Do Financial Practices Hinder Optimal Hiring?
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"Where's Your Pivotal Talent?"

When it comes to financial assets, organization systems inherently make an important distinction between "what's important" and "what's pivotal," yet organizations are far less consistent in making that distinction when it comes to their human resources, or talent.

In financial analysis, there is a clear distinction between the current value of an asset and the incremental return achieved by an incremental investment in that asset. Calculations such as ROI and NPV naturally focus on the incremental return from an incremental investment. Many assets are important, which is often reflected in the size of their investment, or the average return they generate. However, when it comes to decisions about where to invest, financial analysis correctly focuses on where the incremental investment produces the highest incremental payoff, even though this may not be where the largest investment has been made. My colleague, Pete Ramstad, and I use the term "pivotal" to refer to the relationship between incremental investment and incremental value. The word "pivotal" refers to a fulcrum or lever -- the focus is on how much change is achieved at the end of the lever, when you apply force to the other end.

Operations management does the same thing when it looks for system bottlenecks or constraints, where an improvement will have the greatest effect on the overall output of the system. For example, in a production process, all of the production elements are important, but improving capacity at the bottleneck makes the biggest difference to system performance.

This logic is obvious when leaders make decisions about financial and operational assets, so it is surprising how often it is misunderstood or even absent from discussions about human capital.

Here's a description of an actual conversation I had with the CFO of a Fortune 100 organization some years ago:

Boudreau: "How do you decide where to invest and dis-invest in human capital in your finance organization?

CFO: "We have that one figured out – it's the lifeboat test. If we were all adrift in the ocean, which jobs I would pull onto the lifeboat first. The answer is it's the ones that we could not run the company without."

Boudreau: "So, what specific human capital is at the top of the list when you do that analysis?"

CFO: "The financial reporting accountant, because we must generate financial reports that are accurate and on time, or we can't operate as a publicly traded company."

Boudreau: "Let me ask the question a bit differently. Where in your finance organization would improving performance from good to great make the biggest difference to the success of this company? Would it be in financial reporting accounting jobs?"

CFO: "Oh. That's different. *Improving* the performance of financial reporting is not that vital. Once the reports are accurate and on time, there's not that much difference between good and great performance. We don't need those reports to be done in half the time, for example. If I was going to *improve* performance it would be in tax reporting, because good versus great in that job can save or cost the organization millions, and the accounting issues are more complex. I see what you mean -- financial reporting is important but tax reporting is more pivotal to our success."

In most organizations, this conversation never happens, so leaders throughout the organization invest in human capital based on various ideas about which human capital is important and pivotal. It may seem quite obvious to invest in financial reporting accountants based in the lifeboat test, because they are so important. When you change the question from "important" to "pivotal," you get an analysis that is much more similar to ROI and NPV.

This distinction between important and pivotal talent illuminates interesting connections between talent investments and organization strategy. An item in the *New Yorker* magazine of May 16, 2011 described Pepsico's efforts to position itself to benefit from future demand for foods that are not only tasty but are also healthy. For Pepsico, traditional talent such as manufacturing, supply-chain, marketing and branding will of course be important for this, or any, strategy. However, the greatest *improvement* in Pepsico's future readiness to achieve this strategy will come from human capital that has never existed in the company before. A key talent acquisition for Pepsico was Derek Yach, Pepsico's director of global health policy. In 2002, as a leader at the World Health Organization, he drafted new dietary guidelines that were circulated among the United Nations' member states. They were resisted by food industry and government leaders, and little progress was made. By 2006, he had left the W.H.O, when the CEO of Pepsico, Indra Nooyi, asked Mr. Yach to join Pepsico and "do exactly what you were doing at the W.H.O. here at Pepsico." The *pivotal* talent for Pepsico's future strategy lay in a job that had not existed before, and in a person, Mr. Yach, that might seem an unlikely member of a snack food leadership team.

Does your organization clearly focus on investing in human capital at the pivot-points? Is your HR organization accountable for insuring that your leaders can clearly answer the question "where is our pivotal talent?" is clearly answered? Is your organization investing in human capital that has been traditionally "important" (perhaps based on the "lifeboat test"), or do you have a clear idea of where your future talent pivot-points will be?

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