Talent management best practice series

Strategic alignment

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Foreword

The Korn Ferry Institute Best Practice Series provides a window into the thought leadership and expertise that Korn Ferry offers as the premier global provider of talent management solutions. Each installation of the series covers a key area of talent management and captures Korn Ferry's science, philosophy, and approach. These best practice books provide an introduction to who Korn Ferry thought leaders are, what Korn Ferry does best, and how Korn Ferry can fuel organizations' success in meeting their strategic talent management needs.

Korn Ferry's approach is based on science and informed by what works in practice. The Korn Ferry Institute Best Practice Series is intended to summarize key, unique points of view held by Korn Ferry thought leaders that inform our methods and approach to strategic talent management. Consider it a way to spark new thinking and get to know what Korn Ferry offers.

Introduction

The 21st century brings a unique and unprecedented set of challenges and potential opportunities for organizations.

The competitive landscape is increasingly global in scope. Today, even small or midsize companies are challenged to compete on a global scale. The number of multinational corporations has doubled since 1990.[1] Growth opportunities are more prevalent in developing regions of the world where the middle class and new consumers are emerging rapidly. In fact, the global middle class is expected to grow by 172 percent from 2010 to 2030.[2] At the same time, there are shifts in the available talent pool and workforce demographic. An aging demographic in the West is yielding to higher proportions of college graduates coming from Latin America, Russia, and Asia. Individuals are being asked to do more with less, but they also have higher expectations for their employers and are more mobile than previous generations. Consumers also have higher expectations, and the companies that make the best use of technology and data analytics to better understand their customers and break down barriers will win.[3,4]

The pace of market growth, the speed of innovation, and ever-changing demographics create more opportunities to both create and extract value, but it's often more difficult to pinpoint those opportunities and act upon them.

Top 21st century trends impacting organizations:

- Globalization
- Technology and the proliferation of data
- Environmental concerns and resource constraints
- Global economy
- Demographic shifts
- Higher expectations of employers
- Consumer characteristics

So, how do companies compete in this increasingly complex and changing environment? One of the central differentiators for companies is a sound business strategy. Leaders who are adept at creating winning strategies make an integrated set of choices regarding issues such as where the business will be active, how to get there, how to win, the specific actions and moves, and the model of profit generation.[5] A business strategy articulates the direction a business will pursue and the steps it will take to achieve its goals. A good strategy has at least three characteristics: it creates value, it's unique, and it cannot be imitated.[6]

But what's required for strategic plans to come to fruition? Two things: one, the operations excellence required to execute that enables a company to perform better and faster than competitors and two, the leadership and talent in place to drive strategy execution.

A company may have a very sound strategy on paper, but it's another thing to bring it to life in the organization. Executing a strategy is just as important, if not more so, than formulating strategy.[7] Arguably, people are one of the most important ways a company unlocks its strategy. Talented people are the fuel to get things done in an organization and can be a key competitive asset. Managing those people is critical to achieving business strategy. Essentially, a company gains competitive advantage when it delivers distinct products and services through distinct human resources.

In most organizations, including large ones such as the Fortune 500, total human capital costs account for as much as nearly 70 percent of operating expense.[8] Logic tells us that people make or break an organization because all decisions and actions depend on the capabilities and coordination of people.

With human capital being such a key asset in driving business strategy, it's imperative for companies to have a well thought-out talent strategy. In other words, companies need to deliberately set priorities and take actions that activate the business strategy and drive operations excellence by developing and sustaining a pipeline of the right leaders, with the right abilities, in the right roles, at the right times.

In Korn Ferry's view, close alignment of a company's business and talent strategies helps ensure the realization of both the business strategy and the operations excellence required to deliver expected outcomes.

Two Key Elements of Alignment

**Strategic talent management consists of two key elements —
vertical alignment and horizontal alignment.[9]**

Vertical alignment (what we think of as strategic alignment) refers to
the linkage between business needs and individual performance.
The guiding logic is that a firm's human resource management practices
must develop individuals' skills, knowledge, and motivation such that
they behave in ways that are instrumental to the implementation of
a particular strategy. In other words, business strategies define the
required role behaviors. Human resource management should be
practiced in a way to staff the workforce and foster such role behaviors.
Consequently, business strategies determine which roles provide
competitive advantage, the type of talent required, and the type of
behaviors to be cultivated and rewarded.

Horizontal alignment (what we think of as integrated talent
management) refers to the extent to which different HR practices
are integrated to serve the same human resource management
goals. Human resource management is seen as a coherent system.
Combinations of HR practices, or HR bundles, have bigger effects on
individual behaviors than the sum of the component impacts due to
individual practices. The key issue here is not about maximizing the
effects of individual HR practices, but achieving optimization among
them. For instance, depending on the specific configurations, heavy
investment in employment engagement may be appropriate in one
company, but maintaining a healthy in-and-out flow of talent may
be appropriate in another.

The distinction between vertical alignment and horizontal alignment
resonates with Boudreau and Ramstad's (2007) articulation on the
differences among HR impact, effectiveness, and efficiency.[10] The issue
of impact concerns the relationship between talent management and
business outcomes. Different types of talent have different strategic
values.[11] Investment on the strategically important part of the talent
space generates exceptional return. Therefore, impact analysis helps
strategically prioritize and focus the efforts of talent management.
Once the direction and talent management goal has been determined,
the HR systems can be designed and implemented according to two
measures of HR process: effectiveness and efficiency.
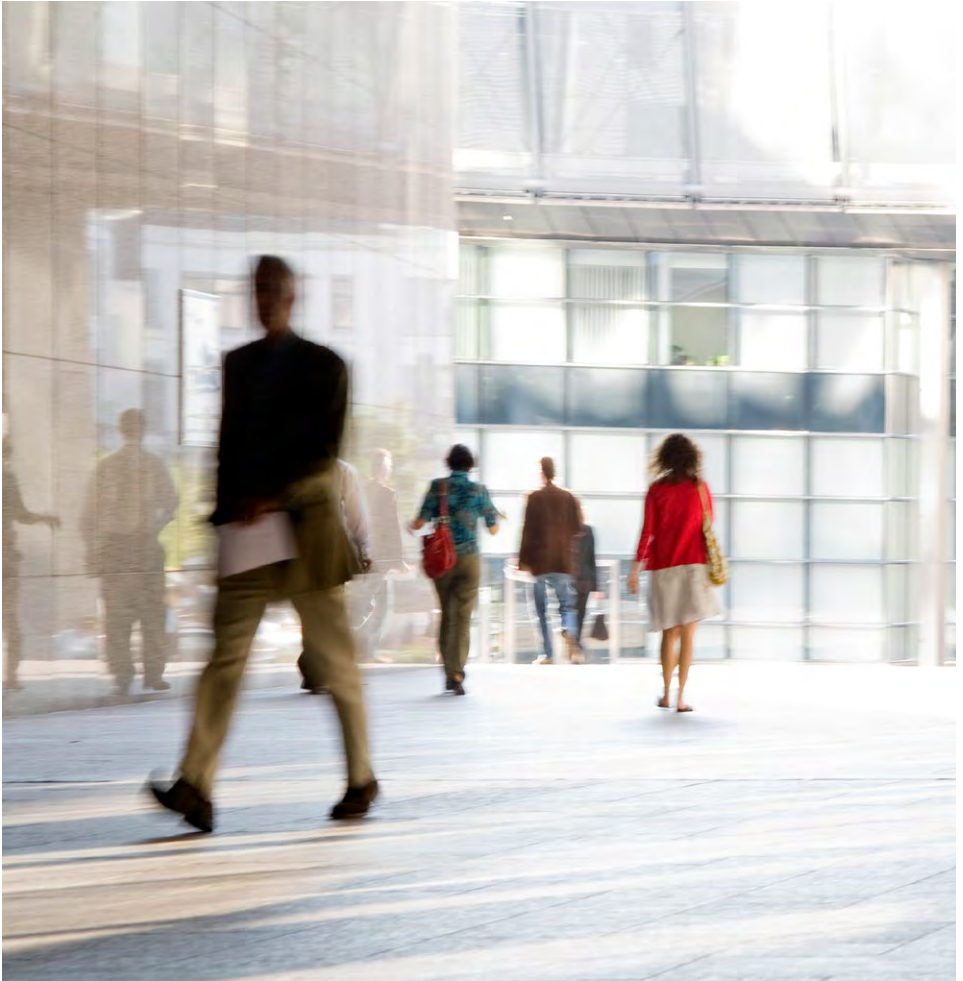
The Benefits of Aligning Business and Talent Strategies

When a company aligns its talent strategy to its business strategy, it is more likely to achieve its strategic objectives, perform better in the market, and retain highly engaged, high-performing individuals. The benefits of strategic talent management are well documented in the literature that spans over two decades of research with different types of organizations in diverse industries and regions.

Research on the impact of strategic talent management on both company and individual performance helps quantify the value of aligning business and talent strategy. The magnitude of the return on investment from aligning and integrating HR practices is substantial. One seminal study found that a one standard deviation increase in investment in aligning and integrating HR practices is associated with a 7.5 percent decrease in employee turnover and, on a per employee basis, $27,044 more in sales, $18,641 more in market value, and $3,814 more in profit.[12]

Additional studies show that when companies align talent strategy with business strategy, there are clear positive results:

- A boost in morale[13]

- Increased productivity[12, 14]

- Increased discretionary effort[15]

- Lower turnover[12, 16]

- Higher customer satisfaction[14]

- Improved process and machine efficiency[14]

- Enhanced ability to be innovative across the company[15]

- Better company financial performance[12, 13, 15]

To reap these business benefits, there are a few critical success factors. A company's business strategy must be sound and its talent strategy must be designed to support the business strategy and integrated across all human resource practices. Although it's helpful for the talent strategy to be based on best practices, research has found that aligning HR practices to business strategy had a stronger impact than best practices in achieving positive outcomes.[17, 18, 19]

Guiding Principles for Aligning Talent Strategy to Business Strategy

Strategic alignment does not mean talent strategy has to imitate business strategy. Too often people confuse "alignment" with "reflect" or "be similar." The logic goes that if the business strategy is to drive innovation, HR must be innovative. It only makes sense, right? Not necessarily. In this case, HR needs to provide the talent that can drive innovation where it is needed. Talent strategy doesn't need to be a reflection of the business strategy; it needs to support and provide the talent resources that will make the strategy successful.

One size does not fit all. There are many ways of going about aligning talent strategy to business strategy. And there are many practices for managing talent. Trying to find the one-size-fits-all best practice is misguided. Tailoring HR and talent management practices to a company's specific context involves paying attention to industry, business life cycle, and strategic direction considerations. In fact, research shows that alignment is more important than following established best practices.[19]

Invest in different roles differently. All roles are important to the success of an organization. However, some roles contribute to table stakes whereas others affect the success of specific business strategies. Segmenting talent and applying specific talent management practices to those differentiated segments yields a greater return on investment.

Key Questions to Guide Business and Talent Strategy Alignment

Aligning business and talent strategies requires some careful analysis. Because everything exists as a nested part of a larger context, it's important to get a broad perspective of the business landscape. Understanding external business issues such as 21st century trends, economic realities, and industry context can provide a useful backdrop for the business strategy. The next step is to gain an understanding of the strategic intent for the organization. Given the increased size and complexity of companies today, one might find multiple and possibly competing business strategies when surveying the enterprise.

From the business strategy, it's important to understand what the organization needs to excel at in order to deliver on the strategy. From there, it is helpful to determine what talent is needed to shape, advance, and execute the strategy successfully. Taking into consideration what talent is required versus what talent is available, what the pivotal roles are, and an analysis of where talent could be a constraint on the business, the final steps involve creating an aligned talent strategy and designing practices for managing that talent.

It's important to keep in mind that there are no right answers. Best practices in talent strategy are dependent on the context of the business. For any organization, what works best is contingent upon the situation and the strategy. For this reason, the strategic alignment process is a process of discovery that is unique for every organization.

Business Strategy and Talent Strategy Alignment Process

1. Survey the business context.

2. Understand the business strategy.

3. Identify organizational capabilities.

4. Determine talent implications.

5. Create an aligned talent strategy.

6. Design HR and talent management practices.

1. What is the business context?

The business context consists of elements outside the boundary of the organization that have the potential to affect all or part of the enterprise. Often referred to as the PEST analysis, these elements fall into several broad categories including political, economic, social, and technological.[20] It's important to understand the external conditions affecting everyone as well as how they might influence a particular company differently from the rest of the competition. Consider the 21st century trends and forces that are creating opportunities and threats in the marketplace. Review the patterns and realities that affect the organization's ability to compete.

- What's going on in the economy that is affecting everyone?

- Does it affect the competitors differently?

- Do some organizations have a differentiated advantage? Why?

- What industry trends are emerging (e.g., increased regulation)?

- How are these industry trends influencing different companies?

- Do these trends help or hurt some organizations more than others?

- What assumptions are being made about where the industry is going?

- Where are competitor organizations placing their bets?

- Is the business context relatively complex or stable?

Consider whether the business context involves …

Scarce supply of raw materials	Plentiful supply of raw materials
Global market	Domestic market
Uncertain or unpredictable environment	Predictable, stable environment
Unpredictable trends	Predictable trends
Customized products or services	Standardized products or services
High level of customer responsiveness	Lower level of customer responsiveness
Potential risk for disruptive innovation	Less risk for disruptive innovation
Then the business environment is complex and changing.	Then the business environment is more stable and consistent.
A complex and changing business environment requires a nimble, flexible approach to talent.	A stable and consistent business environment requires a more consistent and systematic approach to talent.
For example, the boom and bust cycle in the oil industry coupled with the complex business environment have created a need for creative solutions to address the scarce supply of geologists and petroleum engineers to grow the business. In fact, the business context that created a scarcity of key talent caused the industry to reach out to universities to create petroleum engineering programs.	For example, regional utilities typically have steady demand and manage their supply carefully, and the talent required to deliver services is consistent and reliable.

Note: Both realities may be present in different business units of the same company.

Analyzing the broader context provides valuable insight into the viability of an organization's strategic intent — how it intends to win in the market. It's important to keep in mind that business context can change quickly. For example, agricultural companies that invested in decades of R&D related to GMOs suddenly find their products shut out of Europe. Another example is the health care industry in which new health laws affect how companies can operate. A meaningful analysis of these changes to the business context includes asking a couple of key questions: How does the context differentially affect our company versus our competitors? How will our company take advantage of the change in business context? After surveying the strategic context, it's helpful to gain a more detailed understanding of the business strategy.

2. What is the business strategy?

People can be overwhelmed by the long list of strategies organizations can adopt — customer intimacy, innovation, organic growth, M&A, cost leadership, globalization, corporate partnership, etc. These espoused strategies tend to address one or a few of the elements of a coherent strategy that organizations need to have. A coherent strategy consists of an integrated set of choices regarding five strategic decisions:[5]

- Where the business will be active. It is the decision about the product categories, market segments, or geographic areas that the organization will focus on. A globalization strategy implies an expansion into new geographic areas.

- How to get there. This element defines the means for attaining the needed presence in the area the organization wants to be active. Internal product development, M&A, corporate partnership, and franchising are some of the growth models. A company that wants to globalize its business can do so through approaches such as M&A, joint venture, or fully-owned investment.

- How to win in the marketplace. It is about the unique value proposition that differentiates the company from others. It doesn't mean the company has to be at the extreme on any differentiating dimensions; rather, it is the appropriate combination of several differentiators that forms a competitive advantage.

- What the sequence of moves are and when. The achievement of ultimate strategic objectives may require a sequence of moves. Some initiatives must come first, followed only then by others. For instance, a company that wants to enter a foreign market may want to establish joint ventures with local firms to learn the know-how of doing business in the local market before fully investing in it.

- How profits will be generated. It is about the model of profit generation that is established on a central economic logic. Whether to charge customers at the premium prices or to use price as leverage, the economic logics are rooted in the organization's fundamental and relatively enduring capabilities. For instance, a company can sell a device at a very competitive price, but generate much of the profits from the services that are delivered during the usage of the device by the customers.

For example, one global retailer that has opted for a strategy of cost leadership competes based on scale rather than quality. The targeted customer market, the global sourcing strategy, an efficient supply chain management, and low cost labor are all components of the strategy that enable this company to win through cost leadership.

Even within the same industry, similar business contexts do not yield the same strategy and the same talent strategy. One variable is how different companies understand the future of the industry and business context. For example, two companies that engineer and manufacture airplanes placed their bets very differently. Company A decided that the future of air travel was in the hub and spoke model and that large planes would be in demand by airline companies. Company B decided that the future of air travel would be more focused on quick, efficient, and direct routes and so it built a smaller and more efficient airplane. Depending on how the future actually unfolds, companies may need to change course quickly to compete.

Another variable that yields different strategies within the same business context involves companies that redefine the value proposition for customers and how they make money. For example, established airline companies focused

on monopolizing key hubs, whereas latecomer airlines needed to compete on a different front. One small and upcoming airline that got locked out of the best terminals and had to contend with many fewer gates chose to compete by increasing the turnover of flights from those gates. Using NASCAR pit crews as a model, it focused on building its ground operations talent as a competitive differentiator.

It's critical to understand how an organization intends to compete and what strategic resources and processes will be the basis for winning with those strategies. Competitive strategy is about being different; it rests on unique activities.[6] Sustained competitive advantage should be established on resources that are valuable, rare, inimitable, and nonsubstitutable.[21] Most strategies are based on either growth or operational efficiency. Either approach is aimed at improving margin and increasing return on investment.

- What product categories, market segments, or geographic areas will the organization focus on?

- What are the strategic objectives and the plans for achieving them?

- How does the organization differentiate itself from its competitors?

- What is the unique value proposition?

- What needs to happen first, second, and so on for the organization to move toward achieving its strategic objectives?

- How will profits be generated?

3. What does the organization need to be great at?

Knowing what an organization needs to excel at in order to achieve the business strategy is a key bridge to talent strategy.[22] Organizational capabilities or "core competencies" provide one approach to bridge business strategies with success profiles for specific roles or individuals.[23]

Every business strategy (e.g., expanding sales channels, growing in new emerging markets) has clear implications for the organizational capabilities an enterprise needs for those strategies to be successful. Explore the implications of those strategies as well as focus efforts on those areas in which a lack of capabilities will put the business strategy at risk.

• What strategic capabilities are unique to the organization or to competitors?

• What are the critical business processes? Where are there constraints in those processes?

• What does the organization need to excel at to meet its strategic objectives?

• What can the organization be the best at?

One way to achieve more sustainable competitive advantages is by establishing and managing a portfolio of core organizational competencies rather than a portfolio of businesses.[23] Corporate core competencies are the collective learning in the organization and reflect its combined capabilities. For instance, some companies are good at innovation, some are good at managing the value chain, and others are good at operational efficiency or managing customer relationships. When the business strategy is supported by the organizational capabilities, the enterprise is more likely to sustain its competitive advantage.

Korn Ferry's organizational capability model includes twenty-one dimensions organized under six factors:

1. Leadership Effectiveness — Effective board governance, executive leadership team effectiveness, and the ability to lead change and transform an organization.

2. Talent Strategy and Management — The ability to acquire, develop, engage, and deploy talent.

3. Innovation — Product, service, and business model innovation as well as an environment that encourages some experimentation.

4. Focusing on the Customer — Strong connection to customers, understanding customer needs and behaviors, cultivating a compelling value proposition.

5. Productive Organizational Culture — Fostering a shared mindset, a climate of openness, and a commitment to collaboration.

6. Strategy Execution — Promoting operational excellence through organizational design, leveraging key functional areas, clear decision making and processes.

The establishment of organizational capabilities or core competencies depends on individual skills, knowledge, and abilities.[24] Corporate core competencies are formed when individual skills, knowledge, and abilities are widely shared across everyone in an organization. Fundamentally, corporate core competencies are reflected in human capital and institutionalized in organizations through strategic talent management practices.[25]

Organizational capabilities or corporate core competencies are often translated into individual competencies through the practice of competency modeling. Like organizational capabilities, when the competency modeling process includes a substantial effort to understand an organization's business context

and competitive strategy, it establishes a direct line of sight between individual competency requirements and the broader goals of the organization.[26] Competency modeling is forward looking and strategic. It specifies skill requirements for the successful execution of business strategies.

To derive the list of individual competencies, organizations generally will take a top down approach. The development of the competency model often starts with the specification and understanding of the organizational goals and corporate values. Once the strategic intent is defined, organizational capabilities (i.e., corporate core competencies) that are requisites to the successful execution of the business strategy will be identified and then further translated into individual requirements. These individual requirements form the core competencies that are applicable to all individuals in the organization. The list of core competencies becomes the foundation and a common thread across a wide range of HR practices such as assessment, selection, training and development, reward, performance appraisal, deployment, and promotion.

For example, one large technology and professional services company has relied on innovation as its core organizational capability. This innovation capability has allowed for tremendous adaptability to the extent that the company has reinvented itself several times from focusing on data services, to mainframe computers, to PCs, to consulting solutions.

In some cases, companies can capitalize on an organizational capability that previously would not have been considered a differentiator. For example, breweries may have competed on taste or quality of ingredients, but one large company with multiple locations emphasized that its beer was fresher. That's a unique value proposition for that product and probably not a criterion that customers had previously considered.

4. What are the talent implications?

Understanding the business strategy requires examining not only the competitive landscape, but also internal resources. In other words, the competitive advantage should be supported by the resources the organization has. It's critical to understand how talent is linked to the differentiators and resources that create the competitive advantage.

Similar to the study of all resources, talent can be considered within the context of supply and demand. The external and internal business issues determine the demand, and the talent situation considers the supply. You must look at the supply of talent both inside and outside the organization and the best way to source the talent required to execute the business strategy.

- What talent is needed to achieve the strategy?

- What talent constraints must be addressed to achieve the strategy?

- Where is the strategy most at risk due to talent issues?

- What talent issues will put strategic plans most at risk and prevent achieving objectives?

- What talent is associated with strategic resources to protect it, leverage it, or scale it?

- What talent is associated with alleviating constraints in the strategic business processes and leveraging those processes for competitive advantage?

- Where is talent getting in the way of those plans?

- What talent issue, if resolved, would most help the organization achieve its strategy?

- How good is the talent that is most associated with those critical differentiators?

- Which roles need to be better at which skills?

What are the important and pivotal roles?

Another concept that is critical to strategic alignment is the notion that different roles contribute differently to the success of the organization's strategy.[27] Focusing limited talent management resources on roles that are mission critical will generate the largest impact on business results.[10] Pivotal roles are referred to with different names — "A positions," "strategic roles," or "royalty positions."[28,29]

Pivotal roles are about where to invest. They represent where improvement in performance makes the biggest impact on the success of the organization. Whereas importance is about the "value" created by the role, pivotal is about the "change in value" created by improving performance in the role. Look to the strategies and the business processes: Where would improvement matter most? Where is performance in the roles keeping an organization from being successful? That's where the focus needs to be. That's where investment is needed because those roles pose a risk to the success of your strategy and organization. Pivotal shows where your company is at risk because of the performance of the talent in those roles. Pivotal is also dependent on where the performance currently is on the chart.

Important roles generate, or are responsible for, a lot of the value. Therefore, they need to be managed to ensure the necessary levels of performance. You can't afford to have poor performance or vacancies in these roles (or they drop off the cliff shown in the figure below). Usually in "important" roles, there is a diminishing return in improving performance — it doesn't necessarily hurt, but it won't yield the same dramatic payoff as investing in roles that are more pivotal.
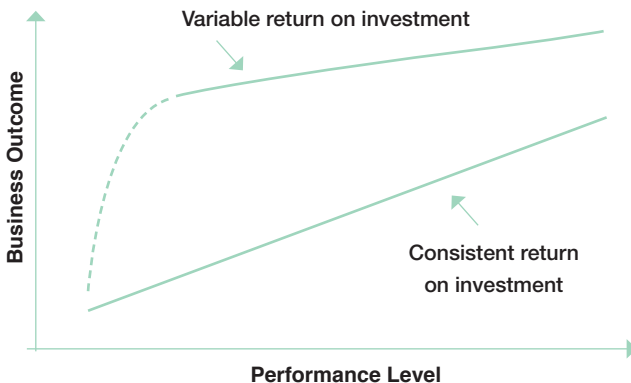
Given the distinction between pivotal and important roles, companies want to know which positions need succession plans or corporate focus. The concept of "A positions," or "critical roles," is typically the combination of important roles (usually the top two to three layers of management, given the amount of value in their control) and some identified pivotal roles (e.g., top scientist position). These are selected because an organization can't let these positions be neglected or filled with the wrong people.

According to Boudreau and Ramstad (2007), the strategic value of different positions can be analyzed in terms of "performance yield curve," which describes the extent to which differences in the performance of the roles affects the strategic success. "Pivotalness" of a role is determined by two conditions: the quality of the role can vary, and that variation is associated with business outcomes. For instance, if sales of cars increase significantly by improving the interior features, then the job function that is responsible for interior design would likely be the pivotal role in the car manufacturing company.

Boudreau and Ramstad (2007) recognize that many roles are important and necessary to keep an operation running. The problem is that organizations base their talent investments on the importance of the role. But if all are important than you have little help in determining how to invest. Instead, the investment should be focused on where improvement matters most to the organization's success. That's where the performance yield curves come in. They depict how changes in performance relate to changes in value to the organization (i.e., the slope). There will often be roles that are more important and generate greater value to the organization, but they are so well done that investing more in those roles generates diminishing returns. We can think of those roles as table stakes for competing. For instance, tires are important to the performance and safety of cars, but increasing the quality of tires beyond a certain level will not impact the customer's buying decision. As long as the tires are good enough, they won't affect the car-buying decision. The figure highlights the idea that importance is about "value" whereas pivotal is about the "change in value," which is where the better ROI is found and therefore where organizations need to focus and invest.

The straight line denotes a continuous return on investment — enhancing the performance leads to consistent improvement on the business outcome. Any job functions that demonstrate such a relationship with the strategic success would

be qualified as pivotal roles as Boudreau and Ramstad (2007) conceptualized. Pivotal roles represent the opportunities that organizations can exploit. To the extent that companies can outperform their competitors on these roles, they possess competitive advantages that separate themselves from others.
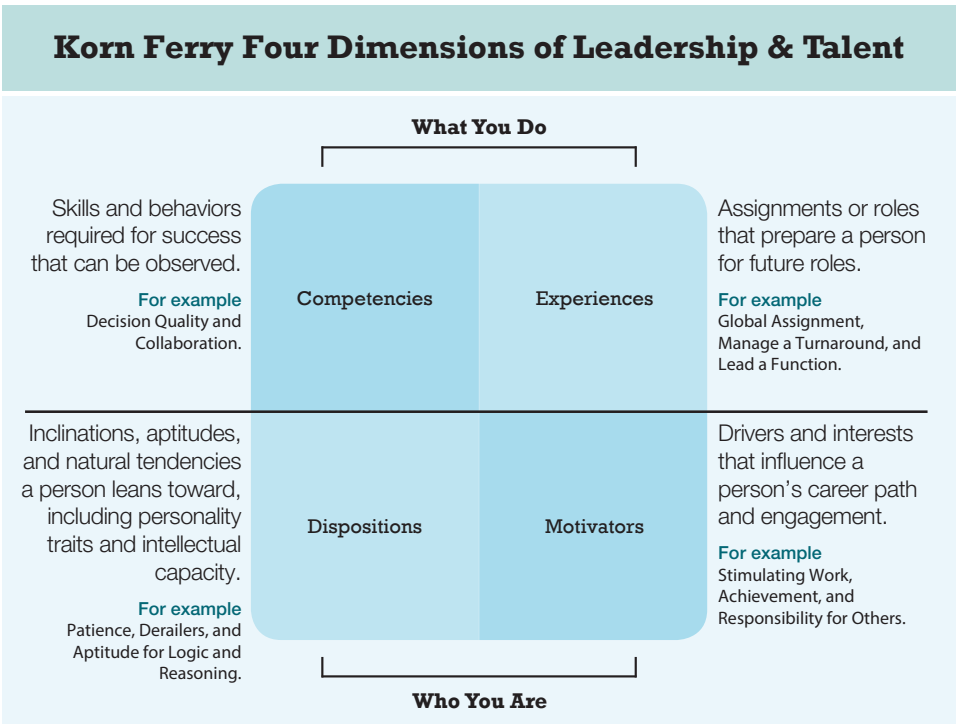
The curved line illustrates an inconsistent relationship between performance of the role and the business impact. Although increasing performance at the low level results in a significant improvement on the business outcome (as exemplified in the dotted line), the return on investment tapers off. After reaching a certain point, there is a diminishing return — an almost flat relationship between improving performance and the business results. Consequently, there is little opportunity to see better business results from increased investment.

For example, pilots are very important. No airline would deny the importance of their role. However, once pilots achieve professional and safety standards any additional investment will not impact an airline's business performance. Customers are not purchasing airline tickets based on whom the pilot is. Instead, airlines will want to identify other key roles for incremental investment that will yield better business results. Some airlines may emphasize friendly customer service and focus on flight attendants whereas others may concentrate on efficiency and spotlight ticketing agents and ground operators.

This method helps analyze the relative strategic value of different roles in organizations. It can also be used to analyze job families or specific job functions. Within any specific job functions, there are certain role behaviors that are disproportionately more important than others. Efforts should be invested on these behaviors to maximize the performance impact.

What does talent in pivotal roles need to look like?

Once the pivotal roles have been identified, it's important to identify the qualities required for success in those roles. Korn Ferry uses a whole-person approach to create success profiles that include behaviors and skills, traits and aptitudes, knowledge and experiences, and motivators, interests, and values. It's important to note that these success profiles are not divorced from the business context. The challenges the role will face are taken into account as an integral part of what's required for success as defined by each of the components. Each quadrant outlines qualities of leaders by defining two primary areas: what leaders need to be and what leaders need to do.

Korn Ferry Four Dimensions of Leadership & Talent

What You Do

Skills and behaviors required for success that can be observed.

For example
Decision Quality and Collaboration.

Competencies

Experiences

Assignments or roles that prepare a person for future roles.

For example
Global Assignment, Manage a Turnaround, and Lead a Function.

Inclinations, aptitudes, and natural tendencies a person leans toward, including personality traits and intellectual capacity.

For example
Patience, Derailers, and Aptitude for Logic and Reasoning.

Dispositions

Motivators

Drivers and interests that influence a person's career path and engagement.

For example
Stimulating Work, Achievement, and Responsibility for Others.

Who You Are

What leaders need to be

One half of the model represents leadership qualities that are a more innate part of who people are as individuals. These qualities emerge from an early age, and they are a core part of what makes an individual unique. They are more private and less visible. Although leaders need to be more aware and in tune with these personal characteristics, they do not necessarily need to work to change these aspects of themselves, unless there is some real motivation to do so. The concept of authentic leadership is based upon leaders tapping into these core qualities as they grow and develop.

Dispositions: These are behavior tendencies, natural inclinations, and abilities that are a part of an individual's personality. Although these may be slightly more pre-wired, they can also be encouraged, shaped, or developed over time, especially given the sufficient motivation. Examples of aptitudes and traits include humility, resilience, confidence, and intellectual capacity.

Motivators: These include an individual's guiding principles, interests, values, and motivations that drive career aspirations. Examples include making a contribution, having a broad span of control, and balancing work and life. Many motivators and values are stable over time (e.g., desire for achievement, wanting to make a difference) but others may be more situationally dependent and change over the course of one's life and career. For example, an individual might be driven to achieve and advance at some points, but at others he or she might be more interested in balance and having time for other pursuits outside of work.

What leaders need to do

The other half of the model focuses on what leaders bring to the workplace, and what organizations expect: the skills and behaviors, informed by experiences, that will enable leaders to accomplish goals and execute company strategy.

Skills and behaviors are developed primarily through experiences. Experiences enable leaders to develop skills that differ from their natural inclination. The most effective leaders have a wide range of leadership skills that they can flex depending on whether the situation calls for a broad, strategic view; engaging as many hearts and minds as possible, or speed of decision making and execution.

Developing skills and gaining new experiences requires an investment of finite resources, so it's important to consider some key questions to prioritize areas for development.

- What are the organization's expectations for performance in the role?

- Where are the gaps between the current state and the expectations for performance?

- What is most mission critical to develop?

- What will be easier or more difficult to develop?

- What are the individual's aspirations and interests?

- What sacrifice and effort is the individual willing to make?

Competencies: These are the leadership skills or competencies that correlate with performance. Research shows which skills are most important for which levels, industries, and roles. Examples of behaviors and skills include strategic thinking, financial acumen, and cultural agility.

Experiences: These are the cumulative set of roles, assignments, and experiences built over the course of an individual's lifetime and career. They are most often found in plain view on an individual's resume under headers such as "relevant skills" and "work experience." Examples of knowledge and experiences include project management, managing a turnaround, leading through a crisis, and running a start-up.

A unique combination of qualities from each of the four areas makes up a success profile for a role. Korn Ferry success profiles are derived from assessment data, performance outcome research, and expert analysis. The combined analysis of the business challenges, the business strategy, the role, and the available talent reveals the road map for managing a critical asset for executing strategy — talent.

5. What talent strategy will best enable the business strategy?

Setting strategies requires examining not only the competitive landscape, but also internal resources. In other words, the competitive advantage should be supported by the resources the organization has. For the competitive advantage to be sustainable, the resources the organization has must be unique. When the talent can be easily replicated, it becomes impossible for a company to enjoy a sustained competitive advantage.

An organization is only as strong or as weak as the individuals who comprise it, and the knowledge, skills, backgrounds, and motivation these people bring to their jobs will therefore be a key factor in the organization's overall performance. A firm's talent strategy could provide a source of sustainable competitive advantage consisting of two parts: human capital and human process.

Human capital advantage refers to the potential to capture a stock of exceptional human talent. For instance, if companies are able to attract, employ, and retain the best talent in their industry, they are capable of establishing competitive strategies that are sustainable. Research on the "100 Best Companies to Work for in America" demonstrated the linkage between human capital advantage and firm performance.[30] The analyses revealed that companies on the 100 Best list enjoyed not only stable and highly positive workforce attitude, but also performance advantages over the broad market, and in some cases, over the matched group of other companies. The best talent is best only when it is strategically relevant. Depending on the strategies, different companies will attract and hire different talent to establish their unique human capital advantages.

Human process advantage derives from the specific HR practices that are implemented to produce a unique set of behaviors from individuals. Different competitive strategies require different behaviors from individuals. Individual behaviors are the key link between the business strategy and talent management strategy.[31] Managing human capital strategically means leveraging everybody from the top of the organization to the bottom in a way that will make the business successful.

Over the years research recognized the significance of context of performance. Individual performance is a function of ability, motivation, and opportunity to perform.[32]

These two elements — human capital advantage and human process advantage — reflect the fact that human resource advantage relies on not only individuals' unique skills and capabilities, but also the ability of the organization to harness those skills that are imperative to the business strategy. A differentiated HR architecture is the key to drive that unique set of strategically relevant role behaviors. The competitive advantage derived from the HR process can be sustainable because it is hard for competitors to imitate.

An exploration of human resource advantage should reveal some key areas in which the business requires changes to either the quantity or quality of talent for its strategies to succeed. By understanding the critical qualities needed in the talent to deliver on the strategy, it's possible to create talent management practices that deliver the requisite talent to the business.

- What's the general state of availability and quantity of the needed talent in the market? What is the talent market position (e.g., employment value proposition) compared with others that need the same talent?

- Is the talent market mature? Is it easy to find the required talent (e.g. accounting)? Or is the role relatively new? Does it require some additional searching to find the talent that's just right?

- How different is the talent compared with what is typically found in the talent market?

- What is a better predictor of success in the role — experience in the organization or technical expertise?

- What are the existing capabilities of the talent in your organization?

- Can performance be improved? Is the issue one of ability, motivation, or opportunity (Blumberg & Pringle, 1982)?[32]

- Is the role changing? Will it require new types of talent that don't currently exist inside the organization?

What is the best source for this talent?

Talent sourcing begins with an analysis of the source of skills. Can the skills be readily found in the labor market? How transferrable are the skills from companies to companies? Are the jobs very dynamic so that successful job performance requires continuous development of new skills? How much does the execution of the strategy require firm-specific capabilities — value created because the company does things differently from others? Answers to these questions determine the sources of skills, in other words, where to obtain them. It becomes a question of build vs. buy.

A "build" approach is most appropriate in the following conditions:

- The demand for talent exceeds the supply in the labor market, therefore forcing the company to build the skills on its own.

- Success of performance requires much firm-specific knowledge and skills. They are not highly transferable between organizations. Companies need to take the time to develop individuals' firm-specific knowledge and skills. Individuals gain efficiency on these skills with experience.

- The business environment is highly dynamic. The way to do the job constantly changes. For continuous success, individuals have to learn and develop new skills.

- The skills being sought are scarce and difficult to develop.

For example, one US-based manufacturing company has had trouble filling orders due to a shortage of people trained to use industrial sewing machines. This company has sought a strategic partnership with a local technical college to train and expand the workforce. The company has also acknowledged that it will need to invest heavily in training for new employees as part of its operating expense.

A "buy" approach is most appropriate in the following conditions:

- The talent can be found readily in the labor market, either because the skill requirement is low, or it can be supplied by formal education where the practices are regulated by the professional standards.

- Success of performance relies primarily on skills that are transferable between organizations. No or limited firm-specific knowledge or skills are required to be successful.

- Success of performance relies primarily on skills that individuals already possess. The job content is relatively stable, requires little effort for continuous development.

- The skills being sought are plentiful and easier to develop.

Accountants and health care professionals are two examples of roles in which the professional practice is regulated and standardized, and professional training happens outside of the business. Employees obtain professional certification and are responsible for ongoing development to maintain their certification. Members of this workforce bring their professional skills to the organization they work for.

What type of culture/management would best support the talent?

In addition to the source of skills, another question is the organization and management of skills. Specifically, how will people work together to accomplish the performance objectives? How should people be managed and motivated for the desired role behaviors? The way people are organized and managed is determined by the nature of the work, which in turn is determined by how the business operates and what its strategies are. In general, there are two approaches to the organization of skills: mechanistic and organic. The fundamental difference between the two types is that the former tends to reduce the behavioral variations for better predictability and reliability, whereas the latter will likely exploit the behavioral variations for flexibility and adaptability. The distinction

between the two is consistent with Schuler and Jackson's (1987) articulation on how individual role behaviors align with different business strategies.[31]

Complex business environments require flexibility. When the business environment is complex, the execution of the business strategy requires individuals to demonstrate a high level of flexibility. Correspondingly, the primary objective of human resource management is to exploit behavioral variations and promote individuals' flexibility. When flexibility is what is sought after, here are some workforce characteristics:

- Individuals are empowered. The organization decentralizes the decision making so low-level individuals can be responsive to customer needs and market volatility.

- Because of the decentralized system, the organization is flat. The flattened organizational structure reduces the ratio of administrative personnel to the employee population. The primary function of managers shifts from control to coordination and support. At the same time, employees rely on self-management.

- Enriched job responsibility. Instead of a narrow definition of role behavior, individuals are encouraged to take broad responsibility.

- Team-based work. Dealing with complex business issues requires collective effort of team members. Much of the work will be performed by teams instead of individuals.

- Coordination across functions. Similarly, different functions coordinate their efforts. Their effectiveness is highly interdependent on one another.

- Risk taking and tolerance of failure. Risk is inherent in a complex and uncertain environment. Policies and procedures would encourage innovation.

For example, consulting businesses require flexible management of talent because consultants interact directly with clients to solve a problem. Customized solutions, where there are no standard answers, need to be delivered in a timely manner and require that management empower employees to deliver them.

Stable business environments leverage consistency. In contrast to complex business environments, in ones that are relatively simple and stable, organizations standardize the work to reduce behavioral variations and promote predictability. When consistency is what is sought after, here are some work environment and workforce characteristics:

- Standardize the process. The system is purposely designed to minimize the impact of individual difference so that the work will be performed in a consistent way.

- Narrow definition of role responsibility. The job is highly differentiated so that individuals can focus and become more efficient.

- Centralized decision making. Because the requirement on customer responsiveness is low, the organization can centralize the decision making.

- Correspondingly, the organizational hierarchy is tall. The span of control is narrow. Each manager manages a few employees. The administration to employee ratio is relatively high.

- The organization relies on the system and the process to coordinate the efforts between different functions. Therefore, the need for cross-function team and communication is low.

- Individual contribution. Much of the work relies on individual but not team contribution. Managers closely monitor and control employees' performance.

For example, most insurance companies have different people who specialize in different parts of the process. Employees are part of an integrated process and each has a narrowly defined role, which increases efficiency and standardization.

6. What HR and talent management practices comprise the talent strategy?

The next step toward strategic talent management is to establish a talent acquisition and talent management system that enables talent to deliver the business strategy. Some scholars have focused their models on the uniqueness of human capital and value of human capital. Depending on the relative high or low on the two dimensions, companies form broadly four types of HR configurations: the commitment-based configuration, the productivity-based configuration, the collaborative-based configuration, and the compliance-based configuration.27 Others have developed a set of different configurations of human resource management practices that also include four HR bundles: the bureaucratic bundle, the market bundle, the professional bundle, and the flexibility bundle.15

Korn Ferry's framework addresses two fundamental questions: how to best find the talent and how to best manage the talent? This model provides a logical way to think about talent and can help organizations describe different situations, create deeper understanding, and improve decisions. The dimensions discussed above form a talent management framework that defines four approaches to managing talent.

	1. Align talent with dynamic business needs, create talent pools.	**3. Align talent with dynamic business needs, invest in continuously building new skills.**
Flexible	• Changing customer needs and dynamic business environment demand employees to flex • Tasks are broadly defined to allow for flexibility • Employees are empowered to make decisions and be responsive to customers • Skills are available in the market • Recruiting and selection emphasizes problem solving and resourcefulness • Internal training focuses on self-management, problem solving, collaboration, and other leadership skills • Motivate and reward employees with market competitive wages and benefits Useful approach for financial services, health care, engineering firms, accounting firms.	• Employees need to be equipped to respond to customer needs • Decision making is decentralized, employees are empowered • Substantial investment in training and development required because skills are not readily available in the market and the business context is constantly changing, requiring new skills • Skills that are cultivated are core to the organization's strategic direction so employee engagement and retention are paramount • Promote long-term employee commitment through career development and financial incentives • Cross-function and team collaboration is extensive Useful approach for life sciences, technology, solution or service oriented firms, companies that are R&D/solutions based.
	2. Maximize efficiency and predictability, reduce cost.	**4. Maximize efficiency, invest in building skills.**
Consistant	• Standard processes as well as rules and regulations for coordinating large groups of employees • Roles and tasks are narrowly defined and require little training and development • Training primarily focuses on compliance with process and procedure • Rewards focused on individual performance • Turnover is expected and supply of talent is plentiful Useful approach for consumer, retail, restaurant businesses.	• Skills are firm specific and not readily available in the labor market • Substantial investment in training and development to develop new skills for changing business needs • Try to engage and retain by providing career advancement opportunities and incentives • Rewards are contingent on business and individual performance outcomes Useful approach for industrial, manufacturing, utilities, energy companies, airline industry.
	Buy	**Build**

Managing Talent

Finding Talent

1. Align talent with dynamic business needs, create talent pools.

For example, engineering companies whose business depends upon innovative but high quality, dependable products rely on talented people with formal professional degrees and training. Because they do creative work, the engineers are provided with a flexible environment in which they can drive innovation and product development.

2. Maximum efficiency and profitability, reduce cost.

For example, a restaurant chain that focuses on fast customer service is primarily concerned with employees following a standardized process. But because of high turnover and low cost of labor the company minimizes any investment in development.

3. Align talent with dynamic business needs, invests in continuously building new skills.

For example, many technology firms need talent that is scarce in the market. Selection practices focus on bringing in people with the raw materials and learning agile qualities that help the company continue to adapt and innovate.

4. Maximize efficiency, invest in building skills.

For example, manufacturing companies with specific jobs that require highly technical skills that cannot be acquired in a formal external education program will invest in building skills and, in the process, ensure consistency and efficiency of output.

Once it is decided which quadrant is most applicable to the specific talent management situation, organizations can design and implement HR practices to support common objectives. The table below describes how different HR practices are aligned with different talent management situations. Again, this framework is not intended for prescriptive, but for illustrative purposes.

Talent Management Strategies

HR Practices	1. Align talent with dynamic business needs, create talent pools.	2. Maximize efficiency and predictability, reduce cost.
Sourcing/ Recruiting	Recruiting could be outsourced. Recruitment agencies search for highly qualified talent.	Administrative HR. Companies can reduce the cost by outsourcing the recruiting function. Seasonal hiring through contingent employment relationship.
Selection	Very selective. Employ systematic assessment to identify and select the most functionally qualified candidates.	Less selective. The major objective is to screen out individuals who are not suitable, or potentially harmful.
Training/ Development	Training focuses less on functional/ technical skills and more on behavior competencies such as self-management, team, and problem solving.	Training to reinforce compliance with company policies and production rules.
Succession/ Career Management	Establish a leadership talent pool and progressively develop its leadership skills through systematic task assignments.	Limited succession effort that focuses on the identification and development of leadership talent.
Team Development	Recruiting could be outsourced. Recruitment agencies search for highly qualified talent.	Require little team-based work. Coordination through the system instead of the human factor.
Performance Management	Performance appraisal provides information for both feedback and personnel decision purposes.	The primary objective of performance appraisal is to ensure productivity. It is outcome oriented.
Engagement/ Retention	Engage individuals through empowerment and flexibility.	Little investment in engagement.
Rewards/ Recognition	Provide externally competitive pay.	Reward for individual performance outcome. Compensation based on an hourly wage or the production level.
Employer Brand	External branding strategy: flexibility and competitive pay.	External branding strategy: fairness and recognition.

3. Align talent with dynamic business needs, invest in continuously building new skills.	4. Maximize efficiency, invest in building skills.
Recruiting is less likely to be outsourced. Companies tend to promote internally.	Recruiting is less likely to be outsourced. Companies tend to promote internally.
Very selective. Employ psychological assessments to identify and select individuals with the highest development potential.	Less selective. Specify minimum skill requirement and select individuals with at least moderate development potential.
Highest investment in training and development. Developing both functional/technical skills and behavioral competencies.	Invest in training and on the job development to develop functional as well as process skills.
Establish a high potential talent pool and progressively develop its skills that are hard to recruit in the labor market.	Establish a talent pool and progressively develop its skills that are hard to recruit in the labor market.
Team is dynamic. Require the highest level of cross-functional collaboration. Invest in team development.	Require little team-based work. Coordination through the system instead of the human factor.
The primary objective of performance appraisal is to provide feedback to individuals for continuous development. It is skill oriented.	Performance appraisal provides information for both feedback and personnel decision purposes.
Invest in long-term commitment through career management and financial incentives.	Engage individuals through career management and internal promotion.
Providing market wages. Tie variable pay to team contribution.	Reward for individual performance outcome. Compensation based on an hourly wage or the production level.
Actively use both internal and external branding strategies: flexibility and career opportunity.	Internal branding strategy: development and career opportunity.

Conclusion

The context for businesses is changing more rapidly than ever, demographic shifts in the workforce are altering what talent is available in the market and what skills need to be developed, and achieving a competitive advantage can be a short-lived proposition. Given the realities of doing business in the 21st century, it's more important than ever for companies to have a sound business strategy and an organization capable of executing on that strategy. Typically, enterprises fall short when it comes to the operational and talent capabilities required for successful strategy execution. Organizations that are able to align their business and talent strategies are more likely to successfully deliver on their strategic objectives.

Strategic talent management can become a source of sustained competitive advantage for organizations. However, there are some important principles for organizations to follow when designing and implementing a strategically aligned talent management system:

- Talent management strategy needs to support and drive (not imitate) the business strategy.

- Best practices in talent management are dependent on the context of the business. The best practices for an organization are contingent upon the situation and the strategy.

- Talent management practices need to be aligned and integrated with one another.

- Different talent needs to be managed differently. Organizations may employ multiple approaches to talent management at the same time.

- Organizations that segment their talent are better able to meet the needs of both the talent and the organization.

Korn Ferry provides a process and framework for aligning business strategy to talent strategy to deliver business results. This process includes surveying the business context, understanding the business strategy, identifying talent implications, and creating an aligned talent strategy. Success factors for this approach to strategic talent management and strategy alignment involve identifying organizational capabilities, pivotal roles, and success profiles, as well as defining the best way to source and manage critical talent.

Because talent is a potential source of competitive advantage and a primary means for successfully executing business strategy, organizations are willing to place their bets on human capital. Strategic alignment is a proven way they can hedge their bets. Organizations that align their business and talent strategies are more likely to see a positive return on the investment made in people, and the positive business outcomes that accompany a successfully executed business strategy.

Appendix A: Business Life Cycle Implications for Talent Strategy

There may be differences in an organization's talent strategy depending on what stage of the business life cycle it is in.

| Start-up | Growth | Maturity | Decline | Relaunch |
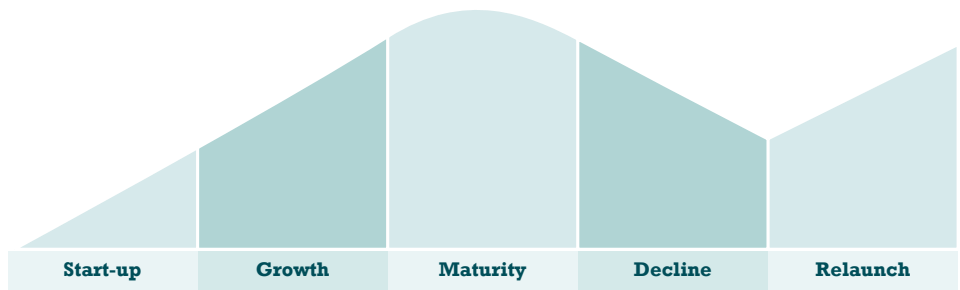
Start-Up. The start-up phase may last one to two years and requires innovative, resourceful people who are capable multitaskers and comfortable wearing many hats. Given the newness, challenge, and ambiguity of the start-up phase, it is recommended that individuals have moderate to high Learning Agility.

- Training and development happens on the job.

- Rewards are based on company performance and include longer-term incentives such as stock options.

- Very few formal HR practices in place; HR is a start-up within a start-up.

- Engagement and retention depend on individuals' passion and commitment to the vision and mission of the organization.

Growth. The growth phase may last four years or more depending on the viability of the business strategy, industry factors, and other macroeconomic factors. This phase requires acquiring a tremendous amount of talent in a short time frame.

- A strong recruiting and selection function and process are imperative.

- Training and development efforts will need to keep pace with onboarding new employees to their roles.

- More deliberate efforts around team development will replace the more organic teamwork present in the start-up phase.

- More formalized and sophisticated systems and processes for talent management need to be put in place, which requires commitment and investment in the HR function.

Maturity. As rapid growth levels off, the maturity phase begins. The goal becomes sustaining company performance as long as possible without major reinvestment. This stage squeezes as much margin as possible out of existing products and services, which requires operating more and more efficiently. The strategy for talent management in this phase involves equipping and incentivizing individuals to do more with less as well as extend the life and reach of existing products and services.

- More formal performance management focuses on individuals achieving clear budget and revenue targets.

- Talent is differentiated and different strategies are pursued for developing, deploying, and retaining high potentials, high professionals, and the vital many.

Relaunch or Decline. This phase marks the time for reimagining and rebooting the products and services that contributed to rapid growth earlier in the company's history. Talent strategy should focus on appropriate deployment of talent based on new markets, products, and ventures.

- Focus on acquiring new high potential talent to reinvigorate the company.

- Broad role definition and autonomy in centers of innovation.

- The company's employer brand may be relaunched..

- Insights are leveraged from years of talent assessment and calibration to make internal promotions and cross-moves, and deploy people to challenging new roles.

Appendix B: Industry Implications for Talent Strategy

Often, there are talent issues that affect a particular industry more than another. It's helpful to understand the internal and external challenges organizations may be facing because of the industry they are in. The industry context has direct implications for formulating a relevant and effective talent strategy.

Consumer. This includes advertising and marketing services, consumer products, luxury, media and entertainment, retail and apparel, and travel/hospitality/ leisure. These areas typically involve tremendous customer intimacy and service. Employees need to have strong customer focus, interpersonal savvy, and problem-solving skills.

Financial. This area includes asset management and alternative investments, consumer and commercial banking, trading and transaction services, insurance, investment banking and capital markets, real estate, and wealth management. This industry requires high levels of professional skills that are typically available in the market.

Technology. This includes communications, IT professional services, software, and systems and devices. For this industry, talent is a key differentiator because of the dynamic environment and the focus on innovation. There needs to be strong investment in developing and retaining top talent.

Industrial. This includes automotive, aviation, aerospace and defense, basic materials, chemicals, diversified manufacturing, energy, industrial services, and logistics and transportation services. These businesses require industry-specific and firm-specific knowledge and skills. Talent that meets entry-level qualifications may be plentiful, but tremendous investment in training and development is required given the specialized nature of the work.

Health Care Services. This includes academic health sciences, health insurance, hospital/health systems, long-term care/assisted living, and physician groups. This industry involves direct customer care that requires individuals to be resourceful, solution oriented, and flexible. Typically, skills required are available in the market, and ongoing professional development is driven by the individual through outside, credentialed institutions.

Life Sciences. This includes biotechnology, consumer health, life sciences contract services, medical devices, and pharmaceuticals. This industry is dynamic, focused on innovation, and companies rely on their talent as a key differentiator.

Talent Managment Practices	Financial / Health Care	Consumer
Sourcing/ Recruiting	Recruiting could be outsourced. Recruitment agencies search for highly qualified talent.	Administrative HR. Companies can reduce the cost by outsourcing the recruiting function. Seasonal hiring through contingent employment relationship.
Selection	Very selective. Employ systematic assessment to identify and select the most functionally qualified candidates.	Less selective. The major objective is to screen out individuals who are not suitable, or potentially harmful.
Training/ Development	Training focuses less on functional/ technical skills and more on behavior competencies such as self-management, team, and problem solving.	Training to reinforce compliance with company policies and production rules.
Succession/ Career Management	Establish a leadership talent pool and progressively develop its leadership skills through systematic task assignments.	Limited succession effort that focuses on the identification and development of leadership talent.
Team Development	Require more team-based work and collaboration across functions.	Require little team-based work. Coordination through the system instead of the human factor.
Performance Management	Performance appraisal provides information for both feedback and personnel decision purposes.	The primary objective of performance appraisal is to ensure productivity. It is outcome oriented.
Engagement/ Retention	Engage individuals through empowerment and flexibility.	Little investment in engagement.
Rewards/ Recognition	Provide externally competitive pay.	Reward for individual performance outcome. Compensation based on an hourly wage or the production level.
Employer Brand	External branding strategy: flexibility and competitive pay.	External branding strategy: fairness and recognition.

Technology	Industrial
Recruiting is less likely to be outsourced. Companies tend to promote internally.	Recruiting is less likely to be outsourced. Companies tend to promote internally.
Very selective. Employ psychological assessments to identify and select individuals with the highest development potential.	Less selective. Specify minimum skill requirement and select individuals with at least moderate development potential.
Highest investment in training and development. Developing both functional/technical skills and behavioral competencies.	Invest in training and on the job development to develop functional as well as process skills.
Establish a high potential talent pool and progressively develop its skills that are hard to recruit in the labor market.	Establish a talent pool and progressively develop its skills that are hard to recruit in the labor market.
Team is dynamic. Require the highest level of cross-functional collaboration. Invest in team development.	Require little team-based work. Coordination through the system instead of the human factor.
The primary objective of performance appraisal is to provide feedback to individuals for continuous development. It is skill oriented.	Performance appraisal provides information for both feedback and personnel decision purposes.
Invest in long-term commitment through career management and financial incentives.	Engage individuals through career management and internal promotion.
Providing market wages. Tie variable pay to team contribution.	Reward for individual performance outcome. Compensation based on an hourly wage or the production level.
Actively use both internal and external branding strategies: flexibility and career opportunity.	Internal branding strategy: development and career opportunity.

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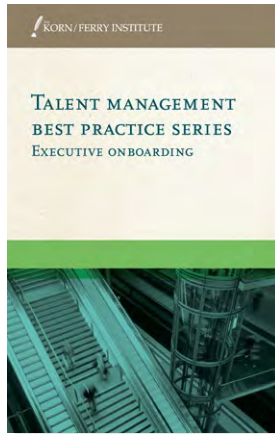
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