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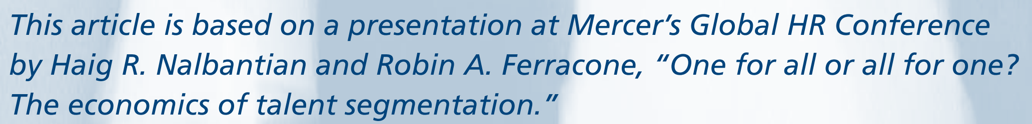
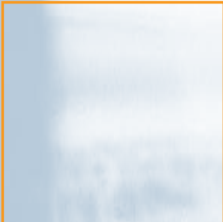
Beyond 'one size fits all': Driving business performance through talent segmentation



This article is based on a presentation at Mercer's Global HR Conference by Haig R. Nalbantian and Robin A. Ferracone, "One for all or all for one? The economics of talent segmentation."



Beyond 'one size fits all': Driving business performance through talent segmentation

By Haig R. Nalbantian and Robin A. Ferracone

Organizations have become global, diverse and complex, as many now operate multiple business units around the world. So it is no surprise that their workforces are global, diverse and complex, too. Today, a company's workforce is often the size of a small city, with a vast range of cultures and preferences as well as varying capabilities and performance relative to the needs of the organization.

Despite these differences, many companies continue to take a "one size fits all" – or at least a "one size fits many" – approach to talent management. In fact, a recent Mercer sampling of HR leaders in large, geographically dispersed companies found that more than 70 percent professed to pursue one-company approaches to talent management instead of tailoring practices closely to the unique requirements of different businesses, geographies or workforce segments.

There is obvious appeal to a homogeneous approach. It allows companies to tap economies of scale, simplify processes, facilitate the mobility of employees across the enterprise to develop leaders and optimize staffing, and build a cohesive employment brand that creates competitive advantage in the labor markets.

But the drawbacks of a one-size-fits-all approach can sometimes outweigh the advantages. The one-company approach implicitly assumes that all employee groups, regardless of their function, location or business unit, bring equal value to the company. This flies in the face of economic reality. It is more likely that different types of talent bring different value to the organization at different times and, thus, may need to be managed differently.

Nowhere does the one-size-fits-all approach play out more overtly than in a company's pay positioning strategy. Most companies strive to pay competitively across the board. But in doing so, they deprive themselves of the opportunity to allocate scarce resources – the rewards currency – more strategically to the most critical, value-added components of the business.

Talent segmentation represents a way to move beyond one-size-fits-all thinking. Talent segmentation is a strategic approach that can help organizations more closely align their talent models with their profit models by identifying distinct talent segments and then applying different talent management practices to each segment. Companies have historically pursued such an approach with respect to their executives and their sales forces. By segmenting talent more broadly, companies can reallocate resources from low value to high value areas to drive business success.

So how can you segment talent in your organization? The first step is to gain clarity around your organization's profit models.

Profit models – how profit happens

Profit models describe "how profit happens" within a business entity, focusing on the sources and drivers of profit. Most businesses employ a number of profit models, even within each single

line of business. Examples of profit models range from "being the low-cost producer" to "operating a switchboard that brings buyers and sellers together." Exhibit 1 illustrates a handful of the many profit models that companies operate.

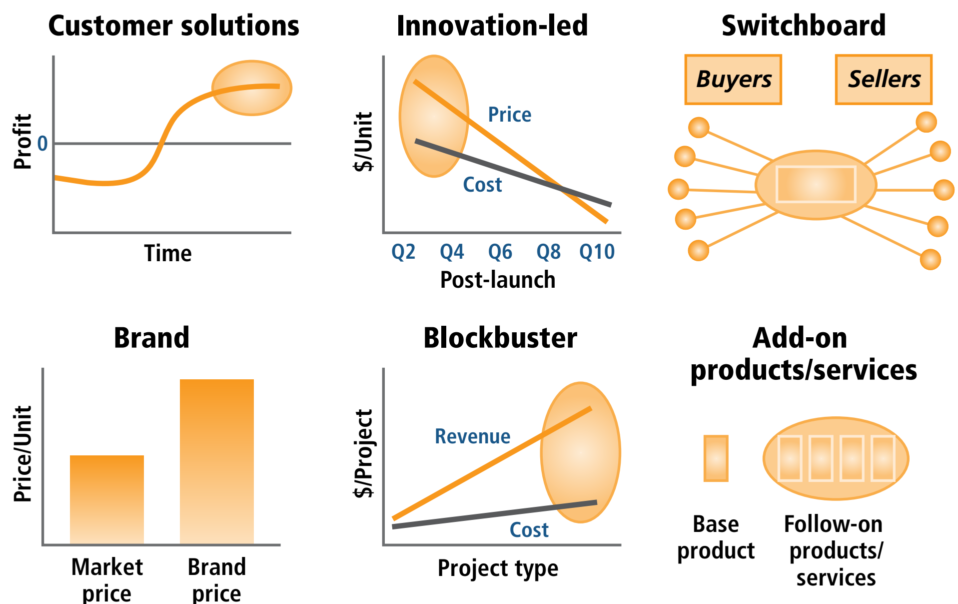
How do profit models relate to talent segmentation? Imagine a company with two divisions. Division 1's profit is driven by being first-to-market with innovative products that command a price premium. Research and development (R&D) engineers who develop innovative products are critical to success in this profit model. Division 2's profit is driven by being the low-cost producer. Raw materials make up a significant part of the cost structure. Supply chain managers who manage raw material costs and inventories are critical to success in this profit model. In this example, Division 1 requires a different talent model than Division 2. Division 1 should be willing to pay up relative to market for the R&D engineers since this job family is of high value to its profit model, while Division 2 should be willing to pay up for the supply chain managers since this job family is of high value to its profit model.

To segment or not

Though companies operate different profit models, their employees often are viewed homogenously in HR programs and practices. With limited resources for attracting, retaining and rewarding employees, companies may be overspending on employee groups with limited impact on growth and

Exhibit 1

Examples of profit models



Source: Adrian J. Slywotzky and David J. Morrison, The Profit Zone. New York: Times Business, Random House, 1997.

profit and underspending on groups that have greater impact.

Many companies have valid reasons for taking an unsegmented approach to talent management. For some, a one-size-fits-all approach may actually be appropriate for the organization. However, for others, it is often largely a matter of historical practice ("This is the way we've always done it") or perceived fairness ("It wouldn't be right to treat employees differently"). Some simply may not relish the challenge of explaining the rationale for treating employee groups differently, fearing – sometimes correctly – that segmentation may fracture a collaborative culture.

Despite the historical precedent of one-size-fits-all talent management approaches, organizations are coming to appreciate the value of a segmented approach. The next challenge they face is how to segment effectively.

Successful talent segmentation

Talent segmentation is a means to differentiate talent management practices to meet the requirements and realities of:

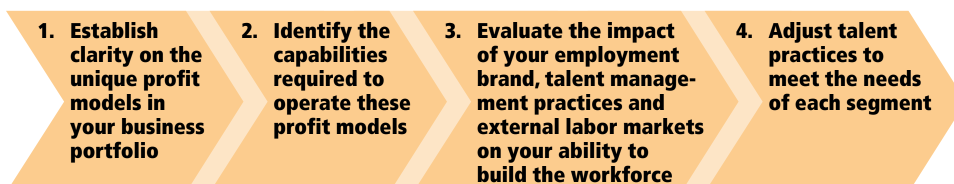
- Specific profit models
- Different employee needs and workforce dynamics
- Diverse external talent markets

The goal is to use scarce resources wisely to optimize business performance. A four-step process can provide the necessary discipline to the effort and help to achieve the right focus and degree of segmentation. (See Exhibit 2.) We've already discussed **Step 1 – Establish clarity on the unique profit models in your business portfolio.**

Step 2 – Identify the capabilities required to operate these profit models. This step requires that line management and HR jointly and explicitly identify those capabilities that are critical to operating each profit model. Once the organization has clarity on the profit models it operates today and those it likely will operate in the future, it can analyze which capabilities are really critical and, just as importantly, which are not. This analysis will be the starting point for identifying talent segments, and it also will highlight which capabilities are the highest value-added, or "mission-critical," and which are lower value-added.

Exhibit 2

A four-step process to achieving segmentation



Step 3 – Evaluate the impact of your employment brand, talent management practices and external labor markets on your ability to build the workforce. This step requires both internal and external research. Internal research comprises two parts: 1) organizational/employee research that identifies what employees (and/or different groups of employees) most value in their employment experience and how attractive the organization's "employment brand" is compared to other employers in the market; and 2) disciplined, statistical modeling of the running record of workforce and performance data to identify the primary sources of value within the workforce and to determine how current talent management practices support or hinder business performance. Properly analyzed, the data contained in modern HRIS and other electronic information systems tell the human capital story of an organization, offering insights that go well beyond what can be gained from perceptual data alone.

Once this research is complete, Step 3 can add clarity on how many different talent segments there may be in an organization; what talent management practices may be required to attract, focus and engage these segments; and where it is most critical to allocate scarce resources in the organization and, just as importantly, where to scale back resourcing.

Step 4 – Adjust talent practices to meet the needs of each segment. This is where it all comes together. The work conducted in the previous three steps will provide powerful insights and will guide decisions about:

- How many distinct talent segments are in an organization's workforce and which are higher value-added or lower value-added from a business standpoint;
- What resources and programs are needed to attract, focus and engage each segment; and
- What talent management practices and resources should be applied to each segment in such areas as:
  - The need to buy (that is, recruit) vs. build (that is, develop) talent
  - Pay positioning relative to market
  - Rewards mix and program features
  - Learning and development programs and expenditures

While the issue associated with a one-size-fits-all talent model is poor resource allocation, the issue associated with too many talent segments is the cost of managing complexity and the potential fracturing of workforce cohesion. In Mercer's experience, large, complex, global companies generally are best served by avoiding both ends of this spectrum. Organizations following this four-step process typically land somewhere in the middle, identifying a handful of relevant talent segments.

Talent segmentation in practice

To better understand how talent segmentation works in practice, consider the experiences of a global energy company (EnergyCo) that needed to better align its talent practices with its business models to make better use of its workforce investments. EnergyCo

was an integrated global oil and gas company with three major businesses: exploration & production (E&P), refining & marketing, and retail.

The company had a one-size-fits-all approach to talent, driven largely by the needs of the E&P unit. A widespread belief among executives in the organization, particularly the CEO, was that a common talent framework was the essence of being a global enterprise and core to fostering the company's global footprint, identity and collaboration across diverse, but integrated, business units.

The company's common approach to talent could be characterized by a strong orientation toward building rather than buying talent, emphasis on internal mobility across geographies and business units, and heavy reliance on "career rewards" – rewards that accumulate over time and are keyed to advancement. With its prominent brand and diverse operations literally across the globe, the company had succeeded in attracting and retaining prime talent by offering long-term growth and learning opportunities. This was facilitated by talent practices that made for a familiar environment to employees regardless of where they were in the enterprise.

Yet suddenly, this formula seemed not to be working for the retail group. The retail organization was finding itself no longer able to compete for requisite talent. To address this issue, the top managers in the organization from retail and HR decided to take a careful look at the business and profit models of the retail group compared to the organization overall. Through this process, they identified significant differences. (See Exhibit 3.) For example, the overall posture of the company was defined by the long-term, global perspective and financial characteristics of the company's E&P division. The retail unit, in contrast, was characterized by a short-term orientation, a profit model that was reliant on local and regional (vs. global) leadership, labor-intensive

Exhibit 3

Key differences between the retail business unit and overall organization

Characteristic	Global organization	Retail business unit
Capital intensity	■ Hard assets	■ Human capital
Time horizon	■ Long-term	■ Short-term
Competitive environment	■ Oligopolistic	■ Highly competitive
Profitability	■ High margin	■ Low margin
Focus	■ Products/investments	■ Customers/cost
Business brand	■ Premium	■ Competitive
Organizational structure	■ Economies of scale	■ Multisite complexity
Geographic perspective	■ Global	■ Local, regional

operations, and the reality of highly competitive markets and low-margin economics.

These differences had profound implications for talent. Retail had a pressing need for professional marketers, merchandisers and logistical experts – not engineers and technicians who form the core of the overall company's workforce. Retail needed people who understood customers and could help the division adapt to cultural and demographic differences across its customer base. It needed strong local and area managers who could drive cost efficiency. In a word, the basic talent requirements were starkly different from those of the overall company.

What the retail employees looked for in employment was distinct as well. For instance, high-potential marketing talent had little use for the career development opportunities offered by EnergyCo. Ambitious marketers were not motivated by the prospect of ascending the corporate hierarchy by moving through different parts of the organization. Their interest was to work creatively in the marketing arena, to grow and to develop marketing skills and experience, and to build their reputations as top-flight marketing professionals. And they were far more interested in current financial rewards as opposed to longer-term rewards linked to promotion.

To get prime retail talent required more focus on competitive pay and more of an orientation to pay for performance (with high upside potential) than was possible under the company's career-focused rewards framework. Moreover, whereas other parts of the organization could capitalize on the company's premium brand in energy markets to attract and retain their talent, retail, frankly, could not. The company was not considered a top-flight retail organization – evidence that even the best global brand may not play out equally across all segments or functions. Competing for top-flight talent against organizations

Exhibit 4

Two talent segments

Global organization	Retail business unit
Pay above market for hot skills	Pay with the market
Build talent	Buy talent
Career-based rewards	Spot rewards
Company profit and EH&S measures	Local financial and customer satisfaction measures
Nondifferentiated awards	Differentiated awards
Emphasis on learning and development	Little emphasis on learning and development
Centralized decision making	Entrepreneurial decision making

known for their marketing prowess and investments would require a much greater emphasis on pay, job responsibility and autonomy than was possible under EnergyCo's centralized talent practices.

This careful examination of the talent implications of the retail division's business and profit models established a clear case that the talent needs and relevant talent markets were very different and, therefore, required a different talent model as well. Based on this analysis, the company modified its talent practices to better fit the needs of the retail division. (See Exhibit 4.)

At this point, EnergyCo is making the changes needed and is having greater success in attracting people with the right capabilities to the retail business.

Making the change happen

Segmentation is an innovative way to make the most of available resources, but many organizations have been reluctant to change. In fact, even when faced with a plan for significant savings, many executives say they prefer a one-company approach to talent management. Most, however, do not realize they are already practicing a form of segmentation based on pain points and external market conditions. It is nonstrategic and reactionary, but segmentation nonetheless.

For example, many HR leaders are feeling anxiety over retaining workers. Faced with pressure to stop the outflow of talent, many companies look for immediate short-term solutions, such as enticing workers with premium pay and benefits. These are, at best, stop-gap solutions that may keep employees (vital and not-so-vital) for the short term, but these solutions do not achieve the most important potential benefit of talent segmentation – the value that accrues from the alignment of talent with business design. Strategic, rather than opportunistic, segmentation is where the real business opportunity lies.

Finding the right balance

For most organizations, effective segmentation requires finding the right balance between a one-company approach and a fully segmented approach.

Factors that favor a one-company approach include the desire to build synergy across the enterprise, the ability to leverage through scale, the need for cross-business mobility and a strong employment brand. (See Exhibit 5.) On the other side, factors that favor a segmented approach include different requirements in talent quality and mix, uneven response to employment brand and the need to adapt to local realities.

Exhibit 5

Factors favoring a one-company vs. segmented approach

Factors favoring a one-company approach	Factors favoring segmentation
■ "Synergy-driven" enterprise ■ Leveraging through scale ■ Need for cross-business mobility to broaden experience and leaders ■ Strong employment brand(s) ■ Need to sustain cohesive culture ■ Reliance on team-based work ■ Low tolerance for complexity	■ Portfolio-driven enterprise ■ Different requirements in talent quality and mix ■ Different response needed to different business, legal, cultural and market realities globally ■ Uneven response to employment brand ■ Need for quick adaptation to "local" realities

In the complex global environment, few firms would benefit from a complete one-company approach or a totally segmented approach. For most, the best response includes a strategic combination of segmentation and commonality, based on hard, empirical analysis of the economic trade-offs that inevitably arise.

Making critical connections

Today's global organizations face a number of challenges due to their large workforces, diverse cultures and talent-management issues. Segmentation provides a road map to help organizations better understand the critical connections between their business and profit models, employee needs, and competitive labor markets. As HR becomes more accountable for supporting company profit and growth through effective talent management, talent segmentation can empower both business and HR leaders to optimize workforce practices, resource allocation and investments.

About the authors

Haig R. Nalbantian is a worldwide partner with Mercer Human Resource Consulting and director of Research and Commercialization for the firm's Human Capital business. A labor/organizational economist, he has been instrumental in developing Mercer's unique capability to measure the economic impact of human capital practices. He can be reached at haig.nalbantian@mercer.com or +1 212 345 5317.

***Robin A. Ferracone**, former president of Mercer's Human Capital business, was co-presenter on this topic at the Mercer Global HR Conference and contributed to this article.*

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