Creating Wealth from Talent in the 21st-Century Organization

Mobilizing Minds

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INTRODUCTION: MOBILIZING MIND POWER

Opportunity to Create Wealth from Organizational Design

That's what this book is all about: We believe that all companies can increase their returns from talent and create wealth by designing organizations that fit the 21st century. We believe that companies can consciously design and build organizational interventions that can dramatically improve their ability to mobilize mind power to create high profits per employee. We believe further that these improvements can be derived from the companies' own, unique intangible assets enabling creation of "disproportionate rents" and thereby enormous wealth. We believe this applies not just to poorly managed companies but to well-managed companies too.

The opportunity to create wealth is massive.

If a company with 100,000 employees can make internal organizational design changes that add \$30,000 more profit per employee (about the profit per employee difference from the top 30 and the next 30 in their same industries), for instance, it would add \$3.0 billion in profits. Given that these profits would be what economists call "rents" (that is, additional earnings requiring no additional, marginal investment of capital or labor), at a 10 percent capitalization rate such increased profits would create \$30 billion in new wealth.

If the company could also grow the number of employees earning such high levels of profit per employee by making such organizational design changes, the wealth creation potential would be much higher.

These numbers are not absurd. Remember that the average top-30 company added some $110 billion of market capitalization over the decade between 1994 and 2004 and that the great majority of that growth was new wealth creation, not new share issuance.

The opportunity is to build on each company's unique intangible assets. As David Ricardo famously observed, rents are created by having assets that are better in quality and unique in supply.[3] Today's unique assets are intangibles, which are specific to each company. The lesson to be taken from the impressive performance of the top 30 companies is not to try to imitate them. Companies, like people, have unique talents, organizational capabilities, and intangibles that have arisen from their own particular corporate histories. Trying to imitate a superclass company is like trying to imitate LeBron James's ability to play basketball or Yo-Yo Ma's ability to play the cello. Diversity of intangibles from company to company is good, not bad, for wealth creation. Each company needs to find its own place in the external marketplace by better designing how it operates internally so that it can better mobilize, deploy, and monetize the value from its own unique intangible assets that its talented people produce.

Think how big these opportunities can be. Every large company, even the most labor and capital intensive, has tens of thousands of workers in thinking-intensive jobs, not to mention tens of thousands of workers in other types of jobs who are producing only a fraction of the intangible value they could produce. We believe the target should be to improve profits per employee by 30 to 60 percent or more. As a comparison, the average top-30 company increased profits per employee 70 percent from 1995 to 2004 (from $39,000 to $67,000). The opportunities to improve the performance of workers just from increased *efficiency* alone are huge: Surveys show that a majority of workers in thinking-intensive jobs in large companies feel they waste from half a day to two days out of every workweek on unproductive e-mails, voice-mails, and meetings. For a worker paid $150,000 per year, this translates into wasting from $15,000 to $50,000 of what they are paid per year.

Meanwhile, the opportunities to improve the *effectiveness* of such workers are even larger. The opportunities to mobilize the latent intangible assets (that is, knowledge, skills, relationships, and reputations) of a company's workforce to improve performance are vast. How much business is lost simply because companies can't mobilize the knowledge and relationships within them to provide superior service to customers? How many of the average workers don't leverage the knowledge of the best workers? How many great business ideas are never realized because they never reach the right ears or because they are sunk by corporate politics or because no one has the time or spending capacity to pursue them? How many acquisitions deliver less than expected because the newly formed organization is dysfunctional and can't mobilize the mind power of the resulting merged company?

Organization Design as Corporate Strategy

For any large company, the value of better organizational design is literally in the tens of billions of dollars of increased market value. We believe the opportunity justifies the CEO and the top management team's devoting a large fraction of their total capacity to the internal task of designing and building the needed organizational capabilities. We believe organizational design is the key to unlocking the opportunities of the 21st century.

Relative to nearly any other equivalent investment of time or money a CEO and top management team can make, the potential returns from investing in improving the organization are truly remarkable. But redesigning the organization does not require enormous financial input. It is hard to conceive of how a company of 100,000 employees could spend more than a billion dollars on designing and building the strategic organizational capabilities described in this book. The decision to make such an investment is a no-brainer, especially if the opportunity is to improve profit per employee by $30,000 or more for 100,000 employees and to thereby create tens of billions of dollars of new wealth.

Moreover, unlike the external risks that accompany most strategic initiatives such as unpredictable competitors, the managing risks of organizational change lie largely within the control of the CEO and the top leadership team.

Strategic Imperative

We believe the time has come for corporate leaders to view organizational design as a strategic imperative and a high-return, low-risk opportunity for investment. The classic definition of "strategy" is a plan for actions to be taken with which to gain competitive advantage. Using this definition, we believe corporate leaders need to invest more energy than they have invested in the past in taking actions needed to create the strategic organizational capabilities that will enable their companies to thrive no matter what conditions they meet.

These strategic organizational capabilities will often take years of sustained effort to put in place, but they will pay off in terms of enduring competitive advantage. We believe furthermore that most CEOs will find that they will gain more leverage from focusing on organizational design than they will gain from nearly anything else they can do. Under this theory, you can't control the weather, but you can design a ship and equip it with a crew that can navigate the ocean under all weather conditions.

This is not to say putting a new organizational model in place is easy. Many top leaders are more comfortable making a major acquisition than attempting a major organizational change. The organizational inertia in a large company is often considerable. Organizational design work is hard and time-consuming, and organizational change usually requires dealing with difficult personality issues and corporate politics. Many CEOs would much rather make "big" strategic decisions than make "small" decisions as to where and how to compete or how to resolve internal organizational issues.

Yet, we argue, organizational design is where the money is in the

21st century. Only the corporate leaders can address enterprisewide organizational issues. If they want to create wealth, leaders need to focus their energy and their minds on making their organizations work better.

The Road Forward

So what do we propose?

Most of this book is about the nuts and bolts of designing an organization to capture the opportunities of the 21st century. The first chapter focuses on understanding the complexity facing large companies that are still using an organizing model designed for the 20th century instead of adapting their organizations to the new digital age. The second chapter describes how to think about organizational design within the context of the history of organizational development, and it describes nine ideas to better capture opportunities in the 21st century.

We then devote a chapter to each idea. Which ideas are the most important will vary with the company.

The first ideas are about how to manage better given the requirements of the 21st century. In Chapter 3, we describe opportunities for already well managed companies to remove complexity from their management structures by improving how they use hierarchical authority to drive performance. Specifically, we offer some ideas about how to create a backbone line hierarchy and "frontline field commanders" to improve the ability of managers to mobilize not just labor and capital but also mind power. This set of ideas is most helpful for companies that are finding that their internal complexity is making them hard to manage.

In Chapter 4, we offer ideas about how to move to a "partnership at the top" that combines approaches to one-company governance drawn from best-practice public companies and large private partnerships to create the conditions needed to enable large-scale, enterprisewide collaboration. This set of ideas is most helpful to companies afflicted with thick silo walls, which cause them to have trouble operating as single, integrated firms.

We offer some new ideas in Chapter 5 on how to manage companies dynamically so that they can balance their need to deliver operating earnings with their need to discover, simultaneously, new strategies to create wealth in a rapidly changing world. In particular, we focus on how a portfolio-of-initiatives approach to strategy, using staged gate investment practices, can help companies navigate the confusion, complexity, and uncertainty of today's rapidly changing digital economy to find intangible-based and high-return, low-risk opportunities. These ideas are most helpful for companies that are finding it difficult to grow earnings and to balance short-term versus long-term trade-offs.

We then offer some new ideas in Chapters 6, 7, and 8 for how to enable intangibles to flow better through large companies. As the digital age comes into its own, these ideas, which include formal networks, talent marketplaces, and knowledge marketplaces, are only now becoming possible.

Within companies, formal networks provide the organizational structures to harness the power of the natural communities of mutual interest that have emerged spontaneously in the digital age. A talent marketplace enables managers to "pull" the best talent, given their needs, from large pools of talent, while simultaneously giving that talent a greater choice over assignments to find the job that best fits their skills and development needs. A knowledge marketplace enables companies to motivate knowledge creators and knowledge seekers to exchange knowledge out of mutual self-interest. Each of these approaches enables the removal of unproductive complexity while stimulating the efficient, effective mobilization of mind power. These ideas have relevance to nearly every company, although poorly managed companies will find that before they can pursue them, they first need to address their management challenges.

The final set of ideas is aimed at modifying internal financial performance metrics and the evaluation of individuals in order to change the behaviors of all of a company's professionals and managers. We believe almost all companies are far too focused on producing accounting earnings and accounting returns on capital when they should be focused instead on creating increasing economic returns from intangibles. Furthermore, they rely too heavily on measures of individual accountability and not enough on measures of mutual accountability, thereby promoting dysfunctional behaviors. In Chapters 9 and 10 we will be offering some far-reaching—some would even say radical—ideas that involve fundamentally redesigning a firm's internal financial performance measurement and performance evaluation systems so that they will motivate and drive better, more economic, wealth-creating behaviors.

The last chapter explains how to pursue organizational design as a corporate strategy. It lays out an approach to converting rough-sketch organizational ideas, such as those described in this book, into actual practice without taking excessive risk. This chapter also describes how companies need to put the same energy and focus into designing their own organizations that they have historically devoted to their design of new production processes or new products or to their entry into new markets.