Journal of World Business 49 (2014) 281–288

Contents lists available at ScienceDirect

Journal of World Business

journal homepage: www.elsevier.com/locate/jwb

From talent management to talent optimization

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ARTICLE INFO

Article history:
Available online 10 December 2013

Keywords:
Talent
Talent management
Employee lifecycle
Talent measurement
People Equity
Human capital

ABSTRACT

The term 'talent management' has been around for quite some time, but definitions abound around the globe, applications are varied and a plethora of measures—mostly tactical—are currently being used. This article addresses how the concept of talent management is of both theoretical and practical value in any industry or geography. How can we know when talent investments have been optimized? What is the talent lifecycle and why is it important? Additionally, the article presents and illustrates the People Equity framework that serves as a global bridge between important individual and business outcomes such as turnover, financial performance, quality, productivity, customer retention, and organizational processes and policies that drive high or low talent optimization.

The term 'talent management' has been around for quite some time, but definitions abound around the globe, applications are varied, and a plethora of measures—most tactical—are currently being used. Furthermore, while senior executives have begun to embrace 'talent management,' they are often embracing different things. Many have appointed Chief Talent Officers with widely differing responsibilities; some focus only on leader development, others on various employment stages from hiring to retention, and still others focus on organizational design and processes. While multinationals seemingly desire to standardize such definition and applications, this author has found multiple uses of the term across U.S., European, and Asian operations of the same firm for example. Putting aside all the confusion, here is a key question: Is talent management a unique concept or simply a new label for the "old wine" of leader development, succession, on-boarding, training, and so forth?

This article addresses how the concept of talent management is of both theoretical and practical value. More specifically, I address these questions:

- What is talent management?
- What is the talent lifecycle and why is it important? The talent lifecycle—from attracting and acquiring talent to onboarding, developing, managing, retaining and even recovering talent—captures the myriad ways in which an organization interacts with talent.
- How do we know when talent investments have been optimized? The concept of People Equity (Schiemann, 2006) is one potential framework for addressing this question. Some of the theoretical underpinnings and empirical research related to People Equity, as well as examples of its practical use across country borders, are discussed.

Next, I will address how the People Equity framework can inform investment decisions about how best to manage human capital and the talent lifecycle. For example,

- Are organizations attracting talent that is not only capable but also a good fit?
- Are recruiting and selection strategies effective?
- Are we onboarding talent in such a way that it becomes acculturated?
- Do performance management processes help optimize human capital investments?
- Are we identifying and selecting potential leaders who can optimize talent investments?

Finally, a key issue is the measurement of human capital investments, and more specifically, talent optimization, which is highly fragmented. This article will discuss how the People Equity framework—one which is eminently measurable across countries and cultures—serves as a universal bridge between important individual and business outcomes, such as turnover, financial performance, quality, productivity, customer retention, and organizational processes and policies that drive high or low talent optimization. An example of its use across countries and regions is presented.

1. What is talent management?

Before tackling talent management, it is imperative to define "talent." Definitions of talent abound. Ulrich proposed that it

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1090-9516/$ – see front matter © 2013 Elsevier Inc. All rights reserved.
http://dx.doi.org/10.1016/j.jwb.2013.11.012

equates to the combination of ‘competence, commitment and contribution’ (Beechler & Woodward, 2009). McKinsey & Company defined ‘talent’ as ‘the sum of a person’s abilities ... his or her intrinsic gifts, skills, knowledge, experience, intelligence, judgment, attitude, character and drive. It also includes his or her ability to learn and grow’ (Michaels, Handfield-Jones, & Axelrod, 2001, p. xii). In interviews conducted by the author with senior executives, some use the term ‘talent’ to refer to key employees such as executives or managers. For purposes of this paper, I define *talent* as *the collective knowledge, skills, abilities, experiences, values, habits and behaviors of all labor that is brought to bear on the organization’s mission*. This definition is broader than some and reflects the author’s bias of thinking about labor investments holistically. Think about what capability is added to or subtracted from the organization as a result of acquiring or losing a person. This labor may be in the form of employees, but it could be contractors, outsourced labor, or other forms of labor supply.

Talent management is a unique function that integrates all of the activities and responsibilities associated with the management of the talent lifecycle regardless of geography—from attracting and acquiring talent to developing and retaining it. A key measure of success is the ROI[1] on the investment of talent as a resource, when the ‘return’ is considered broadly to include benefits beyond financial ones alone.[2] Consider an example. If two restaurants within a quick-serve chain invest in 20 employees per restaurant and one achieves 20% higher sales than another, that restaurant is providing a higher return on the labor dollars invested. Or, if they both achieve the same sales, but the average labor cost invested in one is 10% less than the other, it too has achieved a higher return on invested talent. We could generalize this then to two competing burger chains operating in the same territories with approximately the same supply and capital costs. If one is able to leverage its talent investments more than the other, the shareholders will achieve a higher return on investment, other things being equal. In this situation, how well talent is leveraged will provide a competitive advantage.

To accomplish the higher return, multiple people in the more competitive organization are doing something with talent that enables it to leverage this important asset better than the other competitor. This might include the restaurant manager, policies driven by HR and senior leaders, a coach or leader of the restaurant managers, or even a recruiting firm—essentially anyone who touches the talent lifecycle in a way that enables talent investments to be leveraged effectively. For example, a common way in which this is done is through better training. In a recent study with one fast-food group, access to training has been found to be a major driver of business performance. Restaurant managers in the heat of competitive battle, or meeting cost targets, might short circuit the complete training program, figuring that employees in this industry turn over quickly. But that thinking was proven faulty because those who did not train their employees effectively experienced a significantly higher incidence of job failure. This led to greater staff turnover. Access to training enabled employees to be successful in front of customers and to stay on the job longer, spreading hiring and replacement costs over a longer period of time. The managers who provided effective training had lower overall labor costs, despite investing time and money in training.

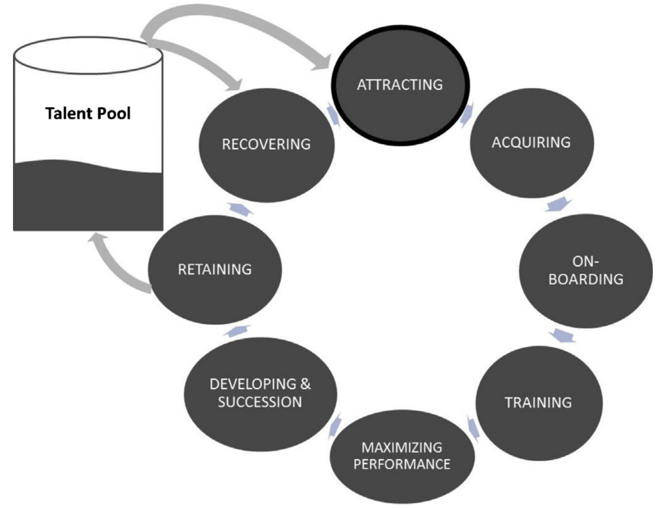

Fig. 1. Talent lifecycle.

2. What is the talent lifecycle and why is it important?

The *talent lifecycle* encompasses all of the stages of interaction between an organization and its human capital. This ranges from building a talent brand that attracts the right talent to acquiring, onboarding, developing, managing, retaining and even recovering talent (see Fig. 1). Organizations touch people in many profound ways before, during and after they are embedded in the organization. Notice the word embedded and not employed. Long-term contractors, outsourced labor, or other labor market intermediaries (LMIs) (Bonet, Cappelli, & Hamori, 2013) are more prevalent today across country boundaries, but have many of the same important characteristics as employees. These people can partner with the organization for a long or short time. They can provide discretionary effort or not. They can work hard or work smart in ways that are more aligned with the organization’s goals. They can take the extra step to stay abreast of their areas of expertise or not. In short, all forms of labor are important in innovating, producing products or services, recommending new employees, and providing a positive or negative image of the organization. The difference between those incredibly positive behaviors and neutral or negative ones can spell the differences between success and failure for the organization.

The talent lifecycle is the path upon which most people interact with the organization. *Talent management is the way in which the talent lifecycle is managed*. How well that lifecycle is managed will determine the level of effectiveness of those talent investments.

Talent optimization means that the organization has balanced talent acquisition, development, performance and retention strategies, processes and policies so that it maximizes the outcomes of those talent investments—higher employee productivity, greater customer retention or purchasing, higher quality, higher retention of desired employees, reduced regulatory or environmental risks, and strong operational and financial performance.[3] A growing challenge today is doing so across country and cultural differences.

Let us consider two examples. Because of Google’s employer brand—a cool, innovative, and liberal but demanding employment environment—it attracts the best and brightest around the globe.

[1] ROI here could include financial and non-financial value to the firm, such as gains or losses to reputation.

[2] For purposes of this paper, ROI is considered from the organization’s point of view. It is acknowledged that there are other forms of value such as societal ones (e.g., creating employment) or individual ones (career growth or fulfillment), but the focal point of this paper is the value to the organization.

[3] It might also be argued that it would be even more valuable to society if the organization did these things in a way that also enhanced sustainability or individual outcomes, such as career growth, better health outcomes, or enhanced life fulfillment (Wirtenberg, Harmon, Russell, & Fairfield, 2007; Wirtenberg, Lipsky, Abrams, Conway, & Slepian, 2007).