THE TALENT PROFIT CHAIN

A Case Study of Bangladesh on Talent Management and Productivity as a New Way of Calculating Economic Profit

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Abstract

In many businesses today, economies of scale do not exist; rather there are economies of ideas and talents. Against this new reality, the present study proposes an interesting and inevitable phase of the economy of managing talents surpassing the economy of staging experience that is traversed ---from extracting commodities to making goods to delivering services. Manage talents facilitate innovations that induce added value and productivity in both demand and supply sides of the economy. It also introduces a new way of calculating economic profit incorporating a compact of talent management intertwined the elements of brand, purpose, opportunity and culture. In the end, the study reviews a case of agro-enterprise in Bangladesh that suggests that the firms which are talent-oriented they are more productive or more profitable in compare to other firms which are capital-oriented. Hence, the research concludes that manage talents are the latest phase of economy of 21st century's management which nurtures economies of talent rather than economies of scale in calculating and maximizing profit.

Keywords: Talent-profit chain, Manage talents, Economies of talent, Productivity

In many businesses economies of scale don't exist; rather there are economies of ideas which come into being through research and development (R&D) every year. For a growing number of companies, competitive advantage lies in the ability to create an economy driven not by cost efficiencies but by ideas and intellectual know-how. In practice this means that leaders have to create an environment in which what we call "clever people" can thrive. These people are the handful of employees whose ideas, knowledge, and skills give them the potential to be productive and to produce disproportionate value from the resources their organizations make available to them (Goffee and Jones, 2007).

There's no hotter topic in recent year's review and portfolio, for the obvious, overwhelming reason that in the knowledge economy of the twenty-first century, talent will always be the scarcest of scarce resources. Above all others, it is what companies compete for, depend on, and succeed because of (Goffee and Jones, 2007). Emerging markets are by compounded rates of as much as 40 percent and winning the race for talent to keep up with growth is appearing extraordinarily daunting and challenging, because presently businesses based all over the globe are feverishly competing for people but not for capital in the mounting meritocratic culture (Ready et al., 2008). This fact is particularly important for the current economies of talent rather than economies of scale which is completely obsolete nowadays. Despite all that is known about the importance of developing talent, and despite the great sums of money dedicated to systems and processes that support talent management, an astonishing number of companies still struggle to fill key positions – which put a considerable constraint on their potential to grow (Ready and Conger, 2007). Thus, failures in talent management are an ongoing source of pain for executives in modern organizations. Over the past generation, talent management practices, especially in the United States, have by and large been dysfunctional, leading corporations to lurch from surpluses of talent to shortfalls to surpluses and back again (Cappelli, 2008).

At its heart, talent management is simply a matter of anticipating the need for human capital and then setting out a plan to meet it. Current responses to this challenge largely fall into two distinct—and equally ineffective—camps. The first, and by far the most common, is to do nothing: anticipate no needs at all; make no plans for addressing them (rendering the term "talent management" meaningless). This reactive approach relies overwhelmingly on outside hiring and has faltered now that the surplus of management talent has eroded. The second, common only among large, older companies, relies on complex and bureaucratic models from the 1950s for forecasting and succession planning—legacy systems that grew up in an era when business was highly predictable and that fail now because they are inaccurate and costly in a more volatile environment (Cappelli, 1999).

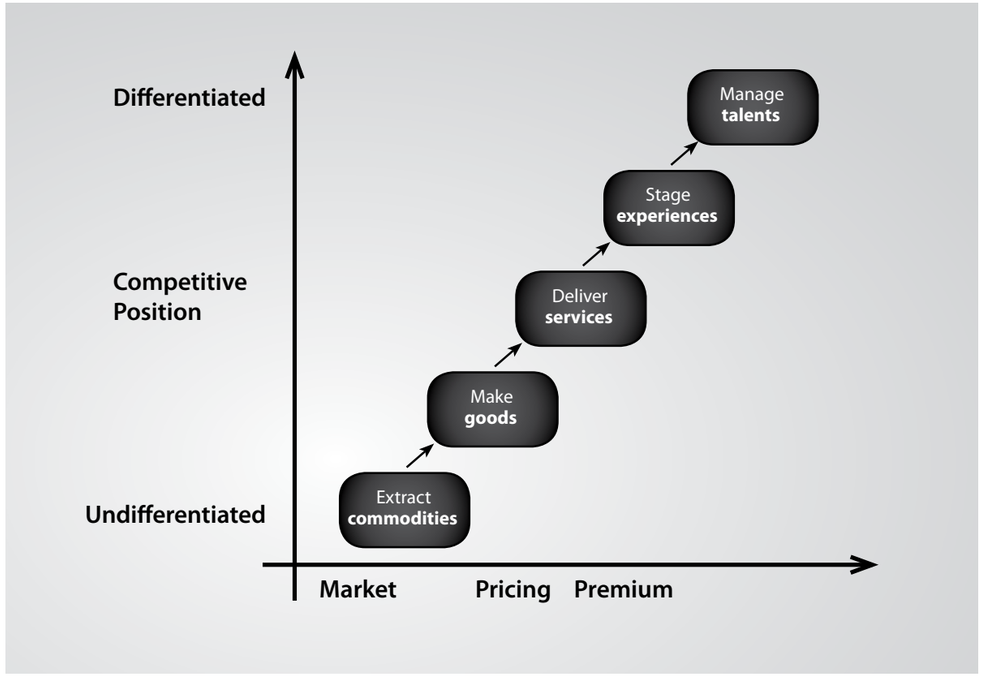
It's time for a fundamentally new approach to talent management that takes into account the great uncertainty businesses face today. Fortunately, companies already have such a model, one that has been well honed over decades to anticipate and meet demand in uncertain environments—supply chain management in order to ensure maximization of profit. By and large, talented employees of an organization are its core employees who contribute in achieving the organizational goals or success. Thus, talent is an individual who is a key player to achieve the goals of the organization. S/he could be the manager or the Chef of a restaurant or the waiter or the waitress whose contribution helps to raise the sales revenues that maximize the profit (Ashraf and Joarder, 2009). By ensuring talent-profit chain, firms can forge a new model of talent management better suited to today's realities (Cappelli, 2008). In so doing, the present paper aims to show how the progression of economic value inevitably necessitate to transit -- from commodities to goods to service to experience to mange talent phase and how a new way of calculating economic profit help the new model to focus on the productivity of people (talent) rather than capital (financial). In the end, the research also delves into a case study that shows how economies of talent ensure higher profitability (productivity or efficiency) rather than economies of scale which is now obsolete. Before getting into the details, the next section highlights the context in which talent management has evolved over the past few decades along with its current state.

Manage Talent: Evolutionary Dynamics

Internal development was the objective norm back in the 1950s, and every managerial practice that gives the impression novel today was usual in those years—from mentor coaching to 360-degree feedback to job rotation to high-potential programs. Except at a few very large firms, internal talent development collapsed in the 1970s because it could not address the increasing uncertainties of the marketplace. Business forecasting had failed to predict the economic downturn in that decade, and talent pipelines continued to churn under outdated postulations of growth. The excess supply of managers, combined with no-layoff policies for white-collar workers, fed corporate bloat. The steep recession of the early 1980s then led to white-collar layoffs and the demise of lifetime employment, as restructuring cut layers of hierarchy and eliminated many practices and staffs that developed talent. After all, if the priority was to cut positions, particularly in middle management, why maintain the programs designed to fill the ranks? (Cappelli, 2008).

The alternative to traditional development, outside hiring, worked like a charm through the early 1990s, in large measure because organizations were drawing on the big pool of laid-off talent. As the economy continued to grow, however, companies increasingly recruited talent away from their competitors, creating retention problems. Watching the fruits of their labors walk out the door, employers backed even further away from

Figure 1: The Progression of Economic Value

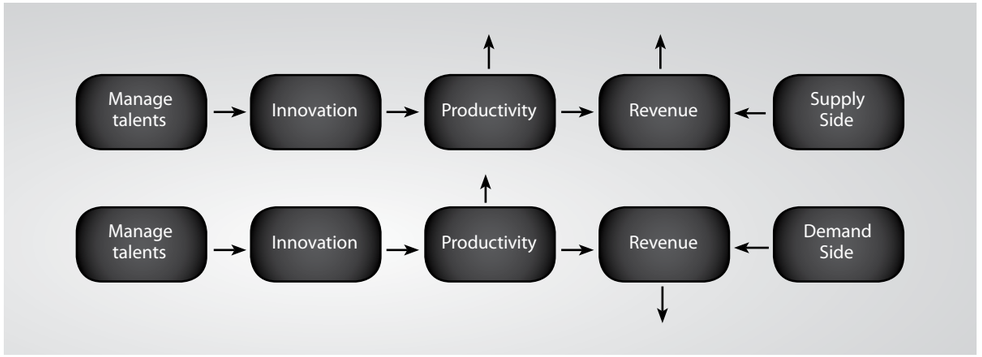


investments in development. By the mid-1990s, virtually every major corporation asserted the goal of getting better at recruiting talent away from competitors while also getting better at retaining its own talent—a hopeful dream at the individual level, an impossibility in the aggregate (Cappelli, 2008).

How do economies change? The entire history of economic progress can be recapitulated in the four-stage evolution of the birthday cake (Pine and Gilmore, 1998). Coping with the demand of new emerging age, these stages are now to be surpassed, as the market is entering in emerging economies of talent (Barber and Strack, 2005). Having faced with this new reality, economy of experience must undergo another new phase of economic progression that is termed here as manage talents which induces added values and can influence both supply and demand side of the economy in order to ensure market efficiency (see Figure 1).

Manage talents encompass attracting and retaining talents that can improve productivity (Goffee and Jones, 2007) or efficiency of the labor as a whole which can increase revenue in supply side and at the same time can reduce cost in demand side. Talents facilitate creativities or innovations

Figure 2: Profit Maximizing Dynamics through Manage Talents



that push up the productivity in both supply and demand sides (see figure 2). Throughout this process, where marginal revenue (MR) equates marginal Cost (MC), profit gets maximization. This reality is intuitively caught the insights of Cappelli (2008) which advances emphatically that the most innovative approaches to managing talent use four particular principles drawn from operations and supply chain management. Two of them address uncertainty on the demand side: how to balance make-versus-buy decisions and how to reduce the risks in forecasting the demand for talent. The other two address uncertainty on the supply side: how to improve the return on investment in development efforts and how to protect that investment by generating internal opportunities that encourage newly trained managers to stick with the firm.

A New Way to Calculate Economic Profit

The standard calculation for economic profit can be reformulated - by substituting some basic components and by using standard algebra - to focus on the productivity of people rather than capital. This equation yields the same result but highlights the employee-related performance drivers of a people-intensive business.

Start with the calculation of economic profit from a capital oriented- perspective:

ECONOMIC PROFIT

= [ROI - COC] . IC

- ROI: % of Return on Investment
- COC: Cost of Capital
- IC: Invested Capital

Replace "return on investment" with its equivalent, "earnings divided by invested capital":

= [E/IC - COC] . IC

- E/IC: Earnings/Invested Capital

Use algebra to arrive at:

$$= \underbrace{E}_{\text{Earnings}} - [\text{COC x IC}]$$

Replace "earnings" with its equivalent, "revenue minus personnel costs minus supplier costs minus depreciation";

$$= \underbrace{R}_{\text{Revenue}} - \underbrace{PC}_{\text{Personnel Costs}} - \underbrace{SC}_{\text{Supplier Costs}} - \underbrace{D}_{\text{Depreciation}} - [\text{COC x IC}]$$

Use algebra to factor in a key people-oriented element, the number of people employed, and introduce two metrics, namely, employee productivity and average personnel cost per person employed:

$$= \underbrace{\left[\frac{\text{R-SC-D-[COC x IC]}}{\text{P}}\right]}_{\text{Employee Productivity}} - \underbrace{\left[\frac{\text{PC}}{\text{P}}\right]}_{\text{Avg. Cost/ Person}} \cdot \underbrace{\text{P}}_{\text{People Employed}}$$

The result is a calculation of economic profit that is meaningful to people-intensive businesses:

ECONOMIC PROFIT

$$= [\underbrace{\text{EPR}}_{\text{Employee Productivity}} - \underbrace{\text{ACP}}_{\text{Avg. Cost/ Person}}] \cdot \underbrace{\text{P}}_{\text{People Employed}}$$

The new, people-oriented equation mirrors the capital-oriented one. Employee productivity corresponds to capital productivity - that is, return on investment. The average personnel cost per person employed corresponds to the cost of capital. The number of people employed corresponds to the amount of invested capital (Barber and Strack, 2005). This new reality is embedded into the spurred productivity of the human capital rather than financial capital. In the next section, the study employs a case study of agro-enterprises in Bangladesh which proves the new reality of talent-profit chain.

Case Study

Data Base and Methodology. The main source of data used in this case study was a farm level cross-sectional survey, conducted during the months of February to April 2009 in the five selected villages namely, Malauri, Tengri, Akashi, Pandura and Boali of Tangail District towards north-east of Dhaka in Bangladesh. In all 98 farmers producing rice on a commercial or profit-oriented basis were interviewed of which all farmers who have on average 5 acres of land and have average amounts of capital investment of Taka 0.5 million (5 lakhs of Taka). Among the 98 farmers, only 18 farms have at least one agricultural graduate who are expert in producing rice. The remaining 80 farmers have no such employees of agricultural graduate working in the farms. Among 18 farms, 11 owners of the farms are agricultural graduates themselves. These agricultural graduates are specialized in rice farming and they are taken as the talented employees who are paid much more than usual amount of salary as their compensation. Out of the sample of 18 farms, 11 farms have one agricultural graduate, 4 farms have 3 agricultural graduates and 3 farms have 2 graduates. The farms are classified into two groups: 18 farms belong to the Group A and the rest of 80 farms belong to the group B. The farmers are selected through a stratified random sampling procedure. The sample represents about 15 percent of the total farm families of the study areas.

The Models. A normalized restricted profit function (Cobb-Douglas form) and a set of factor demand equations developed by Lau and Yotopoulos in 1971 were used to test for economic efficiency or productivity. The profit function was of the form:

$$Ln\pi = Ln\alpha + \beta_1 LnWF + \beta_2 LnWL + \beta_3 LnRA + \beta_4 LnK + U \quad (1)$$

Where,

π=Profit (current revenue minus current variable costs) per farm normalized by output price;

WF = The price of fertilizer, normalized by output price (per Kilogram);

WL = The money wage rate of human capital (labor), normalized by output price (per eight hours per day);

RA = Cultivated vegetables area in acre (2.471 acres = 1 hectare);

K = Capital Service Flow;

U = Disturbance term;

$\alpha, \beta_1 \ldots \beta_4$=Parameters to be estimated.

The price of variable inputs other than labors and fertilizer are assumed to be constant since the profit function is restricted in the short-run. For getting the real price of the input all the variables were normalized by the farm-specific output price. Hence, the levels of the variable inputs which maximize short-run profit cannot be estimated directly from the profit function. However, the variable input demand functions can be derived by partially differentiating the profit function (1) with respect to the normalized price of the inputs (Lau and Yotopoulas, 1979; Flinn et al., 1982 and Jabber, 1980). This result is sometimes referred to as the Hotelling-Shephard Lemma.

For the present study, the variable input demand functions were:

$$-\frac{QF \cdot WF}{\pi} = \gamma_1 + V_1 \quad (2)$$

$$-\frac{QL \cdot WL}{\pi} = \gamma_2 + V_2 \quad (3)$$

Where,

QF and QL= Quantities of fertilizer and labor respectively;

WF and WL= Normalized prices of fertilizer and labor respectively;

γ_1 and γ_2 = Parameters to be estimated;

V_1 and V_2 = Error terms which are uncorrelated with the profit function.

Results and Discussion

Profitability as a Measure of Farm Efficiency. The regression results are presented in Table 1. The chi-squared statistic is used to test the validity of the restrictions implied by the hypothesis of profit maximization. The level of significance chosen is 0.01. Operationally, the test of profitability implies testing the

null-hypothesis that the coefficient of each variable in the profit function is the same as the coefficient of that variable in the factor demand function. That is:

$H_0: \beta_1 = \gamma_1$ and $\beta_2 = \gamma_2$

$H_a: \beta_1 \neq \gamma_1$ and $\beta_2 \neq \gamma_2$

Where,
β_1 and γ_1 = the coefficients of fertilizer in the profit and factor demand functions ; and
β_1 and γ_1 = the coefficients of labor in the profit and factor demand functions respectively.

Results in Table 1 fundamentally provide the restricted estimates of profit and factor demand elasticities for all categories of farmers groups. The output supply elasticity for different groups (0.97 for n=98, 0.99 for farmers of B group and 0.74 for A group farms) indicate that group-B farmers are more responsive to changes in the price of rice than are group- A farmers. Similar outcomes are evident in the case of fertilizer and human capital or labor demand as well. That is B farmers are more responsive to changes in fertilizer price and wage rate than are A farmers.

Results in Table 2 suggest that farmers as a whole are not maximizing short run profit, since equally restrictions on the β_z and γ_2 are rejected at the 1 percent level of significance. This is because of the calculated chi-squared value is far greater than the critical value. In the case of group-A farmers the equality restrictions are also rejected. Only in the case of group-A farmers the general restrictions are accepted.

Table 1: Joint Estimates of Restricted Profit Function, Factor Demand Function and Supply Elasticity

Variable	Parameter	All Farms n= 98	Group B Farms n= 80	Group A Farms n = 18
Profit Function:				
Constant (Lnα)	β_0	6.70 (46.65)**	6.76 (36.87)**	7.45 (25.03)**
Fertilizer (LnWF)	β_1	-0.07 (4.84)**	-0.07 (4.30)**	-0.05 (5.03)**
Human Capital (LnWL)	β_2	-0.87 (9.41)**	-0.92 (8.29)**	-0.69 (7.11)**
Rice Area(LnRA)	β_3	0.86 (17.06)**	0.80 (10.46)**	0.45 (3.63)**
Capital (LnK)	β_4	0.06 (2.39)**	0.07 (2.28)**	0.006 (0.15)**
Factor Demand Function:				
Fertilizer (LnWF)	γ_1	-0.06 (4.84)**	-0.07 (4.30)**	-0.05 (5.03)**
Human Capital (LnWL)	γ_2	-0.87 (8.41)**	-0.92 (8.2)**	-0.69 (7.11)**
Supply Elasticities	$\Sigma [\lvert\beta_1\rvert + \lvert\beta_2\rvert]$	0.94	0.99	0.74

Notes:
1. ** indicate significance at 1 percent level.
2. Figures in parenthesis are asymptotic't' value.
3. Two restrictions for each case: $\beta_1 = \gamma 1$ and $\beta_2 = \gamma 2$
4. Supply ealsticities computed as the sum of the absolute values of the coefficients associated with fertilizers and labors.

Table 2: Test of Restrictions of Coefficients of Restricted Profit and Factor Demand Functions

Farm Size Groups	Calculated Chi-squared Value	Critical Chi-sq. Value at 1 % Sig.
All farms (n = 98)	22.27	
Group B farms (n = 80)	14.70	9.21
Group A farms (n = 18)	7.30	

It may be concluded that the farmers as a whole are not using the resources in the most economically efficient manner. When the data are disaggregated into sub-sets corresponding to group-A, and group-B farmers, it is found that group-A farmers are relatively more efficient than group-B farmers. This poor performance is attributed to the lack of integrated scientific technical know-how which is applied by the expert of agricultural graduates who are not employed by the group-B farmers. These experts of talented employees are the main factors for getting the improved result in rice production profitability or productivity or efficiency.

In the present study, farms are classified as the group-A, and the group-B on the basis of the number of talented agricultural graduates employed in the farm. This is done on the basis of prior information about the number of talented agricultural experts. It is found that in the study area group-B farmers are less economically efficient than group-A farmers. These results intuitively imply that the higher productivity is due to the innovative and productive role of the talented labor forces in the whole production activates of rice in this area of Bangladesh. Hence, the talent- profit chain is important for the emerging economies of talent in the 21st century's global village.

Conclusion

It is no secret that business success today revolves largely around people, not capital. Many traditional producers even are now essentially accustomed to be people-oriented businesses. In most industries, people costs are much higher than capital costs. Even when a company isn't people intensive overall, a people-based business embedded in the company often drives company performance. Hence for the most part, today's business performance measures and management practices don't reflect the particular economics of scale but economics of people. Thus, the company's operational performance will be driven mainly by the things it has in common with seemingly dissimilar people-oriented businesses. Indeed, when people are the most important resource, some standard performance measures and management practices become ill suited to their tasks (Barber and Strack, 2005).

Consider, for instance, the concept of economic profit, whose widespread adoption

as a performance metric represented a major breakthrough in measuring business performance. Economic profit, measured using such methods as Economic Value Added and Cash Value Added, takes into account something ignored by the traditional profit-and-loss statement. However, the metrics, at least as conventionally calculated, offer little information about the real drivers of business performance. This is done in order to identify where and how value is being created-or squandered – human capital oriented businesses need performance metrics that are as financially rigorous as economic profit but that highlight the productivity of people rather than of capital. The case study of agro-oriented businesses in Bangladesh also exhibits similar evidence of added significance of scarce human capital in maximizing economic profit. ■

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