

Degree Program in Global Management and Politics

Course of Global Organization Design and HR Management

Skill-based Organizing in Multinational Corporations  
The Case of Procter & Gamble

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# 1. INTRODUCTION

The phenomenon of organizing social activities is probably as ancient as human history and its roots, meanings and impact lie at the core of every social development and evolution. Indeed, no society nor any form of association among human beings may exist without some degree of organization. As modern scientific analysis of coordinated human interactions and organizational structures has more than a century of contributions and history, several funding questions are still ground for debate among major scholars and newer theories are constantly and consistently proposed to explain past phenomena and anticipate future trends.

At the very beginning of organizational studies, we may find Chester Barnard's (1938) "The Functions of the Executive" which represents a brilliant milestone for building a thorough and deep understanding of what an organization is, the reasons why it comes into existence and the main determinants of its survival. Certainly, it is not the purpose of this contribution to debate around soundness and/or specific issues of different organizational theories, yet it is crucially important to define theoretical boundaries and ground for building a credible research framework. Therefore, we will take Barnard's (1938) definition of "formal organizations [as] that kind of cooperation among men that is conscious, deliberate, purposeful" as the very general outline to orient this work. At this point of setting research boundaries, I also want to highlight another crucial consideration made by Barnard which stated how "successful cooperation in or by formal organizations is the abnormal, not the normal, condition." This may sound like a very trivial observation, yet it is frequently understated and overlooked by many organizational scientists. Naturally, organizational studies advanced and evolved more and more quickly in the almost nine decades following early Chester Barnard's contribution and, more interestingly, a multitude of parallel and alternative theoretical frameworks appeared and developed. Hence, we now witness the coexistence of deeply contrasting theories of organizing in a fast-changing globally interconnected socio-economic environment.

In this wide and varied scenario, another important basic assumption that deserves being re-affirmed is that the original Frederick Talyor's (1911) idea of "one best way" of managing organizations is unacceptable. Indeed, too many factors – both internal and external to the boundaries of an organization – interact and influence each other to allow the definition of a multitude of unique standards for organizing socially complex structures. On the contrary, several dominant present theories suggest the idea that top management should focus on understanding the company-specific and distinctive resources and dynamic capabilities so to identify the "one best fit" of organizing these

unique skills, energy, competencies and knowledge in the most efficient and effective way for achieving a winning competitive advantage. To this extent, scholars and managers moved beyond the classical conceptual approach of organizational structures based on rigid hierarchies, functions, matrixes and jobs with predetermined responsibilities and tasks beginning to build new visions and addressing the problem of organizing under more environmental, individual-centered and competency-based lenses. One milestone in this path of evolution is represented by the work of James D. Thompson (1967) who has been among the first to highlight the existence of an ineliminable tension deriving from the enormous effort of organizations in trying and be rational although they are natural and open systems. Indeed, the real essence of every social group is made up of the people participating in it and human nature is inherently variable, diverse and characterized by unpredictability. Thus, not every component of an organization may be reduced to rationality, notwithstanding which degree of formalization, institutionalization, rules, processes and procedures one may implement. The natural consequence is that the real, distinctive strength of organization cannot be represented by the rationalization of relationships which is practically identified by the definition of strict, rigid organizational structures and specific job descriptions. Of course, the relevant positive impact of formalization of organizing in boosting effectiveness of companies cannot be denied, nor is it the intent of this argument. Rather, the purpose here is to suggest that even more powerful organizing frameworks may be developed when combining the strengths of classical theory with a people, knowledge, resources and skill-centered vision. In reaction to this theoretical evolution, newer and newer ways of conceiving organizational structures of firms emerged during a process that led to a proper “atomization” of formal institutions with solid hierarchies disaggregated into stand-alone cells interacting with each other in a completely variable, informal and even random manner. One of the most popular and extreme attempts at implementing this is the Spaghetti organizing, developed across 1980s and 1990s by Lars Kolind – former CEO of Oticon, a world-famous Danish hearing aid technology company (Foss, 2003). More recent and balanced approaches, instead, are those of “crowd-open” and “crowd-based” organizing according to which companies acknowledge the variability and flexibility of their lean external boundaries and react by implementing the contribution of their customers and other external entities within their business models (Giustiniano et al., 2019). In this way, consumers may – in example - participate in designing new products or suggesting new features and innovations, building an additional, brand-new level of customer experience. On the other hand, firms would benefit from increased customer engagement and better

levels of retention, and they would be also able to intercept market desires and needs in an astoundingly faster way.

Among this growing variety of theories and practical attempts at identifying organizational best fits and innovations, a particularly interesting research strand emerged since the early 1990s leading scholars to build a revolutionary framework for approaching organizational design: We will generally refer to this research strand as skill-based organizing. As it will emerge from the literature review in the following chapter, a coherent and systematic approach to skill-based organizing does not exist as scholars tend to define this concept in several diverse ways, normally depending on the different specific nuance of this vast field of study that they decide to focus on. Indeed, one of the main objectives of this research is to recollect similar, almost parallel and overlapping contributions on skill-based organizing in order to define some general common features and develop a stronger overall framework.

Most important among the premises that led scholars to look at organizational alternatives is the relentlessly, fast-changing contemporary environment does not allow companies to rely on rigid structures based on strict hierarchies, functions and hyper-specific job descriptions. In addition to that, a pressing need to adapt to an evolved job market where competency-level rose exponentially, and attrition rates are higher and higher represents another case for change. As the necessity of designing leaner, more agile and flexible organizations is immediately and easily understandable when looking at operational and social environment, it is important to highlight how the implementation of the skill-based organizing theoretical framework may lead to a thorough rethink of how organizations are built. In fact, skill-based theorists' proposal is to rethink every organizational feature under new lenses which center their focus on competencies and capabilities of each member. In this way, it is the unique combination of each unique skillset that individuals bring into the organization to define the unique structure that represents the organizational "best fit" for a specific company. The most extreme versions of this theory suggest that job descriptions and role and responsibilities definitions should be completely dismantled in favor of an organizational setup which is tailor-made to the characteristics of single members in terms of career management, pay strategies, team design and so on. Most relevant implications of skill-based organizing framework will be addressed in the next chapter which is dedicated to a thorough literature review of main contributions on this topic. To begin with, the reasons behind and the process through which realize the shift from a job-based to a competency-based model are outlined. Subsequently, a deep dive of specific human

resources implications of skill-based models is proposed: First, the analysis will focus on how talent management is affected by this thorough transformation of organizational structure, then an interesting perspective on major scholars' proposals for pay system change will be presented. In conclusion, an additional layer of complexity will be added to research as we will discuss on how the skill-based organizing framework may apply to multinational corporations with particular attention to potential gains for these organizations as well as major threats and barriers to successful change. Indeed, multinational companies in our contemporary socio-economic context have to deal with strong opposing forces – both exogenous and endogenous – that, on the one hand, push towards leaner organizational structures and processes so to increase proactiveness and reactiveness towards the external fast-evolving world and, on the other hand, pull for maintaining significant levels of standardization and formalization for granting substantial control over functions, geographies, markets, categories and channels.

In order to build a deeper understanding of how skill-based organizing is impacting multinational companies and how these are facing the challenge of reshaping for agility in present context, the case of Procter & Gamble – the world-leading fast-moving consumer goods company established in 1837 in Cincinnati, Ohio – is presented. Indeed, notwithstanding the incredibly wide range of countries, markets, categories in which P&G is operating and the estimated 5 billion consumers' base it is serving, the American company is undergoing a process of rethinking of its organizational design for implementing skill-based principles within its huge structure.

Considering all factors of the analysis that will be developed, the overall objective of this research design is thus to i) identify within the wide yet nuanced corpus of reviewed literature the general features of skill-based organizational framework; ii) deep-dive the analysis on specific HR-related topics like talent and career management and pay systems; iii) discuss and highlight opportunities, threats and barriers of applying skill-based model to multinational corporations, especially through the example of Procter & Gamble experience.

## **2. THE THEORY OF SKILL-BASED ORGANIZING**

### **2.1 SKILL-BASED ORGANIZING: HISTORY AND CONCEPTUAL FRAMEWORK**

Skill-based organizing systems appeared as a conceptual evolution of scientific research on organizational design in the early 1990s as a growing number of scholars began theorizing a revolutionary approach to the organizational principles of companies. The very intuitive and simple idea at the foundation of skill-based organizing is to switch the organizational focus from the core activities and operations of a firm – which led to the functional organizing model – to the skills needed to efficiently and effectively complete each operational task. Most importantly, this innovative paradigm also shifted the attention on the capabilities and specific skillsets of individuals rather than centering the organizational focus on standard predetermined tasks. Consequently, the route to an enormous number of new potential organizational designs and solutions was opened very quickly.

Looking at the history of research development, the initial push towards skill-based organizing framework was triggered by the conceptualization of the so-called skill-based pay systems. (Lawler & Ledford, 1992) This new theoretical approach originated from what was initially intended to be some kind of incremental innovation to high involvement approach to management. Indeed, the 1980s were characterized by the exponential emergence of organizational theories which proposed to leverage elevated levels of employees' engagement through several HR-related tools for achieving better efficiency and efficacy of corporate performance. The basic assumption underlying to this approach is significantly overlapping to the reasons behind the introduction of skill-based organizing and consists of the belief that both material and immaterial incentive to employees were an extremely powerful resource for increasing individual motivation and, thus, company's performance. (Lawler & Ledford, 1992) When focusing on skill-based organizing, we will highlight how one of the main positive effects of this model is that it allows organizations to build and offer way more meaningful career journeys to their employees resulting – in fact – in higher motivation and performance levels. Hence, skill-based pay systems – which will be addressed in greater depth in section 2.3 - originally had the purpose of tailorizing rewards and compensation at the individual level based on each organizational member's skillset. However, this theoretical innovation triggered a major revolution in organizational studies as it led to an explosion of contributions around the new concept of a skill-based approach to human resources management. (Lawler & Ledford, 1992)

The reason why skill-based pay systems proposal is a powerful catalyst for the introduction of skill-based organizing is thoroughly explained by an insightful paper by Edward Lawler and Gerald Ledford (1992) which represents one of the first holistic contributions on this topic. The simple yet very sound argument proposed in the introduction to this paper is that skill-based pay systems request structural interventions to the organizational design in order to be effectively implemented. Indeed, the process of linking reward systems to individual skillsets is subordinated to the process of defining clear and equal criteria for skills development, certification and relevance in terms of work to be done. (Lawler & Ledford, 1992) The immediate consequence is that an organization which aims at successfully implementing a skill-based reward system must necessarily begin with thoroughly rethinking and redesigning its operational processes and HR management systems. This substantially means that the organization needs to switch from a job-based model to a skill-based model.

Moving from this initial argument, Lawler and Ledford attempted at building a systematic approach to skill-based management. In outlining the funding principles of this organizational model, the American scholars adopted what we will demonstrate to be quite of an extreme approach, advocating for designs that are completely and exclusively based on skills as the one and only defining factor for the definition of roles and responsibilities as well as HR management in general. In fact, in the moment of setting up their theoretical principles, the authors state that “the most common approach to human resource management is based on job descriptions. Needed skills are discovered by analyzing the jobs in the organization” but “skill is only one factor in the typical job analysis. Other factors may include level of responsibility, number of subordinates, physical working conditions, and so on. The importance of skill may be diluted by these other factors.” (Lawler & Ledford, 1992) Hence, Lawler and Ledford basically criticize the focus on jobs rather than on individuals that is dominant in classic organizational theories.

However, when looking to the pragmatic objective of delivering business results which grant the organization’s survival, the effectiveness of skill-based approach in maintaining and reinforcing the company’s competitive advantage is the real differentiating factor for determining whether this supposedly revolutionary theory may succeed in the real economic environment. Indeed, skill-based models may become the dominant one only if they manage to show the ability to support and feed companies’ competitive advantage and, most importantly, to expand it more efficiently than classic job-based models do. The key for demonstrating and achieving this ambitious goal is in the intimate interconnectedness of skill-based approach with the dynamic capabilities’ theory. As defined by



Teece, Pisano and Shuey (1997) in their historical work titled “Dynamic Capabilities and Strategic Management”, dynamic capabilities consist of a company’s capability of “adapting, integrating, and reconfiguring internal and external organizational skills, resources, and functional competences to match the requirements of a changing environment”. This theory is a significant evolution of the Nelson and Winter’s (1982) resource-based view of the firm, and it basically proposes the idea that in a fast-changing ever-evolving socio-economic environment, the real competitive advantage of a company is defined by its ability to identify its differentiating resources and combine and re-combine them in a timely manner to effectively react to business needs. Hence, the defining activity of top management of any corporation should be that of thoroughly understanding what the distinctive, unique capabilities, resources and competencies of its organization are. In fact, a company’s competitive advantage may only be fully developed and consistently sustained through time once a perfect knowledge of dynamic capabilities is built. Most importantly, and here the actual link of this theory with that of skill-based organizing emerges, this clarity on the essential components of competitive advantage arises from the evaluation of core skillsets and resources of the organization, not from the definition of generic roles, jobs and/or tasks. Indeed – if we correctly follow the logic of Pierce et al.’s theory – the way in which jobs, hierarchies, processes and structures are defined is a consequence of the extremely specific capabilities and skillsets that the organization owns. Thus, top management cannot rely on the definition of work to be done and, consequently, of job descriptions as the real core of any organizational design process. Rather, the definition of jobs and teams should be the ultimate outcome of a primary path of building awareness on the key components of competitive advantage, which is dynamic capabilities or - in this case - skills. This path of defining dynamic capabilities and skills upon which building the firm’s competitive advantage commonly begins from the assessment of the strategic goals and outcome that the organization aspires to achieve. An insightful research by Fotis Draganidis and Gregoris Mentzas (2006) realized a qualitative and quantitative analysis of 22 competence management systems and 18 learning management systems highlighting that the identification of desired results is typically the step zero in building these models as knowing “what organizational performance [one] is trying to achieve” is crucial in determining a “desired state of competencies”. As trivial as it may appear, this approach is often underestimated in practical cases and it is also a best-in-class practice for any health check analysis of organization. Indeed, one of the more subtle challenges for top management at this stage is that of identifying any existing mismatch between current skill mix and the “desired state of competencies” and understand how to reduce it and – hopefully – remove it. The importance of knowing and fixing desired results

led some scholars and, as it will emerge in chapter 3, companies to move even beyond skill-based organizing towards the idea of outcome-based organizing.

As the organizational perspective of competency-based organizing is embraced and companies choose to undertake the challenge of rethinking their own structure through a skill-based approach, the first, fundamental step is to accept that “the basic building core block [of their design] needs to be the individual.” (Stalk et al., 1992) What is very relevant to highlight here is the fact that this “individual-centricity” must be developed in two directions. On the one hand, organizations have to understand what skills each of their member needs; on the other hand, the skillset of each individual must be defined. Of course, these two elements need to coincide in order to achieve competitive advantage. Therefore, the successful firm is the one able to combine individual skills mix with core competencies the organization needs for achieving its desired business outcome. (Stalk et al., 1992) This general assumption has direct impact on every area of the organization and deeply influences all HR practices. This impact will be analyzed in the following paragraphs.

## **2.2 FROM JOB-BASED TO COMPETENCY-BASED MODELS**

First, the innovative viewpoint of skill-based organizing impacts organizations at a very basic level forcing a revolutionary change in work design that needs shifting from job descriptions to “person descriptions”. Person descriptions define both specific individual skills and specific capabilities needed for a person to succeed in a particular work area. (Lawler, 1994) Edward Lawler (1994) further developed on this topic in several other contributions, interestingly noting that

in a traditional organization, the concept of jobs often substitutes for the analysis of work processes and the skills needed to perform them. The challenge in a competency-based organization is to focus on what individuals need to be able to do in order to make the work processes operate effectively.

The idea of focusing on skills needed to make a firm operate effectively precisely explains how core competencies represent the true key to sustainable competitive advantage.

Person descriptions identifying skill mix that organizational members own trigger a refocus on the definition of immediately upper level of job and tasks assignment as well as the structuring of hierarchies on larger scale. Indeed, competency-based models that are centered around individual skillsets also push towards the redefinition of ‘work teams’ as the basic work unit. (Galbraith and Lawler, 1993) This would allow to overcome the problem of fixed, rigidly defined job assignments

that are incompatible with skill-based organizing as work teams may manage tasks in a more flexible way avoiding permanent assignments of activities to particular individuals. (Galbraith and Lawler, 1993) Having work teams in charge of managing significant portions of companies activities perfectly fits the concept of outcome-based organizing, too. In fact, once a final goal is set, a work team has the flexibility of adapting its structure, internal functioning and processes in the most effective manner. Here, the real differentiator versus teamwork organization in traditional job-based models is that not only workload and projects may be managed flexibly according to the assigned target, but also particular individuals may participate in one or more activities that neither are linked to specific jobs and functions nor are fixed and predetermined. In an hypothetical example of a traditional job-based setup, the finance manager of a sales customer team will always be in charge of managing budget and controlling revenues and costs structures in any different project. Once we switch to a skill-based model, that same individual may instead own a varied skillset allowing them to complete diverse tasks according to the nature and requirements of specific projects. Of course, the extreme case of teams where no specific expertise in any area exists cannot be the desired final state, either. Rather, specific expertise can be exploited for achieving superior performance if its potential is applied in a flexible combination with other skills owned by individuals.

Skill-based models trigger a boost in flexibility not only for roles and jobs definition, but also at the higher level of companies' hierarchies and structures. Stalk, Evans and Shulman (1992) developed a very strong logical argumentation on this topic. In their proposal, skill-based organizing is framed beneath the idea of capabilities-based competition. The main basic assumption of this model is that "the building blocks of corporate strategy are not products and markets but business processes" and "a capability is [exactly] a set of business processes strategically understood." This means that understanding the key business processes with the highest added value for the customer as well as the highest ROI for the company is the core strategic activity of top management. Hence, the competitive advantage of a firm depends on the ability of management – and, according to this theory, exactly the CEO - of "transforming key processes into strategic capabilities that consistently provide superior value to the customer. (Stalk et al., 1992) Although this conceptual framework is quite clear and similar to the aforementioned theory of dynamic capabilities of the firm, what is now to be explained is how and why the idea of capabilities being the core of corporate strategy impacts organizational design in a relevant manner. To answer this question, we can leverage Stalk et al. contribution once again. Indeed, in their model the rise of competitive advantage happens when key business processes are linked and managed together to create a core capability, but this activity of linking and reshaping

processes necessarily involves an organizational redesign. Key business processes, in fact, need a common infrastructure to be connected and integrate with each other and this organizational platform has to “transcend traditional SBUs and functions.” (Stalk et al., 1992) This push for interconnectedness of functions and business units is inherent to the concept of capabilities as defined by Stark et al. (1992), as they consist of the strategic understanding of business processes. In a certain sense, we may state that the defining element, the real essence of competitive advantage in this model is the mutual interaction of stand-alone business processes rather than these processes themselves. Hence, the strategic relevance of within-company’s interactions outdoes that of business processes. The immediate consequence is that organizational design, which essentially consists of the definition of firm’s members interactions, needs to change if capability-based organizing is to be implemented. At this point, the reason why Stark et al. model pushes towards an across-functions, across-SBUs remodelling of hierarchies is immediate to understand. Indeed, as organizational structure needs redesigning and key business processes are inherently developed along multiple dimensions, it is natural for a capability-based company to re-think its hierarchy transcending traditional organizational units like functions. The practical implications and hurdles to this theoretical proposal will be fully addressed in the following chapter through the case of Procter & Gamble.

Before moving to the discussion of how skill-based organizing affects central HR management topics as pay systems and career management, one more element of job designing is to be explain: The linking and matching of assignments roles and responsibilities with person descriptions. As skill-based theoretical framework ultimately aims at giving corporations and top management newer, more effective tools to boost organizational performance, the topic of having the right individual with the right skillset performing their perfect fit task must have central relevance. Indeed, the whole proposal of redesigning organization under a skills perspective lies on the assumption that capabilities-based organizing allow firms to be agile enough to adapt in a timely manner to an ever-changing environment, resulting in superior-quality performance under any condition and evolving situation as well as a sustained competitive advantage. The consequence is that the aforementioned person descriptions cannot simply be an analytical-descriptive exercise to map organizational members’ skills. Rather, a further step towards the integration of the specific capabilities required by core company processes with individual skillsets needs to be taken. Thus, once top management has assessed and understood the key business processes of the firm their leading and defined which capabilities and skills are needed, the following step is to build a system to ensure that skills needed and skills availability within or outside the organization are matched consistently,

enduringly and successfully. If this revolutionary mental switch is realized while approaching assignments and tasks definition process, the overcoming of functions and other standard organizational units will be quite immediate. In fact, in this scenario the exclusive leading logic for determining roles and responsibilities' distribution would be the necessity for the company to grant the – ideally – perfect fit between the skills required by a specific task and the skills owned by the individual to whom that task is assigned, notwithstanding functional or SBUs logics. However, as already noted, sectorial or specific expertise should not completely be eliminated in organizational matters. Indeed, expertise and knowledge contribute in defining individual competencies and may also be a booster of performance. As a matter of fact, the distinction between skills and expertise realized so far is rather theoretical than practical – as we may consider expertise as a set of specific skills upon which an individual has developed great mastery through time and consistent application. Therefore, little to no contrast should exist between this two concept and management should rather think of expertise as the real essence of individuals' skillsets and capabilities when building person descriptions.

One additional consideration around skillsets is worth developing in this section, and that consists of highlighting the crucial importance of one specific capability that individuals need to be an ideal fit in those organization that decide to become skill-based. This capability is learning mindset. In fact, skills and capabilities as defined so far have a much shorter life cycle when compared to traditional conceptualization of competency and expertise applied to standard, rigidly-defined jobs. Trivially, the agility and flexibility of skill-based organization that keeps evolving through constant re-distribution of tasks and responsibilities require individuals to be capable of adapting and be continuously learning new skills in turn. Moreover, technology's exponential rate of growth, with innovation and digitalization impacting competitive environment more and more fastly, accelerated the shortening of skills and competencies life cycle. Hence, a double pression is exerted over skills duration by both agile nature of skill-based systems and environmental evolution of technology. In a similar context, the ability of individuals to learn and unlearn skills and competencies rapidly and with agility is definitely a superior quality skill. In fact, skill-based companies cannot afford to attract within their organization members that are not keen on learning and passionate for growing as they would sooner or later incur in the costly need of replacing these individuals that are not able to evolve their skills to remain relevant and competitive in both internal and external markets. To this extent, individuals with a winning learning mindset and organizations with strong, agile talent development

programs and systems are key requirements for building successful skill-based firms. This topic will be further developed in paragraph 2.4.

Summarizing the key logical steps of the discussion on the conceptual and practical shift that companies need to realize from job-based to competency-based models for implementing skill-based organizing, we may highlight several takeaways. First, top management of skill-based firms should abandon traditional job descriptions in favor of person descriptions, that is tailored definitions and descriptions of relevant individual skillsets. Mapping these skillsets is not a merely awareness raising exercise, but it is one of the two funding elements for realizing skill-based work design and tasks assignments. Indeed, once a thorough understanding of key resources has been built, the following step – which in practice is often contextual to the first one – is for management to investigate its firm's key business processes and find innovative ways of combining them for developing infrastructures and links generating distinctive capabilities. These capabilities are the building blocks of sustained competitive advantage and the process of creating this knowledge often begins with questioning the desired outcome an organization is chasing. As this assessment is complete as well, the continuous job of management is that of ensuring a resource management system that is successful in consistently matching skillsets and expertise of individuals with skills required to complete specific tasks. In this context, skill-based organizing agility and exponentially growing rates of technological innovation shorten skills life cycle in an impressive manner, making of learning mindset a superior skill required for individuals to be top performer in such organizations.

### **2.3 THE IMPACT OF SKILL-BASED ORGANIZING ON PAY SYSTEMS**

Pay systems are vital within socio-economic organizations as they fulfil several functions that are crucial for granting success. Lawler (1995) identified at least 6 dimensions that explain why pay systems are so important both as a tool for achieving a certain organizational goal and as a factor influencing organization's possibilities of succeeding. Some of these dimensions are quite intuitive, such as the impact of reward systems on attraction and retention, on the cost structure of the firm as well as on motivation of performance. (Lawler, 1995) Two other dimensions concern the role of reward systems in determining and reinforcing corporate culture and structures, instead (Lawler, 1995). For instance, a pay system strongly based upon equal treatment of individuals will likely lead to higher levels of cohesion. The sixth dimension is, in the end, the most relevant one for competency-based models as it is directly linked to the role of pay systems in influencing skills and knowledge development. (Lawler, 1995) This argument is one of the fundamental basic assumptions of the

paragraph introduced: the more individuals are rewarded based on the very specific skillset they own, the more they will be motivated to learn and develop newer and newer skills. This quite simple logical association leads to several consequences - especially when the entire organizational design is tailored on skillset of firms' members - that will be discussed in this paragraph.

As mentioned before, the discussion around skill-based pay systems has been one of the major triggers of the theoretical revolution of skill-based organizing. Indeed, scientific contributions on the topic were already present in organizational studies' literature in the mid 1980s, with one of the first systemic approaches being proposed by Edward Lawler and Gerald Ledford (1987). At that time, the two American scholars noticed how "most pay systems [were] based on job analysis and job evaluation", with the traditional practice of "organization decid[ing] how much a particular job [was] worth and then set[ting] a range of pay that an individual [could] get for performing that job." (Lawler & Ledford, 1987) This highly standardized reward system has been hardly challenged up until a new proposal of paying people for the skills they own instead of paying them for the job perform emerged. However, building a skill-based reward systems comes with a series of tough challenges to address in order to create a winning organization. Intuitively, the skill-based pay system superiority with respects to traditional pay systems in sustaining the development of a capability-based organization lies in the way greater flexibility, agility and adaptability of the first one. Similarly to what happens in the process of assessing the key business process and focusing on building core competencies to gain competitive advantage, skill-based paying allows management to be extremely intentional in the utilization of financial resources for orienting organizational development. Hence, skill-based rewards are first of all a tool for influencing the evolution of the overall corporate skillset through the intentional selection of specific capabilities to reward and incentive. To state it in a different way, choosing which skills rewarding to prioritize will ultimately lead to those skills being more and more developed within the company as individuals will be more highly motivated in learning them. This particular feature of skill-based pay systems is even more relevant when analyzed along with the process of re-thinking work design discussed in the previous paragraph. Indeed, once an outcome-based approach is chosen for building the organizational structure, top management will be willing to implement rewards systems that incentive learning and development of identified core capabilities and strategically relevant skills. Under this perspective, linking rewards systems with skills represents a very powerful tool in the transition towards a skill-based organization as it allows management to force the development and expansion of specific desired skills within the organization.

However, identifying these skills and determining rewarding criteria is not a straightforward process and comes with several challenges, especially for managerial responsibilities. Indeed, “managers and higher-level professionals can learn horizontal skills. [...] But they can also learn downwardly vertical skills, [...] upwardly vertical skills [...] and skills needed to perform their jobs in greater depth. (Lawler & Ledford, 1987) Thus, qualitative and quantitative width of skills that these professionals may learn is the first layer of complexity in building skill-based pay systems. This characteristics of managerial profiles requires companies to identify broad, general criteria for rewarding skills development. At the same time, firms must also find the right balance between indistinctly pay for skills and the need for selectively rewards specific skills in order to incentive (or disincentive) their expansion. In addition to the very basic hurdle of selecting which skills to pay for, another major problem is that of determining how much to pay for these skills, that is skills pay rates. First of all, we need to clarify that skills evaluation is hardly a quantitative process. The only way for matching skills evaluation with quantitative measures is assuming that a specific performance and/or business result demonstrates the ownership of a specific skills: It is crystal clear that this objective, quantitative evaluation is based on a qualitative assumption in the first place. However, this approach is extremely useful as it allows organizations to link individual performance to their rewards systems, also in skill-based pay approaches. Aside from this logical background consideration, the process of defining skills pay rates usually consists of benchmarking with the external market to understand how similar skills are rewarded in other contexts. As a result, companies will define several mastery levels for each skills and consequently analyze how competitors and other firms pay for the same skill at the same mastery level. Albeit external benchmarking being a quite common practice in all pay systems design process, skill-based reward systems have a particular feature that makes reality more complex. In fact, new problems arise when an organization decides to try and build its competitive advantage upon the development of innovative skills and capabilities that are not used in the benchmark market. In this case, a wider margin of flexibility in deciding pay rates exists, and companies may use this margin according to the extent to which they want to incentive these new competencies development.

In light of the considerations made on skill-based pay systems so far, organizational flexibility is obviously the greatest – at least potential – advantage for companies. In addition to that, Lawler and Ledford also identify the potentially positive impact of these systems in terms of employees’ greater knowledge of production and functional processes allowing them to participate in more stages of operations as well as in terms of commitment to organizational effectiveness, development of a



participative culture and self-management. (Lawler & Ledford, 1987) On the opposite, we may also highlight several shortcomings or potential weaknesses of skill-based pay systems, other than that already mentioned of difficulty in setting proper pay rates. First of all, these systems would lead to heavier cost structure for two main reasons: i) The natural incentive in growing skills motivates members to keep learning new capabilities leading to constant pay increases, so that average growth through times would be higher than in standard rewards systems; ii) the principal tool for developing skills and competencies is training, and training is expensive in terms of both money and time investments. Furthermore, it is not easy to maintain a strong tie between skills developed by employees and skills required by the company to sustain its competitive advantage. Hence, growth in skills and, as a consequence, growth in salary expenses may not always correspond to growth of business. (Lawler & Ledford, 1987) An additional problem is related to the life cycles of skills which, as explained above, is becoming shorter and shorter. This leads to the serious threat of paying employees for unnecessary or obsolete skills. Therefore, skill-based rewards systems should also consider proper mechanisms to avoid this risk.

As an overall assessment of skill-based pay systems has been completed, highlighting their main characteristics, potential for growth, advantages and threats or weaknesses, an interesting evolution of research consists of trying and evaluate how this proposal has been turned into practice by companies. Almost forty years after first scholars began framing this reward systems theory, several studies attempted at observing real-life cases and understanding whether skill-based pay may increase firms' performance and success. An interesting 5-year-long quantitative analysis by Erich Dierdorff and Eric Surface (2008) looked for the existence of correlation between skill-based pay and skills change/maintenance within organizations. With little surprise, data from their observation seemed to confirm the commonly held assumption that skill-based pay incentives skills learning and development. However, a probably even more interesting aspect emerged. Indeed, Dierdorff and Surface (2008) found out that

individuals with initial success in earning SBP are also those that more rapidly increase their skill proficiency, even after controlling for several other salient factors (e.g., the difficulty of the focal skill, general cognitive ability, different job contexts, etc.). These results are relevant to compensation practice in that they depict the criticality of early skill demonstration to later skill development. In other words, an individual's initial success or failure under an SBP system appears to have a lasting influence on subsequent skill change regardless of the

difficulty of the skill, his or her cognitive capacity for learning, and particular job responsibilities.

This relevant finding leads to additional considerations that exceed compensation systems boundaries addressing talent management processes and principles. In fact, it seems that a skill-based pay approach has direct impact on individual performance and possibilities of success within a company, which in turn generates consequences on retention and career management of employees.

Further relevant insights on operationalization and success of skill-based rewards system derive from another quantitative research on 97 facilities realized by Shaw et al (2005). Specifically, the scholars participating in the research checked for relations among contextual factors, skill-based pay design factors and results in terms of productivity and/or cost effectiveness of companies. First, it is interestingly highlighted how contextual factors (i.e. the supervisor/employee support) still play a major role in defining skill-based pay systems' success. Hence, design factors' impact loses relevance and the conclusion is that no especially powerful feature of these systems existing. Rather, it is the specific combination of design and contextual factors that generate success. (Shaw et al., 2005) However, skill-based pay systems effectiveness is not an exclusive matter of good fate. Indeed, the importance of some elements is highlighted by this contribution, like the criticality of within-organizations variations in compensation approaches. In fact, "It is not simply whether a particular compensation system (in our case SBP) is used. Rather, it is the specific characteristics within that broad compensation approach that predict effectiveness." (Shaw et al., 2005) In addition to that, Shaw et al. (2005) state that skill-based pay systems are easier to implement with success in manufacturing than in service facilities, and this is quite intuitive if we recall the consideration about the difficulties of identifying and determining critical skills and settings adequate pay rates. A more counterintuitive, yet suprising, finding is instead that skill-based pay systems seem likely to fail in organizations undergoing relevant technical innovation. (Shaw et al., 2005) At a first glance, this outcome appears to be illogical since skill-based pay approaches originated with the exact idea of giving firms greater flexibility to increase rapidity in adaptation to change. However, a deeper analysis highlights how skill-based pay systems "mandate stability in the technical core" (Shaw et al., 2005) of companies' capabilities as they need some degree of formalization of skill blocks, progression and potential development paths.

Before concluding the discussion about the impact of skill-based organizing on pay systems, it is worth addressing the effects of skill-based reward systems on moral aspects of the corporate like

justice and equality. To this extent, Cynthia Lee et al. (1999) conducted a two-year-long survey on a consumer products company in Northeastern United States to assess employees perception of justice of pay system. The authors of this study define “organizational justice [as] an evaluative judgement about the appropriateness of a persons’s fate or treatment by others.” (Lee et al., 1999) The logical reasoning underlying the research explains how the characteristics of a skill-based pay system, namely understanding, advancement and training, directly influence fairness perception within an organization which in turn determines both pay satisfaction and benefits of such system. (Lee et al., 1999) The results of the survey highlight how fairness perception is mainly impacted by two funding elements: i) the communication/understanding of skill-based pay design and principles, in line with the basic assumption for which understanding how rewards are allocated is the cornerstone of system acceptance, and ii) trainings as an equal opportunity of up-skilling, that is the fair possibility of receiving higher reward levels as a result of a learning process. (Lee et al., 1999) One of the main consequences of the latter point is that organizations require allowing employees to allocate proper time for their training, granting them the chance of increasing their skills level. An additional consideration about the relationship between skill-based pay and justice perception concerns the need of organizational members to rethink their conception of work and organization’s goals. As Lawler shown, differently from job-based designs where employees may find self-motivation and intrinsic from doing their job effectively, in skill-based approaches they need to think of themselves as members of a wider team where they play a pivotal role defined by their skills and capabilities. (Lawler, 1995)

In this paragraph we analyzed the impact of skill-based organizational approaches on pay systems. As mentioned several times, skill-based pay proposals have been one of the main triggers of skill-based design revolution in organizational studies. Indeed, these reward systems deeply impact organizations on many dimensions, with the most important six identified by Lawler (1995) in his 1995 contribution. Skill-based pay has significant consequences on both corporate culture and individual motivation. As concerns the latter, grounds of self-motivation of work completely change when switching from job-based to skill-based models. Capability-based rewards system also totally reshape the role of learning and development processes within companies as individuals receive an enormous incentive to train and grow their own skillset in order to access higher levels of rewards. Among the biggest challenges of shifting to skill-based pay there is that of assessing and defining appropriate skill pay rates. As observed, this task becomes extremely tough when dealing with either innovative skills that cannot be benchmarked in the external market or those capabilities critical for

the achievement of the company's competitive advantage. The intrinsic features of skill-based pay systems also influence companies cost structure as they tend to consistently increase over time due to the propensity of employees to grow their skills in order to achieved higher pay. Moreover, clear communication of skill-based pay design principles and mechanisms, as well as training opportunities have a pivotal role in determining justice and fairness perception of these systems.

In the following paragraph, we will address with proper depth how talent and careers management are affected by the introduction of skill-based organizing principles.

## **2.4 THE IMPACT OF SKILL-BASED ORGANIZING ON TALENT MANAGEMENT**

Revolutioning organizational design according to skill-based organizing principles causes companies to totally rethink and reshape their talent and career management systems. This implies a challenging, deep cultural change at every stage of careers, since the very first moment of attracting, recruiting and selecting new talents until the time of deciding on potential opportunities of vertical growth and promotion. Indeed, managing career paths under a skill-based viewpoint means assessing an individual specific skillset, namely the "person description" presented in paragraph 2.2, and evaluating its fit to the organization as well as its potential for development and expansion. In order for this to properly happen leading to the construction of a sustainable competitive advantage, firms need to operate a cultural switch towards the idea of organizational fit rather than narrowly focusing on specific jobs their assigning or hiring for.

Scullion and Collings (2011) defined

Talent management [as] the pool of activities which are concerning to attracting, selecting, developing and retaining the best employees in the strategic roles. [...] Talent management recognizes people who excel at particular activities and performance upon whom support is offered to enable them to 'push the envelope' while capturing and sharing what they do differently so as colleagues can emulate them.

The strategic relevance of talent management in achieving competitive advantage is quite intuitive as the ability of a company to intercept the best talents with the required skills from the market is critical for success. Thus, organization success may only be granted if strongest employees are attracted and retained through adequate development and reward plans as well as the creation of set of meaningful career paths. (Ballestreros Rodriguez & Immaculada, 2010) This crucial organizational challenge seemingly becomes even harder if we consider the current globalized, fast-changing

environment where the demand of highly skilled talents exponentially increased, leading to a dramatical competition among companies for attracting best performers. In light of these consideration, it is clear that talent management strategy of a company requires being integrated within the overall organizational strategy. Indeed,

Talent management is linked to culture and people of the organization. People and culture are the heart of the organization for creating the successful talent management strategy. The biggest challenges for the managers to manage talent is not the technical one, it's the cultural one. (Rabbi, 2015)

This concept reinforce the idea that implementing a winning talent management strategy within the framework of skill-based organizing is a cultural challenge before than an operational challenge. In their contribution, Rabbi et al. (2015) suggested that three are the relevant components for building a talent management strategy that is winning in sustaining competitive advantage and achieving superior performance; these factors are talent attraction and selection, talent retention and talent development. As concerns the former, companies have several options for gathering talents with the most relevant distinction being between internal and external sourcing channels. In fact, organizations may find the right talent for a specific assignment within their existing internal talent pool or – on the contrary - they may rely on recruiting and/or head hunting processes for in-sourcing required competencies from the outside. Each option comes with specific benefits and risks. In the case of internal sourcing of skills and capabilities, organizations have to deal with the double-edged factors of cultural and relational ties. On the one hand, companies may rely on higher reliability derived from the selection of an already known resource; on the other hand, employees performance may be limited by corporate culture and routine bias limiting potential for innovation and change. The exact but opposite pros and cons applies to the decision of hiring externally for a specific role or assignment, as companies may benefit from recruiting a brand-new talent with fresh ideas and knowledge but, at the same time, they're withdrawing from the opportunity of leveraging internal proved experience. The second important factor for successful talent management strategies is talent retention, that is the

process of retaining the talented employees with the organization for a longer period of time. The turn of talent from any organizations very harmful as it causes a reduction in the productivity of the organization as well as more cost to attract the new pool of talent. (Rabbi, 2015)

Talent retention strategies are strictly tied to rewards systems – already addressed in the previous paragraph – and they are mainly classified into two categories: Intrinsic, regarding non-monetary rewards and recognitions, and extrinsic, that is monetary rewards that aim at fulfilling talents’ needs. (Rabbi, 2015) Once again, this argument lies on the basic assumption for which rewards has a direct positive impact on motivation which in turn positively influences performance. As regards the third component of talent management strategy, namely talent development, some central concepts have already been introduced while discussing skill-based pay systems. In an ever-evolving economic environment, characterized by increasingly rapid technological evolution, continuous learning and upskilling is an essential feature for both building winning organizations and motivating talents. In line with this second premise, learning and development for management of top talents is critically important as employees are more and more willing of constantly expanding their knowledge and skills to remain relevant on the job market. In addition to that, companies need to continuously upgrade capabilities in order to preserve and even increase their competitive advantage, and in many cases training talented employees is the best way to achieve this organizational goal rather than looking for specific skills externally. In the case of a skill-based organizing approach, talent development gathers even further relevance as the whole organizational design is built upon the internally available skillsets and ability of individuals of switching among different tasks and assignment as well as of acquiring new capabilities. Hence, designing efficient and effective talent development systems is critical for skill-based organizations.

As thoroughly observed through this chapter, skill-based theoretical framework establishes its roots in the idea that individual capabilities should be at the center of organizational designing process for the purpose of building a sustained competitive advantage and deliver superior performance in an environment which features chronical instability as well as constant innovation and, thus, requires agility and flexibility. In this context, talent management in skill-based organizations ultimately consists of the capability of placing the right skill at the right place in a timely and efficient manner. Moreover, for talent management to be effectively implemented in skill-based systems, individuals with a high potential for rapidly learning new skills and developing several different capabilities are needed. Thus, building a skill-based company is not only about flexibly and thoughtfully managing talents, but also – and most importantly – selecting talents with the best “person-organization fit.” (Bowen et al., 1991) The concept of person-organization fit has been introduced by David Bowen, Gerald Ledford and Barry Nathan (1991) while proposing a new approach to selection processes. The title of their paper, “Hiring for the organization, not the job”, perfectly summarizes their whole

argument. Likely to what should happen in work design processes when skill-based companies shift from job descriptions to person descriptions, skill-based hiring processes should re-center their focus on detecting whether candidates may be a potential fit for the organization or not rather than trying to understand if that candidate may fit a specific role. In fact, the very essence of skill-based organizing suggests firms to build work units where tasks are quickly and fluidly reassigned and reshaped. Therefore, fit for an initial role should not be as great of a concern as fit for the organization should be when selecting candidates. First of all, hiring for the organization means thoroughly assessing and understanding several dimensions such as corporate culture, values and purposes as well as identifying critical knowledge and skills needed to succeed in the company. Here, it is worth highlighting that the skillset of the ideal organizational perfect fit consists of multiple skills categories, both technical – or hard - and social – or soft. According to the type of job and companies taken into account, and especially for the case of managerial responsibilities, social skills in skill-based models often are the most relevant ones. What is very important to highlight at this point is the importance of learning mindset within the skillset of the perfect fit for skill-based organization. Indeed, as explained in paragraph 2.2, the attitude of individuals towards learning and expanding their capabilities is probably the most important skill for members of this kind of organizations as it allows employees to constantly and consistently evolve their knowledge and ability so to preserve top performance. As a consequence of these considerations, Bowen et al. (1991) suggest that companies should move towards a more behavioral and attitudinal selection process for verifying the described person-organization fit, giving technical, hard knowledge a secondary relevance. Under a logical standpoint, this idea is very strong and coherent with the importance of training in skill-based organizations as both concepts share the assumption that technical skills may be learnt while social and behavioral skills are inherent to individuals' character and may be more hardly developed.

Another central pillar in building a winning talent management system in skill-based organization consists of career management. According to Ballestreros Rodriguez and Immaculada (2010), one of the two critical elements for ensuring talented employees to remain in companies through time is the availability for them of meaningful career paths. Here, a pressing challenge arise for top management as they need to reconcile two different organizational need in order to deliver business results and achieve competitive advantage. This challenge consists of matching the business need of having required skills on specific tasks at the right time with individuals' need of developing their skillset through meaningful assignments in a meaningful career journey. An unbalance towards the former need might lead to employees' demotivation issues with increased attrition risks, while an

unbalance towards the latter might lead to overall business performance issues. Thus, consistently delivering this required organizational balance is vital to ensure companies success. Looking at the perspective of business needs, skill-based approaches have the intrinsic advantage of building organizations where multiple individuals may have the ability of developing newly required skills in a timely manner, thus it may be easier for companies to fill vacancies with higher skills fit rates. However, the importance of centers of expertise should not be underestimated as they always represent a relevant resource for firms, especially when addressing core capabilities. As concerns the need of individuals for meaningful development of their careers, skill-based organizing brings potential benefits as well. In fact, as individuals in skill-based organizations tend to have wider skillsets with capabilities spanning across different fields, and also in light of their attitude for learning, it will be easier for them to expand their knowledge and build new capabilities. To this extent, a crucial consideration is worth highlighting. Indeed, learning attitude tend to make skill-based organizations members willing to developed capabilities in a more varied, also unpredictable manner. This element, linked with the need of offering meaningful career paths, generates a strong push for overcoming traditional organizational design. In fact, in skill-based organizing more and more employees will consider as motivating and meaningful potential career paths that both horizontally and vertically move towards variably adjacent skills to develop. As a consequence, desired logical developing paths will stop following siloed vision of functions and organizational hierarchy but will increasingly begin to shift across organizational boundaries. Therefore, the process of developing meaningful career paths in skill-based companies would hardly reconcile with strict lines of functions, matrixes and other traditional organizational structures. This surely represents one of the biggest challenges for the future of talent management in skill-based organizations as firms will necessarily have to respond to this growing need of their employees. Another implication is related to the direction of development of skill-based careers. In fact, this new focus on learning and development of skills would probably facilitate companies in designing and proposing a higher number of horizontal career paths, and this will likely correspond to a reshape in motivation levels that employees associate to vertical and horizontal growth. Indeed, as more and more meaningful journeys are proposed to individuals, their interest in whether these journeys include vertical development or not will decrease. As a result, companies will experience positive effects on both retention and employee experience, especially when this talent management strategy is supported by a strong and effective skill-based pay system.



This paragraph presented the main features of talent management in skill-based organizations. Talent and career management represents one of the cornerstones for achieving sustained competitive advantage through talent attraction and selection, retention and development. As concerns the very initial stage of selecting new members for the organization, a cultural shift from job to person-organization fit needs implementing for hiring employees with a high potential for success within the company in the mid-long term. Retention is then built upon monetary and non-monetary rewards and the impact of skill-based pay approach is relevant in defining winning strategies. In the end, learning and development systems are once again defined as critical for companies' success in a skill-based context as they consist of the real opportunity for employees to expand their hard and soft knowledge and progress through their career journey. The following step in designing a winning talent management strategy in skill-based organizing is offering meaningful career paths. As explained, specific features of skill-based approaches will lead individuals to desire more and more varied career experiences contributing to the push towards the overcoming of traditional functional division.

The next, and final, paragraph will introduce further layers of complexity as the theoretical framework of skill-based organizing is applied to the context of multinational corporations.

## **2.5 SKILL-BASED ORGANIZING IN MULTINATIONAL CORPORATIONS**

The present paragraph concludes the discussion about the theoretical framework of skill-based organizing shifting the analysis on a new level of complexity and introducing some concepts and ideas that will be crucial for understanding the case of Procter & Gamble which will be addressed in the next chapter.

Designing an effective and winning organization in the context of multinational corporations is one of the toughest challenges for skill-based organizing. Indeed, the dimensions of these companies represented in the past decades a critically strong push towards standardization, formalization and introduction of strict procedures and processes for granting uniformity across all different organizational elements. However, top management of these firms is now more and more often trying to overcome these rigid models in order to build more flexible and agile organizations. The ability of multinationals to solve this two-sided tension consisting of the opposition between a need for order and stability to ensure standard performance and a need for flexibility and agility to quickly adapt to the constantly changing environment is vital to achieve survival and success in the contemporary business world. Naturally, the extent with which this tension represents a pressure point for companies widely changes in consideration of the specific features of each multinational. In fact,

factors like the sector of operations, the business model, the competitive market characteristics and so on may inherently grant companies higher or lower agility with direct effect on the degree of difficulty to implement skill-based organizing in the organizational design.

As anticipated, the complexity of multinational corporations derives from the huge dimensions that characterize these organizations, resulting in very articulated organizational systems and procedures that oversee ensuring operational efficiency of the firm world-wide. Hence, the skill-based approach must confront with multiple – additional - hurdles and organizational rigidities as in the case of multinationals not only functions or divisions represent static structure to reshape, but also different geographies, channels and other combinations of organizational factors hinder the process of building a competency-based company. Consequently, the number of factors that may easily induce higher degrees of standardization within the organization is the very first hurdle towards the realization of a skill-based design. What is worth highlighting here is, however, that it is not the number of additional levels in the hierarchy - or organization in general - to hamper skill-based thinking by itself, but it is rather the increased difficulty to effectively match a higher number of needs coming from several sources to make skill-based approaches tougher to implement. Indeed, recalling the basic logic of skill-based organizing of matching the skills needed to build core capabilities and achieve competitive advantage with the skills available in the internal or external market of talents allows to understand that the complexity of multinational corporations exactly lies in the elevated number of elements that may potentially interfere with this process, in terms of both width of skillsets needed (i.e., the knowledge of a higher number of markets, channels and categories) and increased uncertainty the arises from operating in multiple context at the same time. In addition to that, shifting from a job-centered to a skill-centered model makes the organization way more fluid resulting in higher unpredictability which is a feature that multinational corporations need to control and keep under a safety threshold for avoiding operational disruption. However, this critical risk is partially mitigated by the dimension of the organization as the possibility of relying on a very wide talents pool equip multinationals with a bigger number of resources and capabilities as well as with more opportunities to attract external competencies. When attempting at implementing skill-based design in these firms, the real challenge consists of developing adequate structures that can replace functions and divisions without renouncing to their role of ensuring organizational control and effective performance. Thus, developing new systems that are capable of granting operativity and lower organizational uncertainty below safety levels is a key step in the process of building skill-based multinational companies. To this extent, a very powerful yet challenging behavior is that of

switching from a “formalization-based” to a “principle-based” mentality for achieving organizational stability. The former trivially consists of ensuring low uncertainty through high standardization of procedures and rules and implementation of hierarchical control. The latter, instead, aims at building a solid core of principles, values and purposes that through a strong corporate culture should perform the function of guiding individual behaviors and aligning them with organizational goals. In this approach, the concept of hiring for the organization, not for the job, which means building the recruiting strategy upon the “person-organization fit” idea described in paragraph 2.4, gains further relevance as it is critical to hire new employees that may fit organizational principles and culture. Naturally, leveraging principles and values as the organizational tools is not as effective as establishing rules and procedures that standardize behaviors for achieving stability. However, it allows firms to maintain a higher margin for flexibility and agility when structuring and deploying their strategies through organizational design.

Another relevant challenge for skill-based organizing in multinational corporations concerns talent management systems and, in particular, talent development opportunities. Although counterintuitive, the high volume of organizational needs that multinationals face may represent a barrier rather than an enabler of talents growth opportunities. To understand the reason behind this assumption it is important to remark that it is not the number of available opportunities but the quality and fit to individual needs and desires to determine the level of satisfaction and motivation that employees experience within their company, and this is especially true for skill-based organizations. Indeed, as thoroughly explained in the two previous paragraphs, talented employees feel empowered, motivated and rewarded when they’re offered meaningful career paths by their companies. In a skill-based environment, this means that individuals are willing to take on new assignments and tasks that are in line with their skills growth expectations and desires. In order to match this ambition for continuous development, multinationals may sure leverage on their vast resources for offering high-quality trainings and learning opportunities. However, when looking at employees’ career journeys in terms of assignments and tasks evolution serious problems may arise, and this depends on two main factors. First, multinationals have huge talents pools to manage, which means that organization receives an incredibly high number of inputs in the form of career interests and development needs. Second, a naturally higher level of uncertainty derives from the vastity of talents pools, resulting in a higher number of contingent staffing necessities which make harder to realize the ideal fit between organizational needs and individuals’ growth needs. This surely represents a severe limitation to pure skill-based thinking that happens in practical experience of multinational companies. However, if

strong talent management systems are built within these firms, the impact of the barrier of not achieving either organizational or individuals perfect fit can be significantly reduced. In fact, although mismatches of this kind cannot be completely removed, on the macro level a well-structured system of career management supported by solid principles, culture and skill-based strategy can lead multinationals to sustain their competitive advantage while ensuring both performance and agility. It is exactly in the context of career management processes that multinational companies might act with significant energy for switching towards a skill-based model. Indeed, career paths designing is a crucial opportunity for overcoming functional and/or divisional silos and realizing cross-functions, cross-markets, cross-categories, cross-geographies career journeys may have a critically positive impact on the process of becoming a skill-based multinational corporation.

The challenge of ensuring meaningful career journeys to talented employees in multinational corporations is tightly linked to another relevant topic these firms need addressing, namely skill-based pay and rewards. Indeed, the dimensions of multinationals necessarily require companies to find an optimal balance between standardization and individuals skillsets evaluation in determining pay. Skill-based pay theoretical framework proposes companies to tailorize compensation packages mainly based on each employee's skills and capabilities. Nonetheless, this capillary approach to determining rewards at the individual level would generate a disproportionate resource consumption when applied to very large organizations like multinational corporations. Moreover, the problems presented in paragraph 2.3 around the complexity of setting appropriate skill pay ranges and fair evaluation processes are exponentially amplified when implemented on extremely vast populations as well as across different geographies, markets and cultures. Therefore, designing a full skill-based pay rewards systems may not be the optimal solution for multinational companies, even in the case they would choose to follow a skill-based organizing approach. These firms undoubtedly need to take a wider set of factors into account when building their pay systems, necessarily including some degree of standardization to achieve their best organizational fit. One of the main proposals for rethinking multinationals' pay systems in light of a skill-based cultural change is that of opting for solid formalization and equalization of fixed components of salary while building very flexible and significant variable components of salary that are based on individual performance and skills owned and developed. However, the specific best fit in terms of compensation strategy strongly depends on each company's features and infra-company diverse compensation approaches may be considered for different countries or business units.

The present chapter presented a thorough analysis of the theoretical framework of skill-based organizing, beginning with a review of the relevant historical evolution of organizational studies that led to the development of this revolutionary proposal. As shown, although skill-based organizing mainly derives from theories of skill-based pay systems, several contributions around the resource-based view of the firm, the dynamic capabilities and the core capabilities theory built a strong theoretical background on which skill-based organizing established its roots. The skill-based approach pushes companies to operate a thorough re-conceptualization of their organizational design, moving from a job-based to a competency-based model which consists of defining ‘person descriptions’, identifying core skills needed to achieve a sustained competitive advantage and, ultimately, matching the two in order to create the organizational best fit. Organizing based on skills and capabilities brings several consequences on companies, the most important ones impacting talent management and reward systems. Indeed, organizations need to redesign their attraction and recruiting strategy to identify the so-called ‘person-organization fit’. They also need to develop talent management systems that are able of offering meaningful career opportunities to talented employees, and this often concerns the push for overcoming functional static boundaries towards more fluid career paths. In the end, companies also need to offer wide and valuable learning and development opportunities enabling individuals to expand their skillsets for progressing in their career and contributing to organizational growth. In addition to that, firms also need to reshape their rewards system for taking into account individual capabilities as well as the impact that each member brings to the overall business results. In this context, we highlighted how skill-based organizing encounters further, challenging barriers when applied to multinational corporations. In fact, these firms are naturally characterized by a stronger push towards standardization to maintain uncertainty under control. In order to effectively achieve the organizational flexibility and agility typical of the skill-based approach, multinational companies need to find a specific balance under every organizational dimension between formalization and fluidity.

The following chapter will propose an example of implementation of the skill-based organizational model to a multinational corporation, as the case of Procter & Gamble – an American world-leading fast-moving consumer goods company – will be analyzed in order to understand how a firm of such dimensions is trying to turn the theoretical proposal of skill-based organizing into practice.

### **3. EXAMPLE OF IMPLEMENTATION: PROCTER & GAMBLE**

As a thorough review of the main theoretical features of skill-based organizing has been developed so far, this chapter will now attempt at observing a practical example of implementation. Indeed, the case of Procter & Gamble will be analyzed in order to gather relevant insights on how multinational companies are addressing the critical challenges of skill-based organizing under several perspectives. In fact, P&G has been a pioneer of skill-based organizing always leading the way of organizational innovation, beginning with the very early implementation of skill-based pay structures in the 1960s. (Ledford & Heneman III, 2011) Before describing the organizational structure of Procter & Gamble, a brief description of the history of the company will be developed for building the context of analysis.

#### **3.1 PROCTER & GAMBLE: A BRIEF HISTORY**

The Procter & Gamble Company is an American-established multinational corporation operating in the sector of fast-moving consumer goods. Its history plants its roots long back in time as Procter & Gamble has been established in 1837 in Cincinnati, Ohio. The company is named after its co-founders, William Procter and James Gamble, respectively an English American candlemaker and an Irish American soap maker. The two met with each other as they became relatives after marrying two sisters, Elizabeth Ann and Olivia Norris whose father – Alexander Norris – was an important candlemaker industrial in Cincinnati and encouraged William Procter and James Gamble to join forces to build a new company. (Millett, 2011)

The first iconic brand created by Procter & Gamble is undoubtedly Ivory, a floating soap launched on the American market in 1879 to revolutionize the market as for the first time “an innovative single bar of soap that works for both [laundry and bathing]” was available to families.<sup>1</sup> Since that moment, P&G kept leading the innovation in the market of fast-moving consumer goods inventing and commercializing new products like Tide, the first synthetic detergent launched in 1946 and Oral-B, the first soft toothbrush launched in 1949.<sup>2</sup> Throughout the 20<sup>th</sup> century, P&G pursued a continuous portfolio expansion strategy entering several new business sectors both through the invention and marketing of new products and the acquisition of already existing, successful brands. A relevant example is that of the food and beverage market. Despite being active in this market since 1911 with the introduction of Crisco – first-ever all-vegetable shortening, P&G seriously started to

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<sup>1</sup> <https://us.pg.com/pg-history/#moments>, last visited: May 12<sup>th</sup>, 2024.

<sup>2</sup> *Ibidem*.

invest in the sector during the 1950s and 60s with Jif (peanut butter), Folgers (coffee) and the launch of the iconic Pringles in 1968. (Horowitz, 2011) Another milestone in the expansion of P&G products portfolio is the entrance in the market of beauty products. Between 1989 and 1991, the American multinational closed billionaire deals for the acquisition of Noxell, Max Factor and Betrix. (Horowitz, 2011) This hectic strategy of pursuing revenues and profits growth through portfolio enlargement abruptly stopped in 2014 when P&G's CEO Alan G. Lafley decided to significantly cut company's brands. Indeed, the 2008 financial crisis and the huge acceleration of technological innovation led by the explosion of internet, social media and digital devices made clear that corporations with too vast portfolios were suboptimal in an increasingly fast-evolving environment as they were unable to quickly adapt and react to change. Thus, Lafley led Procter & Gamble towards a 100 brands reduction, choosing to focus company's core business on roughly 80 brands accounting for 90% of revenues and 95% of profits. (Schrage, 2014) The strategic thinking behind this organizational restructuring basically consisted of reducing complexity to achieve higher agility and adaptability to the external environment. In addition to that, Lafley also aimed at achieving an 80/20 balance where 20% of the company's brands generated 80% of total sales. (Schrage, 2014) As of today, Procter & Gamble has organized its operations and brands within 5 sector business units (Health Care, Fabric & Home Care, Beauty, Grooming and Baby, Feminine & Family Care) which in turn articulate in 10 categories: Personal Health Care, Oral Care, Fabric Care, Home Care, Skin & Personal Care, Hair Care, Grooming, Baby Care, Feminine Care and Family Care.<sup>3</sup> As we will observe in the following paragraph, this portfolio restructuring perfectly fits the theoretical idea of refocusing companies' operations on core capabilities and resources.

As concerns the geographical expansion of the company, Procter & Gamble became an international corporation in 1930 through the acquisition of Thomas Hedley & Company, an English soap making company based in Newcastle upon Tyne. (Horowitz, 2011) Since that time, P&G constantly grew in its international dimension becoming one of the largest multinational corporation active in the market. Indeed, the company is now leading operations in approximately 70 countries worldwide and sells its products in more than 180 countries with an estimate of more than 5 billion consumers served.<sup>4,5</sup>

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<sup>3</sup> <https://us.pg.com/annualreport2023/a-portfolio-of-daily-use-products/>, last visited: May 12<sup>th</sup>, 2024.

<sup>4</sup> <https://www.weforum.org/organizations/procter-gamble/>, last visited: May 13<sup>th</sup>, 2024.

<sup>5</sup> <https://us.pg.com/structure-and-governance/>, last visited: May 13<sup>th</sup>, 2024.

Another significant milestone and turning point of Procter & Gamble history and strategy evolution is the launch of Connect & Develop, a - by that time - unprecedented implementation of open innovation at a multinational company level. Indeed, back in 2000, the already mentioned former CEO of P&G Alan G. Lafley challenged the global R&D strategy of the company as the level of maturity that it had reached was leading to extremely poor marginal payoffs on R&D investments. In fact, additional spending for innovation was leading to very low additional revenues and profits: This means that the company was investing huge amounts of resources with very low return-on-investment (ROI). (Huston & Sakkab, 2006) This observation, coupled with the emerging trend according to which innovation was more and more frequently being done at the small and medium enterprise size level, led CEO Lafley to thoroughly rethink P&G R&D strategy. The result was one of the first, biggest examples of implementation of open innovation in a multinational corporation. Indeed, the new campaign named “Connect & Develop” consisted of P&G scouting for new ideas, solutions and capabilities outside the organization boundaries and in-sourcing them leveraging high amounts of resources and organizational mastery the company could rely on for accelerating innovation. As a result of this strategic innovation, by 2006 “more than 35% of [P&G’s] new products in market [had] elements originated outside P&G”. (Huston & Sakkab, 2006) Also, “45% of the initiatives in [P&G] product development portfolio have key elements that were discovered externally. Through Connect and Develop—along with improvements in other aspects of innovation related to product cost, design, and marketing— [P&G] R&D productivity has increased by nearly 60%.” (Huston & Sakkab, 2006) As of today, P&G Connect and Develop project is still active in intercepting innovative ideas in the external market. Through a dedicated web platform, P&G builds its network with external innovators active in the market. This web platform has three main features: i) it acts as a continuously active space for posting new innovation needs of brands; ii) it contains relevant information for inspiring innovators on “Sustainable Solutions”, as the company is strategically investing in innovative technologies for improving its sustainability; iii) through its “Innovation Roadmap”, P&G stimulates innovators to follow a structured process for developing new ideas that can be submitted to the company for marketplace potential evaluation.<sup>6</sup> In addition to that, in 2005 P&G launched P&G Ventures, “an early-stage startup studio within Procter & Gamble that partners with entrepreneurs, startups and inventors to accelerate billion-dollar ideas that improve

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<sup>6</sup> <https://www.pgconnectdevelop.com/>, last visited: May 14<sup>th</sup>, 2024.



consumers' lives."<sup>7</sup> So far, P&G Ventures activity led to the launch of several successful brands, with the best performing one being Zevo which supplies consumers with pest prevention products.<sup>8</sup>

Looking at the roots of Procter & Gamble success, a privileged spot is occupied by its purpose, values and principles (PVPs) which represent the foundation of the unique company's culture. P&G's purpose identify a "common cause to improve more consumers' lives in small but meaningful ways each day"<sup>9</sup>, and states that

We will provide branded products and services of superior quality and value that improve the lives of the world's consumers, now and for generations to come. As a result, consumers will reward us with leadership sales, profit and value creation, allowing our people, our shareholders and the communities in which we live and work to prosper.<sup>10</sup>

Company's values "reflect the behaviors that shape the tone of how we work with each other and with our partners", instead; these values are: Integrity, leadership ownership, passion for winning and trust.<sup>11</sup> These values represent the essence of P&G culture which is widely recognized as one of the strongest company culture, leveraging a significant personal commitment of employees to the organization for achieving ambitious business goals. To some extent, P&G's strong values and, in turn, pervasive culture are a critical element for enabling major organizational evolution like the introduction of skill-based management systems. Finally, Procter & Gamble's principles "articulate [company's] unique approach to conducting work every day."<sup>12</sup>

P&G's PVPs and culture are, thus, the critical enablers of a winning corporate strategy which is able of generating a sustained competitive advantage. According to its 2023 Annual Report, Procter & Gamble's "integrated growth strategy" is built for driving growth and value creation through "five integrated choices":

a portfolio of daily-use products where performance drives brand choice; superiority across product, package, brand communication, retail execution, and value; productivity; constructive disruption of the entire value chain; and a highly efficient and effective organization structure. (The Procter & Gamble Company, 2023)

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<sup>7</sup> [https://pglifelab.com/press-kits/pgv/PGV\\_Fact\\_Sheet.pdf](https://pglifelab.com/press-kits/pgv/PGV_Fact_Sheet.pdf), last visited: May 14<sup>th</sup>, 2024.

<sup>8</sup> <https://zevoinsect.com/>, last visited: May 14<sup>th</sup>, 2024.

<sup>9</sup> <https://us.pg.com/policies-and-practices/purpose-values-and-principles/>, last visited: May 13<sup>th</sup>, 2024.

<sup>10</sup> Ibidem.

<sup>11</sup> Ibidem.

<sup>12</sup> Ibidem.

Coherently with the framework identified in the previous chapter of a market environment that features consistent and constant uncertainty and change as well as increasing rates of innovation and technological evolution, P&G clearly states that its strategic “model is dynamic and sustainable”. (The Procter & Gamble Company, 2023) All of the five elements contribute to build a winning company: Portfolio performance is the first driver of business decisions, innovation (namely, constructive disruption) is the cornerstone of success, an agile and empowered organization leads growth and productivity and superiority across all business vectors are the differentiator of the winning P&G’s strategy. Indeed, the big focus on productivity in each aspect of company activities coupled with the strategic approach to superiority is what truly defines Procter & Gamble success in the recent years. As for the former, productivity is integrated within every aspect of corporate culture with the ultimate goal of “delivering the same or better output measures with lower spending or resource investment.” (The Procter & Gamble Company, 2023) This implies a productivity perspective over materials, manufacturing, overhead, advertisement spend and promotion and working capital. As regards superiority, instead, Procter & Gamble aims “to be a disproportionate contributor to market growth—creating business by growing markets and P&G’s share in them through new solutions, better and more delightful experiences, adding usage occasions and building regimens.” (The Procter & Gamble Company, 2023) This strategic concept and goal is practically articulated into five vectors of superiority. First, P&G wants to deliver superior products, so that consumers recognize them raising performance expectations in the category. Second, superior packaging should attract consumers while conveying brand equity and realizing a superior buying and use experience. The third vector of superiority is that of brand communication, as advertising needs to reach consumers communicating P&G’s brands and products superiority so to attract new buyers and lead category growth. Then, a superior retail execution consists of a) the right in-store coverage, pricing strategies, products forms and sizes, shelving and merchandising and b) the right online contents, assortments, ratings and reviews, subscription offerings and promotions. Last, delivering a superior consumer and customer value is critical for P&G’s success; the former needs to receive a clear and shoppable offer at a compelling price, while the latter is interested in developing categories, raising margin, penny profit and basket size. Hence, the American multinational is strategically doubling down on superiority, namely quality, for both increasing brand equity and perception and strengthening its market-leader position.

In order to successfully execute its integrated strategy, Procter and Gamble leadership highlighted four focus areas for business improvement. In the first place, the company is redesigning

and upgrading its supply chain to enable greater flexibility, agility, scalability and resiliency to face new global challenges. This project is named “Supply 3.0” and consistently relies on data analytics and organizational expertise. The second focus area is that of environmental sustainability which P&G integrates within each business process; here, the strategic goal is to improve products and packages performance while improving sustainability. Then, Procter & Gamble is focusing on building a company-wide strong digital acumen; that is, leveraging data and digital expertise for reducing costs, improving decision making quality and driving consumers and customers preferences. Digital acumen would allow the organization to progressively prioritize higher level work while relegating operational, standard tasks to artificial intelligence and technology in general. Last, the fourth pillar P&G is investing on to execute its strategy is the so-called Employee Value Equation (EVE). The EVE aims at delivering the best employee experience possible at every stage of career – attraction, retention, development – as well as for all roles, regardless of genders, races, ages, abilities, ethnicities and sexual orientations. The EVE is composed by four vectors: i) employees need to have the opportunity to make a daily impact on the organization and the business; ii) they need to have the opportunity to grow their skills, competencies and careers; iii) they need to feel valued and rewarded; iv) they need to feel inspired for serving customers and consumers better than competition. (The Procter & Gamble Company, 2023)

Last, we observe that Procter & Gamble has been delivering strong business results in recent years, notwithstanding major global crisis like Covid-19 pandemics and Russian invasion of Ukraine. Indeed, P&G has grown organic sales by 5% or more in the last five fiscal years, with a result of 7% growth in 2022 and 2023. Net sales amounted to 82 billion dollars globally, with a core earnings per share (EPS) growth of 2%. As regards financial management of company’s earnings, Procter & Gamble paid dividends to its shareholders for the 133<sup>rd</sup> consecutive year in 2023 and raised its dividends for the 67<sup>th</sup> consecutive year, with “only seven U.S. publicly traded companies having paid a dividend more consecutive years than P&G, and only three U.S. companies having raised their dividend more consecutive years.” (The Procter & Gamble Company, 2023)

As a brief history of Procter & Gamble and a thorough analysis of salient features of its corporate strategy have been presented, the following paragraph will describe the organizational design of the company with the research objective of demonstrating how a market-leading multinational corporation is strategically implementing skill-based organizing and thinking within its structure and processes.

### 3.2 SKILL-BASED ORGANIZING AT PROCTER & GAMBLE

Procter & Gamble represents a best-in-class example of implementation of the skill-based organizational thinking to a multinational corporation. Indeed, P&G has now been in the process of transforming and upgrading its global organization through a skill-based perspective, changing the way career are managed, talents are recruited, development programs are deployed and pay systems are designed. Naturally, as largely demonstrated in the analysis in the previous chapter, implementing a skill-based design in an enormous organization like P&G is a tough challenge which necessarily encounters hard roadblocks and request some balancing with the organizational need of stability and standardization of processes and behaviors.

Before addressing how P&G has changed – and is still changing – to become a skill-based company, it is useful to build an overall framework of the multinational organizational design. The intention of building a flexible, agile organization which is able to successfully operate in a dynamic and complex market is immediately clear when looking at the composition of the company’s controlling organism, namely the Board of Directors. Indeed, the Board of Directors includes top managers with the most varied expertise and knowledge across all disciplines and market segments. CEO of McDonald’s, CFO of The Walt Disney Company, CEO of FedEx Corporation and former CFO of Walmart, inc. are just an example of the diversity of mastery that is represented in P&G’s Board of Directors.<sup>13</sup> As per the 2023 P&G Annual Report, the company leadership is very lean and oriented to nimbly reflect the organizational global structure. Indeed, at the very top level of P&G are two people: the President and CEO of the company is Jon R. Moeller, who has been appointed to these roles in November 2021 after two years serving as the Chief Operating Officer (COO) and twelve years serving as the CFO of the company, and the COO of the company Shailesh G. Jejurikar, who is in charge of all the global operations of P&G. At the next level of the leadership chain, we then find the five global CEOs of sector business units and the company’s CFO. This immediately clears that P&G firmly believes that SBUs are independent and, thus, accountable for managing their own organizations and responsible of business results, sales and profits. This structure then further and coherently articulates through the Presidents of each of the ten P&G’s categories, the CEOs of supporting functions and focus areas like HR, Analytics and Insights, Brands, Sustainability, Equality & Inclusion, Design, Communication and others. In addition to them, at this level there are also the Presidents of each of the macro region of the company; indeed, Procter & Gamble markets are divided

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<sup>13</sup> <https://us.pg.com/board-of-directors/>, last visited: May 15<sup>th</sup>, 2024.

into 5 macro regions: North America, Latina America, Europe, Asia Pacific/Middle East/Africa and Greater China.

At Procter & Gamble, the entire career and talent management system has been redesigned according to the principles of skill-based organizing, and it is thus interesting to analyze a practical case of implementation of this innovative theoretical framework to a multinational corporate context as well as to understand how a firm of similar dimensions is addressing the critical challenges and hurdles discussed in paragraph 2.5. To the extent of this analysis, there is one crucial, peculiar feature that distinguishes Procter & Gamble from most of other competitors and multinationals in general, and that is decisive in shaping the path along which the company may implement a skill-based design. Indeed, Procter & Gamble is a built-from-within company. This means that the talent strategy of P&G is entirely based on learning and development systems that enables talented employees to expand their skills, knowledge and expertise to vertically grow their careers inside the company. Indeed, it is very common to find P&G executives that have a professional history of serving the company for 20 or 30 years; for instance, this is exactly the case of current CEO Jon R. Moeller, COO Shailesh Jejurikar and CHRO Bala Purushothaman. The idea of being a built-from-within organization directly impacts the entire HR management of the firm and, most interestingly, reshapes it in a way which is highly compatible with skill-based thinking. In fact, the strategic choice of leveraging internal resources and capabilities to fulfill potential vacancies for ideally every role at every managerial level shifts the focus of the entire organization on internal talents growth systems rather than emphasizing head hunting and HR or networking activities on the external job market. Consequently, learning and development systems and strategies gain undisputed relevance and importance in built-from-within organizations, and this perfectly supports the critical need for designing winning skill-based organizations of having powerful systems for developing employees' capabilities. Hence, a mutually reinforcing mechanism originates once built-from-within and skill-based organizing principles are coupled: skills and capabilities' development is strongly required by both, and it becomes a central, constitutive elements of organizations embracing both models, as it is the case of Procter & Gamble. One of the most significant elements through which the built-from-within feature of P&G enables the implementation of a skill-based organizing model is the relevance and contents of talent acquisition strategy. In fact, since in this system the quality of talents hired by the company determines the quality of the future generation of leaders, the process of attracting, recruiting and selecting the most talented employees is even more vital than under ordinary organizational circumstances. Indeed, the company itself states that "as a build-from-within company, the capability of future management and P&G's

long-term growth depends enormously on the caliber of people we hire today.”<sup>14</sup> More interestingly, attempting at hiring young talents that should become company leaders in the future represents a strong push towards the implementation of a “hiring for the organization, not the job” thinking. (Bowen et al., 1991) Indeed, for this long-term vision of hiring employees that will potentially remain in the organization for decades to succeed, what is truly critical for P&G is to spot and identify those talents that are the best organizational fits. Trivially, if we look at one talent skills or capabilities in the framework of a potential P&G career path, the job or assignment-specific skills required lose much of their importance since that specific role would only represent a small step in a much longer career journey of learning and developing. This is exactly what skill-based organizational thinking advocates for: Hiring people based on their attitude and potential to be a successful employee within the organization through time, not only a strong performer on one specific assignment. Thus, built-from-within strategy is a powerful approach that can significantly raise probability of success of attempts of implementing skill-based organizing, also in multinational environments. The demonstration that P&G is truly investing in a skill-based talent attraction strategy is given by the special project named “P&G VIA”, a learning platform the Procter & Gamble launched as of July 2023 with the goal of targeting company’s prime prospects and potential future employees for i) “navigating their way into the world of work” and ii) “equip[ping] them with the key soft and hard skills needed to become the industry leaders of tomorrow.”<sup>15</sup> The release of an official participation certificate that may be shared on LinkedIn or added to CVs is a powerful trick to raise engagement and attraction of the project. What is mostly relevant in the case of P&G VIA is the fact that a similar project shows how Procter & Gamble is so committed and focused on skill building and long-term growth of their talents that it is even investing in skill development of its potential future employees. When looking at the “hiring for the organization, not the job” strategy of P&G, a precise example of its implementation is given by the online assessments that Procter & Gamble introduced as the first step of its selection process. These assessments consist of two different tests whose purpose is exactly to detect and predict whether a candidate may be i) a potential fit with P&G’s culture and PVPs and ii) a talent with a strong learning attitude to grow their skills through a long-term career in the company. The first test is named Peak Performance Assessment and consists of a series of questions aimed at examining candidates’ background and experience to “consider how well [the candidate’s]

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<sup>14</sup> <https://www.pgcareers.com/global/en/assessment-overviews>, last visited: May 18<sup>th</sup>, 2024.

<sup>15</sup> <https://www.pgcareers.com/eu/en/via>, last visited: May 18<sup>th</sup>, 2024.

personal profile matches [the company's] needs.<sup>16</sup> This is exactly one of the critical steps in evaluating the “person-organization fit” (Bowen et al., 1991), with this specific assessment trying to evaluate the potential of candidates over 5 Peak Performance Factors, namely Lead with courage, Innovate for growth, Champion productivity, Execute with excellence and Bring out our best.<sup>17</sup> The second test is named Interactive Assessment it aims at evaluating the reasoning skills of the candidate. What is most interesting in this case is that this assessment is standard for every candidate, regardless of the function and job they're applying for. This is perfectly coherent with the idea that P&G wants to assess potential future employees' abilities to be successful managers in the company in the long-term rather than narrowly evaluating their skillset in relation with one specific job.<sup>18</sup> Consistently, the final step of company's hiring process consists of virtual and/or face-to-face interviews that keeps investigating candidates' organizational fit. Indeed, interviews at P&G use a mixed approach which combines behavioral-based and situational questions to further assess applicants' background and past achievements and fit with P&G's PVPs as well as their skills, capabilities and experience level.<sup>19</sup>

Moreover, adopting a built-from-within organizational strategy as the starting point of organization designing triggers virtuous mechanisms and interactions that positively pushes all other processes of talent management to evolve according to skill-based principles. Indeed, if the initial step of talent strategy of P&G is to hire employees with the best “person-organization fit” level (Bowen et al., 1991), the naturally following task is to equip these talents with the required skills from time to time and based on the specific business and functional needs. Current Chief Human Resource Officer of Procter & Gamble, Bala Purushothaman, believes that “P&G's commitment to attracting, retaining and developing talent is a fundamental business choice. That choice includes hiring outstanding talent, challenge people from Day 1, planning careers and nurturing a culture of development.”<sup>20</sup> This implies that companies like Procter & Gamble need to have strong, efficient and well-structured learning and development systems that are responsible for ensuring constant and consistent growth of internal talents. Before specifically describing how P&G has designed its talent development system, it is useful and interesting to understand some strategic principles the company follows. According to Francesco Mantovani – P&G Global Learning Technologies and Innovation Leader – in skill-based organizations “proficiency is not so important as it seems. [...] Most of the

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<sup>16</sup> <https://www.pgcareers.com/global/en/peak-performance-assessment>, last visited: May 18<sup>th</sup>, 2024.

<sup>17</sup> [https://pg.sitebase.net/attraction/Interview\\_Information.pdf](https://pg.sitebase.net/attraction/Interview_Information.pdf), last visited: May 18<sup>th</sup>, 2024.

<sup>18</sup> <https://www.pgcareers.com/global/en/interactive-assessments>, last visited: May 18<sup>th</sup>, 2024.

<sup>19</sup> <https://www.pgcareers.com/eu/en/hiring-process>, last visited: May 18<sup>th</sup>, 2024.

<sup>20</sup> <https://us.pg.com/blogs/secrets-to-the-art-of-leadership/>, last visited: May 17<sup>th</sup>: 2024.

time what you want is to understand if this person has got this skill or not. [...] The proficiency is an element that seems to be like a nuance, a nice to have.”<sup>21</sup> This concept further reinforces the idea that a skill-based, built-from-within organization like Procter & Gamble values individuals’ learning attitude much more than the expertise on some specific skillset. A similar assumption implies that the one of the few, most important skills that a successful P&G recruiting strategy should be capable of intercepting in the talent market is the ability to keep learning newer and newer skills in timely and flexible ways. Therefore, in the case of Procter & Gamble, we find that there are two distinct drivers that both pushes towards a common business need for talent strategy: The built-from-within strategy and the skill-based thinking both asks for talent acquisition to supply the company with new employees that are the best organizational fit in terms of learning attitude. At P&G, this specific attitude of being always willing to learn through trainings, feedback, mentoring, coaching and – most importantly – mistakes has been named growth mindset. Growth mindset, which is the exact opposite of fixed mindset, is a state of mind, a psychological feature and a set of behaviors that are constantly oriented towards welcoming new challenges, assignments, tasks as invaluable opportunities for expanding oneself skillset, knowledge, capabilities and experience over both known and unknown fields or sectors. The interaction among the growth mindset, the search for talents that best fit the organizational culture and P&G’s PVPs led the American company to build an additional, yet powerful pillar of their recruiting and employer branding strategy, which is explained under the name of “Day 1”. “Day 1” reflects the idea that the ensemble of funding company values like trust, leadership, ownership and P&G’s growth culture generates an environment where new hires can fully develop their potential starting to have an impact and take responsibilities since the very first day of work in the company. Indeed, P&G states that

“We hire based on the potential we see in people, so here, [talents will] be trusted to dive right in, take the lead, use [their] initiative, and build billion-dollar brands that help make everyday activities easier and make the world a better place. [Talents will] be doing meaningful work that takes [their] career places [they] never imagined. [They will] be part of this effort from Day 1.”<sup>22</sup>

The “Day 1” approach is the trigger of successful paths of continuous learning and constant skill growth at Procter & Gamble. More interestingly, according to Ann Schulte – P&G’s Chief Learning

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<sup>21</sup> <https://www.valamis.com/blog/mastering-skills-management>, last visited: May 17<sup>th</sup>, 2024.

<sup>22</sup> <https://www.pgcareers.com/global/en>, last visited: May 17<sup>th</sup>, 2024.



Officer – it is not development programs by themselves to guarantee successful future leaders’ development, but it’s rather

“The ingrained commitment to leadership development that makes the difference. This commitment is the red thread in the unique combination of leadership training, manager coaching, relationship building and varied work experiences that leaders gain throughout their career at P&G that is the secret sauce. It’s a partnership between you, your manager and the Company. At P&G, we’re really making a commitment to grow you in a direction that is of interest to you, that capitalizes on your skills and strengths, and that allows you to live up to your best potential while helping the business grow.”<sup>23</sup>

Once a new employee’s career has successfully started with full commitment and accountability since “Day 1” a new, once again virtuous, cycle of skill-building and continuous growth starts off. The skill-based organizing at Procter & Gamble is, thus, realized leveraging employees’ strong growth mindset which is nurtured by a powerful system of mutually reinforcing factors like learning-by-doing, trainings, managers’ coaching and feedback. Winning through this strategic thinking is possible thanks to the so-called 70/20/10 approach that P&G’s talent development strategy embraces. (McCall et al., 1988) The 70/20/10 framework for learning and development strategies is a well-established model which first theorization dates to 1988 but whose effectiveness has been academically proven by several research in recent years. In example, Bagley (2018) successfully shown how the 70/20/10 framework is a workplace performance model, that is a model that underscores doing work tasks versus only knowing about them in theory and that its proposal allows the construction of a coherent and consistent system for developing internal resources with uniformity and positive impact on long-term performance. In the case of Procter & Gamble, the 70/20/10 approach is structured through learning and development opportunities that consist of experience-based, practical activities for 70% of the time; sessions of mentoring and coaching from both senior managers or leaders and peers for 20% of the time; structured courses, training and materials for the remaining 10%.<sup>24</sup> According to this framework, career journeys at P&G are designed with the clear intent of offering employees challenging assignments that represent the cornerstone upon which building knowledge and skills. Thus, upskilling and growth happen through a learning-by-doing process in the first place. Indeed, talents at P&G expand their capabilities and expertise on a daily

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<sup>23</sup> <https://us.pg.com/blogs/secrets-to-the-art-of-leadership/>, last visited: May 18<sup>th</sup>, 2024

<sup>24</sup> <https://www.pgcareers.com/global/en/leadership-development>, last visited: May 18<sup>th</sup>, 2024.

basis through a process that is perfectly aligned to the principles of trust and ownership, the “Day 1” responsibility strategy and the continuous learning approach mentioned so far. As in P&G talent strategy skill-building heavily relies on facing the daily challenges linked to given assignments, the importance of direct – and also indirect – managers become critical for accelerating employees’ growth. This is exactly what the aforementioned “partnership between [the employee], manager and the company” that Chief Learning Officer Ann Schulte consists of; since the practical experience of failing, learning and succeeding in everyday responsibilities and tasks is the key pillar of growth in P&G’s 70/20/10 model, managers’ feedback, coaching and support is vital for enabling a successful development path for young talents. This is also the reason why coaching and mentoring has been identified as the 20% pillar of 70/20/10 model at P&G. Both formal and informal learning and expertise transfer systems are crucial in linking experience-based growth with theoretical and technical knowledge learnings. In fact, feedback and coaching received from direct managers or other senior employees on daily job are still very close to the field of practical experience, but it also allows for more theoretical notions to be taught. In addition to that, employee-manager exchanges also facilitate soft skills building as well as transfer of tacit knowledge and informal behaviors that strengthen the corporate culture. An interesting aspect of this feature of P&G talent strategy is the introduction of a reverse mentoring process. Indeed, the strong belief that a growth mindset is the key to success and the acknowledgment that skills life cycle is shortening at faster and faster rates in contemporary business environment led Procter & Gamble to formalize a process through which senior leaders and directors may leverage reverse mentoring of younger employees to quickly build new competencies and skills. A trivial example of the positive impact of a similar system is the support that youngest generations may give to raise digital knowledge and acumen in workplaces. Indeed, skill-based organizing also needs some extent of a generational agreement in order to enable cross-fertilization of unique skills and capabilities that are linked to different levels of experience and different ages or seniorities. Within the context of learning by coaching and knowledge exchange among colleagues, mentors and peers, P&G launched a special global program named “Talk the expert”. Through this program, P&G employees can learn new skills thanks to a dedicated web platform where colleagues from all over the world with strong expertise on specific areas give their availability to coach and transfer their knowledge. Once again, skill-based mindset is implemented and culturally developed thanks to a natural interconnection among organizational members that is generated across functions, expertise areas, countries and markets. The third and last pillar of 70/20/10 P&G talent development framework consists of structured courses and learning materials,

as training and studying are the basis of a lifelong commitment to learning. In addition to face-to-face, instructor-led trainings, Procter & Gamble deeply leverages virtual resources and self-led training sessions – with Covid-19 pandemics that have much accelerated this switch towards digital and autonomous learning. Among company’s best practices for training and courses there is the P&G Leadership Academy (PGLA) that “is a suite of best-in-class learning opportunities that help P&G people at all levels build their leadership capabilities throughout the course of their careers.”<sup>25</sup> In 2023 Procter & Gamble started a new internal project in Europe with the ambitious goal of accelerating the process of integration of skill-based organizational thinking within the company while leveraging on learning-by-doing and experience-based development to grow its talents. This new project has been named “Give & Get with GIGs” and it was initially piloted in specific countries and/or functions across the region. GIGs project is based on a very simple yet powerful idea that could potentially revolutionize talent management and development in multinational corporates contexts. Indeed, GIGs consists of the creation of an internal platform – which ideally reproduces a marketplace structure – where managers, called “GIG hosts”, of all countries and functions involved may post a project for which they need support or help, both in terms of capacity and skills. The peculiar characteristics of these GIG projects are that they have to be short-term – specifically, maximum 6 months long – and they have to request a minor portion of people capacity – specifically, maximum 8 hours per week. However, the two most important features are that:

- i) The only factor upon which GIG applicants and hosts respectively choose which project to apply for and which candidate to select are the skills needed for making an impact in the team and the skills developed through the GIG.
- ii) Talents may apply for a GIG project with no restrictions in terms of functions or countries as well as scope of the project and adjacency or distance from individual skillsets.

The second point is the bridge that links the learning-by-doing of 70/20/10 PG’s culture with the skill-based revolution that the company is trying to implement in its talent management system. In fact, participating in a short yet meaningful project with focus on skill development in areas that potentially differ very much from routinary areas of expertise is a critical step in the process of building wider skillsets in the company, breaking functional barriers and silos. The success of this pilot led P&G to officialize Give & Get with GIGs project and expand it across all organizational units, functions and countries in Europe in late 2023.

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<sup>25</sup> Ibidem.

Among the longer-term objectives of GIGs project there is the attempt at accelerating the skill-based redesign of career management systems at Procter & Gamble. Indeed, P&G has already changed the process and principles of managing employees' career paths in past years based on the assumptions of skill-based organizing framework. However, the company's purpose is to push even harder on building an organization where skills and capabilities lead the process of innovating and evolving for winning in the competitive environment. The process through which Procter & Gamble is implementing the skill-based thinking into its career management system can be split into three different and consecutive phases. The very first stage of this critical revolution trivially consists of mapping all the skills that are present in the company and needed to drive success and generate P&G's competitive advantage. Despite potentially seeming quite simple, straightforward and not necessarily crucial, this initial step is vital for the optimal implementation of skill-based framework for several reasons. First of all, mapping skills in the company absolves the ontological function of determining the strategic evolution of the company. Basically, the process of choosing which skills are strategically relevant for P&G generates a phenomenon of path-dependency, according to which specific decisions made by the company limits the possible alternatives for future decisions. Hence, through the process of skills mapping P&G is binding its organizational evolution to the relevance for skills development impacted of the evolution itself. As a result, this process has a dual effect of i) defining which skills the company believes to be critical and important in achieving its own strategic competitive advantage and ii) defining which skills are not critical and important for the same purpose. It is, thus, exactly this exclusive feature of skills mapping process to generate path-dependency. The process of choosing the right skills to invest on gains even further relevance when the time dimension is considered. Indeed, in mapping skills a company not only should understand which skills are critical and which are not for winning, but it also should intuitively identify which skills will be the differentiator in the future. Succeeding in anticipating future skills is vital for two main reasons: i) early identification enables the company to anticipate investments on emerging skills building potentially gaining a competitive advantage against competitors and ii) path-dependency influences possible frontiers of evolution of the company through time, so that the decisions on skills investments generate effects that are consistent through time; consequently, once a decision is taken much more resources and effort will be needed for a company to change its skill-building path. The process of mapping skills is propaedeutic to the second phase of skill-based implementation in talent management systems, that is the definition of a decision-making process which is truly based on skills. For this to happen, the assessment and mapping of skills of the company by itself is not

sufficient. Instead, it is necessary for the company to assess each functional area and specific role and define which of the mapped skills is required to succeed on each assignment. As skills are mapped role by role, the implementation of a new, skill-based decision-making process for career management becomes possible. In fact, the precise understanding of skills that each job requires to be successfully performed and skills that it helps developing allows management to assess individual skillsets and design coherent skill development paths. Obviously, staffing decisions always have to follow business needs that may not coincide with ideal skill development solutions for employees in every case, and they also have to manage some extent of uncertainty that is driven by unforeseen circumstances like sudden resignation, changes in the competitive environment, strategy or conditions of adjacent organizational units as well as exogenous and endogenous shocks. Hence, the challenge of managing careers in skill-based systems consists of making staffing decisions that lead to the best skill growth opportunities for talents involved while ensuring to best serve business needs. In fact, as observed in the previous chapter, the goal of skill-based organizing is to refocus organizational thinking on competencies and capabilities to generate agility and flexibility that are required for better achieving a sustained competitive advantage; thus, the ultimate purpose of skill-based organizing is still to improve business performance. Holistically considering all of the elements described so far, it is thus possible to outline a thorough framework of how the second step of skill-based career management system implementation is realized at Procter & Gamble. The protagonists of this phase are the senior directors and leaders that hold accountability over younger talents careers and are responsible for making staffing decisions. Indeed, it is their ability of coherently assessing the skillsets of employees and their growth needs to determine the successful implementation of the skill-based system. Basically, managers need to evaluate talents' skillsets in terms of i) the skills that the employee has got based on his background, past experience and assignments; ii) the skills that the employee has developed on their current assignment; iii) whether the employee has developed all the skills connected to their current role and is thus ready to change assignment or not. This third and last characteristic of skillsets assessment is probably the most innovative and important one to culturally operate a change towards a skill-based system. In fact, under these rules, a key driver of staffing decision is the employee readiness to change assignment, with the readiness being determined in terms of skills development and maturity. This implies that – compatibly with business needs – the real factor upon which the decision of moving talents from an assignment to another mostly depends on whether they have completed their learning cycle of assignment-specific skills or not. Looking at a similar career management system from the employee's perspective, the major advantage for

individuals is that they are somehow entitled of holding a skills portfolio which determines future growth opportunities and which they are empowered of developing with flexibility to move towards their specific long-term career goal. This flexibility in designing career journeys is the practical realization of the shift from job-based to competency-based models that skill-based theory proposes, and it represents a powerful breach in the solid walls of functions in multinationals contexts like P&G's. The third, last phase in the process of implementing a skill-based career management system at P&G exactly consists of this attempt to move forward towards a holistic, barrier-less approach where decision making is exclusively based on skills, regardless of functional boundaries. Give & Get with GIGs project precisely aims at pushing the evolution of the company in this exact direction as it allows cross-functional, cross-OUs skill development and growth. As thoroughly observed in chapter 2, once skills and capabilities become the defining factor in determining staffing decisions according to the principle for which the most important element to achieve corporate success is to have the right person with the right skills on the right job, functions and other structural boundaries lose much significance. However, functions still have great relevance in multinationals organizations, P&G included, and it mainly depends on the factors that have been highlighted in paragraph 2.5. Indeed, very large organizations that articulate into complex structures across different business units, geographies and functions still need a good degree of standardization for guaranteeing operativity and stability, also in a highly uncertainty, fast-evolving environment like the contemporary one. In addition to that, in the specific case of functions a quite strong culture resistance to change seems to exist. In fact, functions are historically tied to strong centers of expertise that are commonly considered too important for effectively executing assignments and that would be lost if a multi-functional approach is embraced. The basic idea is that losing any extent of "functional belonging" would coincide with the loss of technical expertise which is an excellence and success driver. For these reasons, organizations in general and multinationals in particular may hardly overcome functions in the short-term, but neither it usually is their intention. Indeed, Procter & Gamble believes that multi-functional evolution – coherently with the skill-based organizing principles – may be a powerful driver of business success, but at the same time a totally functionless system is not the desired outcome. Therefore, P&G has opened the route towards building a leaner organization around functional structure that still have a central relevance but a diminished weight through initiatives and projects that bring incremental innovations in the company. This slower, yet steady approach also allows for a smoother transition facilitating the cultural change that is needed for skill-based revolution to succeed. One of the main projects that is managing to highlight opportunities for

overcoming functional silos is exactly Give & Get with GIGs as it is creating unprecedented collaboration, skill and capabilities growth across functions. Most importantly, participating in a GIG project often resulted in involved employees manifesting interest for further expanding their knowledge in new functional areas and, possibly, switching their career paths towards new functions. A different, more traditional way that Procter & Gamble has implemented to achieve cross-functional fertilization as well as more varied career journeys is the so-called broadening assignment. A broadening assignment consists of an employee getting assigned a specific role outside their original function and it gives employees the opportunity of experiencing and learning another function skills and capabilities without formally changing their overall career path. It may ideally be imagined as a trial to understand if the new potential long-term skill development pattern may fit the employee's interests and competencies as well as if the receiving function believes that the employee may have a higher growth potential than they have got in their current function. Obviously, this third phase of evolution of talent and career management into a skill-based system is currently ongoing at P&G as the company keeps introducing and applying new pilots and projects that, indeed, attempt at operating the cultural and operational revolution for becoming a skill-based company without losing any edge in the competitive environment.

As thoroughly analyzed in paragraph 2.3, another critical challenge in implementing skill-based framework in the organizational design of companies is that of developing a reward system which is capable of adequately supporting and even accelerating this evolutionary process. As sensitive questions related to principles of equity and justice arise when addressing pay systems, designing a proper and acceptable rewards structure is an extremely tough task for top managers. This is especially true in the case of big multinational corporations where size and internal diversity of employees significantly increase the variance of perceptions and sensitivities. Therefore, multinationals' skill-based pay systems need to credibly respond to two main challenges: i) the rewards system needs to be based on fair, consistent and just principles of skillset and performance evaluation; ii) the rewards system needs to be fairly and equally applicable across different business units, countries, markets and functions. It is here worth noticing that in many cases perception has a disproportionate effect in influencing pay systems acceptance levels. That is, what really matters for a rewards system to succeed is the extent to which it is perceived as fair and just, notwithstanding its actual absolute level of justice and equity. Naturally, experiencing a practical situation where a huge discrepancy between perception and reality exist is quite rare: Thus, all skill-based rewards systems should be designed with the objective of it being fair as a guiding principle. Another relevant hurdle

in implementing skill-based pay systems is linked to the apparent incompatibility of these systems naturally high levels of customization and personalization with the standardization push of multinationals. Indeed, one of the funding principles of skill-based systems is that rewards should largely be determined based on the individual skillsets and performance; however, at the same time, wide organizations are distinguished by a natural preference for formalization of processes that guarantee easier achievement of acceptable justice and equity levels. Therefore, the central challenge that multinational firms must win for building a successful skill-based organization with a strong, credible skill-based rewards system is resolving the natural incongruity between different needs, requirements and principles mentioned above. To win this critical challenge in the journey of transforming into a world-leading skill-based organization, Procter & Gamble developed a compensation strategy which relies on a very simple, yet extremely powerful concept: In fact, P&G chose to build a pay system in which general principles, procedures and guidelines are completely standardized at a global level, while the content and flexibility in the application of such principles and procedures may potentially vary from employee to employee. Apart from the company's general strategic choices on how to build and articulate its compensation system in order to be competitive in the market, what is truly relevant in the context of skill-based organizing is the decision of P&G of binding the rewards system to individual performance. Thus, paying for performance is the leading principle in P&G skill-based rewards strategy. Before proceeding in the analysis, a more theoretical deep dive is worth developing. In fact, the interpretation that P&G is giving to the concept of skill-based differs quite much to a consistent corpus of scientific literature on the topic. In particular, many theorists of skill-based pay propose the development of systems that articulate down to a very specific level, defining pay ranges and compensation tools that are related to single skills. As a consequence, compensation packages of employees under this proposal are determined by the specific skills and levels of proficiency thereof that individuals own. We can state that, in this case, skills have an almost direct impact on pay level definition which gets through no intermediation. Differently, P&G is building its skill-based compensation system upon the evaluation of performance. This implies the generation of an additional level between individual skillsets and compensation package definition. The main assumption that validates P&G system is that performance is basically determined by skills and capabilities of individuals. To this extent, we can think of performance as an indicator of skills ownership and proficiency. A secondary, yet relevant premise is that assignment and roles are defined and calibrated through a skill-based thinking, and skill-based thinking is also used for making staffing decisions. Thus, the content of work which the performance evaluation is based upon is also defined



in terms of skills needed to succeed. Thus, the concept of performance as an “objectifiable” element to evaluate the capabilities of employees is the element that allows P&G compensation strategy to operate the critical connection between skill-based pay flexibility and the necessity of standardization. Specifically, P&G system is made fair and just linking employees’ compensation with performance evaluation through a formal process that is synchronized with business fiscal year. Hence, each P&G employee is evaluated based on their performance in the timeframe of one fiscal year and in relation of the content and goals of their specific role. Naturally, performance assessment is strictly tied to demonstration of the level of proficiency with which relevant job-related skills are used. The outcome of such assessment is then the main indicator for determining variations in the compensation package that the company pays to the employee for rewarding their impact. In addition to this standardized process that runs throughout the entire fiscal year and impacts every employee regardless of their job, function, country, management level or any other feature, P&G also designed further compensation tools that increase flexibility of the rewards system. These additional pay elements basically consist of variable factors that contribute to raise the overall compensation package of employees with outstanding performance or specific merit on particular tasks or exceptional events. The most important variable pay program that P&G implemented is named STAR program.

“The STAR bonus program is intended to make sure that managers are rewarded in line with the business results achieved, as higher business results deliver a higher STAR award. It increases the focus on Business Unit results as well as overall Company success and provides a clear link between pay and performance.”<sup>26</sup>

Other relevant bonus programs for rewarding employees showing superior performance that generates a significant business impact are the CEO Award and the Power of You. The CEO Award is a yearly reward reserved to top performers to recognize their “significant impact on business with a financial bonus as a demonstration of appreciation for their outstanding impact.”<sup>27</sup> Power of You, instead, is a recognition program that is not linked to any yearly cycle but consists of a reward that can be allocated to employees delivering critical results on specific projects, areas or period of time. A Power of You can be awarded by a vast portion of population to their colleagues; hence, in addition to the monetary value of the reward, it helps building “a positive and supportive work environment where excellence is recognized and encouraged.”<sup>28</sup> Thus, Procter & Gamble approach to the challenge

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<sup>26</sup> <https://www.pgcareers.com/global/en/benefits>, last visited: May 21<sup>st</sup>, 2024.

<sup>27</sup> Ibidem.

<sup>28</sup> Ibidem.

of implementing skill-based pay in its vast, heavy multinational organization consists of two central elements. The first and most relevant one is its strategic choice of leveraging the concept of performance as a proxy of skills and capabilities ownership and proficiency for building a global skill-based compensation process. In fact, as thoroughly described, a performance assessment yearly cycle whose principles and procedures are globally standardized allows P&G to fairly evaluate each employee and reward them accordingly based on their individual impact on the business and the organization. The second important element in P&G reward strategy is complementary to the first one and aims at increasing the flexibility of the overall system through the introduction of bonus and variable pay tools like the STAR program, the CEO Award and the Power of You reward.

## 4. CONCLUSION

Skill-based organizing represented a theoretical revolution in the field of organizational thinking and studies. It emerged in the early 1990s as a complex system of incremental innovations to several specific aspects of organizational design. Yet, its original purpose is very simple and logic. Indeed, skill-based organizing was developed as an attempt at building more flexible and agile organizations that could better performer in a thoroughly transformed business context characterized by a fast-changing, highly uncertain environment. This pressing need for higher agility and leaner organizations was mainly generated by two factors: i) exponentially higher technological and digital innovation rates that critically sped up competition evolution and shortened skills lifecycle; ii) financial and geopolitical instability that triggered more and more frequent international or global crisis. Consequently, firms needed to adopt a more effective and efficient organizational design that may allow to proactively and quickly adapt to both predictable and unpredictable environmental changes while guaranteeing sustained performance in the mid-long term. Based on these premises, skill-based organizing theoretical framework builds on a very powerful, yet challenging proposal: Switching the entire organizational focus from a job-based to a competency-based model. This means that companies should abandon their job-centric vision where the core unit of organizing consists of the job content of a series of predetermined, standard and static roles. Firms should instead revolutionize their organization building process, starting from a new concept of “person descriptions”, that is an innovative approach to describing and defining work that focuses on highlighting individual skillsets and skills needed to succeed on a specific assignment. (Lawler, 1994)

Once a similar – almost ontological – shift is operated on the initial, funding element of the organizational designing process, the entire organizational thinking needs to transform and evolve accordingly. Thus, each element of corporate organizational strategy must be reviewed through the innovative lenses of skill-based thinking. Earliest skill-based proposals addressed a very specific area of organizing which is pay systems. In fact, if a company shifts its focus on person descriptions and skills developed and/or needed to perform specific tasks, its pay strategy needs to reflect this change in the process of determining employees’ compensation packages. This generally leads to designing new rewards system that are based on skills ownership and proficiency as the determinants of pay. Basically, most simple approaches consist of identifying core skills and capabilities which are relevant in generating the company's competitive advantage, set skill pay ranges that determine different levels of pay reflecting different levels of proficiency and build an evaluation process that allows to assess individual skillset and, thus, define individual compensation packages. When

introducing features like flexibility and individualization in pay systems, like it is the case of skill-based proposals, corporate management needs to seriously address the problem of guaranteeing fairness, justice and equity of rewards procedures and principles.

More generally, overall talent and career management systems must be redesigned for implementing skill-based organizing, from the very initial stage of external talents attraction and recruiting process. Indeed, as skillsets and competencies of employees and their potential for growing them become the organizational focus in skill-based thinking, companies need to switch the modalities through which they search and select potential employees in the job market. Under the skill-based perspective, the most relevant attribute that firms need to identify in future employees is not the attitude and expertise for the specific role they are hiring for anymore. Rather, companies should aim at finding those talents that represent the best “person-organization fit.” (Bowen et al., 1991) Thus, talents must fit organizational values and principles, they must have core skills that are relevant for succeeding in the company and they also need showing potential for growing their skills in the long-term. This implies that skill-based companies redesign selection processes to assess individuals learning attitude and growth potential relative to both market and corporate-specific required skills and competencies. Naturally, skill-based organizing also innovates career management systems as career journeys are now developed based on skill growth needs. In fact, the new logic underlying staffing decisions is that of assessing i) whether an employee has satisfyingly developed the skills connected to their current role or not and ii) in consideration of employee’s current skillset and long-term career direction, what is the ideal next assignment in terms of skills development. In order to generate success through skill-based career management, companies also need to build very strong and efficient learning and development systems; their relevance dramatically increases in skill-based organizations as firms must be able of growing their employees’ skills both for guaranteeing sustained success and offering individuals the opportunity of developing new competencies thus increasing their rewards and status within the organization.

The present research specifically addressed the problem of skill-based organizing in multinational companies. Indeed, multinational corporations are characterized by specific features like organizational inertia and resistance to change, as well as an inherent need for stability and standardization that make skill-based thinking exponentially harder to implement. Through the analysis of a practical example of implementation, the case of American world-leading fast-moving consumer goods company Procter & Gamble, this contribution attempted at raising awareness on specific organizational and strategic devices that may result helpful in winning the skill-based

challenges in multinationals. Indeed, Procter & Gamble is going through the process of strategically implementing skill-based organizing since several years, as the company believes that the flexibility and agility of this system allows the organization to prioritize performance generating a superior outcome, that is superior business results. In fact, P&G central focus is on the outcome that its employees, individually, and its organizational structure overall generate, and skill-based organizing is extremely helpful in overcoming some of the main issues deriving from typical multinationals' rigidity. Skill-based thinking now permeates every strategic organizational management topic, starting from P&G's attraction and selection strategy. As thoroughly discussed, P&G built-from-within feature is a strong enabler of skill-based organizing, as both share common principles of "hiring for the organizing, not the job" with a focus on the long-term growth potential of young talents. (Bowen et al., 1991) Then, Procter & Gamble also distinguishes for a superior quality learning and development system based on the successful theoretical framework of 70/20/10. (McCall et al., 1988) This system disproportionately - and intentionally - leverages practical experience, learning-by-doing and learning-by-mistake mechanisms to grow young talents capabilities on the job. This experience-based growth is then complemented by coaching and mentoring systems as well as training and materials. In the context of growing through practical experience, P&G launched a successful project named Give & Get with GIGs, whose details have been outlined in paragraph 3.2 and that supplies P&G talents with valuable multi-functional skills growing opportunities. Similar projects – another one being the so-called broadening assignments – help nurturing a skill-based culture which is also reflected in P&G's career management processes that are incrementally being transformed according to skill-based principles. As concerns skill-based pay, multinationals need to manage the very powerful push for standardization that is generally considered the feature that guarantees system justice and equity. However, P&G cleverly managed to define pay strategy principles that generate standardized, thus just and fair compensation procedures while building enough room for flexibility and individualization of compensation packages. Indeed, linking pay to performance – which has been demonstrated to be an indirect indicator of skills ownership and proficiency – allows employees to be fairly and equitably evaluated on a yearly cycle while maintain possibilities for differentiating individual pay levels based on specific merit or business impact.

Obviously, the path towards the full implementation of skill-based organizational thinking within companies, and especially multinationals, is clearly still very long. The real general challenge is that of adapting and tailorizing skill-based principles to the wide variety of practical cases that may be encountered, since specificity of jobs and tasks that each company performs require several

transformations of the theoretical framework presented in this research. However, the practical case of Procter & Gamble offered an interesting overview of how world-leading companies are already managing complexity of skill-based thinking implementation to enormous organizational structures as they firmly believe that skill-based organizing may be a consistent driver of business results and a sustained competitive advantage generator to win over environmental uncertainty and unpredictability.

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