, and resources in a way that customers valued.
- She struggled to hold the initial *engagement* of many of her people in the vision, which could not survive executive in-fighting, functional silos, poor follow-through on commitments, rapidly changing strategies, low communications transparency, and lack of input and involvement of employees.

Werthing's situation is not unique. She and many senior leaders like her fail to successfully address the make-or-break talent factors that determine the profitability and growth of today's organizations. Many of the old rules no longer apply. And the new rules must be applied differently in various organizations and cultures.

Reinventing Talent Management will demonstrate the need to adopt fresh thinking to managing talent in organizations of every size and type. Our conclusions are based on an examination of the new talent marketplace and the role it plays in shaping organizational growth and survival. The talent marketplace is the playing field for determining who gets what talent and how well it is being used within and outside of the organization. Externally, it is represented by global and local forces that influence an organization's ability to obtain and keep the talent it needs to be successful. Internally, it is the vibrant day-to-day dynamics that enable some organizations to have the right talent in the right place to achieve business goals better than the competition can. This often means talent that creates more satisfied customers, is more skilled, has stronger leaders, actively recruits new talent, is innovative, is loyal, and is more productive—in short, the talent has been optimized.

In support of my conclusions, I will share with you important information based on research conducted with thousands of organizations, case studies of businesses that are succeeding and failing, interviews with over 70 talent thought leaders from academia, industry, government, and talent-related professional associations, and emerging trends that will determine who will win now and well into the future, regardless of the vagaries of economic cycles and boom-or-bust market conditions.

I will present a tested framework that has practical implications for how to more effectively manage talent in this new marketplace. From it, we will draw clear implications for making decisions and allocating resources in the many aspects of talent management—from finding it, to developing it, to keeping it. The framework also provides a clear template for measuring talent, allocating limited resources, and making important talent decisions.

Finally, you will find throughout the book many recommended actions and best practice ideas for board directors, C-suite executives, managers, and human resources professionals, based on our research, best practice cases across a variety of organizations, and the practical suggestions of talent leaders in high-performing organizations.

Let us begin with a look at the talent marketplace.

Ten Trends That Will Change Your Future

1. *Global competition.* It is an economic truism that the pattern of supply and demand has a decisive effect on the destiny of nations, markets, and companies. With global barriers coming down and technological reach expanding, there are far more suppliers offering more products than customers can consume. While this is Economics 101, the scope of the change is far greater than most are ready for; many businesses large and small are about to be jolted by new and varied competitive faces.

   Just look at the local bookstore in the face of Amazon. Look at Blockbuster in the face of Netflix. Look at United in the face of Southwest. Look at Yahoo in the face of Google. Look at Sears and Kmart in the face of Wal-Mart. Look at GM in the face of Toyota, which recently took the crown as the world's biggest automaker after 77 years of GM dominance.[2]

   Sears is a great example of an organization that broke the competitive barrier with a catalog that transformed shopping over a century ago, only to be out transformed by big box stores like Wal-Mart. Survival of most organizations will depend on their ability to deliver *unique value* they can provide and sustain in a marketplace characterized by new forms of competition and a far greater number of competitors.

2. *A change in labor supply and demand.* In 2005, the United States passed a watershed moment in its history: For the first time in modern history, its labor supply and demand curves crossed.[3] In aggregate, there were an insufficient number of people to fill the number of jobs that were required to fuel current needs, not to mention future growth. The recession that began in December 2007 certainly put many people back on the street temporarily, alleviating the enormous talent stress that was escalating in early 2008, but that does not mean that the right talent is available where it is needed, which is addressed shortly.

   Some look to Asia as a source of labor. This, too, is deceptive, because of the huge variability of skills across countries like China and India—many unskilled agrarian workers and a paucity of managerial and professional talent. Think of China as a global black hole that sucks in skilled talent from India, Korea, Southeast Asia, Eastern Europe, and even the United States to meet the needs generated by its rapid growth. During a recent visit, this author found great shortages of skilled managers—especially in middle management ranks. According to demographers and futurists, only India, among the major talent pools, will continue to be a net exporter of talent through 2020.

3. *Uneven distribution of talent.* Look for niche shortages. In labor-challenged locations such as Hawaii, jobs such as nursing and industries like high tech and energy have been struggling to find the right talent for many years. While the recession that began in 2008 will provide some labor capacity relief, it will not do so everywhere or evenly. And when the next spurt of growth occurs, these niches are likely to be the first ones stressed.

   During the competitive growth period before the most recent recession, Hawaii was approaching 2.0 percent unemployment—numbers the economists would consider full employment because of job changes, displacements, and so forth. While their unemployment numbers have been rising, they remain about 2 to 3 percentage points below that of the mainland United States. Many skills are still in short supply.

   Some professions, like nursing, scientists, and engineers have experienced worldwide shortages.

   Houston is an example of a combination of industry and profession scarcity. In 2001, with the fall of Enron and low energy prices, it was a pocket of unemployment; in 2008, it was a pocket of talent drain as the demand for all forms of energy had skyrocketed at the same time that many engineers and energy professionals were in the process of retiring. Demographers tell us that over 30 percent of the professional talent in that industry—engineers, geologists, and the like—are expected to retire in the next several years. Rather than 401(k)s that have eroded in the market meltdown, many members of this group have generous defined-benefit pensions, meaning that they will still get guaranteed annuities that will allow them to retire comfortably. A major challenge for leaders in oil and gas, assuming the cost of energy rises, is enticing knowledgeable would-be retirees to stay with the organization in some capacity. Organizations such as Chevron have developed incentive packages to encourage their experienced knowledge workers to either stay on or return after retiring with an attractive alternative compensation arrangement.

   Some emerging industries, like green technology, are seeking scarce skills in fields like wind and solar power, bioecology, marine food harvesting, and clean energy.

   In other regions, like parts of the Midwestern United States and Western Europe, or in traditional manufacturing jobs, talent is readily available. But even in these places, many workers who have been displaced by the recent recession will be unable to assume existing jobs or emerging jobs in the next growth period because they will not have the necessary skills or the ability to relocate to where those jobs are. This, in effect, is unavailable labor.

4. *Managing diverse workforces in diverse places.* When I attended engineering college, I had my first encounter with Indian, Chinese, and Iranian students from what seemed like mysterious and exotic locations. I learned about iguzi stew and cooked squid, not bad alternatives to the mystery meat of the university cafeteria of the time. While I thought the religious habits of Hindus, Sikhs, Moslems, and Buddhists strange and different, I began to appreciate over time the great differences across the globe that were only beginning to impinge on my narrow Midwestern world view. While I had only one African-American student on my dorm floor in the middle of a city that was statistically over one-third black, as I write this today, I note the election of the first African-American president of the United States of America who hails from that same city.

    "People managers will need to acquire a new global perspective, one never previously imagined," says Robert Hoffman, Executive Director of Organizational Development at Novartis Pharmaceutical Corporation, who has witnessed similar trends at global businesses in which he has worked. "Talent will increasingly be managed globally, requiring strong and broad skills, coupled with appropriate sensitivities to different religious practices, ethnic backgrounds, lifestyles, modes of learning, and expectations of what work is."

    Other well-documented demographic trends also will change substantially the look and behavior of our workforce. Generational differences are a specific form of diversity that will challenge current and future leaders. Baby Boomers will be retiring in increasing numbers, and as they do, they are being replaced by workers with vastly different work values, lifestyle preferences, and skills. "The new generation of people we are hiring today are smarter than ever," says Dick Clark, controller for Monsanto, and he raises an important question: "How do we adapt ourselves in order to better lead them?" Managing this new generation in a way that creates high people engagement, retention, and strong customer loyalty perhaps will require different approaches. Generation X-ers and Millennials (Generation Y-ers) may come with different technological skills, communication and learning styles, work preferences, and values.

5. *Skill and mind shifts.* As Daniel Pink argues convincingly in *A Whole New Mind*,[4] individuals and organizations alike need to think about new competitive success factors, as technical, accounting, programming, legal, and other skilled jobs are being automated or deployed to lower-cost locations, and critical remaining ones will need to be staffed and managed

in different ways. He and others state that the emerging job opportunities will include roles and tasks that are not capable of being reengineered or outsourced abroad—tasks requiring innovation, artistry, complex decision making, in-person services, and so forth. If Pink is correct, the twenty-first century MFA (Master of Fine Arts) may supplant the MBA of the twentieth century, in which case many countries will have a glut of MBAs coupled with a severe shortage of artistic professionals—artists, designers, creators; they simply aren't in the pipeline.

6. *Technology.* "Technology is changing the way we work and how fast we work," says David Ulrich of the University of Michigan, when we interviewed him for the book. Leif Meneke, vice president of talent and leadership for the Americas at Deutsche Bank said, "Technology and systems now enable people to manage human capital in far more effective ways. We have eliminated the routine and trivial task and focus more on real people issues." Over the past decade, much of this has been through the development of better human resources databases that allow organizations for the first time to connect demographic information with performance data, customer ratings, benefit preferences, safety, and a host of other important information. Mining these data and performing decision analyses is still emerging as a major effectiveness opportunity.

   The use of Internet and intranet technologies for things such as employee surveys, which can now be connected to database information such as performance and potential ratings, has not only reduced process time, but it has enabled organizations to instantly reach colleagues, suppliers, and other stakeholders around the globe.

   There are also exciting new technologies being used to transform talent management and organizational performance. IBM, for example, demonstrated the use of virtual technology to conduct routine and high impact activities around the globe, ranging from job interviews to orientation sessions to focus groups to training. Participants used avatars representing themselves to travel (without lost baggage) through a virtual world, learning and building new relationships with people in faraway places that would be impossible or very expensive in the past.

   Another promising new area of technological applications is the use of networking theory, mapping, and applications. For example, it is now possible to cost effectively map knowledge and social relationships that are critical to getting the work done. This has profound implications for replacing retiring or departing gatekeepers, social influencers, or those who connect groups. Organizations such as Yahoo and Oracle are tapping into social and professional networks such as MySpace or LinkedIn and using Twitter to get quick feedback on how the job interview was perceived by the applicant.

The implications for the talent leader is that many of these techniques will provide more profound information enabling faster, more effective decisions using fewer resources—a competitive advantage for those who can leverage technology the best.

7. *Leadership succession gaps.* In a recent survey of over 500 global C-suite executives conducted by the SHRM Foundation, one of the top stay-awake-at-night issues for senior leaders is finding sufficient leadership talent. This was rated as urgent both today and for the future. Even a quick check with the talent leaders' panel that we interviewed for the book during the market freefall of 2008 surprisingly reaffirmed a continuing concern about succession. In fact, many thought that the recession would force many of their current top leaders to retire, creating a vacuum of ready leadership talent to fill the void. Many organizations are already suffering from a lack of top leadership talent, and this gap will only increase in the upcoming years. Those who mismanage these smaller talent pools will be forced to buy highly priced external talent, with higher failure rates—estimated as high as four out of five hires at senior levels! The heightened level of competition for talent will be a great advantage for free agents, but will prove increasingly cost prohibitive for organizations and their shareholders.
8. *The cost of talent mistakes is growing.* As strategic talent becomes scarcer in many industries and jobs, and as human capital becomes a larger portion of overall corporate assets in many industries, the cost of talent mistakes will increasingly take its toll on the bottom line. Knowledge organizations such as IBM or service businesses such as UPS realize that their profits lie in how well they can manage talent. Organizational managers will need to be more precise in defining their most strategic talent needs and more effective in acquiring them. Today, many recruiting, screening, and selection processes are crude at best. Such imprecision will become inordinately expensive in the coming years. "And talent is not captive," notes Wayne Cascio, a leading researcher and educator with the University of Colorado at Denver and recent chairman of the SHRM Foundation. The quality of onboarding, training, developing, and coaching talent will be crucial to retaining it.
9. *Paucity of human capital measures.* While most management teams know exactly how much equipment, inventory, and space they own, few have good measures of their talent gains and losses. In the average service organization today, 80 to 95 percent of total real assets—those invested in people—never appear on the balance sheet.[5] And when measures do exist for an organization's talent, they are often tactical and rearview metrics that do not adequately capture the value of the workforce. For example, top talent turnover is a lagging indicator in many organizations, which

puts them at a competitive disadvantage compared to organizations that have good leading indicators of talent. Organizations with good predictors of turnover can address critical causes before top talent is out the door.

10. *Low readiness for change.* While some firms are building models to project needed workforce size, few are prepared for the talent gaps (and in some cases gluts) that are around the corner, and fewer still have carefully determined which jobs are strategically critical. Among those who understand and accept the flood of changes that are ahead of them, few have sufficient plans, measures, or processes in place to reach higher ground in time. Huge numbers of employees will soon be displaced, so there is little time to prepare for the inevitable transition.

    A quick look at the auto industry should give pause to anyone contemplating the future. The United States is accumulating hundreds of thousands of displaced autoworkers who are unable to work in new-demand jobs, or are unable to find employment paying comparable wages to the jobs they left. This situation has been driven by several generations of auto industry leaders, union leadership, and workers who expected things to continue as they had in the past. They failed to prepare for a future that was right in front of their eyes.

Use the exercise provided in the Appendix or online at **www.reinventingtalentmanagement.com** for a discussion of these trends and their implications for your organization.

The Perfect Storm

Martha Werthing was a victim of a combination of these factors, in particular trying to force a strategy into diverse cultures without appropriate attention to traditional values, transparency and inclusion, team values, effective human capital measurement, readiness for change, and leadership succession. Bob was flying blind with dealerships encroaching on his traditional turf because he had been assuming that the old rules still applied—blind employer loyalty, ample talent when needed, customers with the same expectations, and traditional performance standards. The mix of these trends creates the ingredients for a perfect storm. This talent tsunami will soon be coming to a company near you. Are you prepared?

With such significant people challenges facing organizational leaders, I was surprised to find few approaches available to help leaders measure—and manage—the overall value and future potential of their workforces. Figure 1.1 provides a sample of what we found in our review of the field—a grab bag of concepts and definitions that were often overlapping, poorly executed, and having no clear framework for integrating them. While concepts like

FIGURE 1.1 Traditional People Metrics

leadership, innovation, or employee satisfaction are clearly important, it is hard for organizational leaders to know when, where, and how to address these to maximize their return on human capital investments.

In contrast, models exist for capturing value for shareholders and the external market. For shareholders, *financial equity* provides a way to look at the overall financial health of the organization, largely determined by capital markets. For customers, concepts such as *customer equity*[6] or *market-perceived value*[7] have been offered as meaningful ways to understand and measure the value of customers to an organization. These customer concepts have been quite effective in capturing the overall value of a strong brand, good products, and positive customer relationships in improving overall shareholder value.

Unfortunately, there has been no parallel concept for the human side of an enterprise. While the concept of *human capital* comes closest, it suffers from lack of common definition, level of analysis, and measurement, which is discussed further in subsequent chapters.

In the search for a parallel human resources value concept, we began by first going back to basics. How do people create value for organizations and their customers? How can we measure the value of that contribution and potential? How can that value be enhanced?

We have studied scores of successful and unsuccessful organizations over the past decade, examined research related to employee value creation, and interviewed hundreds of talent leaders to find answers to these questions.

A Promising New Path

This search identified three overarching factors that when managed well consistently lead to success: *Alignment*, *Capabilities*, and *Engagement* (ACE). While we elaborate on the definitions and power of these three components in

Chapter 2, you might think about Alignment as the extent to which organizationally everyone is synchronously rowing in the same direction. Capabilities include the organization's talent, information, and resources needed to increase customer value. Engagement is the energy, or motivation, of employees to help the organization achieve its objectives. These three factors are directly related[8] to key business outcomes such as employee retention, product and service quality, customer or client loyalty, internal stakeholder satisfaction, and financial performance.[9]

While these three concepts have existed in various forms for many years, they have been mired in multiple definitions and never formally integrated into a framework for understanding the human value creation process and measuring the levels of that contribution. We believe we have taken a step toward accomplishing this and have called this framework *People Equity*.[10]

As a descriptive term, People Equity has several advantages over the term *human capital*. First, investors, board members, and senior executives are conditioned to think in terms of financial and market equity, and more recently, customer equity, as positives that are central to their interests. Capital is too often thought of as a cost or resource to be constrained. Second, in many earlier human capital uses, a disproportionate emphasis was placed on competencies, thereby missing other important elements that compose the overall value of people to the organization and its shareholders.

This book is about stacking the deck in your favor—about growing value both personally and organizationally. It's about making a difference. Both Martha Werthing at GlobalCompute and Bob at Bob's Service Star would have been better positioned by improved understanding of the talent marketplace and the trends we have described and by applying the People Equity framework to their respective organizations.

Our journey begins with how you can use the People Equity framework and principles to optimize people and performance, beginning with understanding the concept of People Equity better—how it relates to organizational success and how you can control it (Chapters 2 and 3). We turn our attention next to how People Equity is measured and used to make critical resource investment decisions (Section II). In Section III, we devote a chapter each to Alignment, Capabilities, and Engagement—the three ingredients to optimizing talent and organizational performance. Section IV is devoted to specific applications of People Equity in the overall talent life cycle: acquiring, acculturating, developing, and retaining the right talent. You will find many case studies and best practice applications throughout the book, as well as practical tools to begin applying these concepts successfully.