TALENTSHIP, TALENT SEGMENTATION, AND SUSTAINABILITY: A NEW HR DECISION SCIENCE PARADIGM FOR A NEW STRATEGY DEFINITION

John W. Boudreau and Peter M. Ramstad

Two paradigm shifts are discussed here: talentship and sustainability. First, the traditional service-oriented HR focus must be extended to a "decision science" that enhances decisions about human capital. We call this decision science talentship. *It includes talent segmentation, or identifying pivotal talent pools where the quality and/or availability of human capital makes the biggest difference to strategic success. Second, HR and business leaders increasingly define organizational effectiveness beyond traditional financial outcomes to encompass sustainability—achieving success today without compromising the needs of the future. A common strategic human capital decision science can reveal pivotal talent under both traditional and sustainability-based definitions, and thus uncover important insights about the talent implications of the shifting definition of strategic success.* © *2005 Wiley Periodicals, Inc.*

What are the talent pools (such as jobs, roles, or competencies) in your organization, where a 20% improvement in quality or availability would make the biggest difference to organizational success? The answer reveals the "pivotal talent pools" that are the vital targets for HR investment and leader attention. Yet, today most organizations have many opinions and little logic or data to answer this fundamental question. In addition, the task is about to become much harder as the very definition of organization success changes from strictly financial to "sustainability."

This article describes two paradigm shifts and how to address them. The first paradigm shift is *talentship*. HR and business leaders must broaden their traditional focus beyond HR services exclusively and toward a "decision science" that enhances decisions about human capital, wherever they are made (Boudreau & Ramstad, in press, 2004a). Talentship has many implications for HR strategy, organizational design, service delivery, and competencies. One implication is that "talent segmentation" is as vital as "customer segmentation." (Boudreau & Ramstad, in 2004b, 2005). Part of talent segmentation is identifying "pivotal talent pools"—where human capital makes the biggest difference to strategic success. The second paradigm shift is that HR and business leaders increasingly define organizational effectiveness beyond traditional financial and shareholder outcomes to encompass "sustainability"—achieving

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success today without compromising the needs of the future.

Fortunately, a common strategic human capital logic can reveal pivotal talent under both definitions, and thus uncover important insights about the talent implications of the shifting definition of strategic success.

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The Traditional "Prize" of Financial Returns Is Shifting Toward Sustainability: Is HR Ready?

The traditional business paradigm strives to achieve financial returns, or "maximize shareholder value," through competitive success. Human resource management responds with strategic logic showing HR's contribution, also defined in financial terms. Yet, even as the HRM profession works diligently to understand the business in traditional financial terms, the very definition of organization success is changing. The "shareholder value" paradigm is challenged by the argument that organizations should strive for an expanded prize—sustainability. The World Commission on Environment and Development (WCED) defines sustainability as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED, 1987).

Sustainability is just emerging, but it includes values, governance, transparency, and ethics, as well as such goals as diversity, social responsibility, supporting human and employee rights, protecting the environment, and contributing to the community. Sustainability includes the bottom line, because financial viability is necessary for organizational survival, but it defines success beyond financial results. For example, the working conditions of employers and their suppliers have become a de facto standard for many firms as sweatshop scandals have hurt a number of famous brands. The Fair Labor Association began producing reports in 2003, based on monitoring the manufacturing operations of seven member companies that make apparel and footwear, including Adidas-Salomon, Eddie Bauer, Levi Strauss & Company, Liz Claiborne, Nike, the Phillips-Van Heusen Corporation, and Reebok International, who agreed to adhere to the group's code of conduct and to accept external monitoring of their compliance with that code (Williams, 2003).

Sustainability is not a fringe issue. Corporate heavyweights like Shell, British Petroleum (BP), and DuPont, as well as the United Nations and the International Labor Organization (ILO), all are embracing sustainability. It is particularly relevant to mission-driven organizations such as governments, charities, and universities, because they are not evaluated in traditional financial terms, and have missions that go beyond the bottom line. Sustainability rarely appears in strategic HR plans, and its implications for strategic HRM have received little attention. As organizations increasingly embrace sustainability, however, so must HR.

The Traditional HR Paradigm Applied to Financial versus Sustainability Goals

The traditional HR paradigm defines HR contribution as supporting organization goals through aligned HR services, policies, practices, and programs. Typically, this service-focused HR paradigm is combined with the traditional financial definition of organizational success. The result is an emphasis on *compliance* with legal regulations (such as reducing risks of costly legal actions), *efficiency* in HR processes (such as minimizing cost per hire, HR staff per employee, and the time to train), *client satisfaction* with HR practices, and (more rarely) *effectiveness* of HR programs in enhancing employee characteristics (capabilities, culture, attitudes, or motivation). Perhaps the best example is measuring return on investment (ROI) of HR programs, such as showing that training costs are offset by improved sales knowledge, which leads to increased sales.

The traditional HR paradigm of service delivery is also typically how HR connects to sustainability. For example, the ILO Declaration urges the elimination of child labor, forced or compulsory labor, and employment discrimination, and the promotion of free association and collective bargaining.[1] The UN Global Compact adds that companies should protect internationally proclaimed human

rights and ensure they are not complicit in human rights abuses.[2] HR programs such as performance management, selection, and training can reflect fair treatment, respect for collective association rights, and work-family balance, and reward not only economic performance, but also community involvement or reduced environmental emissions. HR can measure sustainability-related knowledge, behaviors, attitudes, and motivation, as well as collective activity, community involvement, and employee health and safety. Such measures often appear in corporate sustainability or social responsibility reports to investors.

While this is important, but the HR paradigm is still traditional—applying sustainability to the policies, practices, and activities *within the HR function*. Other important connections go beyond HR practices and can only be understood with a more strategic HR paradigm that connects human capital to sustainable strategic success.

A New Paradigm for Strategic HR: The Talentship Decision Science

HR has struggled to define what it means to be "strategic." The answer can be discovered not only in benchmarking HR organizations, but also in benchmarking the evolution of more mature strategic functions such as finance and marketing (Boudreau & Ramstad, 1997, 2003). The marketing decision science enhances decisions about customers, and the finance decision science enhances decisions about money, so a talent decision science should enhance decisions about talent, both within and outside the HR function.

The finance decision science provides well-articulated logic, models, and methods that use accounting data to improve decisions about deploying financial assets. The finance department doesn't make most of these decisions; they are made by managers across the organization. The finance decision science is different from accounting, but accounting remains a critical professional practice.

Today's HR is similar to accounting. It is and will remain a critical and important professional practice. Yet, we still lack a well-developed decision science for human capital, or "talent." This is not surprising. Modern accounting is 400 years old, but finance evolved around 1900 (Johnson & Kaplan, 1991). The professional practice of sales goes back to ancient times, but the decision science of marketing only emerged in the twentieth century (Howard, 1957). Yet, a talent decision science is vitally needed today since it is increasingly important to enhance talent decisions, including structures, behaviors, capability, learning, collaboration, shared culture, and the like. In several companies, we have labeled it *talentship*, because it focuses on decisions that improve the stewardship of the hidden and apparent talents of employees. This article illustrates one application of talentship, showing the human capital implications of defining an organization's goals as purely financial versus as sustainability.

HR investments affect "pivotal talent segments" that enhance the processes and resources that most affect sustainable strategic success.

One element of any decision science is the logic that connects decisions about the resource to organization success. In finance, the formula for return on investment produces a number, but its more important purpose is to articulate what factors are relevant to financial investment decisions and how they combine to allow comparisons across different investment options. Economic inflows and outflows are matched over time and appropriately discounted to reflect future risk and inflation. Similarly, a talent decision science requires frameworks that show what factors are relevant to decisions about talent, and how they combine. HR investments affect "pivotal talent segments" that enhance the processes and resources that most affect sustainable strategic success. Research in areas as diverse as industrial psychology, sociology, and operations management increasingly focus on these connections (Boudreau, 2004). The HC BRidge® framework, discussed next, is a model that articulates those connections.

The HC BRidge® Framework

Boudreau and Ramstad created a model, the HC BRidge® Decision Framework, that outlines the logical connections supporting tal-

entship. The HC BRidge® framework is based on three anchor points—efficiency, effectiveness, and impact—that are common to all business decision sciences (Figure 1).

Efficiency

The efficiency anchor point focuses on what resources are used to deliver HR practices. Typical indicators of efficiency would be cost-per-hire and time to fill vacancies. As noted earlier, when applied to sustainability, efficiency would focus on the resources used to bring HR practices into compliance or to provide incentives that reflect community, environmental, or social goals.

Effectiveness

The effectiveness anchor point focuses on how HR policies and practices affect the talent pools and organization structures to which they are directed. Effectiveness refers to the outcomes of HR policies and practices on human capacity (a combination of capability, opportunity, and motivation) and the resulting "aligned actions" of the target talent pools. Effectiveness applied to the traditional financial definition of success might include measuring whether sales increase for individuals who receive training or incentives. Effectiveness applied to the sustainability definition of success would focus on how HR practices affect human capacity and aligned actions that go beyond traditional job and performance requirements. Capability might include knowledge about the organization's social responsibility and ethics codes. Opportunity might include time off from work to do volunteer tasks in the local community. Motivation might include employee perceptions that activities related to sustainability are noticed and rewarded.

Impact

Impact reflects the hardest question of the three and most vividly illustrates the fundamental differences revealed by a focus on talent decisions, beyond simply HR service delivery. Impact asks, "How do differences in the quality or availability of different talent pools affect strategic success?" This question is a component of talent segmentation—just as in marketing, where a component of market segmentation asks, "How do differences in the buying behaviors of different customer groups affect strategic success?"

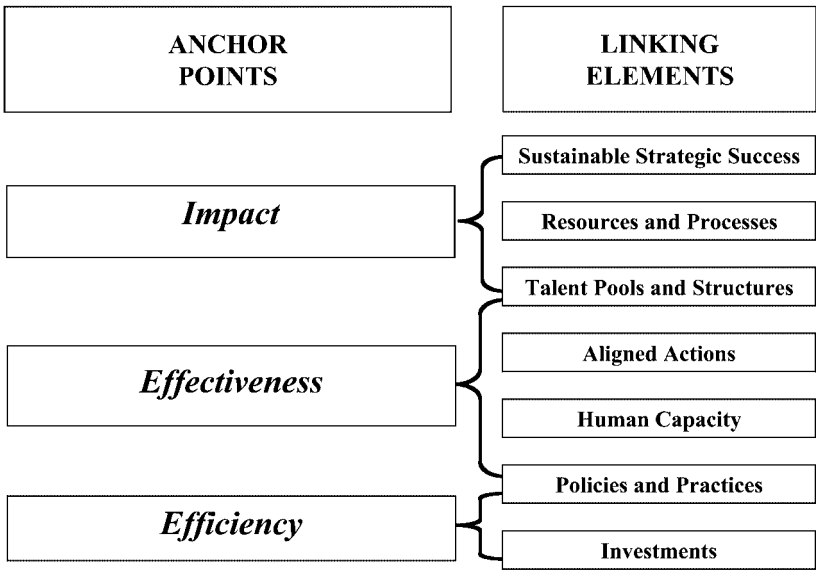

Figure 1. The HC BRidge® Decision Framework.

Using the traditional financial definition of success, impact can reveal surprising results. One organization initially believed the most important talent pool was sales representatives, because revenue was important. Working through the impact elements of HC BRidge® revealed there was relatively little to be gained in improving the quality of sales representatives. This talent pool had received much attention already. They were high-performing, making further improvements difficult. HR investments would make a bigger difference in the talent pools affecting product development, which had been relatively ignored, and thus offered ample improvement opportunity.

Applying the impact question to sustainability can reveal similar unseen talent contributions and new directions for HR. For example, one might initially believe that establishing sustainable relationships with local governments is mostly affected by the quality of traditional contracts and high-level contacts between executives and government officials. Yet, in most countries, the quality of the day-to-day relationships of regular employees with local community members may have far more impact on the quality of those local government relationships.

There are some key lessons regarding talentship and talent segmentation. First, the new model does not imply dropping HR's focus on efficiency and effectiveness, but rather adds impact. Second, the typical practice of applying some HR programs to everyone across the board may need to be more focused, applying HR investments to those talent pools that produce the best return. Third, talentship breaks the traditional HR silos by clearly showing it takes a mix of interventions to improve the performance of the pivotal talent (such as the sales support staff above). Now, let's apply HC BRidge® to the role of HR in sustainability, achieving today's goals without compromising the needs of the future.

Combining the New Paradigms: Talentship Plus Sustainability

We can summarize our discussion about HR and sustainability along two dimensions: First, whether the "prize" is primarily profits or sustainability. Second, whether the HR paradigm reflects the traditional focus on service delivery or the talentship focus on enhanced human capital decisions (Figure 2).

Each quadrant provides opportunities for HR contribution as we have seen, but the most untapped area is the top right, where talentship is applied to sustainability. Organizations can use the same HC BRidge® framework that connects talent to financial goals to understand where talent connects to sustainability goals.

In the upper-right quadrant, the impact question now becomes, "In which talent pools will HR interventions have the most im-

Talent Paradigm	Organizational Prize: Traditional: Financial	Organizational Prize: Emerging: Sustainability
Emerging: Talent Decisions – Talentship	*Do we make excellent decisions about the talent resources that are pivotal to our financial results?*	*Do we make excellent decisions about the talent resources that are pivotal to sustainable strategic success?*
Traditional: HR Service Excellence	*Are our HR policies and practices efficient, and produce acceptable returns on investment?*	*Are our HR policies and practices consistent and compliant with sustainable employment relationships?*

Figure 2. How the Talent Paradigm and the Organizational Prize Define the Strategic Talent Questions.

pact on sustainability?" The pivotal talent pools for traditional financial goals vary with organizations' strategies and competitive challenges, and it's the same with sustainability. Each organization must work through the impact elements to find the pivotal talent for sustainability. An example from DuPont will show how talentship and HC BRidge® reveal strategic talent differences between exclusively financial versus sustainability goals.

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DuPont Case Study

In 2000, DuPont and three other large agricultural companies agreed to share technology, free of charge, with African scientists to increase food production in areas where mass starvation is a recurring threat. They would donate patent rights, seed varieties, laboratory know-how, and other aid to African agricultural scientists working with small farmers to battle plant disease, insects, and drought (Holliday, 2003).

A traditional strategic analysis reflecting only financial outcomes and competition would identify patent rights, seed varieties, and laboratory know-how as strategic resources. It would identify processes such as commercialization (transforming discoveries into product/service features that customers will pay for and applying them to high-profit and/or high-volume products), and protection (creating legal or physical barriers around intellectual property to keep competition at a disadvantage). In the impact analysis of the traditional financially driven strategy, pivotal talent would include research scientists and intellectual property lawyers. The key "aligned actions" for scientists would be to direct their research toward discoveries that yield highly profitable product features. For lawyers, "aligned actions" would be to create patent or other legal protections against competitive espionage and copying.

Applying talentship and HC BRidge® to the sustainability objective of alleviating hunger in Africa uncovers different talent implications. The resources of laboratory know-how and seed varieties are still important, but now it is for their effectiveness in hunger reduction, not just profits. Patent rights actually may be detrimental, because starvation reducing requires knowledge that is unprotected, so that collaborating companies and African communities can easily copy and disseminate it. Commercialization is less critical than transforming discoveries into product/service features that provide the greatest nutrition, and applying them to low-cost and easily used products. Protection is less critical than dissemination (making knowledge easily copied, transmitted, and applied to maximize collaboration). The aligned actions for DuPont's scientists would now be to discover what starvation-preventing product features can be cheaply and easily deployed. DuPont's laboratory talent not only must develop seed varieties that can be profitably cultivated in Africa, but also find seed varieties that thrive in starvation-prone areas and produce food products that efficiently alleviate starvation. A pivotal talent pool will be translators and trainers whose "aligned actions" would be to transfer knowledge quickly and widely, not only to the communities that must apply it, but even to *competitors*.

Where Next for HR and Sustainability?

The movement to seek sustainability, not just financial returns, is embryonic in the United States, but has significant momentum globally. Decision makers, opinion leaders, voters, and employees care about sustainability. They want corporations to reduce the externalities that burden future generations. Sustainability is not just good ethics; it is potentially good long-term economics. HR has an important role to play in sustainability.

Compliance and social accountability for HR programs are an important beginning. However, organizations will achieve sustainability more effectively if they adopt a decision science that helps them better understand and articulate the connections between talent and sustainability. The deep line of sight created by a decision science provides the alignment necessary to drive execution through effective decisions about human capital, within and beyond the HR function.

Leading organizations are using frameworks such as talentship, HC BRidge®, and

talent segmentation to enhance execution of traditional financial goals. A talent decision science built upon these ideas applies equally well to sustainability goals. Using a common, logical decision-based framework for both financial and sustainability goals makes the implications for talent decisions vividly apparent. This takes the debate about HR's role in strategy and sustainability beyond rhetoric and toward logical analysis and consistent execution.

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NOTES

1. http://www.ilo.org/dyn/declaris/DECLARATIONWEB.INDEXPAGE, retrieved April 9, 2005.
2. http://www.unglobalcompact.org/Portal/Default.asp?NavigationTarget=/roles/portal_user/aboutTheGC/nf/nf/theNinePrinciples
3. HC BRidge® is a trademark of the Boudreau-Ramstad Partnership, http://www.hcbridge.com

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