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The Time Has Come for Strategic Talent Segmentation

Do you have the same mix of advertising for every product line? Invest the same amount of money in every subsidiary? Demand equal quality improvements from every process? No. Yet, when it comes to their talent resources, organizations often have similar human capital programs across all business units ("build bench strength" "improve retention," "base rewards on performance"). Generic human capital allocations lead to non-optimal human capital investments, just like generic financial or marketing allocations.

Of course not all human resource investments are generic. Human resource professionals differentiate some HR investments. Top executives may receive unique stock options, high-potential employees may get unique development opportunities, and salespeople may get more incentive-based pay. However, HR professionals admit that these differentiation systems are not based on deep strategic insights about the relative return to investments in different jobs or roles. Certainly, not insights as deep and strategic as the relative returns to different market segments or financial investments. For example, we have repeatedly encountered companies diligently investing in incentive pay and training for salespeople, to enhance cross-selling, yet their products and services were not well integrated. Shifting some of those investments to the product integrator roles raised the quality of the integrated services, gave the salespeople better things to sell, and enhanced sales far more than continued investments to help salespeople more effectively sell poorly integrated products and services.

Human capital investments that are generic or incorrectly differentiated are a dangerous artifact of an obsolete paradigm. Competing through talent requires new paradigm – a rigorous "decision science" for human capital that supports "talent segmentation," in the same way that the marketing decision science supports market segmentation.

From Customer and Financial Segmentation to Talent Segmentation

Customer segmentation supports decisions to direct resources to the most responsive and important customers. *Financial* segmentation uses tools like net present value and return-on-investment to support decisions that direct financial investments where they have the greatest effect. These are the classic examples, but segmentation is also applied to more specialized resources such as oil exploration rights in the petrochemical industry, or real estate for the multi-location retail industry.

The same logic applies internally, to allocate resources the organization already possesses. *Engineering* segmentation matches technology and production to the key "pivot points" where they create the greatest value.

Talent segmentation brings the same logical and analytical power to decisions about human capital or "talent." It identifies which multi-incumbent "pivotal roles" (jobs, competencies, and actions) most contribute to organizational effectiveness *and why*. It can apply to both external talent markets (competing for applicants) and internal markets (deciding how to allocate and develop existing employees). Our research shows that "talent segmentation" can drive a paradigm shift in how business leaders execute strategy through people, how HR leaders uniquely support their clients, and how the HR organization is structured and measured.

A New Paradigm Based on Classic Principles

It's a truism that competing through "talent" (human, social, and intellectual capital) is crucial to strategic success. Yet, few recognize the necessary paradigm shift from the traditional exclusive focus on human resource (HR) programs, and toward enhanced talent decisions wherever they are made (we call it "Talentship"). Talentship is a decision science. A shared logical framework that connects talent decisions to sustainable strategic success, gives business and HR leaders a way to identify the most responsive and important "talent segments," and integrates HR systems to invest in the segments where the quality and availability of crucial "pivotal roles" matters most.

It's a new paradigm for human capital, but a classic paradigm in business. Finance and Marketing are *decision sciences* that provide frameworks (such as ROI, NPV and product-life-cycle) that guide and align decisions about money and customers with strategic success. They are supported by the *professional practices* of accounting and sales. Segmentation that accelerates strategic success is one consequence of a decision science that evolves from a professional practice.

There was segmentation before decision sciences in Finance and Marketing – just not as strategically effective. Before ROI, capital was allocated based on sales or profits, not return. Before portfolio analysis, large company bonds were assumed to best, rather than rationally balancing risk and return. Before customer profitability analysis, the largest customers were assumed to be the best customers, rather than balancing size and profitability. Each segmentation rule had some validity, but more complete segmentation rules yielded insights that competitors lacked, and guided decisions that produced competitive advantages.

In the same way, today's decision rules about human capital typically focus on HR programs not outcomes, measure efficiency not value-added, follow trends rather than innovate, and often reflect generic HR strategies not uniquely aligned with strategic opportunities. Today's HR segmentation systems often focus on differences between *individuals* (distinguishing the top 20%, middle 70% and bottom 10%, or finding the high-potentials) rather than differences in the competitive contribution of multi-incumbent *roles*. Even when roles *are* differentiated, such as different treatment for leaders or salespeople, it is often based on tradition or duplicating the best practices of others, rather than a deep, logical understanding about how different roles contribute to organizational effectiveness.

Such generic or mis-aligned HR decision rules give little guidance to allocate leaders' efforts ("Do I help the poor performer or make the good performer great?"); provide few principles to direct HR programs where they have the greatest effect ("is retention more important in R&D or Sales?"); and leave employees guessing about where they make the biggest contribution ("Do I stay with this customer or try to serve the 10 people waiting in line?").

The traditional HR service-delivery paradigm is fundamentally flawed, because it assumes that clients know what they need. Asking line managers what HR programs they want – without a decision science, is like asking someone to order dinner from a French menu – when they don't speak French. They'll get food, but it's a random chance they'll like it. Even if they like it, they have no idea what they might have liked even better. A decision science provides the language to make good choices, and consider the right alternatives.

Finance and Marketing are advanced decision sciences where segmentation closely reflects contribution to strategic success. The same advancement is needed for an equally important resource – employee talents. The solution requires a decision science that supports "talent segmentation" – distinguishing talent pools and "pivotal roles" by their responsiveness and importance to organization success.

Our research shows that "talent segmentation" requires a paradigm shift in how leaders execute strategy through people, how HR leaders uniquely support their clients, and how the HR organization is designed and measured. It is a holistic evolution similar to the evolution of marketing, finance and engineering.

In the coming age of talent segmentation, those who cling to tradition will surely lose.