The Importance of the Talent Mindset in Workforce Management

The competitive strength of companies, social organizations and countries has shifted from ownership of physical assets to the intellectual attributes of their knowledge workers.

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“What distinguishes the high-performing companies from the average-performing was not better HR processes, but the fundamental belief in the importance of talent.”

— Michaels, Handfield-Jones and Axelrod, 2001

This fundamental finding from the McKinsey research reported in *The War for Talent* is beautiful in its simplicity. You have to believe in something before it can happen. Just as the key first step in building an effective global organization is the leader’s true belief in the value of the global enterprise (a global mindset), the key to building a successful, agile and innovative organization in today’s environment is a talent mindset.

In the evolving knowledge economy, value is increasingly driven by talent and other intangible capital. The competitive strength of companies, social organizations and countries has now shifted from ownership of physical assets to the intellectual attributes of their knowledge workers. In fact, recent data indicates that for Standard & Poor’s 500 companies, only $1 of every $6 of “market to book” value represents financial or physical assets. The balance, of course, are intangible assets, among which your talent and the market’s perception of your talent are key.

The Talent Paradox

At one level, most everyone these days espouses the value of talent. Phrases about talent have become embedded in the new business lexicon, almost obsessively so. But this has led to the “talent paradox,” a lot of talk and, as of yet, not enough action. This gap exists for two reasons. The first is that in spite of leaders’ words about the value of their human capital and the importance of further developing it, they revert to old command-and-control practices. They continue to view talent as a cost, something to be controlled and replaced on a regular basis. This isn’t surprising because this is the way these leaders were trained, mentored, developed and socialized. This is the only model they understand.

The second reason for the gap is that a smaller number of leaders really do get it. They understand the difference between an enduring talent mindset and a few glib words about talent. They know its essential place in building a strong, successful organization, but they just don’t know how to operationalize it. They struggle with executing and implementing a talent mindset within their enterprise. This also is not surprising since more than 80 percent of change initiatives fail primarily because of poor implementation and follow-through.

The Human Capital Institute is an organization devoted to advancing the practice of talent management. It does this through its research, education and community network programs. HCI has developed tools like the Talent Mindset Index that identify the key steps to be taken for this mindset to be instilled in an organization. It is also a vehicle for organizations to assess themselves and compare results over time and with other companies.

The foundation of the Talent Mindset Index is comprised of actions that a leader can take to instill this mindset deeper within an organization. These actions are:

- Establish a gold standard for talent;
- Get actively involved with people deep within the organization;
- Drive a simple, probing talent review process;
- Instill a talent mindset in all managers throughout the organization;
- Invest real money in talent; and
- Hold themselves and their managers accountable for the strength of the talent pools they build (Michaels, Handfield-Jones and Axelrod, 2001).

While these guidelines are a good start, it seems that they are not specific or comprehensive enough to facilitate real change. Other factors are clearly relevant.

Part of the answer lies in challenging the assumptions of senior management (and perhaps the human resources department) that talent initiatives are truly making a difference in the view of employees. As such, part of the Talent Mindset Index is a survey that is completed by staff from across the enterprise. The results are compared and contrasted with a more extensive survey completed by management and human resources to determine gaps and areas where action may be needed (see Figure 1).

At the very least, the Talent Mindset Index and its
surveys offer a set of practical guidelines on how to implement this mindset throughout the enterprise. It provides more clarity to an important yet fuzzy concept. At the most, it provides a way to monitor and track how companies and organizations conduct themselves in today’s highly competitive environment. Is the talent paradox growing or shrinking? Is the organization changing (fast enough) to leverage and maximize its most important asset?

It is imperative that the Talent Mindset permeate the entire organization – from the CEO to the line manager with direct reports – and not be confined or relegated to human resources alone. The ability to lead, motivate and develop knowledge workers is critical to the success of every leader in the organization. Today knowing how to attract and hire the best people in your market, unleash their passion and harness their creativity are core management skills.

Business is evolving rapidly from the top-down industrial management structure to a flatter, more networked, collaborative model. The human resources function, built on an administrative foundation for the manufacturing economy, is transforming itself into a strategic discipline that regards labor as human capital to be invested and grown, not used and discarded.

The Talent Management Continuum

But human capital management is not the province of human resources. It is a continuum that starts with strategic planning, moves through sourcing, assessment, hiring, individual development, team building, advancement and beyond. In most organizations the continuum is an assembly line, with search firms, contingency recruiters, corporate recruiters, HR generalists and trainers, line managers and executives all standing in turn, to do what they do best.

This remains an effective HR model for interchangeable labor. When organizations need a mass of people with relatively similar skills, executives can plan, recruiters can recruit, HR can hire and managers can deploy the labor resources required to build the product. But what happens when innovation, collaboration and execution become the product itself?

When within organizations, ideas and creativity take precedence over plant and equipment, when talent surpasses capital in value, an organization becomes part of the knowledge economy. When this happens, the organization must place talent at the core of its planning. It must understand how to align its people and its talent initiatives with corporate objectives and it must embed a talent mindset into its culture and values.

The Human Capital Institute spent several months in 2004 working with advisers from across the corporate and HR landscape to diagram a human capital management continuum that organizations can use as a road map for managing talent in the knowledge economy (see Figure 2).

HCI’s Human Capital Management Continuum represents the continuity of talent management practices, along with the imperative that human capital-related initiatives be integrated with corporate culture, vision and objectives. Moreover, the figure conveys the importance of linking corporate competitive differentiators. The “Human Capital Results” outcomes (Ulrich and Smallwood, 2003) list broad competencies common to most organizations. Normally, organizations will excel or differentiate on two or three of these competencies. These critical competencies must inform, and in turn be driven by, the organization’s culture, vision and objectives and by its human capital initiatives.

HCI uses this illustration to describe integrated talent management – a continuously improving process that is tightly aligned with the organization’s most critical and strategic components.
(culture, business objectives, key competencies). For an organization that determines speed to market and innovation as the competencies in which it will differentiate by becoming world-class, alignment would follow such that these competencies are both drivers and outcomes of its talent management practices and eventually become embedded in its culture.

Thus, achieving a talent mindset is a multidimensional and long-term initiative that must touch all parts of the business. For it to be successful, it must be integrated into the most strategic and important goals of the organization - the goals that leaders and employees are measured against and rewarded for achieving.

**Best Talent Practices = Shareholder Value**

In today’s digital economy, global boundaries and traditional barriers to entry are collapsing. To grow, companies must constantly innovate, enter new markets, lower costs and answer competitive threats instantly from all sides. To compete effectively, companies must be faster, more flexible and willing to take greater risks than ever before. To win on these terms, companies need to hire, develop and deploy the best players, and build the best teams. CEOs, shareholders and executive leaders all agree, as surveys like Mercer’s report:

“How companies manage their human capital has become an important investor and board-level issue. Forty-nine percent report that investors are beginning to ask about human capital issues. Today, 23 percent say that their boards are highly involved in human capital issues; in two years, 36 percent expect such involvement. Interviews suggest that recent board interest is a growing recognition of human capital’s importance to the bottom line.” (CFO Research Services/Mercer Consulting, 2003)

Pioneering work on the value of intangibles by Professor Baruch Lev at New York University, formulas for measuring intellectual capital by IC Growth Inc. and HR metrics research by firms such as Unicru and Taleo are quantitatively linking talent to corporate value and helping organizations measure the return on investment in their talent-related initiatives.

**Conclusion**

Strategic sourcing and recruitment, workforce planning, employment branding, building a strong and diverse corporate culture, alignment of rewards, succession planning – all of these issues, and many more, are becoming strategically important as organizations compete for knowledge workers and ideas. How can these be integrated into the fabric and mindset of executive leadership?

At the Human Capital Institute, we believe the first step is to begin communicating at a strategic level beyond the silos of search, human resources and line management. Executives must be educated across the talent continuum, so that they have a clear view of the entire talent life cycle. They must become conversant with the most effective ways to attract great people, and with the best methods for engaging and motivating them. In short, they must possess a talent mindset and then act on it to transform their organizations into what might be termed “talent management organizations.”

To meet these challenges, leadership roles, expectations and competencies are being redefined in many organizations. Human resources is increasingly being outsourced and taken offshore, even while human capital management is being defined as a core competency. The distinction is that a stronger focus on talent acquisition, development and performance aligned with corporate objectives and strategy can be clearly linked to improved business performance and greater value.

As the 2004 Watson Wyatt Index clearly shows: “The linkage between superior human capital management and superior shareholder returns has been proven. If you hire the right people, create an environment that supports creative thinking and increased productivity, leveraged by technology, you’ll reap the rewards.”