

WHARTON *on* Learning Leadership



VOLUME 1
Creating a Learning Environment



Brought to you by the *Executive Program in Work-Based Learning Leadership*

CREATING A LEARNING ENVIRONMENT

AS COMPANIES GROW, their talent needs to develop with them. But creating an environment that both inspires and educates employees depends on much more than imported training programs and seminars. Instead, human resources executives and other corporate leaders looking to encourage knowledge growth need to communicate the message that learning is essential—whether it comes in the form of mentoring, taking on new responsibilities or roles, maintaining ties with social networks and industry contacts outside the company, or working closely with HR to develop a plan for personal development within the firm. The following articles from *Knowledge@Wharton* address these issues and more.



The University of Pennsylvania has developed the *Executive Program in Work-Based Learning Leadership* to provide a top-tier university program for learning leadership. Please visit our website for more information or to apply: <http://executiveeducation.wharton.upenn.edu/clo.cfm>

CONTENTS

Workplace Loyalties Change, but the Value of Mentoring Doesn't 4

In Homer's poem "The Odyssey," Odysseus left a wise and trusted fellow named Mentor to be the guardian and teacher of his son. Modern employees need mentors, too, especially in these times of upheaval. In fact, mentoring is important for younger workers and for organizations themselves, according to experts at Wharton and elsewhere.



Do Talk to Strangers: Encouraging Performative Ties To Create Competitive Advantage 8

According to research by Sheen S. Levine, a professor at Singapore Management University, what gives firms competitive advantage isn't just their repository of knowledge but their use of "performative ties"—impromptu communications among colleagues in which critical knowledge is transferred. Levine and others explain how performative ties function and how managers can go about encouraging them.

Is Your Goal To Get to the Top? Try Playing "Total Football" 11

When Johan Cruyff led the Dutch team to the runner-up position in the 1974 FIFA World Cup, he used a system called "Total Football," in which he would switch roles while somebody else took his position. To adapt this concept to management, you need employees who have multiple skills and are equally good at playing different roles.

The Social Network Benefit: Losing an Employee Doesn't Have To Mean Losing Knowledge 15

It's often assumed that when employees leave their companies for a new position, their knowledge and experience leave with them. But new research suggests that, at least in the high-tech field, firms can wind up gaining access to the knowledge being generated at their former colleague's new firm.



Is Your HR Department Friend or Foe? It Depends on Who's Asking the Question 18

While some say human resources departments are needlessly bureaucratic and obstructionist, others argue that HR plays a key strategic role, providing direct input on mergers, acquisitions, and restructurings and improving organizational effectiveness. This changing role reflects workplace evolution, the global economy, and evolving expectations on the part of employees and managers.

[CLICK HERE](#) if you are having trouble launching the *Knowledge@Wharton* Audio Player.

WORKPLACE LOYALTIES CHANGE, BUT THE VALUE OF MENTORING DOESN'T

IN HOMER'S GREAT POEM "The Odyssey," Odysseus had a tough time finding his way home to his palace in Ithaca after the Trojan War, what with all those monsters, dangerous whirlpools, Sirens, and Lotus Eaters threatening to derail his journey. But Odysseus at least had the comfort of knowing that he had left a wise and trusted fellow named Mentor to be the guardian and teacher of his son, Telemachus, during his absence.

Modern employees need mentors as much as Telemachus, especially in these times of corporate upheaval. One of the most notable shifts in the workplace in recent years has been the rapid disappearance of the prototypical loyal employee who would work 30 or 40 years for the same corporation and then retire with a gold watch and a pension. Many workers today hold positions at multiple companies during their careers and may feel no particular loyalty to remain at any organization for any great length of time. By the same token, many companies feel no special loyalty to their workers.

Despite this sea of change in corporate culture—and in some instances because of it—mentoring is just as important as it ever has been for younger workers looking to learn the ropes from more experienced employees, according to experts at Wharton and other business schools. Indeed, mentoring may also be more important than ever for organizations themselves, since linking up a mature mentor with a promising protégé is an excellent way to keep valued up-and-comers from jumping ship and taking jobs elsewhere.

Increasingly, management experts view mentoring not just as a one-on-one relationship but as a component of social networking, where protégés, also known as mentees, gain valuable knowledge by interacting with many experienced people. Mentees, for example, often look to more experienced co-workers for career guidance and professional advice and use them as sounding boards for ideas and problem solving. Mentors also help employees learn about, and become acclimated to, an organization's culture and politics.



Yet these days, frequent job changes by younger workers could actually dissuade senior managers from volunteering to be mentors, since they may not wish to spend valuable time with someone who might leave the company before long. Therefore, young workers who want guidance should be more aggressive in seeking to build relationships with mentors than they were in the past, according to these experts.

Peter Cappelli, a Wharton management professor and director of the school's Center for Human Resources, says mentoring has assumed a different guise in recent years in response to the disintegration of the traditional employer-employee contract as a result of downsizing and outsourcing.

"If you go back a generation ago, your immediate supervisor had the responsibility to develop you; the mentor was your boss," says Cappelli. "Bosses knew how to be mentors. They knew what employees needed to do, and they knew how to give employees a chance to accomplish things. Mentors were assessed based on the number of subordinates who got promoted and how the subordinates moved along in their careers."

But the boss-subordinate model of mentoring shifted in the 1980s. "Companies had a surplus of white-collar managers, and reengineering waves in corporations were about getting rid of people," Cappelli notes.

“Companies told mentors, ‘We’re trying to get rid of people, so we can’t promote your mentee.’”

Although bosses continued to play an important role as mentors when they could, the supervisor-subordinate model waned, and companies sought other ways to help workers navigate their way in the workplace. According to Cappelli, “Companies said, ‘What do we do for these folks? Bosses aren’t helping them anymore.’ The idea became to find mentors who weren’t necessarily someone you worked closely with or for. Instead of your supervisor, your mentor became somebody you could bounce ideas off of and get career advice from. It became more low-impact.”

Safe To Let Your Guard Down

Terri A. Scandura, a management professor and dean of the graduate school at the University of Miami, says most Fortune 500 companies see mentoring as an important employee development tool, with 71 percent of them having mentoring programs.

Various academic studies since the 1980s have demonstrated the many benefits of mentoring. “Clearly, employees who have mentors earn more money, are better socialized into the organization, and are more productive,” Scandura says. “They experience less stress and get promoted more rapidly. Because of the positive benefits shown to mentors, companies are still very interested in this process.”

Wharton Management Professor Katherine Klein says what mentees look for in a relationship with a mentor is “having a sounding board and a place where it’s safe to be vulnerable and get career advice. It’s a relationship where one can let one’s guard down, a place where one can get honest feedback, and a place, ideally, where one can get psychological and social support in handling stressful situations.”

For their part, effective mentors are experienced people who should possess knowledge of career paths inside, and even outside, the organization, Klein says. “Mentors also should have an understanding of the organization’s values, culture, and norms so they can pass these along to mentees. The mentor should be sensitive to the mentee’s needs and wishes and enhance the mentee’s career potential, while

simultaneously looking for ways the mentee’s potential can benefit the organization.”

And what do mentors derive from the relationship? “You get the satisfaction of seeing somebody develop. And don’t forget that mentees may be in a position to help the mentor at some point. Mentees may also make the mentor look good. There’s no question that Tiger Woods made his father look good,” says Klein, referring to Earl Woods, who taught the golf champion how to play the game at an early age and served as his coach into adulthood.

Scandura adds that mentors can obtain more than just a glow of satisfaction at having helped someone: They can actually learn a lot about their companies and discover new ideas by engaging with mentees. “Dealing with a person who is your junior improves your network,” she says. “Mentors know more about what goes on in lower levels when they deal with mentees. Junior people can provide information to mentors.... [They] are up on the latest technology and knowledge. So it’s an interactive process: Mentors and protégés become co-learners.”

“Clearly, employees who have mentors earn more money, are better socialized into the organization, and are more productive.”

Mentoring also offers benefits to organizations. For one thing, firms enjoy increased employee engagement and productivity. A positive mentoring relationship can go a long way to helping a firm retain its best employees, thus improving an organization’s “bench strength,” according to Scandura.

If a company wants to implement a successful formal mentoring program, both the mentor and mentee must be genuinely excited about the initiative, adds Jennifer S. Mueller, a Wharton management professor. “It has to be a long-term program with frequent meetings, and the meetings have to be meaningful, not arbitrary. You can’t just meet to talk about ‘stuff’ three times a year.”

Scandura agrees. Companies can set up mentoring any number of ways, but the most effective approach “is where the human resources department—or even

top management—identifies the people who have the experience and knowledge and says, ‘We want them to be the most involved in the mentoring program.’”

Sun Microsystems Study: Higher Retention Rates

In October 2006, Sun Microsystems, a technology company based in Santa Clara, CA, released the results of a study that explored the value of mentoring. The study, conducted by Gartner, a research and advisory firm, and Capital Analytics, a software and services company, used statistical analysis to examine the financial impact of mentoring and how Sun could target its spending in this area. The study concluded that “mentoring has a positive impact on mentors and mentees, producing employees that are more highly valued by the business.”

The researchers looked at data from more than 1,000 Sun employees over a 5-year period, broken down by job classifications, such as administrators and engineers. The study examined 68 variables—including product area, base pay, previous job code, and reason for termination—to find correlations with a half-dozen metrics: employee salary grade, salary grade change, job performance rating, promotion, merit increase in salary, and salary increase due to promotion.

The study found that 25 percent of employees in a test group who took part in the company’s mentoring program had a salary grade change, compared with 5 percent of employees in a control group who did not participate in the program. The research also showed that the program had positive financial benefits for mentors: 28 percent of mentors in the test group had a salary grade change as opposed to just 5 percent in the control group. In addition, the study determined that administrators benefited more from the mentoring program than engineers. “This result was somewhat counterintuitive, since Sun had expected that higher skill positions would benefit most from the program,” the study reported.

The researchers also learned that Sun’s mentoring program was least effective for the highest performers. This was an especially startling result, since most mentoring programs focus on developing high performers with high potential, and led the researchers

to conclude that “the better investment for Sun would be to spend the money on lower performers to help them raise their level of performance.”

Other findings from the study include: Mentors were promoted six times more often than those not in the program; mentees were promoted five times more often than those not in the program; and retention rates were much higher for mentees (72 percent) and mentors (69 percent) than for employees who did not participate in the mentoring program (49 percent).

Men Mentoring Men

Formal mentoring programs are only one way for young workers to increase their knowledge. Informal mentoring relationships are often more typical and more beneficial to both mentor and protégé, according to Klein. “Mentoring often happens informally,” she says. “It happens most commonly when somebody senior starts giving advice and starts playing the role of a sounding board. When I go to somebody and say, ‘I’m considering taking that job, what do you think?’—that can be the beginning of a mentoring relationship.”

Formal corporate mentoring programs are worthwhile, but they can founder if the mentor and protégé do not hit it off. “A formal mentoring program is like a blind date set up by somebody who ostensibly knows both people, but it might not be a good match,” Klein notes. “And if a formal mentoring program simply tells the mentor to initiate an hour-long conversation with the protégé about his or her career every quarter, it’s not going to be terribly meaningful. But it can be meaningful if it sets a relationship in motion. I don’t think there’s anything necessarily wrong with formal programs. But in some cases, it might be more productive for a company to simply say to managers that it’s important for them to play a development role for junior people and ask the managers to reach out to them.”

It is particularly important for senior management to encourage mentors to offer help to women and minorities, according to Klein. “Companies should be mindful of the fact that it may be difficult for women and minorities to find mentors. Senior management should tell all managers to ‘step out of your comfort zones and provide support and advice for a broad

section of employees.’ Statements like that, backed up by the most senior people, can make a big difference.”

Klein says it is particularly important for protégés to be proactive in trying to establish a relationship with a senior person and be energetic in keeping the relationship going. She uses the phrase “irresistible protégé” to describe these employees.

“Research shows that protégés influence the amount of mentoring they receive,” according to Klein. “You’re more likely to get mentored if you’re talented, have an outgoing personality, and are career- and goal-oriented. Once a mentor sees that you’re eager, the more likely it is the mentor will want to spend the time and social capital on you, introduce you to the right people, and so on. One unfortunate consequence of this is that sometimes people who are most in need of guidance don’t have mentors, which means companies must make a special effort to reach out to the people who really need mentors.”

Klein points to one study, for instance, that showed it is easier for young men to get mentored by senior men than it is for young women to get mentored by senior men. Since men continue to hold most of the senior positions in organizations, it can be difficult for young women to get mentored. There is nothing necessarily nefarious about this tendency, says Klein, adding, “Each of us tends to attract people like us.” But organizations do need to tackle this issue.

Young people may also wish to be assertive in trying to establish a mentoring relationship because they may not stay with the same organization for more than a few years. Failing to find a mentor might result in the younger person missing out on career-advancement opportunities at their current firm or making bad choices by moving to another firm or changing careers, says Klein. But management scholars do not yet know a lot about how this change in the workplace is affecting the mentor-mentee relationship.

“If the employment contract is shorter and looser than before, if people do not stay in organizations for decades like they once did, what does that mean for people who need mentors?” Klein asks. “If you find a mentor in Company A and you move to Company B

and the mentor moves to Company C, can you still get mentored by this person? Or are people having to rebuild mentoring relationships with greater frequency because everybody is moving around more than before? We don’t know the answers to those questions yet.”

But Wharton’s Mueller suggests that even if a mentee leaves a corporation after 4 or 5 years, the corporation may still reap long-term benefits from having mentored that young person. “The organization can benefit when an employee leaves if the person rises in prominence,” Mueller says. “That person can generate alliances. If the person moves to a company that is not in direct competition with you, he or she may stay in touch with people at your company and exchange valuable information.”

In the end, some employees may find that the best mentors are their managers—whether they call them mentors or not.

“In my years of observation of people in organizations and their development, I find no method more powerful for the development of management skills than, simply, working for top-notch managers,” says David Sirota, co-author of *The Enthusiastic Employee: How Companies Profit by Giving Workers What They Want*. “By ‘top-notch’ I mean both that they know how to manage—and are therefore good role models—and that they have a strong interest in their subordinates’ development so that they take the time and provide the challenging job assignments that facilitate this development.

“This is not to say that mentoring programs, formal management development, and job rotation are not important. They help. But a caring managerial role model has, in my observation, by far the biggest impact. Companies, then, in planning for the development of employees who they feel have high potential should be certain to provide them with that kind of experience.”

Full text of this article is also available in audio format at <http://knowledge.wharton.upenn.edu>.

DO TALK TO STRANGERS: ENCOURAGING PERFORMATIVE TIES TO CREATE COMPETITIVE ADVANTAGE

IMAGINE THE FOLLOWING SITUATION:

You are a consultant who has just been assigned to a new project at your firm, and your first major presentation is in a week. Unfortunately, your client's problem isn't something you have any expertise in. You know for sure that others at your firm have dealt with this kind of situation before—in the same industry, even—but it would take hours to sift through the worldwide knowledge database to find those cases. Besides, you would emerge from that research with only a brief, names-and-numbers-expunged summary of the cases, not the real lowdown you need. What do you do?

Chances are, according to research by Sheen S. Levine, a Singapore Management University professor who recently received his PhD from Wharton, you would pick up the phone and make a call. In a recent study, Levine has found that often, what gives firms competitive advantage isn't just their repository of sheer knowledge but their use and encouragement of so-called “performative ties”—those impromptu communications made by colleagues who are strangers in which critical knowledge is transferred with no expectation of a quid pro quo. “Not many managers even understand that this happens, much less why,” says Levine. “They think it's just friends helping friends. But it's not. Usually, people will reach out and connect with colleagues whom they have never met or talked to before. It's not dependent on prior or future favors.”

While many companies have the potential to realize competitive advantage by creating and transferring knowledge more efficiently across employees, few know how to do it successfully, Levine notes. “The idea of knowledge as a source for competitive advantage is relatively young, and there's not much research that looks at how knowledge flows within firms. So professional services firms seemed a good place to start. They have no retail locations. They rent generic office space and have computers. In other words, there are no assets other than knowledge to explain their success. Plus, they can charge a premium that can't be explained simply by the accomplishments of their staff; most have a generic business degree, not several decades of industry experience. Even partners haven't usually spent more than a decade there.”

What they do well, says Levine, is move knowledge around effectively, taking the company's entire accumulated know-how and gathering it quickly to a single point to create a solution for a client. “The question was, how do they manage to do that? It can't be easily documented in manuals, because valuable knowledge is tacit and customized to each client's needs,” says Levine. Moreover, he notes, in a large firm, there is no way someone can know everyone else who works there. “Even the most social person can't know every employee personally, especially because many of these firms are large and global and have turnover rates of more than 25 percent a year. Plus, each team commits to a level of client confidentiality, so they can't divulge extremely specific details about a case.”

In spite of all that, Levine observes, some firms are very good at sharing knowledge. “The data suggest that yes, people do turn to their immediate officemates for advice, but the major indicator of a firm's knowledge transfer ability is whether its employees routinely call upon distant colleagues—people unknown to them—for information, after a wide search. Those are performative ties,” he explains.

Often, employees conduct a wide search, looking for colleagues or even firm alumni who may be of help on the case in question, says Levine, whose study on the subject is called “The Strength of Performative Ties.” “Although these people are likely to be complete strangers, when they share knowledge, it's done in an intimate transfer as though the parties involved were actually close friends. There's no negotiation, no explicit reciprocity, no quid pro quo on an individual basis. It's more the idea that ‘I'll help you today because I expect that if I needed help someday, someone else would help me.’”

In fact, says Levine, people have difficulty believing that this kind of arrangement works. “Similar ties have been documented, mostly in primitive societies or clans, not among the thousands of people in a modern-day firm. It's not a case of transfer pricing, and it's not a case of direct favor exchange—the person giving the information is often unlikely to ever need help from the

beneficiary, as when a senior person helps a junior one, or an expert advises a layman.”

Performative Ties in Action

Exactly how are performative ties put to use in daily practice? Bob Armacost, director of knowledge management at Bain & Company, says that knowledge management at his firm has various components. “There’s the codified component—information on industry verticals, analytic tools, and functional capabilities—which we invest heavily in. But the more important part is tacit. It’s about putting people in touch with others in a flexible way.”

“We place a strong emphasis on teams. It’s written into our mission statement. We believe that teams create more value than individuals working alone.”

Doing that is critical, Armacost notes. “Clients demand a consistent global product and approach, especially as many multinational companies engage Bain staff in multiple countries simultaneously. Consultants also tend to be generalists, yet the client expects us to be experienced in their industry and issues.”

From a systems standpoint, he adds, “on every project we expect teams to write a one-page summary of the case background, key questions, reason for hiring Bain, the approach, the tools used, and the results achieved. It’s then sanitized for anonymity and loaded into our Global Experience Center.” That system is linked back to Bain’s finance and human resources systems, so there is data on the hours billed, workstream, and start and end dates. “We also have a search engine linked to it, so employees can search on any topical dimension, read the summaries of cases, and then make contact with people.”

In addition, Armacost says, Bain has developed a set of robust industry and functional practice areas, so partners are expected to affiliate themselves with one or more of them. “That creates a knowledge-sharing network among partners doing work in the same topical space. It’s a set of peers they can reach out to.”

On a firmwide level, Armacost adds, Bain has imbued its culture with reinforcers. “We place a strong emphasis

on teams. It’s written into our mission statement. We believe that teams create more value than individuals working alone. An assessment of how well people help other team members out is tied into our performance reviews and our compensation processes. A Baineer never lets another Baineer fail.”

The physical office environment is another reinforcer, says Armacost. “When we assign people to desks, they start out in an open-bay environment with 10 other people. It’s designed to facilitate sharing and learning. There’s usually a mix of tenure in each bay, so people interact with both the case unit team they are staffed with plus those who sit near them.”

Most people who don’t succeed at Bain, says Armacost, aren’t lacking in intellectual horsepower. “Usually it’s a matter of team issues. They were not as helpful or willing to share as others.”

At The Boston Consulting Group, employees demonstrate similar behavior, says project leader Nikhil Bhojwani. Tapping the expertise of consultants in different countries or industries is invaluable. “Suppose you are looking at the pricing of steel. You may contact people who have worked on pricing for airlines or theater tickets, because it may spark an idea that has relevance,” says Bhojwani. “A strong connection exists throughout the firm regardless of geography. We often hold events worldwide that foster such connections. Even without a direct connection to someone, however, I feel comfortable picking up the phone and calling pretty senior people. Everyone responds with the utmost enthusiasm.”

According to Bhojwani, having a database of knowledge is equally important. “Before someone called, I’d expect him or her to have already read what’s in the knowledge base,” he says. “In fact, the presence of the knowledge system may help enable performative ties because the basic stuff is already there. You won’t waste people’s time.”

Make It Happen

Given that such performative ties are helpful to a firm’s competitive advantage, how can managers go about encouraging them? While it’s easy to say “Hire only socially outgoing altruists,” it’s obviously impractical in the real world. Fortunately, says Levine, performative ties aren’t so dependent upon the actual employees’ personalities. “There are certain structural conditions that

increase the probability of performative ties occurring. If people are embedded in multiple networks in the office, that makes them more likely to engage in performative ties.” For instance, they may be members of an engagement team, but they may sit with other colleagues with whom they don’t work. “That puts an employee in two social circles right from the start, so he or she can receive requests from many more people. The person knows the people who are with him at the lunch table, those he sits with, and those he works with.”

Another way of encouraging these interactions is to implement multiple-office training sessions. “Employees would meet people they’re unlikely to work with, but it adds social information about people to turn to for help, if the need arises,” says Levine.

Larry Prusak, a former IBM executive who is now scholar in residence at Babson College, notes that some firms are consciously enforcing cooperative social norms. “Firms that encouraged opportunistic behavior and that thought performative ties were just ‘soft stuff’ have not done well,” he says, adding that companies can encourage cooperative behavior in two ways. “First, signals and symbols are important. If a firm promotes people who are uncooperative and self-serving, that’s a sign. Firms that get it reward people differently. BP, for instance, celebrated the ‘Best Stolen Idea.’ At GE, Jack Welch would ask, ‘Who else have you shown this idea to?’”

The second part of it is enforceability, says Prusak. “When Lou Gerstner took over at IBM, there were instances where people refused to share data. Gerstner stepped in and did something about it. Firms that truly care about this enforce good behavior in that way. They don’t hire one-off players. It’s demonstrated in what the firm talks about and who gets promoted.” Prusak notes that similar patterns can be found not just in corporate environments but also in nations, like South Korea and Taiwan, whose success may be partially due to the lack of clannishness in their societies. “Firms with ‘star cultures’—where there is one big person and everyone eats from that table—tend not to exhibit this behavior as much. Process-oriented firms, on the other hand, tend to do it more,” he adds.

Bob Wolf, manager in the Boston Consulting Group’s Boston office, agrees that the way the manager or leader of a firm articulates the example matters a great deal.

“Consultants aren’t all extremely extroverted. They probably have run-of-the-mill social skills,” he says. “But a good manager spreads the accolades for engaging in this kind of behavior. That doesn’t, however, mean it is directly monetized. After all, two people can both be congratulated for making a dollar for the company, but they can’t both be given that dollar.”

Wolf cites the open source software movement, and the willingness of its members to jump in and fix a software bug no matter where in the world it was initially found, as an example of the pervasiveness of performative ties. “They are doing this simply for the community’s reputation, not for any individual reward or return favor.”

Challenge for the Future

Levine acknowledges that implementing an environment that encourages performative ties isn’t necessarily easy. “It’s not always free or even cheap to achieve. Flying junior consultants around to meet one another, after all, can get expensive. But it increases the possibility that a colleague who’s a stranger will respond to a request. It’s very likely the two people might know someone in common because of all these social-circle interactions.”

One of the boundary conditions of performative ties, says Levine, is that they seem not to work as well across status differences. “People are more comfortable contacting others they consider peers, so if they are intentionally arranged without regard to hierarchical position, it might be uncomfortable or inconvenient.” The obvious way to get around this is to suppress status differences by eschewing markers such as titles. “Performative ties are more likely when people let go of status symbols such as the coveted corner office. Senior employees could be mixed in with others. Everyone can have the same-size office,” says Levine.

Of course, these tradeoffs are associated with potentially large benefits to the firm—competitive advantages, increased capability to come up with quick solutions to problems, and a general connectivity among all the firm’s potentially far-flung employees. If knowledge is central to a firm’s operations, it seems fitting that every effort be undertaken to make that knowledge as readily available to all its workers as possible. Which firms end up doing this best is a topic for future study.

IS YOUR GOAL TO GET TO THE TOP? TRY PLAYING “TOTAL FOOTBALL”

WHEN JOHAN CRUYFF led the Dutch team to the runner-up position in the 1974 FIFA World Cup, he was often found in unexpected places. Officially, he played center forward, but in the middle of a game he would suddenly switch roles. He would move to the defense while somebody else took his position. It was a system called Total Football, which required the whole team to have multiple skills. Succeeding at Total Football calls for versatility that is rarely available to most teams, but Cruyff was in a class by himself. In the 1974 World Cup, he was voted player of the tournament.

To adapt this concept to management, you need executives who are equally good at playing different roles. Otherwise, you end up trying to force a lot of square pegs into round holes. That may be one reason why the Total Football style of Management (TFM) has not become mandatory reading at business schools.

Some organizations swear by it, though. An example is Mumbai-based fast-moving consumer goods (FMCG) company Marico, which had sales of Rs 1,144 crore (\$259 million) in 2005–2006. Marico makes products for hair care (pre-and post-wash items such as oils and creams), health care (edible oils and some categories of foods), and skin care (clinics and bathing soap).

In a restructuring announced in February, Chief Financial Officer Milind Sarwate took over as the head of human resources and strategy. Vinod Kamath, who earlier headed supply chain and information technology, was named CFO. The head of HR, whom Sarwate replaces, left the organization to start his own consulting firm.

Such reshuffles are hardly unusual at Marico. According to Kamath, “In my 14 years at Marico, I have been the head of contract manufacturing; I have set up a greenfield project in Goa; I have run the same plant after commissioning; I have been head of SAP implementation, and in charge of commodity buying and commercial operations.” Noting that he is not an exception, Kamath points to Rakesh Pandey, CEO of Kaya Skin Care,



Marico’s international chain of skin care clinics. Before Pandey got his job at Kaya, he was HR chief at Marico. “There are synergies in the two assignments,” says Pandey. “Both involve dealing with people.”

“Like Total Football, Total Management at Marico stresses teamwork, flexibility, and empowerment as the basis for winning business strategies,” says Marico Chairman and Managing Director Harsh Mariwala. “Also, when everyone from the team can play in more than one position, the leader can focus on being a visionary and a coach, cheering and whistling all the way, as they say, with one eye on the scoreboard.” Mariwala is a hands-off CEO, so he says the TFM system works well for him.

TFM seems to be working well for Marico, too. The company has transformed itself from a commodity player into an FMCG company. The 5-year compounded annual growth rate in revenues is 13 percent and profits 15 percent. According to research house Batlivala & Karani, Marico will grow much faster than other FMCG companies, such as Hindustan Unilever and Colgate. Its stock price has been performing much better than the Bombay Stock Exchange FMCG index.

Universal Application

The key question is, can TFM work for others? Is it a model that can be applied to a range of companies? Observers point to other examples, though no company has tried TFM on the scale that Marico has.

S. Ramnarayan, a professor of organizational behavior at the Hyderabad-based Indian School of Business (ISB), says, “I am familiar with changes at (pharma company) Dr.Reddy’s in Hyderabad. The HR chief there has taken over as CFO. They believe in moving people around.” The former CFO has moved to Europe to head operations there; Dr.Reddy’s has recently taken over German company Betapharm.

K. Ramachandran, a professor of family business and wealth management at ISB, points to the South India-based Murugappa Group, a family-owned conglomerate with \$1.2 billion in annual revenues, where there have also been changes at the top. And everybody mentions T.V. Mohandas Pai, former CFO of IT giant Infosys, who has now become head of HR.

HR seems a favorite destination for several senior executives. The reason could be that an acute shortage of talent haunts India today. Even top companies in sectors such as IT are facing 20-percent-plus attrition rates. Earlier, HR was not given sufficient importance; there is also a shortage of HR practitioners. Moving company stalwarts into the HR function at least signals to employees that this is an area of concern. “Human capital is becoming increasingly important in the Indian economy,” says Sarwate.

The Marico Experience

To some extent, TFM in many companies is neither implemented across-the-board nor actively planned. It’s different at Marico. “Great leadership is honed only through testing in diverse situations, across diverse businesses and functions,” says Sarwate. “Marico therefore promotes ‘spiral’ growth—growth through varied exposure across the wider group—as opposed to linear growth in the same business or function. Overall, the HR processes at Marico and the openness and empowerment promote an ambience that builds people for a shift from one function to another.

“Marico has always valued institutional or organizational roles being played by people at all levels. In fact, the Personal Development Plan process we follow provides for recording organizational or institutional roles played by a member. This has ensured that there is enough cross-functional thinking right from the time a person joins Marico, even at junior levels. At senior levels, the cross-functional mindset is a given simply because Marico works with a strong emphasis on team management as opposed to dazzling leadership at the individual level. Thus, we have a theme of cross-functionality running through members at all levels.”

Sarwate believes the cross-functionality results in people being empathetic towards issues in other functions. It also helps in developing a first-hand understanding of other functions. “From this emerges the possibility of some of the members, with a passion for another function, developing greater insights and aptitude for that function,” he says. “Thus, in my case, my individual passion for HR had already pushed me to get involved with HR issues more than what the typical CFO would be.”

Is TFM just a fancy buzzword for humble job rotation? The latter is what happens at junior levels; in several companies, a trainee engineer, for instance, has to spend a couple of weeks in each department. This is an orientation program of sorts, a stepping stone on the road to higher job titles. TFM true believers argue that it should not be confused with a situation where function heads are switched.

Building Leadership

Job rotation happens frequently in India, particularly among the newer companies. At LG Electronics India, a subsidiary of the Korean electronics giant, more than 1,000 employees have been switched around in recent years. It’s a feature at McDonald’s too. Among Indian companies, there are several examples, such as Asian Paints, one of the world’s top paint companies with revenues of more than \$600 million, and infotech firms, including Tata Consultancy Services and Infosys.

Supporters say that one of the key purposes of TFM is to identify and build well-rounded leaders. “One of

the reasons for moving people around is to encourage the growth and development of high potentials for general management positions,” says Pradeep Mukherjee, CEO of Mumbai-based HR consultancy Potential Unlimited. Mukherjee was until recently country human resources director of Citigroup India. “Executives also acquire a different thought process in managing and driving a function—typically when the function needs a different perspective given the strategic plans of the organization.”

“At the general manager level, people are not expected to be functionally loyal to any discipline,” says ISB’s Ramachandran. “They have a coordination role. They are loyal to the organization and its strategies.”

According to Ramnarayan, “We may look at organizational leadership as consisting of managing customer-facing process, supply chain process, innovation process, and people process. A person should have been exposed to two or three of these streams to become a good hands-on CEO. If the person has only been exposed to a single function, it would not be good preparation for assuming the business head or CEO position. It is important to break loyalty to the function. You start off by being in charge of one function. If you are good, you move to another.”

“Your loyalty shifts from a function to the organization. This is healthy,” says Ramachandran, returning to his example of the Murugappa Group. “Before the recent changes took place, the family members were in charge of certain companies. They were silo heads; they became champions of their silos. What (former chairman) M.V. Subbiah did was to remove the silo-head mentality and make the family members head of strategy, technology, marketing, etc.”

Problem Areas

Like every modern mantra, TFM has its pitfalls. “You may not have the inherent experience of the function per se,” says Mukherjee. There is a solution to that. “You must make sure you have strong functional people below the function head to take care of this.”

The more important issue, says Mukherjee, is that the process has to be managed carefully and the person appointed has to have strong credibility. If wrongly

handled, other employees in that function may feel that their group is not valued enough and may even leave the organization. “One thing you must remember is that if you are going to move people around, you must be very clear that the employees know what you are doing and why,” adds Ramachandran. “Communication across the organization is very important. Otherwise, some people may feel they are being shunted out, moved from a very attractive to a less attractive role. It must be clear that this is not a reward or a punishment.”

“Such movements should be done after careful thought,” says Ramnarayan. “Each function has its specialist requirements, and the person should be willing to invest time, energy, and effort to acquire the needed expertise both in terms of specialist and generalist requirements.

“Besides, there are some people who are specialists at heart. There was an individual who moved from being the CEO of a small company to becoming CFO of a larger company. People who knew him felt that he made a much better CFO than a CEO. For being an effective CEO, an individual needs more of certain other attributes—networking, communicating and convincing abilities, ability to handle pressure, and so on. Individuals who demonstrate these abilities should be identified for future business leadership roles. For them, well-thought-out exposure to other functions is very useful. It should be started from the early stages of their career. For others who excel in specialist roles, rotation might be restricted to related functions and may be more oriented to sharpening the edges and building a broader understanding of the function.”

Not for Everyone

So isn’t TFM asking for more trouble than it is worth? Some companies certainly think so. Shanghai-based Milind Yedkar, who has been handling direct marketing for Dell’s enterprise products in China and Hong Kong in recent years, says, “During a campus interview, I had asked a company to help rotate me through marketing, sales, and operations in my first 10 years on the job. The recruiters were shocked and rejected me.”

Much later, he did the “rotation” on his own. “I had been enjoying a reasonably successful career in supply chain management at Procter & Gamble (P&G) in India and Japan,” he recounts. “After a 16-year business career, I made an abrupt change to marketing and surprised everybody by starting afresh as a marketing associate for an important brand in P&G Japan. I competed with new hires as a marketing intern. I gave up my office cabin and secretarial support and reported to folks who were several years younger than me. It was stressful for both and the topic of much curiosity around the company. Starting out as an intern helped make me stronger as a marketer. I now know the nuts and bolts of the profession. I also brought a new perspective to the organization as a marketer with a strong operations background.”

“Total Football Management keeps each of us learning versus growing only in execution skills.”

Yedkar believes TFM is an excellent concept for an organization as it builds strong capabilities on the leadership bench. It also brings alternate viewpoints to the function and hence can spur innovation. For the individual, it is a growth experience. “It keeps each of us learning versus growing only in execution skills,” he says. “The downsides, of course, are the turmoil if too many people expect to be moved around too fast. Also, there is the risk that you may get ‘shallow’ managers who lack depth in any one function.”

But, at a senior level in any respectable organization, you should not be getting shallow managers. “These moves may not be as difficult as they may seem,” says Ramachandran. “A senior executive already has a great deal of insight into, say, HR or marketing. He serves on various executive committees. He has some insights and exposure. Of course, moves like HR to technology are not easy. But companies have training programs. Overall, such changes are beneficial to the organization. They bring in a breath of fresh air.”

Sarwate agrees that training programs are helpful. “We plan to support the new incumbent with extra domain expertise through external coaching as required,” he

says. “We make sure that, while moving people from one function to another, we do not shortchange the recipient function. We are conscious of the dangers.”

Despite its risks, TFM may be becoming management’s flavor du jour in India. *Chief Executive* magazine’s recently published eighth annual Route to the Top survey, compiled with executive search firm Spencer Stuart, shows that “more and more of the people now running S&P 500 companies have worn a colorful collection of hats over the course of their careers. They jump between functions, companies, and global locations. They seed startups and mastermind mergers. Even the ‘lifers’ who spend decades at one organization are likely to have held half-a-dozen different jobs within it. Over the past 5 years, the percentage of CEOs running the largest 100 companies in the U.S. who have been in one function throughout their careers has fallen from 25 percent to 9 percent.”

“Business ambience can be expected to get only more complex,” says Marico’s Mariwala. “As it continuously evolves, the kaleidoscopic complexity can be dealt with only through a constantly evolving management team.” And with any luck, such teams, like World Cup football players, will know how to score some goals.

THE SOCIAL NETWORK BENEFIT: LOSING AN EMPLOYEE DOESN'T HAVE TO MEAN LOSING KNOWLEDGE

IT'S ALWAYS BEEN ASSUMED that one company's loss is another's gain when an employee jumps ship. Just think of the knowledge, experience, and connections that go out the door along with a person's boxes and office belongings.

But now a new study suggests that losing an employee, at least in a high-tech field, is not necessarily as bad as it seems. "Firms can wind up learning when employees leave their firm, which is contrary to the conventional wisdom—that firms learn by hiring away employees," says Wharton Management Professor Lori Rosenkopf. She and Wharton doctoral student Rafael A. Corredoira present their conclusions in a paper entitled "Learning From Those Who Left: The Reverse Transfer of Knowledge Through Mobility Ties."

The two researchers came up with their silver-lining finding by studying the effects of "outbound mobility" on semiconductor firms in the United States and abroad. By analyzing patent citations, they were able to show that companies can benefit from a reverse flow of knowledge that results when an engineer or other technical expert moves on. Why? Because, according to Rosenkopf, there are social networks that transcend companies and allow the employees left behind to gain access to the knowledge being generated at their colleague's new place of business. She is not talking about corporate spying, but rather the flow of ideas and information among professionals who work in the same field. Their findings, she concludes, "call into question the conventional wisdom that losing employees means losing knowledge."

Other studies have looked at the opposite phenomenon—"inbound mobility"—documenting the transfer of knowledge that comes with hiring.

When people are viewed strictly as "human capital," the departure of an employee results in the former employer's loss of that person's intellect and talent and the corresponding gain of those same valuable

attributes for the company doing the hiring. "The belief has been that if you lose an employee, that's a bad thing for you," Rosenkopf says. Even common lingo—that a company is losing a worker to another firm—implies that there is nothing good that could possibly result.

But Rosenkopf says the picture is different when employees are viewed in terms of "social capital." Workers aren't just silos of knowledge and skill unto themselves, but rather are part of social networks of workers from various firms who talk about what's going on in their field. Those networks may involve formal arrangements, such as strategic alliances, but they may also be informal, involving professional conferences, e-mail exchanges, common blog sites, or even after-hour socializing.

"The social capital approach would predict that the firm losing an employee would gain access to the new employer's knowledge, while the human capital approach would not," the researchers suggest in their paper.

Six Degrees of Separation

The concept of social networks is not a new one, but it's getting more attention these days, both in the business world and in everyday life. ABC's much-anticipated new drama, "Six Degrees," is based on the popular notion that anyone, anywhere on the planet can be connected to another person by way of a chain of six people. It's an intriguing thought, though not a proven one.

In business, networks have long factored into who is picked for a board of directors, Rosenkopf says. Board members aren't necessarily selected for what they know about a particular industry or organization, but rather because they are seen as influential and well connected. In other words, whom you know does matter. On a lower level, inner-office networks play a role in how information flows around a company. The corporate organization chart only tells so much. Who

chats with whom around the office—and who people go to for advice—also matter.

The value of networks is also well recognized in medicine and science, with researchers routinely reporting their research results and clinical experiences at conferences and in journals. The open sharing of knowledge is considered part of the scientific process.

The technological world may be different. According to Rosenkopf's paper, some previous research has drawn a distinction between the transfer of knowledge that takes place in science and the knowledge flow in high-tech industries. Some researchers believe that there isn't much exchange of ideas and information among tech companies because they compete with one another and want to make money. Rosenkopf, however, has looked at the cellular industry and found that informal networks, such as engineers taking part in professional and trade associations, lead to the formation of strategic alliances.

“When an employee leaves one firm for another, his/her colleagues remaining at the prior employer can become more aware of the new employer as a site where knowledge worth knowing is being produced.”

For this paper, she focused on 154 semiconductor firms in 23 regions in the United States, including Silicon Valley, and 11 foreign countries, including Japan and India. The semiconductor industry is interesting to study, Rosenkopf notes, because “it is an industry where intellectual property is really important.” The widespread use of patents in the industry provided a good way to gauge the flow of knowledge among companies due to workers moving around.

She and her co-author examined patent records for 1980 through 1995 to see which firms and which specific employees were cited. They looked at approximately 42,000 patents. “Patent citations are records that allow us to track when a firm draws on other firms' knowledge stock—as per our definition, a case of knowledge transfer,” they write.

While they couldn't say specifically when a worker moved from one firm to another, they were able to gauge employee mobility by patent dates. They also looked at factors such as strategic alliances and worker mobility by geographic region.

Contrary to the view that companies lose something when a worker leaves, the study found that they stood to gain. Specifically, firms that lost an employee to another firm were 8 percent more likely to cite that firm than other equivalent firms, Rosenkopf says. The reverse flow of knowledge was particularly pronounced when the employee moved to another region. Then the old firm was 22 percent more likely to cite the new firm. The outbound mobility effect held even when the researchers controlled for other factors that could influence patent citations, such as hiring, alliances, and technological similarities between firms. “The effect of outbound mobility is actually stronger when the mobility occurs across regions,” the researchers conclude.

The findings suggest that within a region, especially places such as Silicon Valley where there are many semiconductor firms, there may already be mechanisms in place for the sharing of knowledge. That would mean the effect of a worker moving to another firm would not be as pronounced.

The research paper looks at various reasons why knowledge flows back when a worker leaves. For one, new communication channels may be established between the old firm and the new firm—in other words, a worker keeps talking to his former colleagues and friends. The departure of a worker may also cause a company to take a closer look at what's going on elsewhere.

“When an employee leaves one firm for another, his/her colleagues remaining at the prior employer can become more aware of the new employer as a site where knowledge worth knowing is being produced,” the authors write. “By having one of their own going to that firm, work in the receiving firm gains credibility and saliency. The firm receiving the employee thus becomes more highly monitored for innovation opportunities.”

The researchers used patent citations to sort out the payoff from outbound mobility compared to inbound mobility, or hiring. “An interesting puzzle in our results is that the effect of outbound mobility seems to be more robust; and although not significantly different, it is in general slightly larger than that of hiring,” they reported.

The researchers looked at the effects of outbound mobility strictly in terms of patent citations, not financial effects, and it looked only at a high-tech business. In other businesses such as law or consulting, high-paying clients may go out the door with the worker. “While we suggest that the firm losing the employee increases the utilization of the body of knowledge of the firm receiving the employee, our study is not designed to address the economic implications of this activity,” the authors write.

They also suggest that the findings shouldn’t be seen as promoting the departure of workers. Still, “there are ways for the firm experiencing outbound mobility to obtain benefits from these events,” the researchers said. Finally, Rosenkopf notes, firms need to keep things positive when a worker leaves. “Companies should be looking for making that parting as amicable as possible, to cultivate those ties as much as possible.”

The going-away party—at least at high-tech firms—is about much more than sheet cake.

Full text of this article is also available in audio format at <http://knowledge.wharton.upenn.edu>.

IS YOUR HR DEPARTMENT FRIEND OR FOE? IT DEPENDS ON WHO'S ASKING THE QUESTION

TALK TO HUMAN RESOURCES professionals, consultants, and scholars who study the workplace, and you will find two different views of HR.

According to its critics, HR departments can be needlessly bureaucratic, obstructionist, stuck in the “comfort zone” of filling out forms and explaining company benefits, and too closely aligned with the interests of management yet lacking the business knowledge to be effective strategic partners. Dealing with these types of HR departments “is like going to the dentist,” says David Sirota, author of *The Enthusiastic Employee: How Companies Profit by Giving Workers What They Want* (Wharton School Publishing). When people are asked to rate the quality of different functions within their company, he adds, “IT and HR are repeatedly rated the lowest.”

The more positive view of HR is that it works directly with senior management, providing crucial input into major business transactions such as mergers and acquisitions and restructurings. In this scenario, HR departments have moved away from the traditional role of administrators—many of those responsibilities are now outsourced—to a more creative focus on their prime role, which includes recruiting talent, promoting mobility and career development, and improving organizational effectiveness. “I would not choose HR as a career if we couldn’t be a strategic partner with the business,” says Kathy Gubanich, managing director of HR at The Vanguard Group. “HR is fortunate to report to the CEO of Vanguard.... If we didn’t, it would mean HR’s priorities are being set differently.”

Peter Cappelli, director of Wharton’s Center for Human Resources, recently led a discussion at the Center focused on the question “What is the role of HR now?” From the 1920s on, Cappelli says, HR was seen as a way to advocate for, and protect, employees—an orientation that became “quite explicit in the 1950s and beyond as part of an effort by management to prevent unionization.” But more recently, and especially over the past decade, the threat of unionization is much less widespread even as



technological advances have made employees more expendable. The “social contract” between employee and employer—in which companies provided lifetime employment to its workers in return for loyalty and commitment to company goals—has ended.

These days, employees are afraid to quit because of the tight labor market and reluctant to complain about increased work loads for fear of being laid off, says Cappelli. “Companies are pushing more and more work onto employees, and HR departments are becoming the mechanism for doing that. As a result, the idea that HR people are there to represent workers—or at least deal objectively with their concerns—is pretty much gone.” In addition, with companies continuing to cut back employee benefits such as health care and pensions, HR departments have found themselves “increasingly the bearer of bad news to employees.”

Strategy-Driven HR: Reality or Goal?

If you look at the history of HR, says James Walker, a consultant on strategic human resources based in La Jolla, CA, trends in HR—such as outsourcing, the establishment of call centers and service centers, and the integration of work-life balance issues—usually require about a decade to take hold.

For example, “most of us would like to see HR be transformed more rapidly into a business partner, with less emphasis on administrative functions that can now be outsourced,” Walker says. “To achieve that, it’s vital to help key HR individuals accelerate their development of business skills. I think many companies are, in fact, doing this, but not as fast as I would like. There is still a tremendous attraction within HR to the comfort zone of more traditional and functional support-service kinds of relationships.”

The classic area where HR leaders can provide strategic input is “anticipating a merger,” says Walker. “A very well-defined set of opportunities and experiences exists, including assistance in valuing the merger, developing the integration plan, communicating with employees, matching talent, and so forth. Some company HR departments play a key role here. In others, they are still observers, cleaning up the mess afterwards.” HR executives who serve as business partners, he adds, are more likely to be in strategy-driven organizations—professional services firms, financial services firms, high-tech companies, and “to some extent pharmaceuticals, the opposite end of the continuum from health care companies and manufacturers.” The most talented HR leaders, he says, tend to work “in pockets within a business. They have established a relationship with their client executive in which they are able to have a dialogue and push back as appropriate.”

Over the last 10 to 15 years, HR has begun to have a much bigger impact on how a company operates, says J. Steele Alphin, global personnel executive at Bank of America. “To put this in perspective, at Bank of America, we have \$28 billion of noninterest expenses. Of that, \$15 billion is related to personnel”—everything from salaries, incentive plans, and fringe benefits to talent retention programs and risk management strategies. “If you can effectively manage those dollars, trying to get as high a return on investment as possible, then you approach the opportunity a lot differently.”

To fulfill his mandate of growing revenue, increasing productivity, and developing leadership in the company, Alphin, who reports directly to CEO Ken Lewis, has assembled an HR team that includes managers with degrees in business, HR, psychology, and engineering. “Our team looks very similar to any other high-level

team in Bank of America,” he says. So when HR sits around the table with other departments, “we don’t talk HR; we talk about the business.”

Lewis, he adds, “looks to us to be business leaders, business partners, the person at the table who will always bring up the critical fact that no one else does.” Alphin, who has 10 direct reports, says that most of those 10 people show up “on replacement charts for other areas of the company. One of our goals is to be a net supplier of talent to Bank of America. We have had personnel executives move into running real estate, branding, and transition on acquisitions.”

According to Mark Bieler, a human resources consultant who was executive vice president of HR at Bankers Trust from 1985 to 1999, “without the direct tie to strategy, there is no context for HR work. You have to be completely focused on aligning HR practice, policies, and procedures to the overall strategy of the organization.” In the mid-1980s, when Bieler was at Bankers Trust, chairman Charles Sanford converted the company from a commercial bank to an investment bank—“about as radical a cultural shift as one could imagine,” says Bieler. “My role was taking a set of HR practices that I had inherited and making sure they were consistent with where we were trying to take the firm. At the simplest level, that means redesigning pay systems, not so much to pay people more—although investment bankers do tend to make more—but to restructure the system to include smaller amounts of fixed compensation and to put more of people’s pay at risk.

“In addition, we became the first bank in the mid-1980s to offer a cafeteria-style benefits approach because we wanted people to take charge of their lives, to be more entrepreneurial. Cafeteria benefits were more suited to the type of organization we wanted to be.... We shifted our recruiting goals, changed the way new employees were socialized...and bit by bit, brick by brick, aligned what we did from the people point of view with the strategy of the company.”

Jack Welch, former CEO of General Electric and author of a book entitled *Winning*, noted in a recent interview that “outside of the CEO, HR is the most critical function in any company. Development of leaders is the ultimate responsibility of every CEO and thus is an

integral part of HR. I saw my job as allocating people and dollars to opportunities. I wasn't designing products. I was putting people where I thought they were right for the job. I did that with my partners in HR." HR evaluation systems, he says, "should be rigorous and nonbureaucratic" and monitored as closely as financial reporting is now monitored under Sarbanes-Oxley.

While many HR professionals say their role is to be a strategic partner with senior management, critics question whether this is possible given that HR people often lack the business skills to understand strategy or their role in implementing it. Furthermore, some senior managers aren't interested in having HR as a strategic partner; they just want the department to go out and hire the people they (the managers) want.

"If top management doesn't see value in having HR as a strategic partner—and if HR can't think out of the box in that role—then the partnership is probably not going to happen," says Wharton Management Professor Nancy Rothbard. She cites the case of a woman who heads HR at an in-house call center for a large financial services firm who is "constantly experimenting with new ways to help the company achieve its overall goals," such as trying out new tools to better select employees and sitting through hours of training sessions to test their effectiveness. Overall, says Rothbard, such an approach "means committing resources—in terms of top management's time, as well as the time of managers a level below." The effort, she says, "took guts on HR's part because it wasn't clear there was going to be a definite payoff."

Of course becoming a "partner" with senior management doesn't always happen. At Vanguard, says Gubanich, "you have to earn your way to the table. I might also say that rather than a strategic partner, we are more of a strategic enabler. We need to understand the business deeply—where it is now and where it wants to go. This is important because sometimes I think we get caught up in 'What is the coolest program?' or 'Should we be designing something new?' The key question has to be 'Was HR successful at moving the company in the direction it wanted to go?'"

HR at Vanguard has a number of strategic imperatives, Gubanich adds, "such as hiring the right people in the right place in the right time, looking for breadth and

depth of leadership talent, maintaining the right culture for the organization, risk mitigation and operational excellence. . . . For example, if someone at Vanguard wants to create a new business, we talk about the people and programs needed to get there. Do you have the leadership necessary for that? Do you have the training programs? Do you know how to take a group and say, 'We are now going to do things this way instead of that way'? What do you want to accomplish? Will you be sales oriented or service oriented? What are the competencies required for the job? Will you focus on external or internal hiring or a combination of the two? And so forth."

"Development of leaders is the ultimate responsibility of every CEO and thus is an integral part of HR."

The same orientation exists at Air Products, an \$8 billion industrial gas, chemical, and home health care company headquartered outside of Allentown, PA. Vince Kraft, director of industrial relations, reports to the vice president of human resources. "When people say HR is nonstrategic and does not understand the business, here it is just the opposite," Kraft says. "We are imbedded in a variety of operational issues especially in the field. We are out there among the employees, customers, and the distribution network; and we are seen by senior management as very valuable, especially when it comes to areas like professional development and succession plans."

In some companies, HR's influence extends beyond their own departments. "Outside of the marketing function," notes Bank of America's Alphin, "the personnel function at Bank of America has one of the biggest responsibilities relating to brand. For example, every year we hire about 40,000 people externally. Each time we interview someone, we are looking for talent. That person, in turn, has a chance to see our company. That's a branding opportunity. If you interview people, even if you do not hire them, the experience should be such that they would want to bank with us."

A Two-Tiered System

Critics of the way HR has developed over the past decade suggest that HR has become a "handmaiden of manage-

ment,” more concerned with carrying out directives from above than supporting the needs of employees.

Bieler sees “some truth” to that claim but says it’s “largely because of the decentralization of the functions. The most common model today in large corporations is a smaller, highly expert central staff and then masses of HR people in distributed HR organizations throughout the company. Their reporting relationship may either be dual—to the head of the line operating office and to the head of HR—or may be direct. But at the end of the day, the power dynamic seems to favor HR’s relationship to their senior line executive. This distribution of the HR function has many advantages, but one of the downsides is a decrease in the view of HR as playing an ombudsperson role in the organization.”

According to Air Products’ Kraft, “the climate change” toward HR being perceived as pro-management “began when we started to outsource what is generally described as administrative duties, but what are generally regarded by employees as positive employee relations—such as help with medical insurance, leave, and vacation issues. The day-to-day contract between employees and management of keeping each other informed has been relegated to either voicemail or e-mail as opposed to conversations. HR began to be perceived by the employee base as a necessary evil.”

Kraft also notes a tendency to treat people as “numbers rather than as individuals, which is not the fault of the company but really the fault of financial pressure from Wall Street. It’s very hard not to feel the pressure to cut costs....”

When Leon Cornelius, a director of GM’s labor relations staff, first started at a GM plant in 1978, “all the HR issues were handled right there, in the plant,” he says. Employees could ask questions about benefits, compensation, and “if you were sick or somebody passed away, there were people who you could talk to about it and find a sympathetic ear. It wasn’t strategic; it was more transactional, but it had that personal touch. Now it’s all about going to the web and calling 1-800.”

The system could be better if it were two-tiered, Kraft suggests. “Somebody has to develop an alternative dispute resolution system or some mechanism that allows

employees a voice.... I still view that as a part of the HR function, although it doesn’t seem to be happening.”

Kevin Sullivan, an employee relations consultant at IBM, acknowledges allegations of HR bias towards management but points to the company’s appeals process as an effort to “maintain the integrity of the system.” Once employees exercise their right to challenge a performance appraisal, salary decision, or other personnel matter, that challenge is handled in one of two ways—either through the appointment of an investigator, assigned by management, to look into the complaint or through a panel review. The panel, which is available to U.S.-based employees, consists of five individuals—three employees and two managers, all of them randomly selected—who hear the case and make a decision. “That system gets used. Our employees are not shy about coming forward.”

In many companies, Sullivan adds, employees feel that the social contract between the company and its workforce no longer exists and that “employees are on their own. What companies must do is offer a compelling case to the individual as to why he or she would want to work there. In our case, we emphasize our skills training, our workplace flexibility options (including work-at-home), our commitment to diversity, our focus on performance differentiation, our leading-edge technology, and our leadership development.... You have to show employees that opportunities exist.”

For Mark Bieler, the bottom line is that “the quality of HR functions correlates more than anything to the quality of culture and management they are supporting. If you put me in an environment as head of HR in a company that fundamentally doesn’t respect people and has a short-term orientation toward them, I would have a difficult time either championing the needs of the people or furthering the objectives of the organization through HR policy or practice.”

Seeing the Employee as Customer

According to a cover story in *Fast Company* magazine, entitled “Why We Hate HR,” HR people are not interested in an “open-minded approach” when it comes to making exceptions to company policies, including

pay schedules. “Instead, they pursue standardization and uniformity in the face of a workforce that is heterogeneous and complex... Bureaucrats everywhere abhor exceptions—not just because they open up the company to charges of bias but because they require more than rote solutions.”

Rather than sending the message that the company values “high-performing employees and is focused on rewarding and retaining them,” the article says, “HR departments benchmark salaries, function by function and job by job, against industry standards, keeping pay—even that of the stars—within a narrow band determined by competitors. HR, in other words, forfeits long-term value for short-term cost efficiency.” The article poses this question: “Who does your company’s vice president of human resources report to? If it’s the CFO—and chances are good it is—then HR is headed in the wrong direction.”

Sirota has a different way of getting at the same issue. If you think of HR as having three roles, says Sirota, the first is to carry out administrative functions. The second is to serve as strategic partner, and the third is to see the employee as customer. The most important part of that customer-centric view involves “working with management to develop policies, practices, and philosophies geared toward creating a truly motivated and dedicated workforce,” says Sirota. Generally speaking, “in many organizations, that role is more notable by its absence.”

When HR managers “say they want to be business partners,” suggests Sirota, “what they mean is they want to work for management. Most companies say employees are our greatest asset, but what they really mean is they are our biggest cost.” HR should “be proactive. Walk around the company, find out the issues, just as you would do with customers. External customers are surveyed regularly. HR should be surveying their internal customers as well.”

GM’s Cornelius agrees that “what’s missing in today’s workplace is the view that HR is there for the employees. When younger people in the organization come to me for advice, I say, ‘Have you talked to anybody in HR about this?’ and they roll their eyes and say, ‘Why should I bother to do that?’” But it doesn’t have to be that way, Cornelius adds. “An HR person can handle a hard conversation with an employee about what

he or she needs to do to improve, but that employee can still walk away thinking ‘If I do these things, I will have somebody there who will help me move around the company or get me positioned for a promotion.’”

“The leading-edge thinking now is much more on segmenting work across the company and also segmenting the workforce” in ways that let differences be defined and valued.

HR also tends to push onto managers a number of functions that could be done by HR staff, such as finding and downloading the forms needed when an employee retires. “HR has dumped a number of jobs on other functions that they used to do themselves,” Cornelius says. But he also has praise for specific HR policies, including, for example, those dealing with layoffs. “I give GM credit in situations where there is a downsizing. They stand tall when it comes to the employees. The situation is handled in a very humane way.” And where major long-term issues are involved, such as restructurings and joint ventures, “HR is actively a part of those strategic discussions, along with labor relations. HR brings value” to the table.

Bank of America is taking the idea of serving employees one step further. The company just opened a facility near Charlotte, NC, which provides a flexible work environment and allows people who live in nearby communities to spend a day or two every week at that location, rather than commuting an hour or more each way into the city. “It’s a new concept, and we have gotten very good response to it,” says Alphin. “In addition, we are already seeing increases in productivity among employees who use this option.” Alphin points to another initiative at Bank of America instituted this year—a broad-based incentive plan that will pay out between \$500 and \$3,000 to eligible employees from mid-level managers to their associates, in addition to existing incentive programs already in place.

He predicts that some companies will start insourcing HR functions that they previously outsourced. “We have about 1,200 people in HR now, but that number will soon grow to 1,500 because we are bringing some

staffing back in-house—including recruiting—that we had outsourced. We liked the pricing, but we didn't like the quality," Alphin says. "You always have to look at that tradeoff."

Performance-Based Pay

Given the recent controversies over huge compensation packages at public companies, pay-for-performance continues to be a hot-button issue for everyone from CEOs down to lower-level employees. According to Walker, "the leading-edge thinking now is much more on segmenting work across the company and also segmenting the work force" in ways that let differences be defined and valued. "This allows HR to move away from a system of 'everyone is treated the same' to one where people can be treated differently according to business needs, individual preferences, and performance. That's a trend, starting with IBM and working through a lot of companies."

IBM's Sullivan would agree. The philosophy of the company toward its 330,000 employees "is to pay our best people like the best people in the industry are paid. The rest of our employees get paid competitively. We also have a performance appraisal system in which we hold people accountable. That's the underpinning of the system, whether it is pay, promotions, or the opportunity for stock options and other awards and recognition. It is all based on performance."

At Vanguard, with its 11,000 employees, "we describe ourselves as a pay-for-performance organization," adds Gubanich. "As such, we believe that the top performers should be rewarded more. We do all kinds of analysis on pay and total compensation—where it should fall on the individual level as well as the job aggregate level. In addition, it can't just be all about the individuals. It is valuable to also have team and company incentives."

Issues of pay and performance are now reaching boards of directors as well, says Bieler. "One key factor in the evolution of HR departments has been Sarbanes-Oxley. At least for the head of HR, this has radically changed the relationship with the board's compensation committee. Recently, as part of my work redesigning two companies' compensation systems, I dealt with consultants hired by the compensation committee. That hadn't happened before. So issues around pay—

including sensitivity to full disclosure of executive perks, for example—are in the forefront these days, as are issues of management development and succession. Sarbanes-Oxley has had a profound effect on the relationship between the board and the company, in which the HR function plays a key role."

The question arises, adds Walker, as to where a board gets guidance on matters of corporate pay, perks, etc. "Is it from corporate HR, or does the board hire its own consultants directly?" With regard to compensation, "HR executives should be doing the analysis and bringing information and advice to the board. If you want HR to be a strategic partner, it can't be just with the CEO; it has to be with the board as well."

But pay issues are not always easy to administer, especially at places like universities and hospitals, where, as Bieler says, "there are numerous constituencies, all of whom think they are in charge. It is hard to get your arms around a clear-cut strategy." Cappelli suggests that one approach to setting pay, "left over from this idea of looking out for employees, is to have a model of equality: Treat everyone roughly the same, especially in issues of pay. Of course places that do this get complaints from top managers, saying 'I lost these people because HR wouldn't let me pay them enough.' Top managers, who for the most part are high achievers, believe people should be paid based on their own performance."

The problem, says Cappelli, "is that perceived inequities drive people crazy. It's one thing to say, 'This person is a star, pay him or her more, or he might quit.' What happens next? People who discover this person is being paid more [within an equal pay system] start to complain. So you move to a model where everyone is paid based on performance. But this approach requires an objective assessment of performance that everyone must be willing to buy into. That's the hard part."



IF YOU ARE HAVING TROUBLE launching the *Knowledge@Wharton* Audio Player from Adobe Acrobat, please follow the instructions below:

1. Select Preferences from the Edit menu.
2. Scroll down to the Web Capture category.
3. Select “Open Web links: In Web Browser.”
4. Click OK.
5. Close and reopen this document.
(Audio links will now open in a browser window.)

