TALENTSHIP: THE FUTURE OF HUMAN
RESOURCE MEASUREMENT

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There is no shortage of measures in human resources. Unfortunately to date these measures have had little impact on how effectively organizations manage human capital, the apparent and hidden talents of employees and potential employees. This failing is in sharp contrast to the functions of finance and marketing which have well developed methodologies for providing management with information needed to drive decisions about financial capital and products/services.

Whereas most human resources measures focus on how well the human resource department is functioning, both finance and marketing measures focus on helping the business manage scarce resources.

Whereas the use of human resource measures is idiosyncratic both finance and marketing have approaches that are well understood across firms and industries.

What we see in finance and marketing are *decision sciences*. The time has come for HR to develop their own decision science. It won't revolve around the measures commonly in use today. Instead we believe that a function charged with the effective management of talent will use measures that help organizations make impactful, effective and efficient decisions on the deployment of talent.

Trends Driving Change in Human Resources
There has been a dramatic increase in the interest in intangibles. Investors are interested, regulators are interested, boards are interested and of course top management teams are interested. There are a variety of valuable intangible assets including brands, patents, and business processes. However, there is no longer any doubt about the importance of human capital as a source of intangible value.

Another significant change for HR is that people issues are now on the table. Modern CEOs invest a lot of time on developing, aligning and deploying talent. Talent shortages can constrain strategic plans particularly in specialized areas like cutting-edge investment banking and technology. Human resources does not need to press its case that people matter, that argument has already been won.

The third trend is that human resource data systems can now readily provide masses of data; and this capability is improving all the time. As one manager told us, "Our future data systems can analyze employee satisfaction by eye color if we wanted." The slicing and dicing of data will be almost too easy with the new analytics engines being sold by many HR technology vendors. "Information overload" is a greater threat to HR effectiveness than a lack of measures.

The recognition of the importance of human capital combined with powerful new information technology should be good news for the human resource professional, yet there is considerable unease with the type of information HR is currently generating.

Concerns about HR Measurement
The problem with HR measurements is not that there are too few but that they are not anywhere near as useful as the measurements coming out of finance and marketing.   HR measures are not so much "worse" than those of other functions; rather they are of a different nature.

Business leaders ask us questions like:

- "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 helping our leaders make better decisions about financial, customer, and production resources. Why is HR different?"

- "Why is there so little logical connection between our core business management processes and talent? We have well-developed strategic planning, marketing, and budgeting processes to guide our business. Yet at best these core processes reflect only general talent goals like headcount, labour costs, or generic HR programs."

- "We invest heavily in the latest HR measurement techniques—HR scorecards, 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?"

- "We have aggressively moved to cut the costs of running our HR function, through outsourcing, service centres and efficiency enhancements. Is it possible that we've pared so far that we've lost valuable capabilities to strategically manage our human capital? How can we use measures to know what is essential and what is not?

The concerns don't end there. HR focuses on metrics like cost per hire and training hours per employee. Is decreasing cost per hire good or bad? Is 40 hours of training per employee too much or too little? We know what we're spending, often in excruciating detail. We just don't know whether it's a good investment.

What HR does is look internally at the HR function and calculate costs. What other functions do is look at the business and generate the information that is needed to drive decisions. What finance and marketing have is a decision science, something HR lacks.

It's not that HR has gone astray, it's just that they haven't got there yet. Now a confluence of forces will push HR down the same historical path finance and marketing went down.

What is a Decision Science?
A decision science is an agreed upon set of methods to generate information that supports decision making. Notice that there is a clear distinction between a professional practice, like accounting, and a decision science, like finance. Similarly, there is a clear distinction between the professional practice of sales and the decision science of marketing. HR has a well-developed professional practice; indeed HR worries a lot, maybe too much, about whether its practices are best-in-class. A good professional practice is important, but it is not the same thing as a decision science.

A characteristic of a decision science is that it has methods which are based on a well articulated set of ideas and are common across different businesses. A decision science has a teachable point of view. The output of a decision science is information about assets that allow the business to deploy resources to best effect. We should judge our approach to HR measurement by asking if it has the characteristics of a decision science. In essence we need to ask, does the approach we are considering provides a logical, reliable, and consistent but flexible framework that enhances decision making about a key resource?

Before we delve more deeply into the framework of a decision science for HR, let's see what can be learned from finance and marketing.

Decision Science in Finance
Finance has been with us so long that it's hard to imagine that a business could function without it. However, while double entry accounting has been around for hundreds of years, and more primitive methods far longer, finance was only invented around 1900. Dupont made the breakthrough by inventing the concept of return on investment. They did so because the firm needed a better way to allocate scarce capital. Before this innovation firms were likely to invest in units making the most profits, not the highest return.

Finance is built around a relatively small number of core ideas about risk and return and is supported by accounting methodologies to allocate costs. These core ideas have spawned a wide variety of useful tools such as methods for pricing options, assessing risks, securitization of assets and the trading of all kinds of revenue streams.

Finance now routinely generates information that helps managers decide if a merger will make sense, what initiatives to fund, and which plants to close. It informs make or buy decisions, tradeoffs in production processes, and product pricing.

The finance function doesn't make all these decisions; finance is the decision science that helps line managers improve their own decision making.

Decision Science in Marketing

The decision science of marketing emerged in the 20th century. Marketing is built around the core ideas of customer segmentation, branding, and product positioning. These core ideas have led to a rich variety of methods for segmenting customers, assessing customers attitudes, measuring the impact of advertising and managing the product life cycle.

Again, the marketing function doesn't make all these decisions. The methods and measures of the marketing function allow managers to decide where to focus sales efforts, where to invest advertising dollars, and what kind of products to develop.

Decision Science in Human Resources

In having a well developed set of practices (staffing, development, compensation, labour relations) human resources is more similar to sales or accounting than it is to finance or marketing. Whereas advances in information technology have had a huge impact on finance and marketing, IT is just beginning to transform HR. HR is ready for a decision science, it's just not there yet.

We believe the foundation for a decision science in HR will revolve around giving managers better information about talent. For HR measures to be useful they must improve talent decisions wherever they are made. For example, talent measures should help inform:
- In what new businesses ventures do we have a strategic advantage due to talent?
- What talent gaps do we need to close, to maintain a competitive advantage?
- Where will an investment in talent have the greatest impact?

HR must expand the focus from thinking only about what HR does, to what talent decisions it supports. It follows that the impact of HR will be greatest where talent decisions are poorest or least consistent or most important.

Information Challenges Facing HR

You might think the recent surge of HR information technology would be a boon for the creation of an HR decision science but it is easy to go astray. The sheer volume of data can bog down attempts to derive useful measures. The lesson companies have learned from scorecard projects is that the biggest challenge is just getting down to a manageable number of meaningful measures.

There is also often an unfortunate naïveté when managers are given tools to slice, dice and drill down through a warehouse of data. Numbers in a spreadsheet often are given far more importance, and are treated as far more certain, than they deserve. HR will need to develop hard nosed skills in making sense of data, not just creating it.
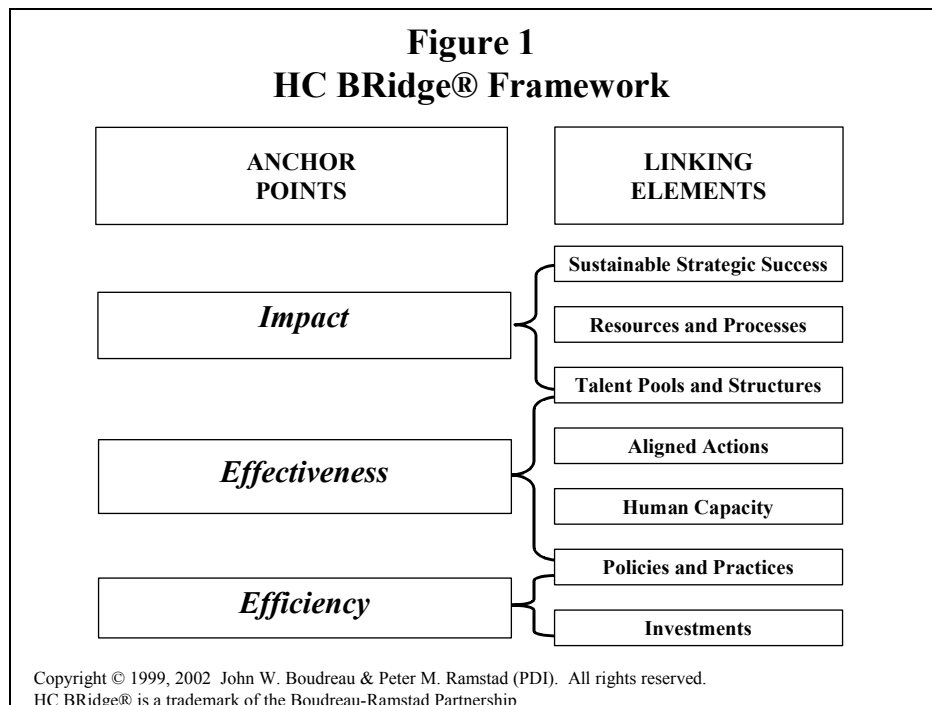
The HR team at one multinational told us, "We have built the most sophisticated turnover and tracking data and interface in the world. Now we'll put it out there and see what our managers do with it." It is predictable how this will play out. Some managers will toy with the data, most will not, and in the end little of value will be derived. As noble as

this team's effort was, they proceeded in the wrong direction. They made data available hoping someone would find a way to make it useful. What is needed is to deliver a framework that helps managers know what information will be useful.

To avoid these pitfalls HR needs to start with a clear point of view as to what it is trying to achieve. It needs some central ideas, theories and frameworks that correspond to finances ideas around ROI or marketing ideas about customer segmentation. We've created a model, we call it the HC BRidge™ model, that we think can help guide HR's efforts to create a decision science.

The HC BRidge® Framework
We use the metaphor of a bridge to describe the links between investments in HR programs and sustainable business success. The framework is shown in Figure 1.

Figure 1
HC BRidge® Framework

ANCHOR POINTS	LINKING ELEMENTS
	Sustainable Strategic Success
Impact	Resources and Processes
	Talent Pools and Structures
	Aligned Actions
Effectiveness	Human Capacity
	Policies and Practices
Efficiency	Investments

The purpose of the HC BRidge® model is to provide a framework to articulate the logical connections between investments, changes in the nature or deployment of workforce talents, and sustainable strategic success. This framework has implications for many elements of HR, and one significant implication is to guide the creation and use of measures. The model focuses not on what HR is doing, but what the organization should be doing about talent. To understand the model the best place to start is the left hand column of anchor points: impact, effectiveness, and efficiency.

Assessing the *impact* of talent reflects questions like, "What difference does it make to have high performers rather than average performers in this role?" This naturally leads to

what we see as a core concept in an HR decision science, that of pivotal roles. Pivotal roles are those roles where enhancing the quality of talent generates the highest return. Impact measures (such as profit margin and new product success) are often located outside the HR function.

Effectiveness call for questions such as "Do our investments in programs and practices enhance employees' capability, opportunity and motivation to contribute?" Effectiveness measures (such as employee performance and attitudes) are commonly collected but not organized to reflect connections between investments and employee outcomes, nor that different initiatives are all aimed at common ends. Effectiveness measures should let you know if the staffing practices are working in concert with the compensation practices and so on.

Efficiency is the area closest to what HR is doing with measurement now and answers the question, "How much are we spending and on what?" This is where most of today's HR measurements lie. Efficiency is important, but must be placed in context. The issue is not just "How much are we spending" but the more strategically critical question of "How much are we spending to improve effectiveness of talent in high impact roles?"

The right column of the HC BRidge® model shows linking elements. Efficiency requires the right investments and practices. Effectiveness in turn requires human capability (which we've discussed), aligned action and talent pools (both of which we'll discuss in a moment). Impact requires business processes that create sustainable competitive advantage. All these linking elements can be tied to measures.

In the linking elements we introduced two new concepts, aligned actions and talent pools. Aligned actions are the actions that employees can take to make the biggest difference to key processes and differentiators of strategic success. Not all elements of an employee's work have equal impact, and aligned actions capture the need to focus on those that make the most difference. Talent pools are a new concept. Talent pools are clusters of work done by employees to achieve an end, e.g. "customer contact at the point of service", "integrating product lines to support service offerings", "obtaining sufficient subjects for clinical drug trials", and "ensuring sufficient product availability." Talent pools often span several jobs, and reflect a subset of aligned actions within those jobs. Rather than asking, "Who is our A talent?" we should ask "In which talent pools does A talent matter most?"

You may think, "We hardly need a decision science to know where talent has the greatest impact " but our work with several large companies shows that in practice answers are elusive. For example, salespeople and top leaders are commonly listed as the only key talent pools, but we have repeatedly found that improving "back-office" talent such as product developers, merchandisers, and technical analysts often removes "bottlenecks" that make salespeople and top leaders even more effective. HR needs to provide measures which can answer that question and move the company beyond the realm of opinion.

The Future of HR as a Decision Science
In the future HR will not focus only on being "best in class", they will focus on providing reliable information about talent that helps managers make decisions. In future, HR will move beyond repeatedly demonstrating that their function has value—that will be a given.

HR must take the following steps:
- Develop core ideas around talent as the basis for a decision science. We've proposed two such ideas, the concept of pivotal talent (i.e. where talent has the most impact) and the concept of a talent pool (i.e. a cluster of job achieving a business result).
- Develop a framework to show the linkages between core concepts. We have proposed one such framework the HC BRidge® model.
- Develop measures around the elements of the framework.

Talentship
It is always helpful to name things and we suggest that the human resources decision science should be called "Talentship". We define talentship as a method for increasing the success of the organization by improving decisions that impact or depend on talent resources.

Over the next decade we expect that top management's attention will be drawn away from HR best practices and focus instead on the exciting possibilities of talentship.