

Do the Math: Financial “Business Algebra” Reveals Pivotal Talent

By [John Boudreau](#)

Appeared in CFO Magazine, October 2, 2013

The formula or “business algebra” that describes how your organization generates value offers a powerful platform for finding your pivotal talent, but it means that finance, accounting and HR leaders must collaborate in different ways.

CFO’s and their colleagues in the Finance and Accounting functions of organizations are good at expressing the value-creation logic of an organization as mathematical relationships. For example, in a consumer-goods company, sales volume of a product might be calculated with this algebra:

Breadth (the percent of the available models or features that our product offers), multiplied by
Presence (the percent of time that our products are available to a purchaser ready to buy),
multiplied by
Hit Rate (the percent of purchase decisions where our product is selected from the available choices)

For example, in an organization that makes personal computer mice and keyboards:

- One-hundred percent breadth would mean offering all types, prices and features, while lower breadth would mean offering only ergonomic feature-rich models.
- One-hundred percent presence would mean that your products are always on the shelf or web site where your customers search, while lower presence would mean that only certain outlets or websites offer them.
- One-hundred percent hit-rate would mean that every time a customer has a choice between your product and a competing product, they choose yours, while lower hit-rate would mean they choose your competitor’s product sometimes.

Unfortunately this “business algebra” often resides exclusively in the finance or accounting departments. This is a missed opportunity because this business-algebra “lens” is a powerful way to locate your hidden talent and organizational pivot points.

Can this lens really reveal talent insights that are not obvious already? Doesn’t everyone know how their business makes money and try to act accordingly regarding talent? Perhaps not.

For example, I worked with a group of product design engineers at a global technology company that makes computer keyboards and mice. The engineers were asked to work with me by HR, who told them that I would help them identify their pivotal talent. The engineers’ first statement to me was, “with all due respect, Professor, how hard can this be? We know our most important talent is our engineers, because we are an innovation company and the engineers are the ones that come up with the features that make our products unique.”

I asked them to help me understand their logic, by going through the algebra of their sales revenue model. Here is the conversation (JB is me and EE is the engineers):

JB: Please tell me what financial numbers must move to make a big difference to your unit goals?

EE: We need to see sales rise, particularly in Central America, in countries like Brazil.

JB: If we think of breadth, presence and hit-rate, what does the work of your engineers most improve?

EE: Engineers develop better product ideas, so we can offer more product features, and make our products different from competitors.

JB: Would more features improve breadth, presence or hit rate?

EE: Hit Rate and breadth

JB: Are hit rate and breadth low in Central America? Will improving them be the thing that most increases sales?

EE: Well, no. When our products are available, our hit rate and breadth are already really high in Central America. Our problem is that our products are often not available.

JB: In that case, are there talent pools that affect availability?

EE: Yes. Now that you mention it, it's the people on the ground in those countries that represent our products to the retailers and push them to carry our products and place them in advantageous places in the store.

JB: Could that talent be improved to make a difference in presence?

EE: Actually, we have really poor channel management in Brazil. Because we traditionally focus on building better products, we just use contractors for that job. Better engineers and features won't fix that. It's channel experts and sales people! Until we get our channel management improved, the work of the engineers can't pay off fully.

JB: Let's go back to the original question. Where is your *pivotal* talent?

EE: It is channel management. Improving channel management will make the bigger difference in sales right now. Engineering is important, but improving that won't make much difference until presence improves, and engineers don't have anything to do with presence.

This "Business Algebra" lens is one of several lenses that can help to deconstruct organization and unit strategy, to a more specific level. You can read about other lenses in [Beyond HR](#). What strikes me about the business algebra lens is how it embodies a new kind of partnership between finance-accounting and HR. The example shows how valuable it is if finance and HR leaders work together to specify the business algebra, and then work through that to find the pivotal talent.

The engineer example is just one sort of business algebra. The same idea occurs in other organizational areas such as R&D, and across in other industries.

For example, in the R&D pipeline of the pharmaceutical industry, a massive strategic challenge is that drug development advances have lowered the failure rate in the early stages of scientific

discovery, but have raised the failure rate in the later stages of clinical testing and approval. The culprit is big data, which allows drug makers to do make more discoveries at the early stages of the process, but those same big data techniques also allow governments and health care purchasing organizations to become more adept at using data to identify side effects and efficacy, at later stages. As noted by the CEO of Glaxo SmithKline in a [2008 article in *Harvard Business Review*](#), this fundamentally shifts the algebra of drug R&D, making it advisable to target smaller specific populations. The “business algebra” is that targeting smaller populations has the negative effect of reducing the potential pool of patients approved for the drug, but it dramatically increases the probability of the drug’s approval *for that target population*. You can avoid side effects more easily in a targeted and more homogenous population. This shift from big blockbusters to targeted smaller blockbusters portends significant changes in the pivotal talent of the R&D function, because the talent that is good at small blockbusters is not necessarily the same talent that was good at huge blockbusters.

The business algebra reveals the strategic shift in pivotal talent.

Think about your own organization and “do the math” yourself. What is the algebra that you use to express how your organization creates value? What does it reveal about where the greatest opportunities for improvement lie? What does that say about where improving your talent would make the biggest difference?

Chances are the answer may surprise you, and if you figure it out before your competition, you may have a real advantage.

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[John Boudreau](#) is professor and research director at the University of Southern California’s Marshall School of Business and Center for Effective Organizations, and author of *Retooling HR: Using Proven Business Tools to Make Better Decisions About Talent*. He can be reached at editor@talentmgt.com.