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# BEYOND HR

## The New Science of Human Capital

By John W. Boudreau and Peter M. Ramstad

Business leaders recognize that managing people is vital to organizational success and it is among their top personal concerns. Top human resource executives are respected by boards. Successful CEOs write memoirs that note the connection between their success and their talent management processes. Academics and consulting firms provide a barrage of evidence that HR practices correlate with financial performance. Yet for all the evidence that the quality of talent matters, it is still frustratingly difficult for business leaders to know precisely where and how investments in the talent of employees and how they are organized actually drive strategic success.

The authors of a new book argue that the solution to this dilemma lies not only with how the HR function is organized, rewarded, and evaluated. It lies in a profound change in the way business leaders are held accountable for their decisions about the talent resources under their stewardship. They show that the evolution will be driven by a new decision science for talent and organizations. They show how the coming evolution in the market for talent parallels the earlier evolution of markets for financial capital and customers – evolutions that produced the decision sciences of Finance and Marketing.

In **BEYOND HR: The New Science of Human Capital** (Harvard Business School Press; June 19, 2007) Dr. John W. Boudreau and Peter M. Ramstad introduce this new decision science which they call *talentship*. Through *talentship*, organizations move beyond today's reactive mind-set of planning and budgeting for headcount, programs and HR costs, – and build organization effectiveness by improving decisions that affect or depend on human capital and where they make the biggest strategic difference and wherever they are made. The *talentship* decision science provides a logic that identifies and connects the pivot points in human capital, organizational design, organizational effectiveness and ultimately, strategic success. Boudreau and Ramstad's *talentship* framework not only includes a structure for improving decisions about how to enhance individual contributions, but also how to enhance the way individuals interact in formal and informal organizational designs and structures.

According to the authors, today's talent decisions are often made with an eye toward duplicating the "benchmark" practices of other successful organizations, but strategic success requires a deep internal analysis to find the unique and appropriate talent investments for the specific context, and to understand where the pivotal talent lies within the organization. They encourage leaders to ask questions like these:

- **Do we know where our pivotal talent is in the organization?**
- **Do we invest differentially in our most pivotal talent and how it is organized — or do we use the "peanut-butter" approach, spreading investments evenly across the entire organization?**
- **Where does our business strategy require that our talent be better than our rivals'?**
- **If our strategy changes, where would our talent and organization elements need to change the most?**

Through numerous examples of companies who have connected human capital to organizational effectiveness and strategic success including Disney, Corning, SAS, and Boeing, Boudreau and Ramstad demonstrate how HR and line leaders can compete for and with human capital just as strategically as they compete for and with technology, money, and brands.

Consider the case of Corning. Corning Incorporated, like many high-technology organizations, had traditionally emphasized excellence in its R&D scientists, primarily in the U.S. Globalization was recognized as important, but the connection between globalization and people remained fuzzy. Corning's business leaders discovered that global expansion demanded flexible production capability that depended on a specific type of production engineer. They realized that there were only a few such engineers in many global regions and it took years to create them. If Corning could hire these engineers before other companies realized their importance, it would give Corning several years head start on their competition. Corning had identified a tangible opportunity to exploit its superior knowledge about human capital to provide a significant competitive advantage.

Based on their research Boudreau and Ramstad have found that out of all the jobs and roles in organizations, a small number are "pivotal" like this – the performance of talent and organization in these roles moves the strategic needle far more significantly than in other roles. Unfortunately, most organizations don't know their pivotal roles, because most strategy and planning processes leave them virtually uncharted.

Provide a logical framework that illuminates these uncharted opportunities by connecting human capital to organizational effectiveness and strategic success. **BEYOND HR** describes the implications of a simple premise—organizations must compete better by improving decisions that affect or depend on human capital, where they make the biggest strategic difference, and wherever they are made.

#### **About the Authors**

Dr. John W. Boudreau is Research Director at the Center for Effective Organizations and Professor of Management and Organization in the Marshall School of Business at the University of Southern California. He is recognized worldwide for breakthrough research on the bridge between superior human capital, talent, and sustainable competitive advantage. He is a strategy, HR, and talent management adviser to organizations ranging from early-stage companies to *Fortune* 100 organizations to government and nongovernmental agencies and nonprofit organizations.

Peter M. Ramstad is the former Executive Vice President of Strategy & Finance at Personnel Decisions International (PDI). Over his sixteen-year career at PDI, he held a variety of leadership positions, including Chief Financial Officer and head of the Organizational Consulting Group. As the founder of PDI's strategy practice, he consulted with many organizations worldwide on strategy, organizational, and HR-related issues. He is now a Vice President with The Toro Company.

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Harvard Business School Press

Publication Date: June 19, 2007

Price: \$35.00; Pages: 256 ISBN: 978-1-4221-0-415-6

<http://www.hbspres.org>