

booz&co.

Investing in Talent for Sustained Growth *A Capabilities- Driven Approach to People Strategy*



Contact Information

Berlin

Carolin Oelschlegel

Principal

+49-30-88705-838

carolin.oelschlegel@booz.com

Buenos Aires

Ariel Fleichman

Partner

+54-11-4131-0432

ariel.fleichman@booz.com

DC

Kristy Hull

Principal

+1-703-682-5764

kristy.hull@booz.com

London

Ashley Harshak

Partner

+44-20-7393-3405

ashley.harshak@booz.com

Sonia Storr

Principal

+44-20-7393-3726

sonia.storr@booz.com

Mumbai

Jai Sinha

Partner

+91-22-6128-1102

jai.sinha@booz.com

Munich

Christian Burger

Senior Partner

+49-89-54525-546

christian.burger@booz.com

New York

Reid Carpenter

Principal

+1-212-551-6389

reid.carpenter@booz.com

Rio de Janeiro

Paolo Pigorini

Partner

+55-21-2237-8448

Rome

Alessandro Gazzini

Partner

+39-06-69-20-73-1

alessandro.gazzini@booz.com

San Francisco

DeAnne Aguirre

Senior Partner

+1-415-627-3330

deanne.aguirre@booz.com

Laird Post

Senior Principal

+1-415-281-4924

laird.post@booz.com

Shanghai

Sarah Butler

Partner

+86-21-2327-9800

sarah.butler@booz.com

Stockholm

Per-Ola Karlsson

Senior Partner

+46-8-506-190-49

per-ola.karlsson@booz.com

Sydney

Varya Davidson

Partner

+61-2-9321-2820

varya.davidson@booz.com

EXECUTIVE SUMMARY

A company's approach to talent is a core component of its overall strategy. Yet too often, we find a disconnect between how companies define their strategy and how they shape and invest in their workforce. This can be a costly mistake during the best times, let alone in today's strained economic environment. Instead, senior leadership teams and human resources executives should develop focused people strategies that align with and support the foundation of their company's success: its capabilities system, the few things the company does exceptionally well that distinguish it from competitors. By following four steps, executives can identify, prioritize, and develop the employee segments across the organization that are critical to its long-term differentiation and success—and in so doing, achieve sustained growth.

THE PEOPLE STRATEGY CHALLENGE

Companies face a variety of challenges in today's economy: reducing costs, pursuing growth organically and via M&A, implementing new business models, and expanding geographically, among others. But all the challenges have one thing in common: People are at the heart of a successful response. People imagine change and they make it real.

All too often, however, companies don't consider their people strategies in the proper context. For instance, when companies seek to grow, their leaders must decide where to invest resources. And when they seek to reduce costs, they must decide where to cut back. They tend to pursue these objectives by spreading investments or clipping budgets across the board. Most leaders recognize the limitations of such approaches on corporate performance, and the negative impact these approaches can have on their employees. But in an effort to be fair, they treat all parts of the business the same, especially with regard to their people-related spending, including head count, talent initiatives, training

programs, recruitment drives, and reward packages.

There is a better way. Senior leadership teams and HR executives can maximize the effects of their decisions on people and performance by first asking what to focus on and strengthen—by determining the few differentiating capabilities that provide their company with sustained competitive advantage—before deciding if and where to invest or cut. Such a capabilities-driven approach can measurably improve the chances of successfully meeting all kinds of strategic challenges, and of resolving the people-related issues that invariably accompany them.

A capabilities-driven approach can measurably improve the chances of success.

DEVELOPING THE RIGHT TALENT

Aligning a company's people strategy to its differentiating capabilities system can be achieved by following a four-step process (see *Exhibit 1*).

1. Define the Capabilities System

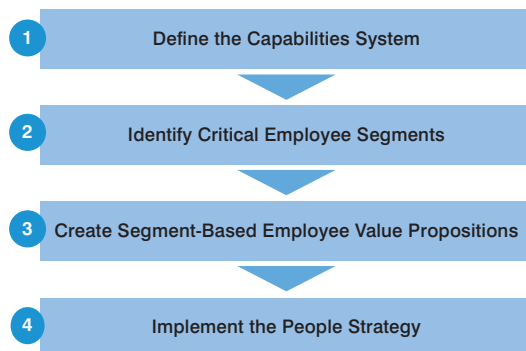
A company must first know what it needs to do to succeed before it can identify who should do it. When defining its identity in the marketplace, senior leadership teams must ask themselves three core questions: How do we create value for customers? What capabilities do we need to deliver this value proposition? What will we sell, and to whom? Coherent companies purposefully ensure that their way to play, capabilities system, and product and service portfolios are aligned (see *Exhibit 2*).

The key to a coherent strategy is a set of three to six mutually reinforcing and differentiating capabilities—things the company does better than

anyone else. Each of these capabilities is composed of skills, knowledge, behaviors, processes, structures, and technology. Sometimes, a company's existing capabilities determine its way to play; sometimes its chosen way to play requires the development of new capabilities.

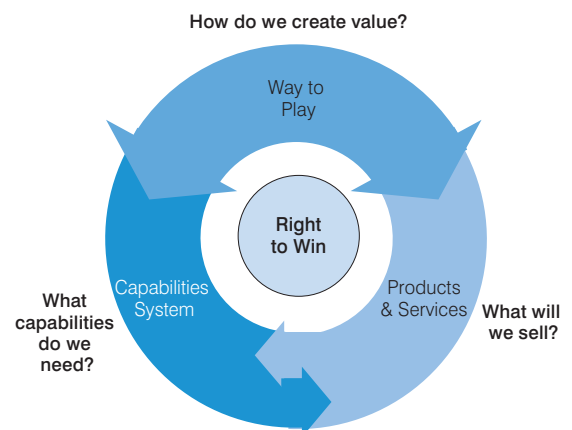
There are many ways to play and many more possible combinations of capabilities that can support them. The personal computer industry provides a typical example. Four of the biggest players in the industry—Apple, Dell, Hewlett-Packard (HP), and Lenovo—all have different ways to play and different capabilities systems. Yet each has been very successful in the marketplace in its own way: Apple is an “experience provider” that introduces market-changing products and services; Dell is a “customizer” that leverages customer information and intelligence to offer

Exhibit 1
A Four-Step Approach



Source: Booz & Company

Exhibit 2
The Capabilities-Driven Strategy



Source: Booz & Company

tailored products and services; HP is a “solutions provider” that sells devices as integrated solutions, with a direct link between the device on a desk or in a pocket and the cloud of services that support it; and Lenovo is a “value player” that competes on price.

2. Identify Critical Employee Segments

A company’s differentiating capabilities are almost always cross-functional, thus the people needed to execute them effectively will likely be spread throughout the organization. But by zeroing in on the capabilities that will provide their company with sustained competitive advantage, HR executives can begin to identify employee segments that support differentiating capabilities. These are the people in the company who

have a disproportionate ability to create value and deliver competitive advantage.

The goal is to align your people strategy with your company’s capabilities system, so that the right people are in place to support the capabilities across functions. For example, Apple’s capabilities system requires people who have superior branding and design skills, whereas Dell values people with sales and marketing and forecasting skills (*see Exhibit 3*).

Identifying critical employee segments and their required contribution to the company’s differentiating capabilities system enables the company to determine where to direct their investments in people, as well as where to reduce

them. Investing in improving the performance of these critical segments can be a major lever in boosting organizational results. And by identifying segments that are only required to be fit-for-purpose, companies can also reduce head count and control costs in other ways without destroying value. Further, the monies saved can be redirected in ways that make the most difference in employee and business performance.

For example, a major package shipping company was able to reduce costs and grow stronger by segmenting its workforce and identifying which employee segments were critical to delivering superlative service to its customers—one of its differentiating capabilities. This led to a number of insights. The

Exhibit 3
Ways to Play in the Personal Computer Industry

Apple	Dell	Hewlett-Packard	Lenovo
Way to Play - Experience provider	Way to Play - Customizer	Way to Play - Solutions provider	Way to Play - Value player
Capabilities - Provision of customer experience - Brand management - Support and integration of external partners	Capabilities - Direct sales - Product customization - Automation and forecasting	Capabilities - Direct B2B sales - End-to-end product/service provision	Capabilities - Cost management - Lean manufacturing - Fast-follower innovation
Talent Needs - Intuitive user interface development expertise - Branding skills - Application platform engineering skills	Talent Needs - Direct sales and marketing skills - Customized manufacturing/supply chain management expertise - Engineering and analytics skills	Talent Needs - B2B sales and marketing skills - Solution development and engineering skills - Acquisition expertise	Talent Needs - Financial management and modeling expertise - Lean Six Sigma skills - Competitor and supplier intelligence

Source: Booz & Company

company found, for instance, that although its pilots were important, additional investment in the segment was not needed because they did not contribute a disproportional amount of value in terms of customer service. Thus, there was little payoff in investing in developing better pilots because it would not greatly enhance the company's competitive advantage. On the other hand, the company found that its delivery drivers were a critical segment because they were customer facing. As a result, it invested in improving the customer service skills and performance of its drivers, and generated significant additional revenue and profits by providing a better customer experience.

When it comes to employee segments, fairness doesn't always mean equality. It means

understanding the strategic value that each segment contributes to the organization and optimizing each according to that value. It is important for leadership to address perceptions of inequality frankly, openly communicate the business reasons for targeting specific segments for greater attention, and be transparent about different value propositions offered to other, less critical employee groups. Employee segmentation is not about creating haves and have-nots: It is a conscious approach for optimizing investments in people by recognizing which employee segments can make the most difference in the company's success. Of course, over time, companies' strategies and employee segments needed to support those capabilities must change with them.

3. Create Segment-Based Employee Value Propositions

A segment-based employee value proposition needs to capture the essence of the relationship between employer and employee, and articulates the expectations for each (see *Exhibit 4*). A successful employee value proposition meets the employer's requirements while providing the competitive advantage needed to attract and retain superior talent in the company's most critical roles. Such a value proposition is more than a job and the compensation that comes with it. It also encompasses the work environment, culture, career opportunities, and chance to do meaningful work.

For example, a large U.K. financial institution undertook a major transformation effort in its contact centers that identified team leaders

Exhibit 4
The Employee Value Proposition



Source: Booz & Company

as a critical employee segment given their role in developing and executing a strong service capability. It developed a new value proposition for these employees, which articulated the organizational expectations of the team leaders and the organization's commitment to develop and provide them with rewarding careers. This included specialized training in products, performance management, and customer service; new career paths that encouraged experienced team leaders to mentor and develop peers; and new opportunities, such as transfers to other contact centers and internal assignments that were previously offered only to operational managers.

In designing the value propositions for critical employee segments, it is necessary to elicit employee participation. Often there are disconnects between what employees value and what their employers think they want (see “Case Study: A Global Pharmaceutical Company's New Way to Play”). Not only does involving employees ensure the relevance of the proposition, but the act of giving people an opportunity to voice their views about what they want builds engagement and buy-in.

4. Implement the People Strategy

Once employee value propositions are created, the company needs to determine and execute the practical steps needed to bring them to life and deliver on their promise of attracting, developing, and retaining people in the segments critical to the company's success. This requires asking several key operational questions:

- What is the optimal way to attract the best talent in our most critical segments?
- What is required from HR to deliver the tailored segment value propositions?
- How will the organization ensure that it is achieving the outcomes articulated by the employee value propositions?

The answers to these questions will vary widely by industry and company. For example, one manufacturing firm, whose product managers were a critical employee segment because of their role in ensuring a differentiating capability in the innovative design and timely delivery of new products, established a unique talent model

for product managers in which it enhanced their decision making by developing their cross-functional skills in manufacturing, engineering, and marketing. Another company focused on recruiting talent instead, and developed a strategic relationship, including an endowed professorial chair, with a single university that it identified as its best source for engineering talent. A third company also focused on recruiting new talent, but chose to hire it away from a competitor that was a good trainer of talent but did not offer attractive career development opportunities.

In each of these examples, HR played a leading role in marshaling the resources needed to deliver on the company's people strategy and enhance its people capabilities. And in each case, HR needed to understand the people priorities of the business in order to decide where to invest and not to invest, and develop the skills the company needed to effectively implement the solutions it proposed.

In designing the value propositions for critical employee segments, it is necessary to elicit employee participation.

Case Study: A Global Pharmaceutical Company's New Way to Play

Booz & Company recently worked with a global pharmaceutical company that followed the process described earlier to refresh its people strategy in response to changes in its corporate strategy. Like many others in the industry, the company's long heritage of producing blockbuster drugs eventually led to an overly complex product portfolio and broad customer focus. In response, the senior leadership team reexamined the company's way to play and decided to focus its efforts on a new more targeted strategy.

The leadership team identified three key capabilities already in place within the company that were needed to support its new way to play: its expertise in developing deep insights into patients' needs and real world use of medicine, entrepreneurship, and product development. By analyzing the people skills, knowledge, and behaviors required to support these capabilities, the company identified its critical employee segments—and one key area was medical affairs.

To energize and enable medical affairs to play its key role in the way to play, the executive team defined and articulated a new set of expectations for the segment's members and, with the help of a series of focus groups made up of the function's staff, sought to identify the critical elements of the segment's employee value proposition. The results were surprising: Most notably, compensation was found to be a lower priority than recognition and flexible working arrangements. It was also discovered that the company's brand image as an employer, which was a significant factor in recruiting, was less important in retaining employees.

The redesigned employee value proposition was subsequently used to inform, prioritize, and invest in HR activities. For instance, HR introduced a series of programs for the medical affairs staff, including the following:

- Peer-to-peer manager coaching to encourage multidisciplinary teaming and innovative thinking, including skill building and informal groups that share new insights and experiences
- Targeted skill building to close gaps, including training to increase customer insight capabilities and recruiting new talent with the required skills
- Exciting and challenging career paths and stretch roles designed to further engage employees
- Professional community building to share experience and insights, disseminating best practices and enhancing individual development

The close alignment of people strategy with the company's differentiated capabilities ensured that the organization focused its people efforts and investments where they mattered most for business success. Many hundreds of employees participated in pilots that helped improve awareness of expectations and drove engagement in exploring new behaviors and skills. At a higher level, management took greater ownership of people issues and the credibility of HR was strengthened.

CONCLUSION

Creating effective people strategies is a complex task that is often done improperly, without clear connection to corporate strategy, causing sub-optimal business performance and inefficient use of resources. These outcomes can be avoided by aligning people and HR activities with the company's way to play and capabilities system. This process ensures not only that people strategies and the investments associated with them are optimized, but that current gaps in critical people segments are exposed. The benefits of such an approach include a greater return on investment, increased motivation among employees who are essential to the company's success in the marketplace, and, most important, enhanced business performance.

Companies must ensure that the people in each critical segment know exactly what is expected of them. And because each segment typically has its own recruiting, development, and retention considerations, it will require a tailored value proposition to attract, motivate, and retain people. This combination of expectations and benefits adds up to a de facto contract

that demonstrates an employer's commitment to its critical segments and articulates what must be done to ensure that both the employer's and the employees' needs are satisfied. With that in place, business units and HR can prioritize their activities and gain maximum leverage from the company's investment in people.

A firm commitment to critical employee segments across functions on the part of the company and its senior leaders is extremely important, but we must also acknowledge that strategic change is inevitable. When companies face new challenges, their ways to play may require modification. Often, this will also cause changes in their capabilities systems—setting off corresponding alterations in terms of which employee segments are deemed critical; the skills, behavior, and knowledge required of those employees and their value propositions; and HR activity. Thus, distinctive capabilities are the key to one of the great, ongoing challenges in HR: creating a people strategy that is coherent, and aligned with corporate strategy.

About the Authors

DeAnne Aguirre is a senior partner with Booz & Company based in San Francisco. She is an expert in talent effectiveness and leadership, and advises senior executives globally on people strategy and human capital.

Ashley Harshak is a partner with Booz & Company based in London. He specializes in people capabilities and change management, helping global organizations tackle their most pressing people challenges.

Laird Post is a senior principal with Booz & Company based in San Francisco. He works with global organizations in the areas of talent management, HR effectiveness, and sustainable change.

Sonia Storr is a principal with Booz & Company based in London. She assists major organizations in achieving large-scale transformation through people capabilities, performance management, and cultural change.

The most recent list of our offices and affiliates, with addresses and telephone numbers, can be found on our website, booz.com.

Worldwide Offices

Asia

Beijing
Delhi
Hong Kong
Mumbai
Seoul
Shanghai
Taipei
Tokyo

Australia, New Zealand & Southeast Asia

Bangkok
Brisbane

Canberra
Jakarta
Kuala Lumpur
Melbourne
Sydney

Europe

Amsterdam
Berlin
Copenhagen
Düsseldorf
Frankfurt
Helsinki
Istanbul

London
Madrid
Milan
Moscow
Munich
Paris
Rome
Stockholm
Stuttgart
Vienna
Warsaw
Zurich

Middle East

Abu Dhabi
Beirut
Cairo
Doha
Dubai
Riyadh

North America

Atlanta
Boston
Chicago
Cleveland
Dallas
DC

Detroit
Florham Park
Houston
Los Angeles
Mexico City
New York City
Parsippany
San Francisco

South America

Buenos Aires
Rio de Janeiro
Santiago
São Paulo

Booz & Company is a leading global management consulting firm focused on serving and shaping the senior agenda of the world's leading institutions. Our founder, Edwin Booz, launched the profession when he established the first management consulting firm in Chicago in 1914. Today, we operate globally with more than 3,000 people in 58 offices around the world.

We believe passionately that essential advantage lies within and that a few differentiating capabilities drive any organization's identity and success. We work with our clients to discover and build those capabilities that give them the right to win their chosen markets.

We are a firm of practical strategists known for our functional expertise, industry foresight, and "sleeves rolled up" approach to working with our clients. To learn more about Booz & Company or to access its thought leadership, visit booz.com. Our award-winning management magazine, *strategy+business*, is available at strategy-business.com.