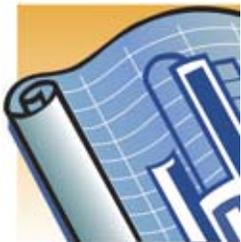


## New Blueprint for Corporate Innovation



Legendary business strategist C.K. Prahalad and his co-author M.S. Krishnan have been taking stock of the business land-

scape for more than four years in preparation for their new book *The New Age of Innovation: Driving Co-Created Value Through Global Networks*.

Their new book lays out the new reality that has put customers at the center and technology and resources at the core of business success.

Among the authors' findings:

1. The business landscape has been transformed by two major trends: (1) customers are now at the center of business via customized and co-created interactions with companies and (2) access to resources, from talent to technology, must come from both inside and outside of the company.

2. Competitive advantage, which was once defined as having access to technology, labor, and capital, has been replaced with the internal ability of companies to be agile in reconfiguring these resources in real time.

3. Companies must redesign their strategy to revolve around the technology and business processes that deliver the customer experiences. Technology and process must move to the center of all organizations.

Adapted from *The New Age of Innovation: Driving Co-Created Value Through Global Networks* by C.K. Prahalad and M.S. Krishnan (McGraw-Hill).

## Talent Matters

BY EDWARD E. LAWLER III

In the last several decades, an avalanche of business books, articles, speeches, and seminars have stressed the importance of human capital—

people—in gaining competitive advantage. Executives seem to be paying attention. According to a recent survey of senior executives from all over the world, the two most important management challenges are:

1. Recruitment of high-quality people across multiple territories, particularly as competition for top talent grows more intense.

2. Improving the appeal of the company culture and work environment.

Fifty-five percent of the respondents to that survey reported that they expect to spend more time on people management than on technology in the next three years. More than 85% of the respondents said that people are vital to all aspects of their company's performance, particularly their top strategic challenges: increased competition, innovation, and technology.

What's more, according to another recent survey of over a thousand global CEOs, 72% are more concerned about the availability of individuals with key skills than they are about energy and commodity prices and intellectual property rights.

Apparently, people are front and center on managers' radar, as well they should be. Increasingly, companies in a wide variety of businesses are finding



that people can be their number one source of competitive advantage. But it is not enough for leaders to say that people are important, or to

put people issues high on their mental to-do list. What is needed are organizations that are designed and managed—from the boardroom to the front line—in ways that optimize talent attraction, retention, and performance. I call this type of organization human-capital-centric, or HC-centric.

Today, most organizations are still managed in a bureaucratic, structure-centric manner, and they have been managed that way for decades. In these companies, you'll often hear managers at all levels talking about the importance of people, but the walk really doesn't follow through on the talk. Their managers do make an effort to see that they attract and retain the people they need to make their bureaucratic structure operate efficiently, but they are not designed to make their human capital a competitive advantage. In one of my favorite Dilbert cartoons, the boss says, "I've been saying for years that 'Employees are our most valuable asset.' Employees are ninth." When asked what came in eighth, he says, "Carbon paper." I realize that not everyone remembers carbon paper, but I hope those of you who don't still get the joke—and the real point. Lip service and window dressing are not enough.

*continued on next page*

# Customer Profitability

BY MARVIN A. DAVIS

Customers are the *raison d'être* for a company. Yet many times companies don't realize whether they are in a relationship with a customer that is constructive or destructive. I have been amazed by what a customer-by-customer profitability analysis can show.

Such an analysis helps answer the following questions:

- What is the margin I receive from each customer?
- Is the customer covering my variable costs?
- Is the customer covering my fixed costs?
- Is the customer contributing a profit?
- Am I expending effort on a customer who is growing? If not, is it better directed elsewhere?
- Can I improve my profitability on this customer or do I need to say "no thanks"?
- Am I over-engineering my product or service to this customer?

So the analysis identifies the customers, what they buy, the fixed and variable costs of what they purchase, and the gross profit from those purchases. Also, the analysis accounts for the cost of "other

## Firing a Customer

The hardest thing a company can do is to fire a customer. There are reasons for doing this besides the obvious economic one. These can include the following:

- Overly demanding service requirements
- Consistent slow pay and collection problems
- Exaggerated warranty demands
- Continued threats of legal action
- Quality requirements beyond reasonableness, coupled with high returns
- Abuse or dishonest relationship



support," such as free freight, special discounts, special warranties, cooperative advertising, and placement premiums. The obvious objective is to obtain a net pretax profit on a specific customer and what he or she purchases. Such an analysis never fails to amaze me. Often the customers whom clients think are their best are in reality among the worst.

An example of this was a large volume

big-box chain whose demands were great but which could offer my client, a manufacturer of sports apparel, extremely high volumes of sales. Its approach was to order several thousand dollars of product on hangers, ready to hang in the stores. This chain's stated condition of doing business was payment 60 days after delivery of goods.

Since the manufacturing operations were integrated back to thread, the company would need to spin the thread, weave the greige goods, dye the fabric, cut the material, sew the goods, sew in the specified labels, put on the hang tags, assort as required, put the goods on hangers, and ship the goods by the agreed-upon date. Sometimes, near the shipment date, this large customer would "decrease" the order because "sell through" of the product had changed as the fashion demand for the product had changed. The manufacturer would then have to dispose of the excess inventory in a second discount market.

Through the customer profitability analysis, the manufacturer determined the cost of all the special service it offered the large retailer, combined

## Talent Matters *continued from preceding page*

### What Makes an HC-Centric Organization?

According to Edward E. Lawler III, in an HC-centric organization:

- Business strategy is determined by talent considerations, and it in turn drives human capital management practices.
- Every aspect of the organization is obsessed with talent and talent management.
- Performance management is one of the most important activities.
- The information system gives the same amount of attention and rigor to measures of talent costs, performance, and condition as it does to mention of equipment, materials, buildings, supplies, and financial assets.
- The HR department is the most important staff group.
- The corporate board has both the expertise and the information it needs to understand and advise on talent issues.
- Leadership is shared, and managers are highly skilled in talent management.

To be clear, a bureaucratic, structure-centric approach to management can still work. A modest effort to attract, retain, and motivate talent is all that's needed in some organizations, because it achieves good

enough performance from the human capital and people are among their primary sources of competitive advantage.

But for companies that are truly competing on the performance of

their people—their human capital—it is not enough. They need to adopt an HC-centric approach to organizing. It is not just about controlling people costs because they are a major expense—it is about how well people perform, because their performance is the critical factor in determining whether the organization is effective.

Edward E. Lawler III is director of the Center for Effective Organizations at the University of Southern California (USC) and distinguished professor of management and organization in the USC Marshall School of Business. Named one of this country's leading management experts by *BusinessWeek*, and recipient of SHRM's Michael R. Losey Human Resource Research award, he is author or co-author of more than 30 books. This is excerpted from his newest book *Talent: Making People Your Competitive Advantage*, with permission of the publisher, Jossey-Bass. Copyright 2008, John Wiley & Sons.

with occasional product refusal and long payment terms and how it put the customer's profitability well into the red. It was especially hard to make the decision to drop this customer because of its volume. The competitive nature of the industry did not allow for price increases significant enough to cover the cost of doing business, so the manufacturer decided to wind down sales to this customer over time while reducing overhead, including the closure of one facility and redirecting sales to more profitable channels.

Because customers can actually drain profit rather than generate profit, companies should perform customer analyses every six months. Sales conditions and product mix change. With a new customer, I recommend a review of the account's performance after the first three months of service. A simple review will often avert a great deal of angst in driving continued profitability.

Marvin A. Davis is a former board chairman. Currently he is a consultant located in Atlanta, Georgia. For more information: [www.marvindavis.com](http://www.marvindavis.com)

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## Companies Continue Worldwide Relocations at Record Levels

Despite a slowing economy, an overwhelming majority of multinational corporations remain highly optimistic about the global outlook for their businesses and say they plan to send more employees on overseas assignments in the months ahead, according to the new Global Relocation Trends Survey, published annually by GMAC Global Relocation Services.

The worldwide survey of 154 multinational firms found that 68% of corporations are ramping up their employee assignment efforts. Of those, 95% say that they plan to either increase the number of employees being transferred or stay at the same level as last year. A mere 5% expect to decrease the number of employees relocating in 2008. The firms that participated in the latest survey manage a total worldwide employee population of 4.3 million.

Despite projected growth, the majority of companies (58%) indicated that they are cutting back on expenses for international assignments in response to economic conditions. At companies that are reducing expenses, 29% of respondents—the highest since the



survey began tracking the subject—indicated they are reducing policy offerings and financial incentives for relocating employees.

Rick Schwartz, president and CEO of GMAC Global Relocation Services, observes that besides providing valuable insight into current spending trends, the study identified three significant challenges facing corporations: (1) finding suitable candidates for assignments, (2) helping employees and their families complete their assignments, and (3) retaining these employees once their assignments end.

## Liberating Passion: How Global Leaders Produce Winning Results BY OMAR KHAN

Businesses seek passionate people. Why? Because passionate commitment converts talent into performance. To maintain passion, we must employ passion liberators, the most encompassing of which is nurturing authentic relationships.

Leadership is about how we *relate*, how we engage each other, the respect we have for each other, and the quality and candor of our communication. To create winning results, we have to create winning relationships.

All passion liberators influence how we relate to each other. Let's look at three that are crucial.

**Intimacy.** By letting people know who we are, what turns us on or off, our priorities as well as our peeves, and our areas of esteem and of anxiety, we remove masks and defuse defensiveness.

**Protecting Possibility.** One of the demonstrable attributes of globally successful leaders is the ability to face complex facts and realities while simultaneously retaining a sense of possibility. Call it "creative reality engagement," if you will.

We destroy passion when we evade reality or downplay evident challenges.

**Coaching Growth.** Once we know each other and have recognized our current reality and our strategic vision, we must coach growth; that is, we must confront and encourage each other in order to grow in the ways necessary for achieving our vision.

One aspect of coaching growth is to become aware of the behaviors we have to improve in order to be more effective with others and catalyze a more creative impact on our collaborators.

As we develop a partnership of business purpose in our companies and teams, we must use it as a medium for committing to each other's success and, ultimately, a shared win. When team members feel and express such a commitment to each other, both passion and results abound.

Understanding passion liberators, each other, the facts we must harness and remake, and how to help each other succeed—that's how great global leaders produce great results while tapping our natural desire for passionate engagement.

Omar Khan is the founder and senior partner of Sensei International. His new book, *Liberating Passion: How The World's Best Global Leaders Produce Winning Results* is co-authored by Paul B. Brown (John Wiley & Sons, \$19.95).



Here's what you'll find on the  
**AMA Members-only Website** [www.amamember.org](http://www.amamember.org)

**SALES & MARKETING**

**The Power of Belief.** As Henry Ford said: "Whether you think you can, or think you can't, you're right." Selling door-to-door, Sharif Khan learned that belief in oneself is essential for sales success.

**HR/TRAINING**

**Should Your Company Offer Sexual Harassment Prevention Training?** An employment law attorney explains why the case for sexual harassment prevention training extends way beyond the obvious legal and risk management benefits.

**MANAGEMENT**

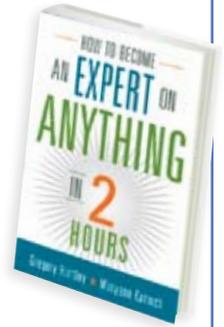
**How to Be a Super Supervisor.** Want better employees? Become a better manager. Nobody said that the job would be easy, but small changes in your attitude and actions will reap huge rewards in productivity and engagement.

**LEADERSHIP**

**Leadership Lessons from the "Leader of the Pack."** It may be a "dog-eat-dog world," but we can learn some valuable lessons about the true nature of leadership from our four-footed friends.

**Book of the Month**

*How to Become an Expert on Anything in 2 Hours*, by Gregory Hartley and Maryann Karinch (AMACOM, 2008). Talk about "instant karma"! Society esteems and rewards experts, so it's well worth your time to become one—especially if it requires a mere two hours' investment.



**AMA Conferences/Special Events Calendar**

**AUGUST 27 WEBCAST • Improving Your Onboarding Success: Integrating Recent Grads into Your Workforce.** Each year, waves of new hires come into the workforce from college. They want to contribute to your organization immediately and blaze a career path right from the start. You want them to make a contribution as well, while making sure they are learning the ropes and developing the skills your organization needs. In this webcast, we will explore the transition between college education and the "real" world. A panel comprised of three viewpoints—Corporate, College, and Consulting—will offer advice on what both recent graduates and organizations need to know to make this transition a success.

**SEPTEMBER 3 WEBCAST • Distracted: Finding Focus in a Hyperkinetic World.**

Despite wondrous technologies and scientific advances, our attention is scattered among the beeps and pings of a push-button world. In this webcast, Maggie Jackson explores this world of diffusion and detachment, offering a look at the workings of attention—with its three pillars of focus, awareness, and judgment—revealing how these skills can be shaped and taught.

**SEPTEMBER 3 BREAKFAST BRIEFING • Proving the Value of Human Resources in the Government: How and Why to Measure ROI.** The call for greater HR accountability is growing and the need for succession planning is imminent. In the last decade, much progress has been made in using Return on Investment (ROI) as an important metric for human resource managers. While progress is made, there is yet much to do as govern-

ment agencies attempt to show the value of all types of human resource projects and programs. Come join us for this breakfast briefing to discuss the progress made, the challenges faced, talent management solutions, and the outlook for ROI use in government agencies.

**SEPTEMBER 10 WEBCAST • Leading with Kindness: How Good People Consistently Get Superior Results.** Contrary to what many of us have been told, research indicates that when it comes to business, nice guys often finish first. But how does one define "kindness" in business? And what is the best way to "use" this deceptively complex notion as a guiding principle to lead an organization successfully into the future? This webcast explores how you can use sincerity, honesty, and respect to accomplish true organizational greatness.

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