

Identify Strategic Positions

CLARIFYING YOUR firm's strategy and the strategic capabilities needed to execute it is a crucial first step in the process of developing a differentiated workforce. The next step in the process is to identify the strategic positions essential for delivering the firm's strategic capabilities, as well as the specific employee competencies and behaviors needed in these roles. These are the topics to which we turn in this chapter.

The process of identifying "A" positions begins with the development of a clear statement of the firm's strategic choice (how will we compete?) as well as the firm's strategic capabilities (what must we do exceptionally well to win?). Once you clarify these two factors, you can identify "A" positions. Then, the process of improving the performance of employees in the firm's most critical roles can begin. We outline the key elements of this process in figure 3-1.

Strategic positions have a significant impact on one or more of the firm's strategic capabilities. And, perhaps surprisingly for many managers, they might exist at almost any level in the organization. At Big Pharma, the strategic positions include R&D scientists focused on new product development. At Nordstrom, they are the personal shoppers. At Wal-Mart, they are the distribution and logistics specialists that make the firm's vaunted processes work so effectively.

In addition to their direct impact on the firm's strategic capabilities, strategic positions are characterized by a significant amount of variability

FIGURE 3-1

Creating a differentiated workforce

Determine strategic choice	Identify strategic capabilities	Identify strategic positions	Assess players in positions	Plan actions for all players in strategic positions
<ul style="list-style-type: none"> Operational excellence Product leadership Customer intimacy 	<ul style="list-style-type: none"> List possible strategic capabilities Review strategic capability criteria Assess each for present and future wealth-creation impact Determine 3-5 strategic capabilities 	<ul style="list-style-type: none"> List positions within each strategic capability Assess each position on present and future wealth-creation potential Identify strategic positions' performance variability Finalize strategic positions Review other positions (not in strategic capability for wealth-creation potential) 	<ul style="list-style-type: none"> Develop "A," "B," "C" criteria Apply "A," "B," "C" criteria to all positions List all positions by "A," "B," "C" designation Assess all employees in positions Determine percentage of "A," "B," and "C" players in all positions 	<ul style="list-style-type: none"> Remove "C" positions Remove "C" players from "A" positions Put "A" players in "A" positions Develop "B" players in "A" positions into "As"
Exec team ✓	✓	✓		
Line managers		✓	✓	✓
HR function		✓	✓	✓

in the performance of the employees holding those jobs. Performance variability means that the difference between high and low levels of performance in a given job is substantial. For example, many managers are familiar with the wide variations in the performance of salespeople; a top salesperson might easily sell ten or twenty times more products than an average salesperson might. But such variations in performance can appear almost anywhere in an organization, and when they do, they have the potential to be an important driver of strategic success.

Strategic or "A" jobs provide the *context* for significant performance improvement, while variability in the incumbents' performance gives the specific *opportunity* for improvements in business performance. If everyone

in a job were performing at a very high level, there would be little chance for significant performance gains. But in our experience, this situation is the exception and not the rule, especially in strategic positions.

In a single-product firm or division with few products, identifying strategic positions is usually straightforward. The few strategic jobs are usually apparent to managers (once they begin to look!). When a job (strategic or otherwise) affects multiple capabilities, matters get more complicated.

We recommend that managers spend time thoroughly understanding the strategic capabilities and the jobs most critical to ensure their firm's strategic success. They might be pressured to jump ahead in the process and anoint a certain group of jobs as key or strategic because they are obvious. But in the long run, this approach is shortsighted, as managers often misdiagnose the truly strategic positions. Managers might place too much emphasis on senior positions and not enough on the entry-level, customer-facing positions. We suggest that managers follow our process to ensure that they identify the truly strategic roles in their businesses, not just obvious ones.

Once you have identified the critical jobs, the next step is to specify, in clear behavioral terms, the employee actions and deliverables that constitute "A" performance in these positions. Performance differentials between "A" and "C" players in "A" positions can be on the order of twenty to one or more. So focusing intervention and improvement efforts first and foremost on the "A" positions is important, because it is where both the need and the payoffs are greatest.

Our approach to identifying strategic jobs and the staffing and development processes for ensuring that "A" players are placed in "A" positions is quite different from the processes most organizations use. In the next section we contrast the traditional process with our approach.

Traditional Approaches Are Not the Answer

Conventional approaches to job design use attributes of employees and the environment within which they work (in contrast to the strategy that must be executed) as the primary criteria to determine job structure. Historically, most large firms have used complex job-evaluation systems

to allocate points to jobs, rank them, and then locate these jobs in the firm's pay system on the basis of these points. For example, the Hay System for job evaluation prices jobs based on the relative value of skill, effort, responsibility, and working conditions of a particular job. The typical job-evaluation process allocates points to benchmark jobs; then the remaining jobs are placed in the hierarchy. This process drives a number of organizational decisions, most notably, compensation.

But recently, job responsibilities have broadened considerably, and the pace at which jobs change has also increased dramatically. So, much like conventional accounting systems that are primarily focused on tangible instead of intangible assets, conventional job-evaluation systems are now much less useful than they used to be. The conventional approach looks both internally and to history for its definition of value; what we need is an approach based on future value creation and strategic job worth. More specifically, while the conventional approach might be effective in a world of stable companies, jobs, and (local) labor markets, *stable* doesn't describe the current competitive environment. A new and much more strategic approach to the design of work and the valuation of jobs is needed.

In our experience working with executives, many leading firms have come to this same conclusion and are substantially changing in the design and management of work and the workforce. In companies as diverse as American Century Investments, the American Heart Association, Biogen-Idex, Cisco, Colgate-Palmolive, Diageo, General Electric, GlaxoSmithKline, Haier, Honeywell, IBM, MetLife, Roche Pharmaceuticals, Telecom Italia, and Wyeth, managers are reconsidering how they invest in the workforce, and are increasingly recognizing that jobs differ in their contribution to strategic success, and they must be managed accordingly. Consider what some senior HR executives have to say about the importance of identifying strategic positions in the box, "Differentiating Strategic Positions."

The quotes in the box point to the potential problems associated with conventional approaches to job valuation, which we believe to be too slow, inflexible, and primarily focused on internal equity at the expense of strategic capabilities, value creation, and market competitiveness. Because the impact of history and inertia on job composition is substantial—job responsibilities, once set, are notoriously intractable

Differentiating Strategic Positions

“We must evolve new guidelines about how to manage our workforce to assure our future competitiveness, both within the U.S. and Europe.”—Dan Phelan, senior HR vice president, GlaxoSmithKline

“In Telecom Italia Group, we are focused on ensuring that a good proportion of ‘A’ people fill the positions, particularly the ‘A’ positions. Our ‘Management Review’ process is designed to do that.”—Carlo Bertelegni, vice president of HR, Telecom Italia Group

“Merely identifying strategic positions is not enough. You must assure a disproportionate representation of top talent in these strategic positions through recruitment, selection, development and rewards, as well as let them know how much we value them so we can retain them.”—Ray Carson, senior HR vice president, Wyeth Healthcare

Source: All quotations are based on personal conversations with the authors.

in many organizations—it is important to reexamine periodically how jobs and work are designed. But most firms don’t do this. The problem is exacerbated when strategy and the external environment are changing much more quickly than companies are adapting on the inside. Most need to be more adaptive in how they design and structure work. The question is how?

Effective talent management strategies resemble a world-class supply chain or logistics operation. In a supply chain, a firm focuses most of its efforts on acquiring and distributing its most profitable products and services. It doesn’t use a “one size fits all” approach but puts considerable emphasis on understanding the profit and value chains and devising an acquisition, distribution, and logistics strategy uniquely tailored to its best customers.

Compare that approach to the talent-management supply chain in most organizations. Many staffing strategies resemble a first in, first out approach. For example, we’ve seen many strategic roles go unfilled while other, less strategic, roles were filled first. What if firms managed their supply chain processes for hot new products (e.g., the Nintendo

Wii or Apple MacBook Air) in a similar way? Investments in the workforce must be based on strategic capabilities or, more specifically, strategic positions.

How Our Approach Is Different

Firms should move from conventional approaches toward a model in which job value is determined by the specific strategic capabilities needed to execute strategy. Then they need to invest disproportionately in the most strategic positions, ensuring that “A” players are in “A” positions for “A” customers. They must also manage “B” and “C” positions effectively, acting quickly to remove “C” players from “A” positions (replacing them with “A” players) and ensuring that “B” players in “A” positions improve their performance. Similarly, “A” players in “B” positions might move into roles (“A” positions) that capitalize on their unique skills and abilities.

The workforce is the most expensive yet poorly managed asset in most organizations. In an era of global competition, both for talent and share of customer wealth, companies need a new way to manage talent. We believe that an inevitable trend toward increasing levels of differentiation in organizations is growing, and we are observing a movement from equality norms to equity norms.

Over time, organizations lose their focus on the importance of a job or position, and bureaucracy takes over. Over time, they tend to standardize and routinize HR processes and systems and iron variance out of the system. Firms focus on process improvement at the expense of strategic value. Six sigma processes contribute to this trend. The consequences are that workforce strategy becomes more homogenous and disconnected from business strategy.

How can we interrupt this process? As can be seen in the table 3-1, firms that are successful in workforce differentiation have a clear, widely shared view of the importance of identifying “A” positions and an action plan. In the remainder of this chapter, we demonstrate how to accomplish these tasks, beginning with a description of the key characteristics of “A,” “B,” and “C” positions.

TABLE 3-1

Successful workforce differentiation management

Firm	View of “A” positions	Firm’s action	Comment
American Century Investments	<ul style="list-style-type: none"> • Explicit workforce and position differentiation 	<ul style="list-style-type: none"> • Strategic position identification • Rigorous performance evaluation of strategic talent • Action plans to resolve gaps 	Rigorous performance and rewards systems concentrate on investment positions and assuring “top talent” in these positions.
Biogen-Idec	<ul style="list-style-type: none"> • Not every position contributes to strategic capabilities 	<ul style="list-style-type: none"> • Succession planning emphasized for strategic positions • Development and succession of those with potential in strategic positions are emphasized and carefully tracked 	Differential investment and rewards are related to position value.
Cisco	<ul style="list-style-type: none"> • Historically reviewed “C” players and removed them • Focus of evaluation of managers and executives in customer success/wealth-creating positions 	<ul style="list-style-type: none"> • Focus leadership on strategic customer-facing positions and redesigned incentive system to elicit wealth-creating customer behaviors 	<p><i>“All executives must meet customer goals or incentives will not be paid.”</i>—CEO John Chambers.</p> <p>Explicit recognition in a “techie” industry that customer solutions, not technical solutions, are the real wealth-creating positions.</p>
Colgate	<ul style="list-style-type: none"> • Clear identification of strategic capabilities and strategic positions 	<ul style="list-style-type: none"> • Explicit career development models for strategic positions within strategic capabilities • Rigorous assessment of career progress • Line managers know strategic positions 	Investment in career development models appears to have a significant payoff in assuring strategic talent in strategic positions (e.g., consumer insight).
Diageo	<ul style="list-style-type: none"> • Explicit focus on strategic positions 	<ul style="list-style-type: none"> • Refocused role of HR generalists to focus primarily on strategic positions 	Strategic positions, largely in marketing, consumer insight, and supply chain, have been identified. LOB HR managers are responsible for delivering disproportionate capability in these positions and are evaluated on how well they deliver strategic talent in these positions.
General Electric	<ul style="list-style-type: none"> • Originator of “A,” “B,” “C” players concept (“organizational vitality”) • Begin to focus on strategic positions 	<ul style="list-style-type: none"> • Use explicit “A,” “B,” “C” player evaluation • Corporate owns strategic positions (e.g., leadership, M&A, etc.) 	<i>“We can’t afford ‘A’ players in all positions.”</i> Therefore GE is moving, in one of five groups, to focus on “A” positions and realigning workforce strategy around these positions.

TABLE 3-1 (CONTINUED)

Firm	Issue	Firm's Action	Comment
Glaxo Smith Kline	<ul style="list-style-type: none"> Workforce philosophy makes strategic positions explicit 	<ul style="list-style-type: none"> Have identified <ul style="list-style-type: none"> Corporate strategic positions LOB strategic positions Line managers have explicit workforce accountabilities 	To determine and leverage workforce investments in talent, a sequential assessment of strategic capabilities, strategic positions, and strategic players is used.
Haier	<ul style="list-style-type: none"> Removing non-value-added positions 	<ul style="list-style-type: none"> Rigorous assessment of performance in wealth-creating work 	Non-value-added work and "C" players are not tolerated. Thus both types of wealth creation (revenue enhancement and cost reduction) are maximized. The focus on value-added work is intense.
Honeywell	<ul style="list-style-type: none"> Brought the GE model to Honeywell 	<ul style="list-style-type: none"> Rigorous assessment of "A" positions with GE criteria resulted in retention of "A" players—not the "new broom sweeps clean" 	<i>"Differentiation is the mother's milk of a high performance culture."</i> —CEO Larry Bossidy. Assessing the value of the position as well as the player are critical but independent decisions.
IBM	<ul style="list-style-type: none"> Strategic talent flexibility well beyond "lifetime employment" 	<ul style="list-style-type: none"> Explicit recognition of change in strategic talent requirements Recognition that strategic talent is available externally 	Building workforce agility around strategic and support positions, IBM clearly acknowledges that the nature of strategic work changes over time and workforce flexibility is essential to have the strategic talent instantly and continuously available without building expensive, embedded workforce platforms.
Roche	<ul style="list-style-type: none"> Moved from competency model to strategic position model 	<ul style="list-style-type: none"> Removing non-value-added work Making HR investment in strategic work 	In a difficult European environment, they first attacked non-value-added work (i.e., surplus positions) and then the "C" players. More remains to be done, but they have now moved to identify and differentiate strategic talent through improved workforce management systems.
Wyeth	<ul style="list-style-type: none"> Strategic positions require HR differentiation 	<ul style="list-style-type: none"> Clear recognition of strategic wealth-creating positions Clear differentiation of HR focus on investing in strategic talent 	Executive team has openly recognized wealth-creation positions and differentially invested in those positions using very nontraditional/differential investment workforce management systems.

Characteristics of “A,” “B,” and “C” Positions

To execute strategy with a differentiated workforce, organizations must clearly understand which positions are strategic and which are not. Understanding each position’s level of impact on business success is the first step. While a number of factors contribute to a position’s relative strategic impact, the most important are its *strategic impact* and level of *performance variability* (see table 3-2).

Primary Characteristics of Strategic (“A”) Positions

Two elements are critical to the identification of a strategic or “A” position. First, the work must have strategic impact and directly affect one of the firm’s primary strategic capabilities. Second, there must be a high level of performance variability among incumbents in those positions.

Strategic Impact. Jobs are strategic when they have a disproportionate impact on a firm’s ability to execute business strategy through its strategic capabilities. For example, in a pharmaceutical firm focused on new products, a strategic capability at the firm level is likely to be R&D acumen, and the associated key jobs are likely to be research scientists. However, not all R&D scientists are likely to hold “A” jobs, just those associated with new product development in a particular domain (e.g., heart disease). Similarly, in a software firm, programmers associated with the development of the firm’s core products are likely to have a greater impact on the firm’s strategic capabilities than will programmers elsewhere in the firm (i.e., the firm’s own internal IT operations).

As we mentioned in the first chapter, all a firm’s jobs are important, but not all jobs are strategic; this distinction is critical for the design and implementation of effective workforce management systems. Strategic jobs are the very few (typically less than 15 percent) that directly enhance a firm’s strategic capabilities. Strategic positions can appear at any level throughout the organization and affect one or more strategic capabilities. Jobs that affect more than one capability are

TABLE 3-2

Which jobs make the most difference?

An “A” position is defined primarily by its impact on strategy and by the range in the performance level of the people in the position. From these two characteristics flow a number of other attributes that distinguish “A” positions from “B” and “C” jobs.

Defining characteristics	“A” position Strategic	“B” position Support	“C” position Surplus
Scope of authority	Has direct strategic impact and exhibits high-performance variability among those in the position, representing upside potential. Autonomous decision making.	Has an indirect strategic impact by supporting strategic positions and minimizes downside risk by providing a foundation for strategic efforts, or has a potential strategic impact, but exhibits little performance variability among those in the position. Specific processes or procedures typically must be followed.	May be required for the firm to function but has little strategic impact. Little discretion in work
Primary determinant of compensation	Performance	Job level	Market price
Effect on value creation	Creates value by substantially enhancing revenue or reducing costs.	Supports value-creating positions.	Has positive economic impact.
Consequences of mistakes	May be very costly, but missed revenue opportunities are a greater loss to the firm.	May be very costly and can destroy value.	Not necessarily costly.
Consequences of hiring wrong person	Significant expense in terms of lost training investment and revenue opportunities.	Fairly easily remedied through hiring of replacement.	Easily remedied through hiring of replacement.

Source: Adapted from Mark A. Huselid, Brian E. Becker, and Richard W. Beatty, “‘A Players’ or ‘A Positions’? The Strategic Logic of Workforce Management,” *Harvard Business Review*, December 2005.

especially important, as they have the potential to have a leveraged or synergistic impact on the firm’s performance.

Performance Variability. The second key driver of position importance is *performance variability*, which means that the gap between low

and high performers in this role is substantial. While strategic impact provides the context, performance variability provides the opportunity for improvement. If all employees perform at a very high level within a given role, then there is little opportunity for real strategic impact through more effective workforce strategy and management. But if a job has a direct impact on strategic capabilities *and* there are dramatic differences in the performance of job holders, managers can have a significant impact on firm performance through more effective workforce management. As Nathan Myhrvold, former chief scientist at Microsoft, commented, “The top software developers are more productive than average software developers not by a factor of 10X or 100X, or even 1,000X, but 10,000X.”¹

Few jobs exhibit the enormous variation on performance cited by Myhrvold. But differences in performance of twenty to fifty to one are common, especially in knowledge intensive roles, or in jobs with a substantial span of control or sphere of influence (i.e., where an employee’s performance affects the performance of either subordinates or peers elsewhere in the value chain). Capturing the potential gains associated with this level of variation means that first we need to identify the key positions and then manage them differentially. But differentiation based on what? We focus on employee performance because there are often large differences from the lowest to the highest employee in any given role, and there are often large differences from the average to the top employees.

The impact of variability in workforce performance on firm-level outcomes is not just limited to highly complex jobs such as computer programmers or R&D scientists. Figure 3-2 gives an example from *Gallup* that describes the importance of developing a clear understanding of the processes through which variance in workforce performance creates value.

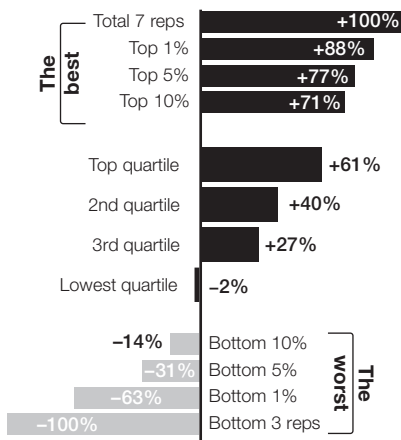
An important conclusion from the data is that firms would be better off paying the bottom 10 percent of the workforce to stay home! At an estimated \$35,000 per employee per year in total compensation, the bottom 10 percent of the workforce (458 employees) generates cost to the business of over \$16 million per year. Better yet, as the study’s author noted, they destroy so much value, you should consider paying them to go to work for your competitors!²

FIGURE 3-2

Performance variability is critical for a position to be strategic

Impact on customer attitude scores

This company, highly regarded for its customer service, surveyed about 45,000 customers to gauge the impact of its 4,583 service reps. It discovered that the top 10% had a positive effect on customer attitudes with 71% of the customers they talked to; the top seven reps created a positive effect with every customer. In sharp contrast, the bottom 10% had a net negative impact of 14% on customer attitude scores, while the bottom three employees alienated every customer they spoke with.



Source: Glen Phelps, "The Fundamentals of Performance Management," *Gallup Management Journal*, February 10, 2005:1-4.

Based on our experience with thousands of practicing managers and a careful reading of the academic literature, we believe that there is more variability in employee performance than many managers realize. Moreover, given the significant role of talent in the strategic success of most firms, we believe this gap is destined to increase. Just as the impact of the workforce on the firm's strategic success is increasing, so too is the variability in employee performance. As employee discretionary effort and knowledge continue to play a larger part in the creation of wealth within firms, the importance of managing these assets strategically increases as well. This means that managers will increasingly need to focus on managing the variability in employee performance.

To further complicate matters, not only are the average levels of variability increasing and the amount of variability differing substantially

across roles, but the impact of workforce performance variability on firm performance can in many cases be asymmetrical; that is, the impact of an increase in workforce performance on firm performance can be either much larger or much smaller than the impact of a decrease in workforce performance. So, as the relative value of the workforce has increased, so too has the relative importance of high and low levels of employee performance. The very best employees (especially in strategic roles) are much more valuable, while the worst employees are more costly than ever in terms of lost profits.

Secondary Characteristics of Strategic (“A”) Positions

Strategic or wealth-creating positions meet the criteria that we have outlined—they impact one or more of the firm’s strategic capabilities, and the employees in those roles exhibit wide swings in performance. The strategic position identification process is partly empirical and partly clinical. Some key points to remember about strategic positions include:

- Strategic positions are those in which top talent significantly enhances the probability of achieving the business strategy.
- Employees are hard to get; top talent is difficult to attract and retain.
- Positions create wealth (by substantially enhancing revenue or reducing costs).
- Mistakes may be very costly, but missed revenue opportunities are a greater potential loss to the firm.
- Selection of the wrong person is expensive in terms of lost training investment and especially lost revenue opportunities.
- Poor performance is immediately detected.
- Strategic positions have major revenue-enhancing or cost-reducing impact on the firm.
- Strategic positions have strategic impact on the firm’s customers.

- Substantial performance variability is possible, depending on the incumbent.
- These positions usually comprise less than 15 percent of the firm's positions.
- Strategic positions are not determined by placement in the firm's hierarchy.

Primary Characteristics of Support ("B") Positions

In contrast to high-impact strategic roles, "B" positions generally support or enable performance in "A" or strategic roles. World-class performance in these roles has only a neutral or modestly positive effect on firm performance. In addition, some positions are defined not so much by the wealth that they create but by the wealth that they can destroy. Said differently, although you can't win with "B" positions, you can certainly lose with them.

For example, imagine the case of a quality inspector in a pharmaceutical manufacturing plant. This is certainly an important role; an impurity or other manufacturing defect in a medicine that causes a product recall could cost the firm billions of dollars. Assuming that the job is structured correctly, however, an increase in the performance of quality inspectors, say from the seventieth to the ninety-fifth percentile, is unlikely to have much effect on the likelihood of a product recall (because the base rate is already so low). However, allowing job performance to fall below proficiency could be extremely costly.

Secondary Characteristics of Support ("B") Positions

In addition to the primary characteristics noted earlier, "B" positions can exhibit a number of secondary characteristics. No position is likely to have all these attributes, but the pattern of results is consistent with the following elements.

- "B" positions support wealth-creating positions.
- Mistakes may be very costly in that they can destroy wealth.

- Selection of wrong person is fairly easily remedied.
- Poor performance may be detected.
- Specific processes or procedures must be followed.
- Job level is the best predictor of compensation.
- Performance beyond a point has little potential for wealth creation or even diminishing returns to the firm.
- Performance variability may be substantial, but performance beyond “standard” has little strategic value.
- Usually most of the firm’s positions are “B.”

Primary Characteristics of Surplus (“C”) Positions

Organizational success depends on *both* strategic success and operational excellence. Many “C” jobs, while having a small influence on strategic success, can be critical to operational excellence. A company might not even want to label them as “C” jobs or they may divide them into two categories: the jobs that contribute to strategic success and the jobs that primarily influence operational excellence. In any case, “C” jobs have the following characteristics:

- The work may be required in order for the firm to function, but it has little strategic impact.
- There is low performance variability in these positions.

Secondary Characteristics of Surplus (“C”) Positions

“C” or surplus positions exhibit the following secondary characteristics:

- “C” positions have little economic impact.
- Employee mistakes and errors are not costly.
- Selection of the wrong person is easily remedied.
- Poor performance is often tolerated.

- There is little discretion in work, and procedures may be dictated by regulation.
- Market price is the best predictor of compensation.

Strategic Positions at Costco and Nordstrom

If we compare Nordstrom and Costco, we find a useful integration of the strategic capability and strategic position concepts. Both of these well-known retailers have been highly successful in the marketplace, and each is known for satisfying its customers. And while there is little overlap in the actual products that they sell, there is a significant degree of overlap in their customer bases (at least for the authors, who have often shopped at both stores, sometimes on the same day). But this is where the similarities end: despite a similar focus on retail sales and customer satisfaction, the processes through which they execute these strategies are quite different.

Nordstrom's customer intimacy strategy means that it needs to provide the latest, highest-quality, fashionable merchandise, professional expertise, and personalized service (via the personalized shoppers who have made the store famous). Delivering on these promises means that the firm must have world-class strategic capabilities in customer-facing sales, purchasing, supply chain, and marketing. Thus, a few strategic positions are key to its success: personal shoppers, fashion buyers, systems designers (in the supply chain), and customer-insight specialists (in marketing).

In contrast, for Costco, delivering on its operational excellence strategy means that customers must perceive it as providing the best value, product variety, convenience, and speed of transaction. The strategic capabilities that matter most at Costco involve real estate sourcing, purchasing, logistics, merchandising, and membership management (customers who consistently pay the \$50 annual membership fee are a significant source of revenue for the retailer). As a consequence, the strategic positions at Costco are likely to be site-location analysts and specialists in category purchasing, logistics, layout, and membership management.

FIGURE 3-3

Wealth-creating workforces

Nordstrom		Strategic choice: Customer intimacy				
Customer perception of firm attributes	Strategic capabilities	1. Consumer-facing sales	2. Buying	3. Supply chain	4. Marketing	5. Leadership
<ul style="list-style-type: none"> • Best solution • Fashion forward • Professional expertise • Personalized service 	Strategic positions	1.A. Sales counselors	2.A. Fashion buyers	3.A. Systems designers	4.A. VP-marketing	5.A. CEO
	<ul style="list-style-type: none"> • Wealth impact • Performance variability 	1.B. Category supervisors	2.B. Purchasing contractors	3.B. Logistics engineers	4.B. Consumer insight specialists	5.B. Store managers
					4.C. Brand managers	
Costco		Strategic choice: Operational excellence				
Customer perception of firm attributes	Strategic capabilities	1. Real estate	2. Purchasing	3. Logistics, distribution and information systems	4. Merchandising	5. Membership maintenance
<ul style="list-style-type: none"> • Best value • Convenient • Variety • Speed 	Strategic positions	1.A. Site-locating analysts	2.A. Category purchasing specialists	3.A. Logistics analysts	4.A. Layout specialists	5.A. Membership marketing specialists
	<ul style="list-style-type: none"> • Wealth impact • Performance variability 			3.B. Distribution contract negotiators	4.B. Store managers	5.B. Membership systems manager
					4.C. Promotions specialists	

Personalized service and advice are key at Nordstrom, while product availability and low prices are key at Costco. As a result, the key jobs differ as well. Figure 3-3 describes the significant differences in workforce philosophy, mind-set, culture, and workforce management systems at Costco and Nordstrom.

Impact of Performance Variability on Wealth Creation

We've argued that strategic impact provides the *context* and performance variability provides the *opportunity* for creating shareholder wealth. The quickest route to increasing shareholder wealth is to increase employee performance in strategic positions, which is done by simultaneously increasing average employee performance and reducing