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**TALENTSHIP AND THE EVOLUTION OF
HUMAN RESOURCE MANAGEMENT:
FROM “PROFESSIONAL PRACTICES”
TO “STRATEGIC TALENT DECISION
SCIENCE”**

**CEO PUBLICATION
G 04-6 (458)**

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September 2004

***Talentship and the Evolution of Human Resource Management:
From “Professional Practices”
To “Strategic Talent Decision Science”***

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Executive Summary

The value and importance of human capital or talent, is increasingly obvious to business leaders, yet they are increasingly frustrated by the current state of human resource (HR) management. Few leaders can claim that their decisions about talent have the same logic, rigor and strategic depth as decisions about resources such as financial capital, products, services, customers and technology. HR continues to define success by the programs it delivers, such as competency models, incentive programs, e-learning, e-recruiting and self-service portals. This traditional focus – developing and delivering HR services that clients value – is incomplete. The new paradigm must emphasize enhancing decisions about human capital or talent, not simply justifying HR programs. Fortunately, today's dilemma – played out in the market for talent – has been played out before – in the markets for financial capital and customer products/services. The path forward will be clarified by understanding why the decision sciences of Finance (for money) and Marketing (for products, service and customers) emerged, and how their powerful decision support principles will define the next decision science – for talent.

Introduction

People, intellectual capital and talent are ever more critical to organizational strategic success. This observation is so common today, that it almost goes without saying. Digitization, labor shortages, growth through acquisitions, simultaneous downsizing and expansion, workforce demographic changes, and globalization are just a few of the trends that have made talent a top priority (Lawler & Mohrman, 2003; Frank & Taylor, 2004).

Today, top executives are quick to point out that managing talent well is their personal concern, it is perhaps the most difficult issue preventing their organization's maximum success. Yet, when we ask them if their decisions about the talents of their people are made with the same rigor, logic, and strategic connections as their decisions about money, technology, and products, they readily admit that their talent decisions are much less rigorous.

How Traditional HR Falls Short

Business leaders are increasingly frustrated with traditional HR, even when it is executed well or best-in-class. One CFO (now the CEO of his organization) put it well, when he said to us, "I value the hard work of HR, but I worry that our organization may not know which talent issues are the important ones, versus which are mostly tactical. I know how to answer that question in finance, marketing, and operations. I'm not sure how to do it for talent. I wish HR had more to offer here."

Their frustration with the current state of traditional HR, and their hopes for something more, are reflected in questions like these:

- *"Why is there so little logical connection between our core business management processes and our talent management processes? Our strategic planning, marketing, operations, and budgeting processes connect deeply and logically with to how we create competitive success and shareholder value. Yet, at best these processes reflect only general talent goals like headcount, labor costs or generic HR programs. At worst, people issues appear only as a headcount budget at the end of the plan."*
- *"We invest heavily in the latest HR measurement techniques— HR scorecards, HR financial reports, ROI on HR programs, and studies of how HR programs enhance attitudes, skills, and abilities. Yet, these HR measures seldom influence key business decisions, such as acquisitions and entry into new markets. They provide little insight on how well we compare to our competitors in creating competitive advantage through people. Can talent measures truly drive business decisions and investments?"*
- *"Not all investments are equally important in all situations. Marketing would never get away with a strategy to "provide 40 hours of advertising for every product." Yet, our HR programs typically apply similarly to everyone, such as "40 hours of quality training." Shouldn't we deploy our HR investments with greater precision and distinction, to have more impact and less wasted effort?"*
- *"HR spends a lot of time showing the value of HR programs. Yet, in Finance, Marketing, and Operations we judge their value through results: How much they help our leaders make better decisions about those resources to drive organizational effectiveness. Why is HR different?"*

The Answer Lies Beyond HR Measurement

The recent surge in HR measurement systems suggests that many believe the solution lies in better metrics. Finance, marketing, and engineering appear to have better "facts and figures," than HR. HR measurement systems typically strive to show the return on investments in HR programs, or apply scorecards and six-sigma techniques to HR processes. Yet, the Corporate Leadership Council (2001) found that the two most important goals for HR measurement – to enhance decisions about human capital and to connect human resources to strategy – are rarely met.

HR measurement cannot solve the problem alone, because today's measurement systems typically adapt measures designed for other resources and apply them to HR. For example, six-sigma initiatives often apply accounting-based cost-efficiency or operational measures. The best result is less costly and quicker HR processes, but not necessarily better talent. At worst, six-sigma processes achieve gains in efficiency (which is measured) at the expense of significantly reduced quality of talent (which is often unmeasured). The same pattern emerges when measures designed for finance, marketing or process improvement are applied indiscriminately to HR. Examples such as "HR accounting," "HR quality," "HR branding," "HR balanced scorecards," can be useful systems if applied properly (Jamrog & Overholt, 2004), but they typically fail to address the fundamental challenge of improving talent decisions (Boudreau & Ramstad, 2003a; 2003b).

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Today's HR has advanced significantly in its sophistication and strategic planning (e.g. Gubman, 2004). Yet, the majority of today's HR practices, benchmarks, and measures still reflect a traditional paradigm – excellence defined as delivering high-quality services in response to client needs. Even as the field advocates more "strategic" HRM, it is often defined as delivering the HR services that are important to strategic clients (leadership development, competency systems, Board governance, etc.). This traditional "service-delivery" paradigm is fundamentally limited, because it assumes that clients know what they need. Market-based HR and accountability for business results are now recognized as important (Gubman, 2004), but in practice they are often enacted merely by using marketing techniques or business results to assess the popularity of traditional HR services, or their association with financial outcomes.

Fields such as finance have a different approach. They have augmented their service delivery paradigm with a "decision science" paradigm that teaches clients the frameworks to make good choices. Significant improvements in HR decisions will be revealed not by applying finance and accounting formulas to HR programs and processes, but rather by learning how these fields evolved into the powerful, decision-supporting functions they are today. Their evolution provides a blueprint for what's next for HR.

Decision Sciences and Professional Practices

There are at least three markets vital to organization success – the financial market, the customer/product market, and the talent market. In the financial and customer/product markets, there is a clear distinction between the *professional practice* associated with how organizations operate in the market, versus the *decision science* that supports analysis and deployment of the resources within that market. There is a clear distinction between accounting (the professional practice) and finance (the decision science). Accounting is vital for management reporting and external requirements yet very different from the financial tools used to decide about appropriate debt structure, internal rate-of-return thresholds, etc. There is an equally clear distinction between the *professional practice* of sales and the *decision science* of marketing. Excellent sales practices and measures are vital, but very different from the tools used to make decisions about customer segmentation, market position, product portfolio, etc.

Today, the differences between accounting and finance are so clear that we seldom even consider them. The competencies to be a successful accountant are related, but clearly quite distinct from those for

a successful financial executive, and professional curricula reflect this. The industry itself has segmented this way – large accounting firms are very different from investment banking firms that focus on finance. Similarly, the competencies and activities of sales are clearly distinct from those of marketing. This does not mean that the professional practice is merely “administrative,” or less important. The decision science cannot exist without the professional practice. In fact, the professional practice must precede the decision science. Few organizations survive with great marketing and ineffective sales, nor great finance without highly professional accounting. Today, the synergy between accounting and finance, or between sales and marketing, is so strong that it is easy to overlook how the decision sciences evolved from the professional practices, and how they are both inextricably related, yet distinct. Taking a closer look at this symbiotic relationship between the professional practice and the decision science reveals insights about the evolution of HR.

Like finance and marketing, HR helps the firm operate within a critical market – in this case, the market for talent. Organizations cannot succeed without effective decisions and professional practices for operating in the financial and customer markets, and they also increasingly require effective decisions aligned with professional practices in the talent market.

Like finance and marketing, HR helps the firm operate within a critical *market* – in this case, the market for talent. Organizations cannot succeed without effective decisions and professional practices for operating in the financial and customer markets, and they also increasingly require effective decisions aligned with professional practices in the talent market. Yet, organizational decision processes and tools employed in the talent market are far less mature and refined than those used in finance or marketing.

History Shows that Decision Sciences Evolve from Professional Practices

While accounting and finance are clearly distinct, as are sales and marketing, perhaps the most valuable insights can be drawn from their synergy, and how the decision sciences evolved from the professional practices. Accounting is about 500 years old, and was a well-developed profession long before the decision science of finance showed how accounting measures could support decisions based on concepts such as relative returns on capital, and how different factors (margin, asset productivity, and leverage) affect those returns. Finance emerged in the early 1900's and is largely credited to the duPont organization, with the duPont model still in wide use today. Why the early 1900's? Because that is when capital acquisition and deployment became an important source of competitive advantage, and the ability to differentiate which types of businesses could generate an appropriate return on capital was vital to making effective decisions. Before that, organizations typically consisted of business units that, even if quite large, had generally consistent capital returns. For example, Sears was a large organization, but the capital model varied little from location to location. With advancing industrial production, capital investment decisions took on more importance within companies and across capital markets, and the tools of finance evolved to improve these decisions (Johnson & Kaplan, 1991).

Similarly, sales is as old as trade itself, and sales practices were a well-developed profession long before the decision science of marketing used sales information to create decision models such as “customer segmentation” and “product life-cycles.” When Sloan restructured GM by aligning specific brands within the portfolio to specific customer segments, a new course was charted. In the years that followed, the decision science associated with marketing made rapid advancements, as the size and sophistication of customer and product markets made systematic *decisions* a competitive factor for organizations. Marketing evolved from an almost exclusive focus on advertising practices to recognizing advertising as only one of many tools to be synergistically deployed to achieve strategic success and increased value (Bartels, 1976). During the 1950s, the management of the customer competitive space moved from being advertising-research oriented to being decision oriented (Howard, 1957). Top management became accountable and was provided tools to integrate marketing with the overall business objectives through strategic deployment decisions (Borden & Marshall, 1959).

The Lessons of History Apply To Today’s HR Paradigm Shift

The management of the talent resources is at a similar inflection point today. The HR function creates tangible value in organizations by focusing primarily on delivery of HR practices (staffing, development, compensation, labor relations, etc.), based on professional and often research-based principles. These practices are important, and research indicates that when they are done well they add tangible value to the organization (Becker & Huselid, 1998). Yet, professional practices alone do not systematically address the increasing sophistication and importance of talent markets and decisions to today’s competitive challenges. For all their contributions, good professional practices are not the same as having a logical and deep *decision science* for talent. Today, such a talent decision science is a source of competitive advantage, just as decision sciences for financial and customer markets were in the previous century.

The challenges that business leaders articulated in the introduction to this article describe HR today. Similar challenges also characterized the capital and customer markets, at the point in their evolution when they had achieved a sophisticated professional practice, but lacked a fully developed decision science to give it context and direction. The historical lessons from finance and marketing suggest that today’s HR challenges will not be addressed simply by incremental improvements in the professional practices of HR nor their measurements. The next step in the evolution of HR is a decision science for talent.

What does a decision science do? It provides a logical, reliable, and consistent framework that enhances decisions about a key resource, wherever those decisions are made. A decision science does not rigidly prescribe actions, but instead provides a system to identify and analyze key decision issues, adapting to the unique information and characteristics of the specific context.

The Elements of Decision Sciences

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For example, in finance, the duPont model allowed organizations to allocate financial capital across business units using more than the traditional accounting measure of profit. It revealed a new insight at the time, that allocating financial resources to the areas of highest return on capital, not simply the highest profit, was a path to superior performance. Perhaps more important, it articulated the necessary *conditions* for high returns, such as higher asset utilization, and it showed how to anticipate the effectiveness of financial investments, not simply account for their outcomes after the fact. In marketing, customer segmentation enabled organizations to allocate their customer and marketing capital not merely equally to all customers, nor to the customers with the highest sales, but rather to systematically choose the appropriate marketing investments and methods for each market segment, and to identify in advance, the segments with the greatest potential impact on the organization's success (Bartels, 1976).

Finance creates organizational value by enhancing *decisions* that depend upon or impact *financial* resources. Marketing creates organizational value by enhancing *decisions* that depend on or impact *customer or product* resources. Finance and marketing provide reliable and deeply logical frameworks that connect financial and customer capital to the organization's sustainable strategic success. Strategic decisions must go beyond generic "best practices" to create a unique and sustainable competitive position for the organization (Porter, 1996).

The Value of Decision Science is Often *Outside* the Professional Function

The finance and marketing decision sciences certainly have important effects on the professional practices of accounting and sales, as when different sales efforts are matched to different customer segments. Paradoxically, the most important effects of decision sciences are *outside the professional function itself*, as managers, employees, shareholders, and others learn to reliably and consistently improve *their own decisions* about the financial and customer resources that they affect.

For example, the logic of return-on-investment (ROI) is something that every manager learns, and that can be applied to decisions as diverse as investing in new equipment, marketing initiatives, production improvements, or mergers. ROI does not force managers to follow a rigid program imposed by accounting or finance. Rather, ROI provides a framework that helps managers identify and logically analyze the relevant success factors for deploying financial capital in these diverse decisions. Such decisions are made by countless managers and leaders throughout the organization, mostly outside the fields of accounting and finance. Thus, the *decision sciences* of finance and marketing support and structure decisions – *wherever they are made*. Finance and marketing provide a "teachable point of view" (Tichy & Cohen, 1997) about how financial and customer resources create sustainable organizational value. Ultimately, the success of finance and marketing is judged less by the quality of their programs, as by the quality of decisions throughout the organization, about financial or customer resources.

Today, HR seldom has a teachable point of view, so HR processes often feel controlling and dogmatic to line managers. It is often difficult for managers to connect what HR is asking them to do (the professional practices) with the competitive business issues that determine the organization's success.

The lessons from marketing and finance tell us that the goal of a talent decision science would be "To increase the success of the organization by improving decisions that impact or depend on talent resources." We have coined the term "Talentship" to describe the new decision science, and to reflect the notion of stewardship for the resource of employee talents. Talentship is to HR what finance is to accounting, and what marketing is to sales.

The Decision Science of “Talentship”

The lessons from marketing and finance tell us that the goal of a talent decision science would be *“To increase the success of the organization by improving decisions that impact or depend on talent resources.”* We have coined the term “Talentship” to describe the new decision science, and to reflect the notion of stewardship for the resource of employee talents. Talentship is to HR what finance is to accounting, and what marketing is to sales.

As Talentship evolves, organizations will increasingly succeed not simply through HR practices, but by the quality of decisions about talent resources, throughout the organization. Just as with decisions about financial and customer resources, talent decisions reside with countless strategic managers, leaders, and employees, deciding about the talents available to them, and their own personal talents.

When we ask business and HR leaders to think of a decision that depended on or affected talent, but was not made well, even companies with “best in class” HR functions have little difficulty generating examples. The examples carry a remarkably consistent message: The talent decision mistakes are NOT being made by HR professionals! Poor talent decisions seldom focus on HR programs, but instead reflect well-intentioned leaders making decisions without fully understanding the talent implications. *So, the greatest opportunity to improve talent decisions is outside of the HR profession.* There are two choices: (1) Try to control these decisions (such as requiring that they be made by only HR professionals), or (2) equip those outside the HR profession (line managers, employees, executives, etc.) to better understand the talent implications of the decisions they make.

HR programs are only one way to enhance talent decisions, just as accounting and sales programs are only one way to enhance decisions about financial and customer resources. Yet today’s HR functions typically define themselves in terms of their practices. HR textbooks and certifications are organized around the practices and functions that HR delivers, not the strategic decisions that HR supports. HR careers typically involve broadening expertise in the HR disciplines (staffing, compensation, labor relations, training and development, etc.), on the way to becoming “HR generalists.”

HR professionals are urged to develop competencies as “partners in strategy execution,” “change agents,” and “employee advocates” (Ulrich, 1998), but unlike finance and marketing, such competencies are not logically linked to a decision-making framework. Enhancing the strategic role of HR means equipping HR to improve talent decisions throughout the organization. Automating “administrative” work or shifting it away from high-level HR professionals can be helpful, just as separating bookkeeping away from accounting was valuable, but it is not the same as incorporating a decision science into talent decisions wherever they are made.

Control Systems are Not the Same as Decision Support Systems

A typical reaction to the idea of Talentship is that there are already many HR frameworks used by organizations, and they certainly affect decisions. One example is salary grades. Virtually everyone knows to which salary grade they belong, and employees and managers routinely use salary grades in their decisions about budgeting, headcount planning, merit pay, and other rewards. Because salary grades are often the only available framework for mapping the organization’s talent resources, it becomes the default framework for things such as signature authority, participation in leadership programs, parking space allocation, and many other decisions unrelated to the original purpose.

The salary grade system certainly affects decisions, but it is not a decision science. It is a control system, similar to the accounting and sales frameworks that existed before their decision sciences developed. The salary grade system in HR is like the chart of accounts in accounting. It provides a classification system to organize large amounts of data, and it improves the consistency of decisions (it limits the amount of merit increases to provide budgetary and salary structure control). Like most HR systems, salary grades are “control” frameworks, that create value mostly by limiting discretion to prevent mistakes.

Yet, strategic decisions require discretion and uniqueness, not merely consistency and control. Lacking a decision science when such decisions present themselves, leaders are motivated to “work around” control systems. For example, faced with the imminent loss of key talent to high-paying competitors, managers may inflate the job grade because it is the only way comply with the control system and still achieve the pay increase necessary to the key talent. These “work arounds” undermine the credibility of the HR systems. A true talent decision science would provide a rational and logical framework to determine where and why off-grade pay increases are needed.

Ironically, the lack of a decision science creates a *greater* need for control, because without a more rational framework, decision makers will use fads, benchmarks, tradition, etc. Such frameworks produce decisions of lower quality, so the organization must use control systems to restrict the range of action. Managers, in turn, often resent such systems, because they imply that managers are not to be trusted with talent decisions. This is one reason that HR is seen as administrative, or even obstructive. HR managers are often perceived to be “effective business partners” only when they help business leaders “work around” the HR control systems. They are good partners within a bad system.

Talentship Defines Partnership as Teaching Rather Than Telling

Today many HR professionals lament that they are “at the table” but not influential in the strategy and business planning process, when key decisions are made, such as mergers and acquisitions, entry into new markets, expansion globally, and introduction of new technologies. Interestingly, sales and accounting are usually not “at the table” either. The *decision sciences* of finance and marketing are at the table. The professional practices of accounting and finance reflect the implications of the strategic decisions that rely on finance and marketing frameworks. To participate fully in the strategic discussions, HR must have a unique, talent focused, perspective for *improving* decisions, not just a process for *implementing* decisions.

Improving decisions requires teaching more than telling. Finance and marketing are effective because they are taught to business leaders and become a part their work. Likewise we envision that the future talent decision science will be taught to others, becoming a natural part of their work and improving their talent decisions.

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A decision science improves reliability, consistency, and shared understanding. Give several finance professionals the same business challenge, and they likely will approach it with similar logic, and develop reasonably similar analyses. This is one reason that finance and marketing have such strong functional “brand identification.” In contrast, when several HR professionals attack the same business challenge they often produce inconsistent solutions, quite often reflecting their different HR professional practices (e.g., compensation, development, organizational design), or a different individual’s particular experience (e.g., “this is how they did it at GE”). Each solution may be good, but by definition they cannot all be optimal. Lacking a consistent logical framework, talent decisions will be made using frameworks influenced by politics, fads or fashions (Abrahamson, 1996). Or, talent decisions will be made by applying existing decision frameworks, such as focusing only on HR program costs because that’s what the accounting decision system recognizes.

A Decision Science Requires A “Point Of View”

To teach others to make better decisions requires a shared point of view that provides a common language and structure for decisions. It is a fundamental component of every successful decision science. In finance, this includes concepts such as “return on investment” and “free cash flow,” and the models that trace the implications of organization decisions on them. Economic Value Added (EVA) and Return on Invested Capital (ROIC) are not rigid reporting systems. Rather, they provide a logical starting point that helps decision makers reliably and consistently focus on the important elements. Business units adapt the generic models to reflect the specific challenges that they face. For example, one organization may decide to use ROIC to evaluate new capital investments while others may use EVA, internal rate of return or even payback period. In all cases, however, the framework is consistent, teachable, and focused on decisions, not programs. It can be explained and taught to those who manage financial resources throughout the organization, who are usually outside the finance or marketing profession.

In the organizations that we work with, there are almost always a few HR professionals who effectively demonstrate how talent connects to strategic success, and are known for improving the talent decisions of the managers and employees they support. Typically, these are rare individuals, well-known, and business units feel rather lucky to have them. These HR professionals invariably admit that they learned to provide decision support on their own, and in their own way, with little systematic instruction or development. Their success is difficult to reproduce in their HR colleagues, employees, and business managers. One HR professional put it well, “This capability is critical to our future, but it doesn’t ‘scale’ because everyone does it and learns it differently.” A talent decision science contributes to ‘scale’ by lending consistency to the strategic logic, and how it is learned and used by HR professionals.

So, though a talent decision science certainly improves specific HR decisions, plans and strategies, an even more significant contribution of Talentship is developing, using, *and teaching* a consistent logical “point of view” about how talent resources connect to strategic success. A logical point of view provides a consistent “script” for an ongoing dialogue about talent and strategy, allowing more reliable and consistent diagnosis, analysis, and action on talent issues throughout the organization. This improves talent decisions within the HR function and outside it – where the opportunity for impact and improvement is the greatest.

The Elements of A Talentship Point of View: Impact, Effectiveness, and Efficiency

What will be the elements of the decision framework that supports Talentship? We have found that nearly all decisions that depend upon or impact people within organizations can be described in terms of three elements: Impact, Effectiveness, and Efficiency. Moreover, these elements have useful analogies within existing decision sciences, such as marketing.

Impact

In Talentship, “Impact” asks, “How much will strategic success increase by improving the quality or availability of a particular “talent pool?” The analogy in marketing is “How much will organizational profitability increase by improving market share or sales success with particular customers or customer segments?” In marketing, customer segmentation determines how much strategic success would increase by improving sales to a particular customer segment, and thus which segment should get more attention. Answering the Impact question for talent resources requires what we call “talent segmentation”, a term we coined to describe the logical differentiation of talent pools by their importance to strategic success.

The analogy to customer segments in Talentship is “talent pools.” Traditionally, organizations describe work in terms of jobs. Sometimes a talent pool is completely contained in one job, but usually talent pools combine elements from several jobs or skills sets. Examples of talent pools are “those with

customer contact at the point of service,” “those who integrate product lines to support cross-selling” or “leaders.”

Organization leaders sometimes say that they already know which talent pools are most crucial, and that the “Impact” question is so obvious that their opinion will be shared by everyone. Yet, when we actually ask several business leaders to name the high-impact talent pools, their answers are so different that they couldn’t possibly support reliable and consistent talent decisions.

Organization leaders sometimes say that they already know which talent pools are most crucial, and that the “Impact” question is so obvious that their opinion will be shared by everyone. Yet, when we actually ask several business leaders to name the high-impact talent pools, their answers are so different that they couldn’t possibly support reliable and consistent talent decisions. For example, some believe the highest-impact talent pool must be front-line leaders, because they touch so many employees and processes, while others believe it must be salespeople because you can’t have profits and growth without sales, and still others believe it must be top executives, because their scope is so broad and the market rewards them so highly. There are two reasons for this inconsistency.

First, business leaders and strategists typically focus only on business processes and market outcomes, and rarely connect strategies to human capital or talent. Human resource leaders typically focus on designing and gaining support for HR programs, rarely asking which talent pools would be the most productive targets for those programs. The connecting point between strategic business process and the HR programs is the talent pool, and it is often overlooked by both groups.

Second, business and HR leaders typically consider talent pools in terms of their average importance. Traditional HR systems divide jobs into categories based on their average value to allocate pay, training, and other resources equitably. Salary grade midpoints are a good example. Yet, identifying the talent pools where investments will pay off most handsomely often requires focusing on the effects of *changes* in talent value, not the average value. We coined the term “pivotal talent pool” to capture this idea. Talent pool “pivotalness” is the *difference* in competitive success that would be achieved by *improving* the quality or availability of that talent pool. In marketing, customer segments with the highest *average* sales or profits may not be those where *improvements* in market share most improves sales and profits. When business leaders consider only the average value of talent, they routinely overlook talent pools that could have a very significant effect on strategic success.

Lacking a good sense of talent pool differences, organizations frequently adopt a “peanut butter” approach, spreading programs across everyone equally, such as “40 hours of quality training for everyone” or “stock options for everyone.” The marketing decision science is so well developed that recommending “40 minutes of advertising for every product” would never be tolerated. Differentiating among customer segments is fundamental to marketing, just as “Impact”—differentiating among talent pools based on their importance to strategic success—must be at the heart of Talentship.

Effectiveness

In Talentship, “Effectiveness” asks, “How much do HR programs and processes affect the capacity and actions of employees in talent pools?” The analogy in marketing is “How much does an advertising or pricing program change the behavior of the customers in a customer segment?” “Effectiveness” is independent of “Impact.”

Traditionally, HR organizations are more adept at “effectiveness” than “impact,” tracking the effects of HR programs on such things as performance ratings, competencies, climate, and attitudes. For

example, we worked with several organizations that carefully tracked their sales training and compensation programs against the associated changes in sales behavior, only to realize upon more careful analysis that the biggest reason for low sales was outside of the sales talent pool – for example, product was unavailable when it was promised. While sales training did effectively improve sales behavior, the “impact” was significantly limited by the quality of a different talent pool – back-office employees who operated the supply-chain. Because “effectiveness” was the focus, back-office employees received much less attention than the front-line sales group, and “Impact” suffered. Today’s widespread desire to calculate the “return on investment” in HR programs reflects “Effectiveness, rather than impact.” The sales training described above probably produced an ROI well above the minimum hurdle rate, but that ROI was still much less than the potential return from directing training resources to the more pivotal talent pool – back office employees. Ignoring impact in favor of effectiveness can produce well-meaning HR programs that have large “effectiveness” on low-“impact” talent pools.

Efficiency

In Talentship, “Efficiency” asks, “How much HR program and process activity do we get for our investments (such as time and money)?” The analogy in marketing is “What program activity (advertising, sales, etc.) is generated for a certain investment of resources?” In marketing, typical efficiency measures include the number of television program segments acquired per advertising dollar, or the number of billboards acquired per region.

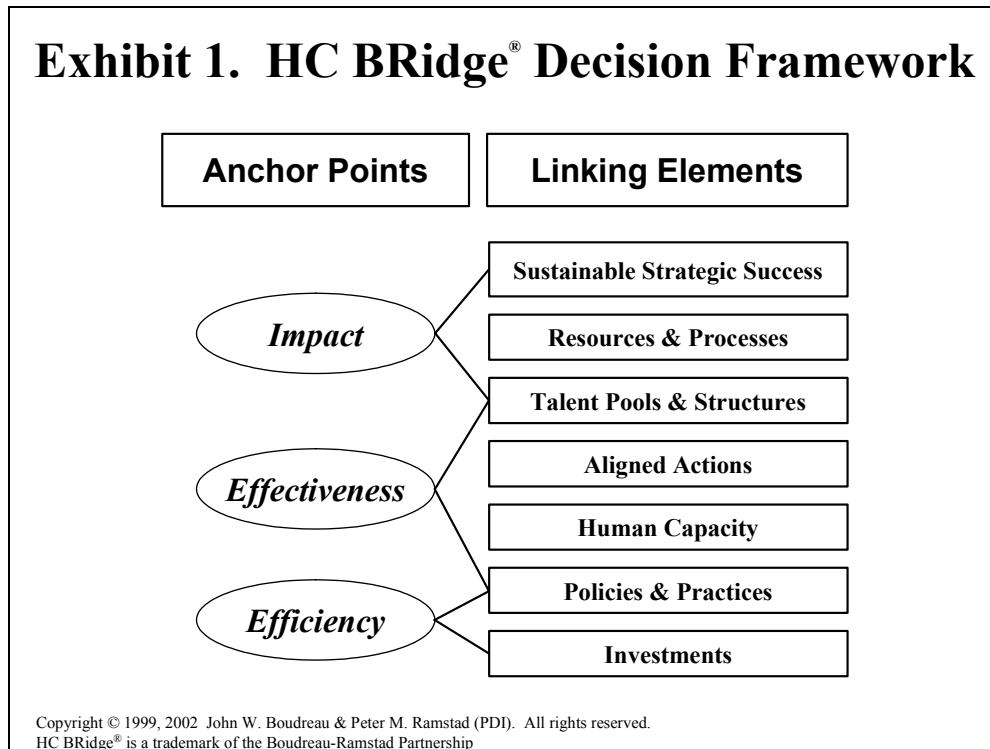
“Efficiency” is independent of “impact” or “effectiveness.” Most of today’s HR measures focus on efficiency, such as ratio of HR staff to total headcount, cost per hire, training hours per employee, benefit costs per employee, HR functional costs as a percentage of revenues, etc. (Corporate Leadership Council, 2001). Attending only to efficiency can produce extremely lean advertising or sales organizations, that have only small effects. This is the typical dilemma of trying to “shrink to success.” Some HR functions have shown impressive cost savings, for example, by outsourcing their activities. Relying solely on such input-output measures risks fixation on lowest-cost, often by standardizing and centralizing HR programs. Many organizations realize too late that while outsourcing saved money, it also reduced the distinctiveness of their HR systems and practices compared to competitors, decreasing both “effectiveness” and “impact” far more than the original tempting cost savings. The “effectiveness” and “impact” of the talent decisions are not readily captured by typical accounting and finance measures. Without a point-of-view that clearly articulates all three elements, HR efficiency may get more than optimal amounts of attention.

The HC BRidge® Decision Framework: Linking Talent to Sustainable Strategic Success

Making the Talentship decision science actionable requires having processes and tools that encourage and enable the organization’s decision makers to ask the right questions about their talent. That requires a framework that integrates “Impact,” “Effectiveness,” and “Efficiency;” articulates the connections between HR, talent and strategic success; and provides a consistent approach to talent decisions and a common language to communicate about those decisions. Lacking such a framework, it is easy to drown in a sea of data and opinions, and to lose sight of the key issues.

In finance, decision frameworks such as EVA are made actionable with models and tools that show the elements of the calculation, and how to combine them. Such frameworks also make it easy for decision makers to identify elements where data exists versus where it does not, and to clearly see the effect of gaps in data on the assumptions and conclusions they reach. EVA did not simply evolve from hundreds of accounting measures, but from a systematic analysis of how returns on capital create value. Yet, routinely HR organizations proudly present business leaders with systems or “HR scorecards” containing hundreds of indices and data elements, with no guiding framework, in hopes that business leaders will invent the required decision science to use them wisely.

Thus, Talentship becomes actionable through a framework that defines the components of "Impact," "Effectiveness," and "Efficiency," explains how they relate and combine to logically connect HR, talent and strategic success. This framework is called HC BRidge[®] Decision Framework, and is shown in Exhibit 1.



In this framework, "Impact," "Effectiveness," and "Efficiency" are defined more explicitly through a set of linking elements. The framework is an outline, like EVA or ROIC in finance, with each linking element representing deeper logic and analysis. It does not prescribe actions, nor describe a particular business or strategic situation. Rather, the framework spans different situations and decisions, providing a logical way to organize the information, describe different situations in similar ways, create deeper understanding and improve decisions.

We find the framework useful as a planning tool, working from sustainable strategic success at the top, to derive implications for HR practices and investments at the bottom. This is the traditional approach, typically adopted by business and HR leaders, textbooks, and consulting firms. However, our work has shown that the framework is also useful in guiding execution, by starting with HR investments and practices at the bottom and clarifying how they connect upward to business processes, resources and sustainable strategic success. We also find it useful when talent questions "start in the middle." HR professionals are often confronted with a request such as "we need to get our manufacturing employees to be more innovative." The framework guides a dialogue beginning with this element ("human capacity" in the form of innovation) identifies how it connects to key aligned actions, talent pools, and business processes/resources (moving upward). If innovation is found to be a high-impact human capacity, the model can help to identify the HR practices that will most enhance it (moving downward from "human capacity").

For example, one HR manager met with a business leader to come up with a standard headcount budget and expected number of employment requisitions for the coming year. Rather than simply focusing on headcount gaps, he used the HC BRidge[®] Decision Framework, asking, "What do these employees do that makes the biggest difference to your business?" ("Aligned Actions"), "How does their activity blend with others in the organization to create that value?" ("Talent Pools"), "What are the key

processes in the business where these activities have their biggest effect?” (“Business Processes”), and finally, “How does doing these processes well contribute most to our ability to build and sustain an advantage in the marketplace?” (“Sustainable Strategic Success”). The line manager said, “This is certainly a different conversation than I usually have with someone from HR. I never before saw headcount planning as so strategic!”

The HC BRidge[®] Decision Framework Applied: Federal Express Asia-Pacific

We will illustrate the framework using an example of Federal Express in the Asia-Pacific region, because it is a familiar organization that offers some interesting insights into the model.

We find that most HR and business leaders asked to identify the key talent at Federal Express will name pilots, logistics designers, and top leaders. No one can deny their importance. Yet, at Federal Express Asia Pacific, some of the largest opportunities to improve on-time performance and customer satisfaction might lie with a relatively “undervalued” talent pool – couriers and dispatchers

“Impact” asks, “How much will strategic success increase by improving the quality or availability of a particular talent pool?” We find that most HR and business leaders asked to identify the key talent at Federal Express will name pilots, logistics designers, and top leaders. No one can deny their importance. Yet, at Federal Express Asia Pacific, some of the largest opportunities to improve on-time performance and customer satisfaction might lie with a relatively “undervalued” talent pool – couriers and dispatchers. In our investigation, we found that it was not unusual for couriers to encounter a customer who said something like the following: “Can you wait 15 minutes, because I will have eight more packages for you.” The quality of courier responses, multiplied across hundreds of incidents every day, contributed significantly to the effectiveness or ineffectiveness of the entire system. Waiting at the wrong time could cause a truckload of packages to miss the timing window at the airport hub, and be delivered late. Not waiting, when time is available, caused needless customer dissatisfaction. Improving the quality of the courier-dispatcher talent pool on this important aligned action was actually more pivotal even than improving pilot quality. A traditional analysis would identify pilots as a more valuable talent pool on average, and we would concur. Pilots have higher salaries, higher educational requirements, and handle aircraft worth millions of dollars. Yet “talent pool pivotalness” focuses on how *improvements* in talent enhance strategic success. Pilots are important, but there was little gain to be achieved by improving pilot performance. The framework revealed that there was more opportunity to advance the strategy by improving the performance of couriers than pilots. Moreover, it identified precisely what elements of courier performance mattered most.

“Effectiveness” asks, “How much do HR programs and processes affect the capacity and actions of employees in each talent pool?” *Capability* (can employees contribute?), *opportunity* (do employees get the chance to contribute?), and *motivation* (do employees want to contribute?) are the elements of “Human Capacity” in the HC BRidge[®] Decision Framework. At Federal Express Asia-Pacific, the “aligned action” would be the correct response to the customer request. Understanding this reveals new opportunities for HR programs to create aligned actions through capability, opportunity, and motivation. For example, in Asia, unlike in the U.S., common social status differences often mean couriers expect to defer to the customer, and might find it inappropriate to say “No” to a customer request. Yet, considering the impact of this action, creating for couriers the motivation, capability, and opportunity to say “No” may be one of the most strategic investments the organization can make. For example, “opportunity” can

be created by adding additional shipping trucks to handle overflow. Couriers could then say “No, I can’t take your additional packages now, but I can send someone who can.” Thus, a deep and logical analysis of the courier talent pool aligned actions can reveal improvements in the design of the ground operations system.

“*Efficiency*” asks, “How much HR program and process activity do we get for our investments (such as time and money) in HR programs, practices, and functions?” In the Federal Express example, HR might have benchmarked its efficiency by measuring cost-per-hire, pay-per-employee, or time-to-train. Usually, such benchmarking suggests where costs/time can be reduced, and/or where volume of HR activity can be increased, without spending more. Yet, the more complete analysis suggests that it might make sense to spend *more* resources than their competitors, to get the right couriers and dispatchers, precisely because of their strategic importance. Competitors battling to reduce HR expenses by hiring those who will work most cheaply may be overlooking the strategic opportunity that better-qualified workers can produce in these pivotal roles.

Putting Talentship Into Action By Integrating With Organizational Processes

Talentship and the HC BRidge® Decision Framework can only be effective if they affect decisions. That requires not just a decision science, but also integrating the decision science within the organization’s ongoing processes. The framework often has its greatest value as a guide to reframing talent issues within strategy discussions. Our experience suggests that it is often tempting for HR leaders to announce a framework like HC BRidge® as a “new HR planning model,” to be filled-in by HR and business leaders. Such attempts rarely work well. Instead, the most successful organizations integrate the principles of the framework into their existing decision processes, just as they integrate basic financial models such as EVA and ROIC. The framework provides guidance in combining data from different organizational systems (strategy, capital budgeting, operational budgeting, financial reporting, product line analysis, etc.) to inform better talent decisions.

Many of the leaders we work with dub this a “stealth” approach, because it avoids rigidly imposing the HC BRidge® Decision Framework, or any model, as something that must be “completed” or “filled in.” Instead, wise managers use the framework to suggest new questions, to reframe existing data and questions, and thus to develop a collaborative point of view about how talent connects with organizational strategic success.

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Talentship has significant implications for virtually every element of human resources, including measurement, strategy, competencies, leadership development, and HR infrastructure. This transition can

be daunting if it implies that leaders inside and outside of HR must change immediately. Fortunately, Talentship can begin from many points, and often with the issues where HR organizations are already engaged. Many organizations have found that they can make significant improvements by working one process at a time. As each process is redesigned within a common decision framework, opportunities for enhanced integration and communication can arise to create new synergy for the organization.

By starting from a decision framework, HR leaders work with their colleagues in line management to find new answers to business questions – answers that reflect a unique perspective based on human behavior and talent markets. Evolving toward a decision science for talent is the next step for organizations to achieve sustained competitive success through one of their most important resources – talent.

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