CHAPTER

1

The Economics of Human-Powered Leadership

"People follow leaders by choice. Without trust, at best you get compliance."

—Jesse Lyn Stoner[1]

As researchers we have a great appreciation for the lessons of our past and how they shape our present and future. We rely on historical perspectives to understand how organizations and the economy have evolved in response to advances in technology, automation, and machines over time, which have in turn informed employee capability and skills requirements. In this chapter, we examine how technological advances have shifted the power dynamics between employers and employees, widened the skills gap, and presented new socioeconomic challenges that require us to reexamine our leadership. So please bear with the history lessons because they are critical to the foundational argument of

the book – that humans must be at the center of our organizations for our societies and the global economy to flourish into the future.

A Brief History of Organizational Evolution: How We Got Here

Where is here exactly? The pandemic, a growing consumer demand for more sustainable products and business models, and the rapid embrace of stakeholder capitalism more generally have all accelerated three long-term macroeconomic trends: flattened organizations, the democratization of data, and skills scarcity. (Stakeholder capitalism assumes the purpose of business is for more than maximizing shareholder profits and seeks to add value to stakeholders such as society, employees, and vendors.) These forces translate into specific organizational shifts that leaders are now navigating, largely without a playbook. Taken together, they create the business imperative to reexamine our organizations and leaders with new criteria that put humans at the center of the way we work, prioritize, and make decisions.

Decades of top-down management theory have been upended in recent years in favor of the flattened organization – it's simply too costly to design today's workplace around hierarchical structures. As a result, decision-making is very often conducted from the bottom up, with workers driving innovation and collaboration and using it to take collective action. This trend is spurred on by the fact that workers today often know more than their leaders about how work actually gets done. Most leaders lack a basic knowledge of the technology used to drive their business forward, and as data and knowledge are increasingly democratized, those working closest to it hold the most power and influence. In today's digital environment, it is the insights gleaned, not the data itself, that is most valuable.

With these factors at play, and no longer being limited to seek employment locally, highly skilled workers are empowered in ways never seen before to capitalize on career opportunities. But these circumstances, while favorable for some, create a growing concern for those workers unable to keep up with market demands. An imbalance in the supply and demand of talent has created a skills gap that is costing both businesses and society trillions of dollars. It is arguably the most urgent problem facing our organizations today.

The impact of these trends on the global economy illuminates a need for organizational change that shifts focus from asset management to talent management. Put another way, the power dynamic has changed polarities, giving leverage to stakeholders at the expense of enterprises.

In 2023 alone, we've seen how this shift has changed the game for leaders. Take, for example, the leverage UPS drivers had in negotiating higher rates and better working conditions. Due to the low unemployment rates and lack of available workers, leadership at UPS did not have much leverage in negotiating and gave the workforce most of what they demanded, including higher wage rates and better workplace conditions.[2] Or consider the example of Open AI, whose CEO was ousted, only to be reinstated days later when nearly the entire employee population threatened to quit. Finally, in the hotly debated return-to-office movement, we see that workers still have the upper hand as many refuse to adhere to their leaders' call for a return to office.

A human-first approach to business is not simply the popular or politically expedient thing to do. Neither is it merely a change in rhetoric for management to sound more empathetic and appeal to the zeitgeist. Genuine change is required – and hard to achieve – for the continued growth of our organizations and the health of the global economy.

Zeroing in on Profit and Productivity

Our brief history lesson starts with the First Industrial Revolution in the late eighteenth to early nineteenth centuries, during which organizations primarily focused on efficiency, productivity, and mass production. As you may well know, the introduction of factories and machinery led to the emergence of large-scale manufacturing, with organizations structured around hierarchical and centralized systems of control for the first time. This way of working required specific roles from people to manage the mass production of products in a brand-new way. During this period, we saw the rise of manufacturing companies, such as DuPont, Ford, and Boston Manufacturing.[3]

The leading economist and management thinker of the eighteenth century, Adam Smith, believed a division of labor was necessary to reduce the costs of goods that resulted from newfound global demand. As a result, there was a steep decline in training people for a "trade" or "craft" – instead, these newly formed organizations sought workers to fulfill a narrow and specific task within a large production line. The birth of management transpired as companies realized they needed a new role within their organization to coordinate the array of people now working on specialized and interdependent tasks along the production line.

The advantages of this new way of working were clear from a traditional economics perspective. Goods and services could now be made at scale, servicing new global customers as well as ensuring a level of standardization otherwise unachievable. The disadvantages to the human worker were also profound. Without a direct connection to the customer or product, it quickly became unclear what should motivate people tasked with the same repetitive workday. Workers during this time often lamented their boss's capricious management style, the result of inadequate

training to understand and meet core human needs – ones we all share, regardless of which century we live in.[4]

A leading railroad analyst at this time, Henry Varnum Poor, cautioned of the dangers that this change in work was having on people. He warned, "Regarding man as a mere machine, out of which all the qualities necessary to be a good servant can be enforced by the mere payment of wages, may not work, as duties cannot always be prescribed, and the most valuable are often voluntary ones."[5]

How We Became "Cogs in a Wheel"

This First Industrial Revolution gave way to Frederick Taylor's and others' examination of scientific management in the late nineteenth and early twentieth century. The principles of this approach are characterized by a focus on engineering, optimizing, and standardizing work processes and tasks to achieve greater efficiency and productivity, from which we saw the rise of specialized job roles and detailed job descriptions.

During this period, the phrase "cog in a wheel" became a well-known way to describe how most workers felt under Taylor's relentless focus to break down jobs further into small discrete tasks that would be aggressively measured for productivity. (While the concept of the cog in a wheel originated in the fifteenth century, its use as applied to workers became mainstream in the 1930s.) What ensued is described by the twentieth-century management thinker Whiting Williams as "the worst time in history" for labor relations.[6] In 1919, more than four million American workers, or 20% of the nation's workforce, went on strike.[7] Turnover at leading companies, such as the Ford Motor Company, reached 380% with 10% daily absentee rates of their workforce.[8] The lack of human-centric management was costing the already fragile US economy. As a result,

the government formed an Industrial Relations committee to better understand the state of labor and how this new scientific management was influencing talent.

Their conclusion? That the system operated with a complete disregard for employee welfare for the sake of profit, and in the process denied employees a say in the standards of their own working conditions. Under these circumstances, the report concluded, there would be no reason for workers to endorse or support a system that "[reduces] them to mere soulless machinery, mechanical in action, denuded of thought, and which would rob them of their humanhood."[9]

What Motivates Us?

Ultimately, the report deemed scientific management ill-equipped to move the economy forward, and with more attention paid to job roles and competencies, an examination of what having a workforce of employees really means began. The Human Relations Movement in the early to mid-twentieth century thus shifted the focus of organizations toward understanding the social and psychological aspects of work and its influence on optimizing work processes in the management of humans. It's during this period that we see organizations start to recognize the importance of employee satisfaction, motivation, and morale in improving productivity and performance.

The most famous thinker to emerge during this time was Elton Mayo, who like Frederick Taylor believed scientific experiments were needed in the workplace to better understand and improve human performance; with the field of management still in its infancy, managers needed training and data to effectively lead their workforces. However, unlike Taylor, Mayo placed an emphasis on deeply understanding what motivates humans rather than what drives profits. His work profoundly shifted

management thinking at this time, with research that demonstrated productivity increases when individuals feel connected to others within their work group, are asked for their input through employee listening activities, and are given a purpose for their work. The summary of his research, produced in the late 1930s, stated the role of a manager was not to drive efficiencies, but to manage relationships.[10]

It's All About Perspective

Organizational development emerged as a field of study in the mid-twentieth century because of Mayo's work. It brought with it even more attention to improving organizational effectiveness and employee well-being through deep dives into culture, leadership, and employee engagement. It's at this point we see companies begin to emphasize teamwork, participative decision-making, and employee development.

Douglas McGregor was the leading contributor to the management field at this time. His research focused on the organizational culture that leaders must facilitate to drive greater human performance. In the 1960s, Dr. McGregor realized that managers led very differently depending on core assumptions they held about their workforce. He came up with Theory X to describe managers who exert a "command-and-control" style of leadership because of an underlying belief that people fundamentally don't want to work. Their role was to align divergent worker interests by means of compliance. In contrast, Theory Y managers supported and actively developed people because they believed that they inherently do want to work. A Theory Y manager's role was simply to nurture and support the development of people wanting to contribute back to the organization.

These two leadership beliefs are still at play today – you may have very well worked under a "command-and-control" leader at

some point in your career. In fact, Upwork Research found that approximately one in four global leaders today said they do not trust their workforce to do what's right for the organization.[11]

It's Not You, It's the System

With newfound understanding of workforce motivations and management styles, total quality management (TQM) and continuous improvement methodologies gained prominence, emphasizing quality, customer satisfaction, and process improvement. During this movement, organizations focused on empowering employees to identify and solve problems proactively and fostering a culture of continuous learning and improvement.

Dr. W. Edwards Deming emerged as TQM's great thinker. He elevated the conversation on performance by expanding it from an assessment of individual factors to an evaluation of operating systems. His novel approach encouraged managers to look at an organization's entire ecosystem to identify connections and interactions that could cause friction for human performance. Deming then introduced the 94–6 rule, which attributes 94% of all challenges and needs for improvement to the system, under the responsibility of management, and only 6% to individual performance factors.[12] He famously stated, "A bad system will beat a good person every time."

Under this framework, managers would need to take a new approach to fully understand their organizational system and its influence on productivity. It requires them to listen to and empower frontline workers to solve problems in real time, rather than rely on top-down instructions from those farthest away from the work – as had been the norm in hierarchical chains of command. Deming argued that to be effective, improvements to the way we work must be pulled from those closest to the customer or problem at hand. His work

within Toyota ushered in a new era of workforce empowerment, as the company emerged as a leader in high-quality car manufacturing because of its emphasis on workforce listening and enabling frontline workers to make process improvements in real time. Research shows that the company, on average, implements nine ideas per employee a year.[13]

Toyota's rise to prominence comes as no surprise. Leaders who implement workforce listening practices ultimately empower continuous employee innovation, no matter their role within the organization. Within this culture, workers are enabled to identify solutions to problems that often live outside the purview of leadership. As more organizations benefited from the practice of fueling innovation from the frontlines, a new era of management emerged that shifted focus from systems-based efficiencies to workforce empowerment, innovation, and new ways of working.

Teams at the Center

With success stories like Toyota, organizations recognized the potential for employees to advance their products and services and drive business value. At the same time, the rise of technology and globalization in the latter half of the twentieth century put a sharp focus on innovation and the emerging knowledge economy. The famous management consultant Peter Drucker first coined the idea of the knowledge economy back in 1969 when he realized that business value was increasingly moving toward the production of intangibles within organizations, with human cognition as the key driver of economic development.

But it wasn't until the mid-1990s that we saw the knowledge economy in full swing, with a company's intangible assets overtaking the balance sheet, compared to their tangible assets. To further spur innovation, companies started to champion agility,

adaptability, and collaboration, with an emphasis on leveraging intellectual capital, encouraging creativity, and fostering a learning culture. It was at this point that Herbert Simon, a longtime authority on organizational design and a staunch believer in hierarchy, changed his long-held views to describe the role of managers as excelling at the delegation of decision-making to their workforce.[14]

As these models harnessed the collective intelligence of employees and put teams at the center of growth and progress, it became clear that management styles and capabilities also had to change. The heretofore command-and-control, hierarchical style of management was not a one-size-fits-all model. Leaders' behavior and style of management had to evolve in significant ways (see Figure 1.1)

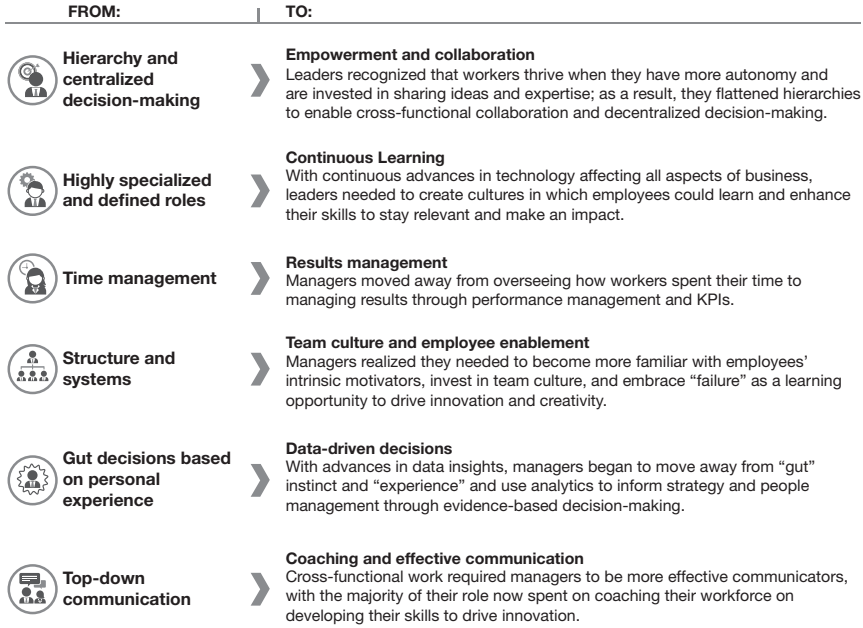

FIGURE 1.1 Key shifting in management capabilities.

These changes in the manager–employee relationship necessitated a more sophisticated management capability. Managers now needed to understand employees beyond just their technical acumen – they also needed to uncover their personal motivations at work and create conditions and a culture that enabled optimal productivity and boosted the engagement of their teams.

As a result of a move toward team-based performance optimization, the daily responsibilities of managers changed dramatically. Research conducted in 2016 found that "time spent by managers and their employees in collaborative activities has ballooned by 50 percent or more" over the past two decades.[15] Additional research suggests that 75% percent of a worker's time is spent communicating with others. The central question for leaders therefore became: How do I best enable the flow of communication and knowledge-sharing among my team members?

In 2012, Google led the charge to answer this question with data. Through their study called Project Aristotle, they sought to better understand why some teams stumbled while others soared in performance.[16] At first, they focused on structure and composition, trying to determine the makeup of a high-performing team. The problem was that their data showed no patterns when it came to team composition. Something else must be happening to explain why some managers were leading teams that work better than others.

After a year of study, the group of researchers discovered that group norms and team culture mattered most to performance. And the group norm that carried the most weight? Having team rules of operating in place that allowed individual members to feel psychologically safe. Author Dr. Amy Edmondson defines psychological safety as a "shared belief held by members of a team that the team is safe for interpersonal risk-taking. It describes a team climate characterized by interpersonal trust and mutual respect in which people are comfortable being themselves."[17]

With these new insights, a manager's role quickly evolved beyond just listening to and empowering individuals to solve problems in real time – it now included enabling the flow of information and effective collaboration between team members by creating an environment of psychological safety. The management of processes and mechanics was therefore of much less concern than the critical responsibility of managing relationships, skills, and teaming. Managers, no longer able to motivate people to work together through hierarchical power structures, had to facilitate the right culture within their organizations to enable the flow of skills, talent, and ideas without friction.

Where We Are Now: A Skills-Based Economy Emerges

We've seen companies evolve over the course of history from a sole focus on efficiency and productivity in the manufacturing of goods and services, to an emphasis on collaboration, knowledge, and creativity to fuel innovation. At the center of this evolution has been the role of the employee, and their skills to drive business value and differentiation. In step with these changes, the manager has also developed over time from task driver to coach and enabler.

As we enter a new era of rapidly advancing technology, leaders are faced with a new challenge: to keep pace with our digital-everything world, they must facilitate the continuous development of their workforce's skills. There is no denying that technology informs where and how work gets done; so too must we accept that the role of leadership must evolve with the world around it if it is to stay relevant.

Consider this. Most of the largest global companies by market cap, even in the early 2000s, were those producing traditional

goods and services. Yet by 2018 all the largest global companies by market cap were digital-first organizations, offering technology goods or services. Microsoft, Apple, Facebook (now Meta), Amazon, and Alphabet redefined how we think about value creation, in turn necessitating a new way to think about talent and the continued evolution of management. Today, studies estimate that 90% of all business value is now generated through intangible assets.[18]

While the rise in technology companies we see today is somewhat unprecedented, what isn't is the impact it's having on the workforce. Since the onset of computers entering the world of work, economists have observed what's called skill- biased technical change, meaning that the production and introduction of new technologies favor skilled workers over unskilled workers in terms of higher wages and opportunities. This means that those with lower skills are at a disadvantage when a new technology enters the workforce, often causing their job tasks to be automated or disrupted. (Note that skilled labor is defined by the level of specialized training required to complete the job. Unskilled labor, while still valuable, often does not require the same level of training.) The reason is that technology is often used to increase productivity of skilled workers and plays a role of augmentation, rather than substitution, for highly skilled talent. In addition, the creation and implementation of new technologies, such as cloud-computing, blockchain, and AI, require highly skilled workers. But as we will further explore, the speed of a skills-biased technology change is utterly dependent on the number of highly skilled workers entering the workforce. With the introduction of technologies like generative AI, we are yet again entering into new territory that will disrupt labor faster than people can keep up.

As a result of these advances, we're seeing a move toward the commoditization of jobs and skills. Commoditization occurs when a human skill becomes less unique because there is little differentiation between a person doing a task and technology doing the same one. Thomas Davenport asserts, "Jobs are increasingly viewed as undifferentiated and interchangeable across humans and machines – the very definition of a commodity. … The value of many jobs is driven less by their intrinsic worth than by market demand."[19] We are seeing this in jobs that were once prized as human-only tasks, like writing or content creation, and are now being increasingly commodified by the onset of generative AI. For example, images created by an AI tool are often indistinguishable from what a human could create.

While technology has always disrupted the workforce, the implications of advances like generative AI and machine learning today present a unique leadership challenge: Skills are being commoditized at faster rates than people are entering the workplace with the necessary skills to work with new technology, creating what's known as skills scarcity. And yet, as an IBM executive recently remarked, skills are "the currency of the future."[20]

In this fast-paced environment where skills are as scarce a resource as any, we are no longer in an era defined by a "war for talent"; rather, we've entered a "war for skills" within the greater skills economy.