July 2002

From "Professional Business Partner" to "Strategic Talent Leader": "What's Next" for Human Resource Management

John W. Boudreau
Cornell University

Peter M. Ramstad
Personnel Decisions Internationa

From "Professional Business Partner" to "Strategic Talent Leader": "What's Next" for Human Resource Management

Abstract
The HR profession is at a critical inflection point. It can evolve into a true decision science of talent, and aspire to the level of influence of disciplines such as Finance and Marketing, or it can continue the traditional focus on support services and program delivery to organizational clients. In this paper, we suggest that the transition to a decision science is essential and not only feasible, but historically predictable. However, we show that making the transition is not a function of achieving best-practice professional practices. Rather, it requires developing a logical, deep and coherent framework linking organizational talent to strategic success. We show how the evolution of the decision sciences of Finance and Marketing, out of the professional practices of Accounting and Sales, provide the principles to guide the evolution from the current professional practice of HR, to the emerging decision science of "talentship."

Keywords
practices, business, employee, job, program, management, organization, talent

Comments

Suggested Citation
Boudreau, J. W. & Ramstad, P. M. (2002). *From "professional business partner" to "strategic talent leader": "what's next" for human resource management* (CAHRS Working Paper #02-10). Ithaca, NY: Cornell University, School of Industrial and Labor Relations, Center for Advanced Human Resource Studies.
http://digitalcommons.ilr.cornell.edu/cahrswp/51

CAHRS
Center for Advanced Human Resource Studies
WORKING PAPER SERIES

CAHRS / Cornell University
187 Ives Hall
Ithaca, NY 14853-3901 USA
Tel. 607 255-9358
www.ilr.cornell.edu/CAHRS/

From "Professional Business Partner" To "Strategic Talent Leader": "What's Next" for Human Resource Management

John W. Boudreau
Pete M. Ramstad

Working Paper 02 - 10

CORNELL ilr School of Industrial and Labor Relations

From "Professional Business Partner" To "Strategic Talent Leader": "What's Next" for Human Resource Management

John W. Boudreau
Center for Advanced Human Resource Studies
Cornell University
393 Ives Hall
Ithaca, New York 14853-3901
(607) 255-7785
jwb6@cornell.edu

Peter M. Ramstad
Executive VP, Strategy and Finance
Personnel Decisions International
45 South 7th Street, Suite #2000
Minneapolis, MN 55402
Phone: (612) 373-3424
Fax: (612) 337-3695
Pete.Ramstad@personneldecisions.com

http://www.ilr.cornell.edu/cahrs

ABSTRACT

The HR profession is at a critical inflection point. It can evolve into a true decision science of talent, and aspire to the level of influence of disciplines such as Finance and Marketing, or it can continue the traditional focus on support services and program delivery to organizational clients. In this paper, we suggest that the transition to a decision science is essential and not only feasible, but historically predictable. However, we show that making the transition is not a function of achieving best-practice professional practices. Rather, it requires developing a logical, deep and coherent framework linking organizational talent to strategic success. We show how the evolution of the decision sciences of Finance and Marketing, out of the professional practices of Accounting and Sales, provide the principles to guide the evolution from the current professional practice of HR, to the emerging decision science of "talentship."

From "Professional Business Partner"
To "Strategic Talent Leader":
"What's Next" for Human Resource Management

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. It appears as the first slide in virtually every conference presentation on strategic HR, and is the first slide in most of the HR strategy documents in organizations. 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. A deluge of articles, consulting products, future vision statements, and HR strategic planning documents attest to this.

Talent's critical role now transcends the HR profession. Our conversations with CEO's CFO's and other senior executives in leadership roles reveal this change vividly. In the past, they may have patiently tolerated discussions about HR and talent, and offered their opinions about HR programs, but many did not see talent issues as their personal responsibility. While the importance of people within organizations was at times acknowledged, it was not clear how many leaders really believed that talent had a tangible connection to business performance, share price or shareholder value. Today, these executives are quick to point out that managing talent well is not only their personal concern, it is perhaps the most difficult issue preventing their organization's maximum success.

Recognizing the pivotal role of talent, organization leaders are increasingly frustrated with traditional HR, even when it is executed well, even in the face of measurements that document best-in-class HR programs. 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."

In our work with business leaders and corporate strategists, key clients for HR, we encourage them to seamlessly connect their talent to their fundamental strategic decisions and goals. As they strive to do that, 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 talent? We have well-developed strategic planning, marketing, operations and budgeting processes that connect deeply and logically with our understanding of how to create competitive success and shareholder value. Yet, at best these core processes reflect only general talent goals like headcount, labor costs or generic HR programs. At worst, people issues don't even appear except 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 drive key business decisions, such as acquisitions and entry into new markets. Moreover, our investors can't rely on these measures to show them the competitive value of our talent. Can talent measures truly drive business decisions and investments?"*
- *It's a basic principle of business that all investments have a different impact across divisions, markets, countries, or situations. Marketing would never get away with a strategy to "provide 40 hours of advertising for every product." Yet, our HR programs such as "40 hours of quality training" or "20-70-10 performance assessment" are usually applied to everyone. Shouldn't we be able to deploy our HR investments with greater precision and distinction, to have more effectiveness and less wasted effort?"*

- *"HR spends a lot of time with our top leaders, describing the value of HR initiatives or the value of the HR function. Finance, Marketing and Operations spend very little time on their initiatives or their function. They focus on how strategic success is accomplished through financial, customer and production resources, and on helping our leaders make better decisions about those resources. Their internal activities and functional value are judged through their results. Why is HR different?"*

We also work with HR leaders in these same organizations, as they strive to link talent with strategy. As they strive to make the link, it is interesting to hear their own frustrations and hopes, expressed in observations such as:

- *"The strategic mandates for the organization are clear, and we use the best processes we know to connect to them. Yet, our HR strategy discussions typically focus on: (1) What HR programs will we offer; (2) Should HR be centralized or decentralized; (3) What IT and other infrastructure is needed to make it all work; and (4) Why it is to hard to justify the investment? What is missing in our the connection to the big-picture issues?"*
- *"HR professionals are personally well-respected, yet as a whole our HR profession lacks the respect, credibility and impact of other core professions like finance, marketing and operations. Why is respect for HR as a whole less than the respect for HR individual contributors?"*
- *"We always have a few HR professionals that are trusted business contributors - respected and effective in their perspective on how talent connects to strategic success. Yet, finance, marketing, and engineering routinely produce this kind of leader. In HR, they are a precious few, and each has their own unique approach. Why can't we more reliably create this kind of leadership excellence across our entire group of HR professionals?"*

Often a lack of powerful measures is blamed – HR cannot articulate its perspective with as much precision as finance, marketing or engineering. Other management professions have better "facts and figures." Organizations often address this by building HR measurement systems "that show the value of what we do" or "apply scorecards or six-sigma initiatives to the HR processes". Yet, a recent survey by the Corporate Leadership Council (2001) suggests that the top two most important goals for HR measurement are to enhance decisions about human capital and to connect human resources to strategy. The same survey, however, found that these goals are only very rarely met, and that most HR measurement systems are good at measuring the things that are perceived as least strategically valuable.

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 that may miss the true impact of HR decisions. At best, the result is less costly and quicker HR processes, but not necessarily better talent. At worst, a six-sigma process focused on the wrong measures results in more efficiency (which is measured) and a reduction in the quality of talent (which is often unmeasured). The same pattern emerges if the measurement logic of finance, marketing or operations is applied indiscriminately to HR. Examples include "HR accounting," "HR quality," "HR branding," "HR balanced scorecards," etc. These can be useful systems if applied properly, but they often fail to address the symptoms described above.

To address these issues, many HR functions benchmark themselves against other "best in class" HR functions. We propose that the clues to the future lie much closer to home – within their own organizations. The key lessons can be found by more carefully considering some of the most powerful and respected business disciplines – such as Marketing and Finance. The development and logic of these disciplines provides a blueprint for what's next for HR, because these disciplines evolved from where HR is today.

Distinguishing Professional Practice From Decision Science

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 practices* required to operate in the market and the *decision science* which supports analysis and deployment of the resources from that market. For example, there is a clear distinction between accounting (the professional practice) and finance (the decision science). Accounting for revenues, costs, taxes and interest is important but very different from financial tools 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 are critical, but very different from the 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 quite different from those for a successful financial executive, and professional curricula reflect this. The industry itself has segmented this way - the "Big Five" accounting firms are quite different from the finance focused investment banking firms. The difference between sales and marketing is equally as clear. Both are important. The decision science cannot exist without the professional practice. In fact, the professional practice must precede the decision science. Would anyone want great marketing and no sales? No. In fact, if you had to choose, it is probably wiser to have great sales and no marketing! The same applies to accounting and finance.

Like finance and marketing, HR helps the firm operate within a critical *market* – in this case, the market for talent. It is clear that organizations cannot be successful without effectively operating within the financial and customer markets. Effective operation within the talent market will be even more critical in the years ahead, as the fundamental demographic shifts will result in a very tight labor market.

Consider how organizations approach the talent market. HR is often more similar to accounting or sales, with a well-established set of professional practices (staffing, development, compensation, labor relations, etc.), and research that refines these practices. These practices are important, and research indicates that when they are done well, they add tangible value to the organization. Yet, this is not the same as having a logical and deep *decision science* for talent. The symptoms that described HR, at the beginning of this paper, are typical of an increasingly sophisticated professional practice with a less-developed decision science. The same situation once described accounting and sales.

Today, the fit between accounting and finance, or between sales and marketing, is so strong that it is difficult to imagine how one existed without the other – but they did, until the 20^{th} century. Accounting is about 500 years old, and was a well-developed profession (for example, producing income statements and balance sheets) long before the decision science of finance showed those results could be used to make decisions based on relative returns on investments. Finance emerged in the early 1900's and is credited to the DuPont organization. Why the 1900's? Because that is when capital markets 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 time, organizations had accounting professions that ensured good accounting practices, based on professional standards.

Similarly, sales is as old as trade itself, and sales practices were a well-developed profession long before the decision science of marketing took the information from sales and created decision models such as "customer segmentation" and "product life-cycles." The decision science associated with marketing, like finance, emerged in the 20^{th} century, when the size and sophistication of customer and product markets made systematic *decisions* a competitive factor for organizations. Such decisions included which brands were targeted to specific customer segments – such as was done by Sloan at General Motors. Before that time, organizations had sales professions that ensured good sales practices and promotional programs.

We believe that the HR profession is in a similar place today. It creates tangible value in organizations, by focusing primarily on ensuring good HR practices, based on professional standards. Yet, the importance and maturity of the talent market has made a decision science for talent increasingly apparent and important, just as happened in the financial and customer markets of the early 20th century.

Finance and marketing are not perfect, and not every finance and marketing decision is optimal - the evolution always continues. Yet, their history vividly illustrate the clear shift from an exclusive focus on professional practices to a focus on enhancing decisions which are supported by the professional practices.

The historical lessons from finance and marketing suggest that the symptoms and challenges we've described will not be addressed simply by continued incremental improvements in the professional practice of HR. Rather, the next critical step in the evolution of HR is a decision science for talent.

The Decision Science of "Talentship"

What does a decision science do? It provides a logical, reliable and consistent – but flexible – framework that enhances decisions about a key resource, wherever those decisions are made.

A decision sciences does not rigidly prescribe what to do, but rather provides a logical system to identify and analyze key decision issues .

The DuPont finance framework in the early 1900's allowed organizations to allocate financial capital to diverse business units using more than the traditional accounting measure of profit. The framework showed that business units with lower profit margins could easily have higher returns on invested capital. Allocating financial resources to the areas of highest return on capital, not simply the highest profit, was revealed as a path to superior returns on capital. Moreover, the model clearly showed how to judge the effectiveness of financial investments, beyond simply accounting for their outcomes. Marketing is similar. Customer segmentation, for example, allowed organizations to allocate their customer and marketing capital not merely equally to all customers, or to the customers with the highest sales, but rather to systematically tailor marketing investments to the customers with the greatest impact on the organization's profits.

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 show how financial and customer capital connect to sustainable strategic success for the organization. These frameworks support *strategic decisions* about financial and customer capital. Strategic decisions go beyond generic "best practices", because they create a unique and sustainable competitive position for the organization.

To be sure, the finance and marketing frameworks affected the professional practices of accounting and sales (for example, different sales efforts are targeted to different customer segments). Paradoxically, however, the most important effects of these decision sciences were *outside the profession itself.* Managers, employees, shareholders, and others learned how to reliably and consistently improve *their own decisions* about the financial and customer resources that they affected.

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

Now, taking the lessons from accounting and finance, 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. Talentship is to HR what finance is to accounting, and what marketing is to sales. Talentship has not developed yet, but we believe that it is what's next.

Just as with finance and customer resources, most decisions that impact or depend upon talent are made not by HR professionals, but by employees, managers and others outside the HR profession. So, talentship must have value wherever talent decisions are made. As talentship evolves, the HR profession will increasingly be judged not simply on its practices, but on the quality of decisions about talent resources, throughout the organization. In the end, most talent decisions reside with countless strategic leaders, business leaders and employees, who make decisions about their own personal talent (including whether to join, stay and leave the organization), as well as the talent entrusted to them as leaders and managers.

Decision support is different from professional practice. HR programs are only one way to enhance talent decisions, just as the programs of accounting and sales are only one way to enhance decisions about financial and customer resources. We believe that shifting the primary focus from "providing practices, programs and services," toward "supporting strategic talent decisions" is how HR can address the questions we described at the beginning of the article. It is an exciting professional path for HR professionals to achieve greater strategic impact.

Today, HR functions define themselves primarily in terms of their practices, not the decisions about talent. HR textbooks and certifications are organized to describe what the HR function *does*, not the strategic decisions that HR supports. The typical HR career involves gaining expertise in the HR disciplines (staffing, compensation, labor relations, training and development, etc.). To be sure, textbooks and professional organizations devote increasing attention to HR competencies, such as "partners in strategy execution," "change agents," and "employee advocates," in addition to "functional experts" (Ulrich, 1998). However, unlike finance and marketing, such competencies are not logically linked to a decision-making framework.

Today, HR professionals typically believe that they are not "at the table" early enough 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 are the downstream implications of the strategic decisions. To get to the table, HR must have a process for *improving* decisions, not just a process for *implementing* decisions.

Perhaps most important, a talent decision science would support teaching others how to improve their talent decisions. Most organizations we work with have a handful of HR professionals who are able to reliably and consistently link talent to the strategic success of the organization, and improve the decisions of the managers and employees they support. Typically, these are rare individuals, and business units feel fortunate to have them. These HR professionals invariably admit that they learned how to provide decision support each in their own way, with little systematic instruction or development, and that they find it difficult or impossible to teach their HR colleagues and their line business clients. Many are most proud of their career experiences outside of the HR function. One HR professional put it well, "This decision support capability is critical to our future, but it doesn't 'scale' because everyone does it differently and learned it differently."

A decision science improves reliability, consistency and shared understanding. If you give several finance professionals from your organization the same business challenge, they likely will approach it with similar logic, and develop a reasonably similar analysis of the issue. 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 less consistent solutions. The different solutions often reflect their different primary HR functional areas (e.g., compensation, development, organizational design). Each solution may be good but, by definition, they cannot all be optimal. Lacking a consistent decision logic, talent decisions will be made using non-logical decision frameworks, such as politics, fads or fashions (Abrahamson, 1996). Or, managers will try to make talent decisions by applying the existing decision frameworks (such as focusing on reducing costs because the accounting system so clearly recognizes the costs of people and HR programs). The decision science – Talentship – would improve talent decision support in organizations, and make talent decisions more reliable and consistent.

A Decision Science Requires A "Point Of View"

A point of view provides a common language and framework for thinking about decisions. It is a fundamental component of every successful decision science. In finance, this includes concepts such as "return on investment," "free cash flow" and the models that translate the implications of various organization decisions on these concepts. EVA and 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 (return on invested capital) to evaluate new capital investments. Other organizations may use EVA, IRR 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. Those outside the finance or marketing profession usually make the key decisions about financial and customer/product resources.

What is the implication for the talent decision science? The greatest value will be created where the quality of talent decisions is poorest or least consistent.

When we work with HR professionals and line management leaders, we often ask them the following question: "Can you name a specific decision which was made that depended on or impacted talent, and the decision turned out to be a poor decision?" Even leaders within the "best in class" HR functions have little difficulty generating a list of examples. The message from the examples is remarkably consistent – the key talent decision mistakes are NOT being made by HR professionals. *So, the greatest opportunity to improve talent decisions is outside of the HR profession.* Such decisions are rarely about specific HR programs. More typically they arise when leaders make strategy, financial investment, or other decisions where the talent implications were not fully or accurately addressed. There are two choices: (1) The HR profession can try to directly make more of these decisions; or (2) Those outside the HR profession (line managers, employees, executives, etc.) must better understand the talent implications of the decisions they make.

Finance and marketing have generally adopted a mix of both approaches – implementing control systems that require finance or marketing professionals, while simultaneously helping managers, executives and employees make better decisions. Creating a broad cross-section of leadership that understands financial and marketing concepts is one way to improve a large number of decisions. A significant key to this approach is to provide a "point of view" that links their resource (financial or customer capital) to the goals and strategic outcomes of the employees and managers. In the most successful organizations, financial and marketing frameworks are "taught" and used by non-financial and non-marketing managers – as part of the language of business. Yet, as powerful as the financial and marketing points of view are, they are myopic with regard to important talent issues.

Thus, developing, using *and teaching* a logical "point of view" about how talent resources connect to strategic success is a significant requirement for Talentship. It would provide a logic about talent that is shared by HR professionals and business leaders, which is the heart of the "business partner" relationship. It would provide a consistent "script" for talent analysis allowing more reliable and consistent diagnosis, analysis and action on talent issues throughout the organization, just as the logic of EVA does for finance. It would support decision tools to improve talent decisions made both within the HR function and outside it – where the opportunity for impact and improvement is the greatest.

Control-Based versus Decision-Based Points of View

One might argue that HR already has many frameworks that are used throughout the organization. One powerful example is job or salary grades. Virtually everyone knows which job or salary grade they are in, and employees and managers routinely use the system of job and salary grades in their budgeting, headcount planning and decisions about merit pay and other rewards. Job titles are used as the basic "map" of talent for forecasting future resource needs and gaps. They often become the framework for many other decisions (e.g., everyone with a certain salary grade is included in a leadership development process).

Yet, job grades are actually most similar to the accounting and sales frameworks that existed before their decision sciences developed. The job grade system in HR is like the chart of accounts in accounting. It provides a classification system to organize large amounts of data. It provides a framework which improves the consistency of policy decisions in complex organizations (e.g., it limits the amount of merit increase allowed without approval to provide budgetary and salary structure control). Most HR systems are "control" frameworks. They create value by preventing very bad actions. Most such systems were largely implemented to manage the costs associated with employees. They provide "meaningful market comparisons" for salary surveys, or "fairly" allocate budgets for merit increases. These are important goals, but in the absence of a decision science such systems often motivate leaders with tangible competitive challenges to "go around" the control system. For example, managers may inflate the grade assigned to a given person or role, so that they can authorize the incentive increase necessary to keep key talent, and still appear to comply with the control system.

Ironically, the lack of decision frameworks creates a *greater* need for control frameworks. Lacking decision support logic, decision makers may develop very rudimentary "points of view." So, the quality of their decisions is low, and the organization must restrict the range of allowable actions. Managers often resent such systems, because they imply that managers are not qualified or to be trusted with talent decisions. Today, the HR profession typically provides sophisticated control frameworks, but rarely provides sophisticated decision support frameworks. This is one reason that HR is seen as administrative, or even obstructive, by many line managers and employees. In fact, HR managers who support line organizations are often perceived to be "effective business partners" only when they effectively help avoid the bad effects of HR control systems. They are "good partners" within a "bad system."

Again, we can learn by benchmarking the successful decision support systems of finance and marketing. Accounting and sales provide important control-based frameworks, but the emergence of finance and marketing allowed the profession to use *and teach* a point of view that enabled managers and employees to make better decisions, not simply follow the control system rules. The shift toward a decision science regarding talent will similarly change the focus of the partnership between HR professionals and their clients, which will be a key element of the maturation of the profession.

Defining the Talentship "Point of View": Impact, Effectiveness and Efficiency

What will be the elements of the "teachable point of view" that supports talentship? A complete answer is impossible today, but again we can learn much from the evolution of finance and marketing. In particular, because marketing deals with particularly "human" or "cognitive" resources (the impressions, beliefs and attitudes of customers), there is much in marketing to inform the decision science of talent.

The marketing decision science has several common elements that can guide our search for the fundamental elements of the talentship point of view. It clearly distinguishes between three important questions that we call "Impact," "Effectiveness" and "Efficiency." We believe that this distinction provides a parallel logic for talent.

Impact, in marketing, identifies which customers or customer segments have the greatest potential to improve organizational profitability. Thus, customer segmentation strives to distinguish groups of customers by their profit potential. Simply put, the question for "Impact" is, "How much of a potential swing in future profits would be produced by a given increase in sales to a customer segment?" By considering customers this way, organizations identify which customer segments are most important to future organizational success.

In Talentship, "Impact" differentiates talent segments by their importance to organizational success. We will call these talent segments "talent pools."

Talent pools are clusters of work done by employees. Traditionally, organizations describe the work done by employees 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. Talent pools are defined more in terms of the processes or resources they affect than by their job titles. Examples of talent pools are "customer contact at the point of service" "integrating product lines to support service offerings" "obtaining sufficient subjects for clinical drug trials," or "ensuring sufficient product availability." Talent pool descriptions often link very closely to business processes. Yet, unlike business processes, talent pools reflect what people accomplish. Note also that this definition of "talent pool" can encompass work at all levels of the organization, not just the top leadership level.

Organizations typically ask, "Who is our "A" vs. "C" talent?" Consultants admonish that CEO's expect HR to "spend your time on the "A" talent and not trying to improve the "C" talent. Yet, an equally important question is, "Where does having "A" talent matter most?" We increasingly hear the phrase, "Put the A Talent in A Positions." Each of these catch-phrases captures only a part of the "impact" concept. A more complete answer requires asking, "Where do differences between A and C talent has the biggest strategic effect?" (Boudreau & Ramstad, in press). "Impact" addresses this question – often with quite surprising results.

Our work in organizations suggests that answers to this question are among the most elusive, although at first glance they often seem quite obvious. HR and strategic organization leaders typically can immediately offer opinions about which talent is important to organization success. Most believe their opinion will be shared by everyone, because it is so "obvious." Yet, when we compare their answers, they are often so different that it is clearly impossible to expect them to support reliable and consistent decisions about talent investments. We find that business leaders and organizational strategists focus on business processes and market outcomes, but rarely define their strategies specifically enough to identify the contributions of different talent pools. Human resource leaders (except for the rare handful) focus on designing and gaining support for HR programs, so they also overlook asking which talent pools would be the most productive targets for those programs. The connecting point is the talent pool, and it is often overlooked by both groups. Lacking a good sense of talent pool differences, organizations frequently adopt what has been called a "peanut butter" approach, with programs such as "40 hours of quality training for everyone" or "stock options for everyone" or "forced-distribution performance management for everyone".

The marketing decision science is so well developed that it is virtually unimaginable that a marketing organization would be tolerated if it recommended "40 minutes of advertising for every product." Differentiation is at the heart of marketing, as it is with any good decision science. Thus, "Impact," or differentiating among talent pools based on their importance to strategic success, must be at the heart of talentship. Without going into detail here, our work with organizations, supported by research and models of strategy and human behavior, shows that it is possible to answer the "Impact" question. It requires understanding the implications of strategy theories for business processes, key organizational resources, and their connection to differences in talent performance and quality.

So, the "Impact" element of talentship asks the question, "In which talent pools do differences in performance or quality have the largest effect on sustainable strategic success?"

Effectiveness, in marketing, identifies which programs (advertising, sales, etc.) will create the largest behavior change among particular customers or customer segments. Measures of "recall" are used to tell whether a given television advertisement affected certain viewers, or surveys of store visitors are used to tell whether a particular in-store promotion affected buying behavior. For example, a recent article announced, "Pepsi's Among Firms Taking Steps to Measure Effectiveness of Ads" (Investor's Business Daily, April 10, 2002, Page A3), noting that Pepsi had achieved brand awareness nearly equal to Coca-Cola's, despite Coke's spending 30% more on marketing. Simply put, "Effectiveness" asks, "How much does a given marketing program or practice change the behavior of a given customer or customer segment?" Notice that "effectiveness" is independent of "impact." In the worst case, ignoring impact in favor of effectiveness can produce well-meaning advertising and sales programs that have large "effectiveness" on low-"impact" customers. Similarly, "impact" without "effectiveness" can produce attention to very key customers, with very little behavior change (e.g., sending all 20 sales representatives to visit one or two "key" customers, but end up only overwhelming them). It is the combination of "impact" with "effectiveness" that produces decisions that clearly link the programs and practices with key organizational outcomes.

In Talentship, "Effectiveness" focuses on how human resource programs and processes affect talent pools. For each talent pool, "effectiveness" asks how HR programs affect the human capacity (e.g., capability, opportunity and motivation) that in turn supports the actions of the employees in that pool.

Traditionally, HR organizations are more adept at "effectiveness" than "impact." HR measures such as performance management and 360-degree assessments focus on employee actions. Measures such as "competencies," "climate," and "attitudes" focus on the elements of capabilities, opportunity and motivation respectively. It is not unusual to find organizations celebrating "effectiveness," with little attention to "impact." For example, we worked with several organizations that carefully tracked their training and compensation programs for salespeople, and the associated changes in sales behavior, only to realize upon more careful analysis that the biggest reason for low sales was that product was unavailable when it was promised. The "impact" of enhanced sales performance was significantly limited by the quality of a completely different talent pool – back-office employees who ensure on-time delivery. Because "effectiveness" was the focus, this fact was overlooked, and the back-office employees received much less attention than the front-line sales group.

So, the "Effectiveness" element of talentship asks the question, "How much do HR programs and processes affect the capacity and actions of employees in each talent pool?"

Efficiency, in marketing, identifies what programs (advertising, sales, etc.) are generated for a given investment of resources (such as money and time). Typical measures include the number of television program segments acquired per advertising dollar, or the number of billboards acquired per region. Simply put, the question for "Efficiency" is, "How much does a given expenditure of marketing resources produce in programs or practices?" Considering marketing expenditures this way, organizations can identify which ones generate the greatest program activity. Notice that one can measure "efficiency" independently of "impact" or "effectiveness." In the worst case, this can produce extremely efficiently-run advertising or sales organizations, that have only small effects on "effectiveness" or "impact." This is the typical dilemma of trying to "shrink to success." The dilemma is often exacerbated because accounting systems vividly reveal costs but less vividly reveal quality enhancements. Similarly, "impact" and "effectiveness" without "efficiency" can lead to wasted resources (e.g., "hold onto that customer at all costs"). It is the combination of "efficiency" with "effectiveness" and "impact" that helps to identify where spending more is really a competitive advantage, versus simply a waste.

In Talentship, "Efficiency" identifies what level of human resource programs (training, compensation, staffing, communications, etc.) is generated for a given investment of resources (such as money and time).

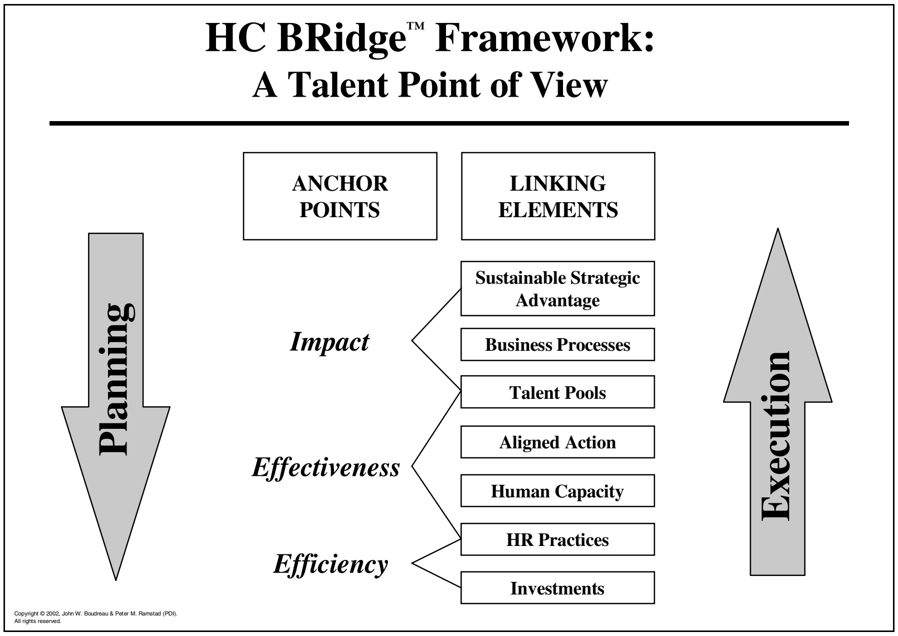
The vast majority of today's HR measures focus on efficiency, such as time-to-fill-requisitions, training hours per employee, benefit costs per employee, HR functional costs per total costs, etc. (Corporate Leadership Council, 2001). This is understandable, because the existing organizational decision sciences emphasize accounting-based measures. HR organizations have shown impressive cost savings, for example, by outsourcing their activities. Yet, relying solely on such input-output measures run the danger or creating a mindset that constantly strives for the lowest-cost or fastest delivery of HR programs. It is not unusual for organizations to realize that while outsourcing saves money, it also results in the loss of any differentiation in their employment offer compared to competitors, and the resulting decrease in both "effectiveness" and "impact." Yet, "effectiveness" and "impact" are not readily captured by the finance decision science, so without a point-of-view that clearly articulates all three elements, efficiency will get the attention and action.

So, the "Efficiency" element of the talentship point of view asks the question, "How much HR program and process activity do we get for our investments in the HR function?"

HC BRidge™: Linking Talent to Sustainable Strategic Success

We use The HC BRidge™ framework, in the diagram below, to describe the elements linking talent and sustainable strategic advantage. HC BRidge™ is an outline, like EVA or ROIC, with each linking element representing deeper logic and analysis. It suggests strategic talent connections that can be adapted to different business or competitive situations. It is based on the three generic elements of successful existing decision frameworks, "Impact" "Effectiveness" and "Efficiency." In the HC BRidge™ framework, each of these fundamental questions is broken down further into a set of linking elements that can be used to articulate it more explicitly. We find the HC BRidge™ model useful as a planning tool, working from sustainable strategic success at the top, to derive implications for HR practices and investments at the bottom. We also find HC BRidge™ useful in guiding execution, starting with HR investments and practices at the bottom and exploring how well and how clearly they link upward to sustainable strategic success.

Interestingly, we increasingly find the framework useful when talent questions "start in the middle." It is not unusual for HR professionals to be confronted with a client request such as "we need to get our manufacturing employees to be more innovative." The HC BRidge™ model can help guide a dialogue beginning with this element ("human capacity") to identify its links to key actions, talent and business processes (moving upward). If it is indeed determined to be a high-impact capacity, the model can help to guide a discussion of the appropriate HR practices that will most enhance it (moving downward from the "human capacity" element).



A good point of view encourages and enables everyone in the organization to ask great questions about talent. Questions that identify the most important talent issues, the most promising talent investments, and the best use of scarce talent resources. So, a powerful way to evolve toward Talentship is for HR leaders simply to begin asking questions using this "point of view" as part of everyday work with constituents.

For example, one HR manager was introduced to the HC BRidge™ framework, and soon after met with a business leader to come up with a standard headcount budget and number of employment requisitions for the coming year. Rather than simply focusing on headcount gaps, he asked "What do these employees do that makes the biggest difference to your business?" ("Aligned Actions"), and then, "How does their activity blend with others in your organization to create that value?" ("Talent Pools"), and then, "What are the key processes in your business where these activities have their biggest effect?" ("Business Processes"), and then, "How does doing these processes well contribute most to our ability to build and sustain an advantage in the marketplace that is protectable?" ("Sustainable Strategic Success"). The HR manager reported that the line manager said, "This is certainly a different conversation than I usually have with someone from HR. It's caused me to think about things I seldom consider, but I should, to more strategically understand what's driving my headcount and requisition budget."

The HC BRidge™ framework is built on the three major "anchor points," and their associated fundamental questions.[1] 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.

"Impact" asks, "For which talent pools do quality differences have the biggest impact on our competitive success?" This question, and the tools that support it, often unearths surprising talent potential. For example, with 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 of the talent issues at Federal Express, we found that it was not unusual for couriers to encounter a customer who said, "Can you wait 15 minutes, because I will have 20 more packages for you." The quality of 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. We find that most HR and business leaders searching for the key talent at Federal Express would identify pilots, logistics designers and top leaders. No on can deny their importance. However, in terms of potential for strategic success *improvement*, changes in the quality of the courier-dispatcher talent pool was even more pivotal. Organizations that systematically consider the "Impact" anchor point often discover their own examples of previously overlooked key talent.

[1] A more detailed application of the HC BRidge™ framework to the strategic challenges of the internet can be found in Boudreau, Dunford & Ramstad (2001).

"Effectiveness" asks "Do our HR practices make a significant *difference* in the strategically-important talent pools?" This gets at the effect of HR programs on *capability* (can employees contribute?), *opportunity* (do employees get the chance to contribute?), and *motivation* (do employees want to contribute?), which are the elements of "Human Capacity" in the HC BRidge™ model. At Federal Express Asia-Pacific, the "aligned action" would be the response to the customer request. Understanding the importance of this action would reveal new opportunities to direct HR programs to create more aligned actions through capability, opportunity and motivation. For example, couriers in Asia have very different social status compared to their customers, than in the U.S. In Asia, it is much more typical for couriers to defer to the customer. Thus, saying "No" to a customer request to wait would be very unusual. Yet, given the strategic impact of this action, it may well make sense to invest in ways to change the motivation and capability to say "No." In fact, it may also make sense to change "opportunity," perhaps by providing increased alternatives to the couriers, such as additional shipping trucks that are available to handle overflow. Couriers could then say "No, I can't take your additional packages now, but I can send someone who can." Thus, the talent issue reveals implications for logistics design.

"Efficiency" asks, "What is the level and quality of HR practices we produce with the resources that we spend?" In the courier-dispatcher example, HR might have benchmarked its efficiency by measuring couriers and dispatchers in terms of 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 of Federal Express 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 may actually be a symptom that they have overlooked the strategic opportunity. The existing "point of view" about HR typically reflects mostly efficiency, because the existing organizational decision systems (accounting,

budgeting, operations) can only "see" the cost and time spent on HR programs and employees. These existing systems are not wrong, but they are myopic to the connection between HR investments and organizational outcomes.

We are not proposing HC BRidge™ as the only decision model for talent. There are many ways to link HR and organization strategic success, and our experience suggests that HC BRidge™ has its greatest value as a starting point. Organizations can modify the HC BRidge™ framework with their own language and concepts, just as they modify basic financial models such as EVA and ROIC. Even more significantly, they integrate their other organizational management systems (strategy, capital budgeting, operational budgeting, financial reporting, product line analysis, etc.) into the relevant elements of the HC BRidge™ framework, so that the talent decisions are directly linked to the critical decision making processes and frameworks used within the organization. The key is not to rigidly adopt HC BRidge™, or any model, but rather to develop the point of view about talent that best supports a collaborative decision process, that clearly connects talent with organizational strategic success, and that enables a reliable, consistent and productive approach to talent analysis, decisions and evaluation.

However, we also find that whatever the final from, it is important that it reflect the three basic underlying concepts of "Impact," "Effectiveness," and "Efficiency." In that respect, HC BRidge™ offers a useful metaphor for connecting these concepts to talent decisions. A framework like HC BRidge™ is a way for HR leaders and their constituents to shift their approach to talent decisions, as the example from Federal Express Asia Pacific illustrates. Many existing organizational HR models contain several of the HC BRidge™ components, but organizations often use them only to *describe* what HR does or intends to do, or to *rationalize* investments in HR processes *after* key decisions are made. In contrast, talentship demands a point of view that can serve as an active decision model before making key decisions.

Talentship, and the HC BRidge™ model as a starting point for a shared point of view, have significant implications for virtually every element of human resources and business partnership, including measurement, strategy, competencies, leadership development, HR infrastructure, etc. This can be a daunting realization, if it implies that the entire professional transition must be made immediately. Fortunately, we find that the journey toward talentship can begin from many starting points, and often with the issues where HR organizations are already engaged. Reflecting talentship in a new measurement system, or in the design of the new HR organization, for example, have proven potent vehicles for engaging and beginning the journey to "what's next" for HR. So, the journey to "what's next" does not require leaping across a chasm, but it does require taking steps in the new direction.

References

Abrahamson, E. (1996). Management fashion. Academy of Management Review, 21 (1), 254-285.

Boudreau, J.W. & Ramstad, P.M. (in press). Strategic I/O psychology and the role of utility analysis models. In W. Borman, R. Klimoski & D. Ilgen (eds.). *Handbook of Industrial and Organizational Psychology*.

Boudreau, J.W., Dunford, B.D. & Ramstad, P.M. (2001). The human capital "impact" on e-business: The case of encyclopedia Britannica. In N. Pal and J. M. Ray (Eds.). Pushing the Digital Frontier: Insights into the Changing Landscape of e-Business. New York: AMACOM.

Corporate Leadership Council (2001). Exploring the measurement challenge: A survey on HR Metrics. Washington, D.C.: Corporate Leadership Council.

Tichy, N.M & Cohen, E.B. (1997). The leadership engine. New York: Harper Business.

Ulrich, D. (1998). A new mandate for human resources. Harvard Business Review.

For Further Reading

Boudreau, J.W. & Ramstad, P.R. (1999). Human resource metrics: Can measures be strategic? In P. Wright, L. Dyer, J. Boudreau & G. Milkovich (eds.) *Strategic human resources management in the twenty-first century*. Supplement 4 to G.R. Ferris (ed.) *Research in personnel and human resource management*, 75-98. Stamford, CT: JAI Press.

Boudreau, J.W. & Ramstad, P.R. (1997). "Measuring Intellectual Capital: Learning from Financial History." *Human Resource Management*, 36, 3, pp. 343-356.

About the Authors

John W. Boudreau*, Ph.D., Professor of human resource studies, and the Center for Advanced Human Resource Studies (CAHRS) at Cornell University, is recognized worldwide for breakthrough research on the bridge between superior talent and sustainable competitive advantage. His research has received the Academy of Management's Organizational Behavior New Concept and Human Resource Scholarly Contribution awards. Dr. Boudreau consults and conducts executive development with companies worldwide that seek to maximize their employees' effectiveness by quantifying the strategic bottom-line impact of superior people and human capital strategies, including Citigroup, Corning, GE, JP Morgan Chase, Sun Microsystems, the United Nations, and Williams-Sonoma. Professor Boudreau is a Fellow of the National Academy of Human Resources.*

Dr. Boudreau has published more than 40 books and articles, including the best-selling Human Resource Management (Irwin: 1997), now in its eighth edition in multiple languages worldwide. In addition to HR metrics, Dr. Boudreau's large-scale research studies and highly focused qualitative research have addressed decision-based HR, executive mobility, HR information systems and organizational staffing and development. His research findings have been published in Management Science, Journal of Applied Psychology, Organizational Behavior and Human Decision Processes, Personnel Psychology, Asia-Pacific Human Resource Management, Human Resource Management, Journal of Vocational Behavior, Human Relations, Industrial Relations, Journal of Human Resources Costing and Accounting, and Personnel Administrator.

Peter M. Ramstad *is Executive Vice President for Strategy and Finance at Personnel Decisions International (PDI). Over the last twelve years, Mr. Ramstad has held various leadership positions within PDI, including chief financial officer, contributing to PDI's strategic initiatives in business strategy, organizational effectiveness, and talent development. Prior to joining PDI, he was a partner with a public accounting firm focusing on financial, operational, and systems consulting in high tech and service environments.*

Mr. Ramstad's research and consulting focuses on an organization's ability to manage human resources as assets, rather than merely expenses. This extends traditional HR system analysis, by focusing on how organizational capabilities create value and the connection to competitive success. Mr. Ramstad has worked extensively with both HR and line leaders at all levels of several U.S. and multinational organizations.

Mr. Ramstad is a Certified Public Accountant, Certified Management Accountant, and a member of the AICPA, and holds degrees in Math and Accounting with minors in Economics and Computer Science. He speaks frequently at professional conferences in human resource management, finance and accounting, and designs and conducts both public and firm-specific executive education, including regular professional development workshops for the Society for Industrial and Organizational Psychology (SIOP) and the University of Minnesota business school.