Part One

General Frameworks

CHAPTER 1

STRATEGIC TALENT MANAGEMENT MATTERS

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A Leadership Imperative

Why do organizations succeed or fail? Ultimately it comes down to talent. Did the organization have the talent to make the right decisions regarding where to invest financial and human resources, how to innovate and compete, and how to energize and direct the organization to achieve the business strategy? For good or ill, people make the decisions and take the actions that result in the success or failure of their organization. Many times CEOs (chief executive officers) get all the credit or all the blame, but in our experience, it is the quality of talent throughout the organization that ultimately leads to the creation and effective execution of successful strategy. Gary Hamel argues that "people are all there is to an organization" (cited in Sears, 2003). Collins (2001) suggests that having the right people comes before having the right strategies.

Have you ever asked a CEO or senior executive what issues he or she spends the most time on and worries about the most? Based on our sixty years of combined business experience across many corporations, our answer is that the most effective CEOs and senior executives focus as much on talent issues as they do on financial issues. Jack Welch (2006) made the point that talent management deserves as much focus as financial capital management in corporations. Larry Bossidy (2001) concludes that "there is no way to spend too much time on obtaining and developing the best people." Other CEOs in a recent interview study seem to agree, suggesting that talent management takes as much as 50 percent of their time (Economist Intelligence Unit & Development Dimensions International, 2006; Silzer, 2002a). Similar conclusions are reached on the critical importance of talent and talent management by other professionals and thinkers in the field and by various executive and corporate surveys (Bernthal & Wellins, 2005; Hewitt Associates, 2005; Michaels, Handfield-Jones, & Axelrod, 2001; Corporate Leadership Council, 2006; Morton, 2004; Lawler, 2008; American Productivity and Quality Center, 2004).

Financial resources may be the lifeblood of a company, but human resources are the brains. It has long been accepted that sound financial management is critical to business survival. This is especially true in challenging economic times. However, having strong talent and sound talent management is equally critical to business survival.

Linking Talent and Talent Management to Financial Outcomes

There has been some agreement that having strong talent in the company has a positive impact on business outcomes (Lawler, 2008; Michaels et al., 2001). A McKinsey survey of 4,500 senior managers and officers at 56 U.S. companies (Axelrod, Handfield-Jones, & Welsh, 2001) found that senior executives report that "A" players, (defined as the best 20 percent of managers) who are in operational roles raise productivity by 40 percent over average performers; those who are in general management roles raise profitability by 49 percent over average performers; and those who are in sales roles raise sales revenues 67 percent more than average performers.

One manufacturing company found that the best plant managers increased profits by 130 percent, while the worst managers brought no improvement. It should be noted that the productivity ratings were survey estimates by senior executives, so the estimates may include some subjective bias.

Business executives have suggested that talent management practices need to lead to measurable financial business results.

Gubman (1998, p. 294) reviews the "large and growing body of evidence from a variety of sources that shows being an employer that values its workforce, demonstrates it, and tries to improve talent management practices tied to business strategy pays off with better long term financial performance." He suggests that "more than 100 pieces of research have been conducted in the last 10 to 15 years trying to connect management practices with financial success."

Some studies connect having a people-oriented culture with financial gains. For example, Collins and Porras (1994) found that the cumulative stock return since 1926 for visionary companies, defined as "role models for management practices around the globe," outperformed the general stock market by more than 15 times. However companies matched to the visionary companies on other factors outperformed the general market by only two times. When they investigated how these visionary companies "construct their culture," they found differentiating criteria that include these talent management practices:

- Extensive new employee orientation
- Use of selection and rewards to align employees with company values
- Formal management development programs
- Careful succession planning and CEO selection
- Investment in human capabilities through recruiting, training, and development

Pfeffer (1994) first identified companies with the highest total return to shareholders (stock appreciation plus dividend yield) and discovered that they differ from other companies on the way they managed people, with some specific distinctions in selection, training, labor relations, or staffing.

A number of studies looked at how the number of talent management practices used might relate to financial performance. Huselid (1995) rank-ordered 700 companies and grouped them by quintiles based on the number of basic talent management practices (such as recruiting, selection, training, performance appraisal, and pay practices) they used in their company. He demonstrated a significant and progressive increase in annual shareholder return and gross return on capital, with higher-quintile companies showing progressively larger returns. A follow-up study on 986 companies with a more refined list of management practices found a significant increase in sales per employee, market value per employee, and cash flow per employee and a decrease in turnover for companies that used more of the human resource (HR) practices (Huselid, 1995).

McKinsey followed up their original research, *The War for Talent* (Michaels et al., 2001), with several more extensive survey studies. In a 2000 McKinsey survey of 6,900 managers, including 4,500 senior managers and officers at 56 U.S. companies, Axelrod et al. (2001) concluded that the companies doing the best job of managing talent (in the top 20 percent on self-identified talent management practices) outperform their industry's mean return to shareholders by 22 percent.

McKinsey also looked at the impact of global talent management practices. In a study of 22 global companies and 450 CEOs, senior managers, and HR professionals, Guthridge and Komm (2008) sorted the companies into three groups based on their combined company score on ten dimensions of global talent management practices. The research found a significant relationship between a company's global talent management score and financial performance. Companies scoring in the top third based on a combined talent management score earned $168 average profit per employee compared to $93 for the bottom third of companies. The following are the talent practices that most distinguished the companies in the top and the bottom thirds on the combined talent scores:

1. Creating globally consistent talent evaluation processes
2. Achieving cultural diversity in global setting and
3. Developing and managing global leaders

Companies achieving top third scores for any one of these three practice areas had "a 70 percent chance of achieving top third financial performance" (p. 4). In other words, doing any one of these practices seemed to relate to higher financial performance. Other talent practice areas that also distinguished the top third from the bottom third were translating human resources information into action, creating internal talent pools, and sourcing and recruiting global talent.

Several researchers have looked at the link between a specific talent practice and financial measures. Danielle McDonald at Hewitt Associates studied 432 companies (cited in Gubman, 1998) and looked at the impact of having a formal performance management process versus having no process, or a simple informal one, on financial measures. She found a significant link to higher return on equity (ROE), return on assets (ROA), return on investment (ROI), total shareholder return, sales per employee, and income per employee over a three-year period. The study concluded that companies with a formal performance management process had higher profits, better cash flows, stronger market performance, and greater stock value. In addition, McDonald looked at financial indicators before and after performance management process implementation and found statistically significant improvements after implementation in total shareholder return (24.8 percent increase) and sales per employee (94.2 percent increase) over a three-year period.

Other studies found similar links to financial results for other practices. Bernthal and Wellins (2005) showed a relationship between having stronger leadership development systems and higher ROE and profit for companies when compared to competitors. A 1999 study by the Sibson & Company and McKinsey Associates (cited in Wellins, Smith, & McGee, 2006) showed a link between the quality of the company's succession management program and increased shareholder returns. And studies by Lawler, Mohrman, and Ledford (1995) found a significant relationship between the use of employee involvement programs in a company and larger ROA, ROI, ROE, and return on sales, but the use of the programs had only a modest impact on employee productivity measures and no impact on total return to investors. However, one study by Watson Wyatt Worldwide (2001) found that the use of a multirater feedback survey had a negative correlation with organizational performance. Perhaps poorer performing companies saw a greater need to improve management performance by giving competency ratings feedback to managers.

In general, the relationship between the implementation of talent management practices and an impact on business results is a difficult area to study because of the confounding list of other variables that might also have an impact on these financial outcomes. From our perspective, there does seem to be a link between talent practices and financial outcome measures, but it would be premature to conclude that it is causal.

In many successful business corporations, talent management receives attention similar to that given to financial management. It is a leadership imperative for them. For many years, leading companies have seen effective talent management as a competitive advantage over other companies that give limited attention to their talent. Leading corporations, among them, PepsiCo, Microsoft, Home Depot, Ingersoll Rand, Cargill, and Allstate (all explored in individual chapters in this book), understand that talent management is more than just a competitive advantage; it is a fundamental requirement for business success. These corporations tend to have talent management systems and processes that are both integrated and strategic—focused on achieving specific business objectives. A frequent and comprehensive talent review is now often seen as one of the core business processes in the corporation, along with operational reviews and financial reviews.

Business Reasons for Talent Management

Talent management is now more than a desirable HR program: it is a leadership imperative. It is difficult for any business corporation to succeed in the long term without making talent central to the business model. This is particularly true because of the complex business challenges that need to be addressed.

The business environment since the early 1990s has gone through a significant expansion with falling trade barriers and the globalization of business. For many companies, growth has come through global expansion, particularly into China and India. This expansion has put a premium on having the global talent needed to support these initiatives (McCall & Hollenbeck, 2002; Sloan, Hazucha, & Van Katwyk, 2003) and has provided great visibility to successful global leaders (Kets DeVries & Florent-Treacy, 1999). This has resulted in greater competition for the best talent (Michaels et al., 2001). The growing worldwide demand for talent, along with the shrinking availability of exceptional talent, has made talent acquisition, development, and retention a major strategic challenge in many companies.

The business world is changing in many ways and there are a number of factors that have contributed to the critical significance of talent:

- An increasing worldwide demand for talented leaders and executives with the growth of emerging markets in Asia and Latin America
- A shrinking pool of experienced and talented leaders in the Americas, Europe, and Japan
- The complexity and faster pace of global business and the need to have talent available to adapt quickly to changing business conditions
- The realization that within an industry there are specific organizational capabilities necessary to achieve competitive advantage and a need to recruit and retain the leading talent with specialized competence to build that capability
- The difficulty of retaining critical talent due to a shift to self-managed professional careers where talented individuals aggressively pursue their careers and actively seek advancement by moving across different companies and geographic boundaries

Corporations have gone through several business cycles since the 1980s and have learned some lessons about being successful. One major trend has been to look carefully at internal costs and expenses and identify as many ways as they can to make sure the organization runs as efficiently and lean as possible. For example, this has led to centralized shared services, outsourced functions, and an ongoing expectation that a compelling business case needs to be made to retain or invest in a function, program, or initiative to determine if it continues to add value or will add value in the future to the corporation. The strategic objectives of the company are now central to most business decisions. Executives want to clearly see how a function, program, or initiative contributes to achieving their specific business strategies.

Strategically Driven Human Resources

Most organizational functions and capabilities must now demonstrate their strategic value to the company. The Human Resources function is now under the same scrutiny. HR, like other corporate functions, has increasingly been judged by its contributions to the company's strategic objectives (Guthridge, Komm, & Lawson, 2008; Hewitt, 1997; Ulrich, 1997; Beer, 1997). Some of the expectations of Human Resources include:

- Playing a critical role in identifying, developing, and protecting core organizational capabilities, and the supporting individual competencies, that enhance or establish competitive advantage
- Identifying and delivering the talented individuals who have the competencies required to achieve competitive advantage
- Finding global talent and pursuing talent strategies that support entering or surviving in other geographic markets
- Considering outsourcing to external vendors or handling by information technology some traditional HR functions, particularly administrative activities, that do not provide competitive advantage
- Ensuring that compensation, benefits, and other HR areas play significant roles in making the challenging decisions involved in designing systems to attract and retain talent while minimizing unnecessary costs
- Improving HR productivity by shifting to a more consultative role, advising line managers on how to better align their management approach, systems, and processes to achieve business objectives

As a result, senior executives are learning how to effectively leverage Human Resources and talent management for greater strategic impact. Programs and initiatives are increasingly expected to align with and be driven by specific business objectives and strategies.

Matching Executive Talent to Business Strategy

One example of how human resource efforts have become more strategically driven is in the selection of senior executives. Companies that are having business problems or a lack of financial success often face significant public scrutiny of the executives running the company. Frequently these concerns lead to the termination of the CEO or other associated executives. The 2008 financial industry crisis, although an extreme example, shows that senior executives are increasingly held personally accountable for poor company performance and are severed from the company. Boards of directors are now more likely to step up to their own accountability to various stakeholders by changing the senior management. The actual rate of executive turnover is not precisely known (Hollenbeck, 2009), but there is some general agreement that it is high.

There may be several reasons for executive turnover. Hollenbeck (2009) suggests that executive selection techniques may be at fault. We have been observing executives for many years, and it has become apparent to us that executive failure can also be caused by poorly matching candidates to the business situation and strategy. Few executives are equally effective in dealing with different business environments and challenges, and different business strategies may require different leadership approaches (for example, high-growth versus restructuring and cost-control business environments). Few would argue against the observation that executives now face a constantly changing business environment. Simultaneously financial analysts and stockholders in public companies now insist on faster organizational responses to changing business conditions in order to maintain steady financial returns.

Our experience suggests that most individual senior executives are more likely to be successful in some environments than others. A senior executive who is hired specifically for the skills and abilities to drive business growth may be less well matched for undertaking a major corporate restructuring or cost-reduction effort. An executive with a strong track record of financial management and analysis may be more effective in a business cycle that requires strong financial control than one that requires a focus on product or service innovation.

Increasingly we are getting more effective at identifying the type of talent needed for different strategies. Talent management professionals are becoming more skilled at determining which talent profiles would be more successful than other profiles for accomplishing certain strategies. We can better match individual executives to particular executive positions and companies. There is an increasing expectation that the talents of an individual or executive team need to match business strategies and organizational demands. While this has been suggested in the past

(Gerstein & Reisman, 1983; DeVries, 1992; Silzer, 2002b), it is now being given more attention in executive selection decisions. Corporations are now more likely to carefully outline the specific business environment and business strategies and identify the specific executive skills and abilities required in the position. An effort is made to select executive candidates whose talent profile matches the position and business situation.

There is some risk that a match to near-term requirements may ignore longer-term executive requirements. If a candidate is well matched to the immediate executive opportunity and business strategy, the individual may be less well matched for new strategies and situations as the business evolves and changes. The decision to focus on fidelity to current needs, or maximizing the short-term match, can result in a mismatch over the longer term when the business requirements later change.

Executive failure can occur sooner if the candidate is not a good match for the immediate business situation and later if the candidate is not well matched to different future challenges. Either way, the talent must be the right fit for the situation and the strategies. Unfortunately, there are few executives who can be equally effective in a range of business situations, which is one reason executive tenure, particularly CEO tenure, is declining.

In general, corporations are beginning to better match talent with longer-term business strategy. However, the quality of the match may last only as long as the business strategy and business environment stay the same. For some companies in some industries with little change, this approach works well. Some leading companies, particularly those in fast-changing industries or global markets, now recruit or identify internal executives who have fungible skills and abilities that can adapt to different business situations and demands. This still focuses on identifying and matching individuals to the business environment and strategy but tries to identify broadly talented, fungible individuals who can learn and adapt to new business requirements. For example, some companies such as Bristol-Myers Squibb are enhancing their executive selection methods by supplementing assessments of an executive's ability to achieve short-term strategic objectives with an assessment of the executive's ability to learn and adapt to new strategies and business conditions.

This ability to adapt to future needs is receiving significant weight in selection decisions.

Talent management efforts must produce the talent needed to achieve specific business strategies. Numerous examples throughout this book show the link between talent and business strategies. Although generally the business strategy drives the talent strategy, sometimes the reverse happens. Some companies are becoming more sophisticated in assessing the existing talent in the organization and developing business strategies that best leverage that talent (companies with entrepreneurial talent starting new businesses or companies that are good at customer service starting new service businesses). At other times, companies have realized that they had a shortage of talent in a particular area and were unable to pursue a desired strategic initiative.

What Is Talent?

The term *talent* dates back to ancient Greeks and biblical times, starting out as measure of weight, then becoming a unit of money, and later meaning a person's value or innate abilities (Michaels et al., 2001). We might now refer to a person with innate abilities as a "gifted" individual.

We could make a distinction between individuals who have innate abilities in an area (who are gifted) and those who have learned their skills and knowledge. Of course, people have a mix of natural and learned abilities and skills. That distinction, however, is not common in organizations, so our use of the term *talent* includes people with both innate and learned skills.

In organizations *talent* can refer to:

- An individual's skills and abilities (*talents*) and what the person is capable of doing or contributing to the organization
- A specific person (*she is a talent*, usually implying she has specific skills and abilities in some area) or
- A group (*the talent*) in an organization

In groups *talent* can refer to a pool of employees who are exceptional in their skills and abilities either in a specific technical area (such as software graphics skills) or a competency (such as consumer marketing talent), or a more general area (such as general managers or high-potential talent). And in some cases, "the talent" might refer to the entire employee population. Many companies now have multiple talent pools, beyond their high-potential pool. Other versions have been called *acceleration pools* (Byham, Smith, & Paese, 2002) and *pivotal talent pools* (Boudreau & Ramstad, 2005), which are different ways to define a talent pool and guide decisions about talent and on how much to invest in them.

Over the years as companies have delayered, eliminated bureaucratic systems, and globalized, the nature of organizational talent has changed (see Sears, 2003, for a summary) from a focus on division of labor distinctions to an evaluation of strategic contributions. Sears suggests that "talent is knowledge" (as a competitive advantage) and that it is shaped by what customers value. For the purpose of this discussion, we will use the three definitions of talent listed above.

Defining Talent Management

Talent management is an emerging concept in corporations. Although the term *talent management* is becoming more widely used, it does not have a single, clear definition. Discussions about talent management often focus on what processes or components are included and what types of talent are managed. The term is often used informally without any specific definition. Lewis and Heckman (2006) found a variety of definitions for talent management—as a process, as an outcome, and as a specific decision—which adds to the confusion.

Some people use *talent management* as a synonym for *human resource management* and nothing more. This meaning essentially includes all of the traditional human resource processes: recruiting, selection, development, human resource planning, performance management, retention, and others. There are even suggestions that some organizations are considering renaming the human resources department as the talent management department, although we know of no actual examples where this has been done. The title of Director or Vice President of Talent Management is becoming common in major organizations. With each of the past name evolutions, from employee relations, to personnel, to human resources, there has been a reconceptualization of the function, resulting in a different approach to the function. Similarly, the introduction of the term *talent management* may provide the business world with an opportunity to establish a new definition and expectation for HR performance and effectiveness. While we are not advocating that HR change its name, we do think that talent management represents something much more than just a collection of existing HR processes.

Talent management has been used more narrowly either as a new term for an existing HR function (as a substitute for succession planning, human resource planning, or leadership development) or to focus on a select group of employees (individuals who are seen as having exceptional skills and abilities or having the potential to handle greater responsibility). We think the use of *talent management* to refer to only a small group of employees or a singular process is too narrow and potentially damaging to an organization. Both approaches can exclude large groups of employees from the talent management process.

This issue is related to the current discussion among human resource professionals on where to invest employee development funds. One argument is to make significant investments in the broad group of employees and not just in a select group (such as the high-potential pool) since their continued strong performance and personal growth is important to the organization. Others (Boudreau & Ramstad, 2005) argue that organizations should differentially invest in special groups of employees—the "pivotal talent"—that are more strategically important to the organization and invest much less, if at all, in other less critical employee groups.

The term *talent management* could include a long list of HR processes and components and cover only some, most, or all employees. Varied definitions are being used. (See the sample definitions in Table 1.1.) Some definitions are very narrow and focus only on a single process or employee group, while other definitions are so broad and all inclusive that it is difficult to know what they intend to include.

Lewis and Heckman (2006) criticize many definitions of talent management as having no clear meaning or not being sufficiently

Table 1.1. Sample Definitions of Talent Management

Source	*Definition of Talent Management*
Avedon (see Chapter 20, this book)	Talent Management: " . . . is an integrated set of processes and procedures used in an organization to attract, onboard, retain, develop and move talent, as well as to exit talent, to achieve strategic objectives."
Graddick-Weir (see Chapter 20, this book)	" . . . is our ability to attract, develop and retain key diverse talent to meet critical current and future business needs."
Cerrone (see Chapter 20, this book)	" . . . is attracting, retaining, and developing the right people with the right skills in the right roles."
Cappelli (2008b)	" . . . is the process through which employers anticipate and meet their needs for human capital . . . " (p. 1). " . . . the goal is the more general and important task helping the organization achieve its overall objectives" (p. 5).
Lawler (2008)	" . . . an outstanding talent management system . . . attracts the right talent and helps them understand exactly what to expect from their work experience with the company. . . . also provides employees with the kind of development experiences that build the organization's capabilities and core competencies so they retain the right talent" (p. 63).
Morton (2004)	Focuses on a series of eight categories of individual initiatives and how they fit together to comprise TM. Talent is defined as "individuals who have the capability to make a significant difference to the current and future performance of the company" (p. 10).

Wellins et al. (2006)	" . . . is the recruitment, development, promotion and retention of people, planned and executed in line with your organization's current and future business goals" (p. 2).
Sloan et al. (2003)	" . . . is managing global leadership talent strategically, to put the right person in the right place at the right time" (p. 236).
American Productivity and Quality Center (2004)	. . . is "the cradle to grave processes to recruit, develop, and retain employees within an organization" (p. 1).
Jackson & Schuler (1990)	Human resource planning is to "ensure the right person in the right job at the right time" (p. 235).

strategic. However, we think there is great value in the term and suggest that it can be useful, strategic, and grounded in business reality. Our definition of talent management can be found in Exhibit 1.1.

Our definition does not focus on any single HR process but rather includes a range of activities that attract, develop, deploy, and retain. We think this definition captures the core objectives and components of talent management.

Talent Management Components

There is some emerging agreement on which HR activities should be included under the umbrella of talent management, and includes activities that benefit or focus on individuals such as recruiting, staffing, development, performance management and retention. These seem to most clearly connect with managing the talent in the organization. However many, if not most, HR activities and processes are somewhat connected to talent management. See Table 1.2 for this list.

Exhibit 1.1. Core Talent Management Definition: Silzer and Dowell

Talent management is an integrated set of processes, programs, and cultural norms in an organization designed and implemented to attract, develop, deploy, and retain talent to achieve strategic objectives and meet future business needs.

A recent HR executive interview study by the Conference Board identified the components of talent management as recruitment, retention, professional development, leadership and high-potential development, performance management, feedback and measurement, workforce planning, and culture (Morton, 2004). Others might argue that additional HR activities and systems should also be included as components or that some activities on the Conference Board list might not always be directly connected to talent management.

For example, compensation systems are often leveraged to attract and retain talent in organizations. One could argue that this is the main purpose of compensation: to attract, motivate, and retain particular individuals or groups of employees, such as sales representatives or engineers. So for specific groups and specific individuals, the compensation system is often used to manage talent in an organization. However, compensation is not usually seen as part of talent management. There are other HR activities, (see Table 1.2) such as organization culture initiatives, employee engagement programs, and employee surveys that at times might contribute to attracting, developing, deploying, and retaining talent.

There is another group of HR activities and processes that few people would specifically include in talent management. These activities, such as organizational development, focus more clearly on organizational issues and seem only tangentially related to talent issues. Employee benefits usually falls in this category as well, primarily because of federal regulations and labor agreements

Table 1.2. Talent Management Components

Included Under Talent Management?	***Human Resource Activities and Functions***
Usually included	Recruiting
	Selection, promotion
	Placement, assignments
	Onboarding, assimilation
	Retention initiatives
	Reward and recognition programs (other than compensation)
	Training, development, learning opportunities
	Coaching, mentoring
	Leadership and executive education and development
	Performance management
	Career planning and development
	High-potential identification and development
	Employee diversity efforts
	Succession management and planning
	Organizational talent reviews
	Measurement and evaluation of talent management efforts
Sometimes included	Compensation systems, recognition programs
	Organizational culture initiatives
	Organizational values initiatives
	Organizational capability development efforts
	Organizational structure changes
	Workforce planning
	Employee engagement
	Employee surveys
	Work and job design

(*Continued*)

Table 1.2. Talent Management Components (*Continued*)

Included Under Talent Management?	*Human Resource Activities and Functions*
Usually not included	Labor relations strategies
	Employee and labor negotiations
	Organizational development
	Organizational change efforts
	Organizational design
	Employee benefits
	Lifestyle initiatives (such as flextime)
	Termination and severance processes
	HR information systems

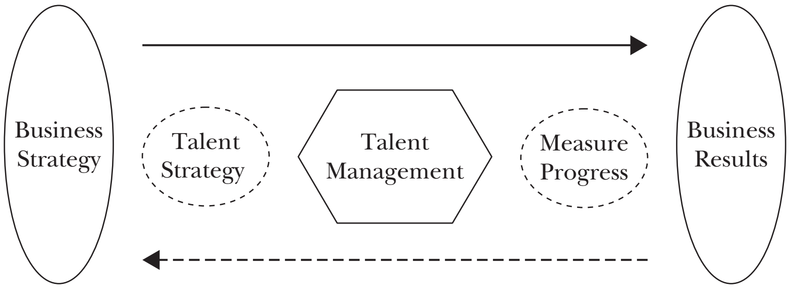
that dictate certain required components. However, organizations have begun to offer employees some benefit options. For example, there are choices around flextime, when to take personal holidays, and level of health coverage. Some employees are now making career decisions based on the attractiveness of benefits offered at different companies. Kalamas, Mango, and Ungerman (2008) argue that employee benefits should be seen as a competitive weapon and clearly linked to talent management efforts.

Some people might argue that all HR activities and processes contribute to and should be included under the umbrella of talent management. They are likely to see *talent management* and *human resource management* as synonymous. Most HR professionals, however, see these as different from each other (see a related discussion in Chapter 20) and view human resource management as the larger umbrella including essentially everything listed in Table 1.2.

Talent Management Model

Talent management must not just coexist with many other organizational programs and systems but also support and coordinate with them. It must be driven by the business strategies and in turn help drive business results. This relationship is represented

Figure 1.1. Talent Management Framework



in Figure 1.1 The business results should then in turn influence setting new business strategies and talent strategies. The business results in many organizations are used as a broad outcome measure of whether the talent management effort is effective.

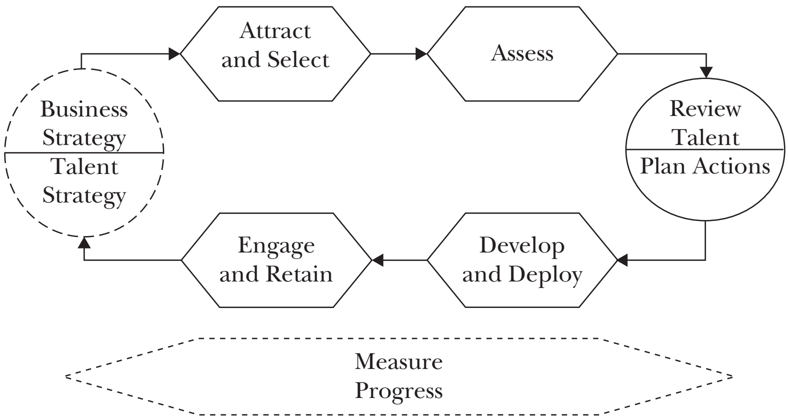
The talent management framework in Figure 1.1 shows the relationships among business strategy, talent management, and business results. We suggest that organizations use five main processes to ensure that the necessary talent is available to achieve their business strategies, and most HR programs, systems, and processes are related to these five talent processes:

1. **Attract and select** talent to the organization.
2. **Assess** competencies and skills in talent.
3. **Review** talent **and plan** talent actions.
4. **Develop and deploy** talent.
5. **Engage and retain** talent.

These talent management components are more than just independent activities and processes. Later we will discuss why they need to be connected and integrated. Most HR professionals are very aware of the natural flow of talent through the organization, beginning with efforts to attract and recruit talent and moving through various HR assessment and development processes to retention efforts. A model of how talent flows through a company is represented in Figure 1.2.

The talent management model in Figure 1.2 illustrates how talent moves through an organization and through various talent management systems and processes. Ultimately the success

Figure 1.2. Talent Management Model



of each of the components and the system as a whole should be measured and the results used to guide both the business strategy and the talent strategy.

Talent management, however, is more than a string of HR programs and processes, which Gubman and Green (2007) describe as a programmatic approach to managing talent in an organization. It is a new of thinking about, designing, and implementing talent processes and systems. In some ways, it is a systems approach to thinking about talent. Boudreau and Ramstad (2007) argue that managing organizational talent and human capital should become a decision science like financial management. We support the use of evidence-based decision making regarding talent; however, because of the complex individual differences among people, it will be difficult for talent management to become a precise decision science.

Talent management systems and processes need to be strategically driven and fully integrated with each other. These qualities and others can take talent management efforts to much higher levels of effectiveness and greater organizational contributions.

Talent Management Success Factors

Talent management efforts are becoming more widely known and used in many business organizations. We are interested in finding out what separates effective and successful talent management systems—the ones that add true value to an organization—from the less effective systems. We discussed this with many colleagues in a wide range of companies and asked them to share their experiences and their views on which companies have the most effective talent management efforts and why those efforts are successful. Many of these companies are mentioned in this book, and some of our colleagues, who are doing leading-edge work in talent management, agreed to write chapters for this book about their insights and experience.

For many years, human resource departments have been working hard to make sure they had effective recruiting efforts, staffing departments, leadership development programs, succession planning reviews, and other HR programs. Since the early 1990s the focus for many organizations has been on building solid human resource functions, programs, and systems. Some organizations achieved their goal of being highly effective in specific areas of HR and established a reputation for being a leading edge HR group. However, a higher level of performance expectation is now being set that requires both an integrated and a strategic talent management effort. Many organizations are now working toward this objective.

Based on our experience and the perspectives of others, we think there are four distinctions that characterize the most successful talent management efforts. The four success factors for talent management distinguish more advanced talent management efforts from those that are made up of effective but independent HR programs, systems, and initiatives—a programmatic approach. The four distinctive success factors for talent management, or the DIME model, are presented in Exhibit 1.2.

Exhibit 1.2. DIME Model of Talent Management Success

- Driven by Business Strategy
- Integrated with Other Processes
- Managed as a Core Business Practice
- Engrained as a Talent Mindset

1. Driven by Business Strategy

In most organizations, there is widespread understanding of the company's business strategies and a strong focus on achieving them. Due to increased competition and limited financial resources, organizations are making tough choices on where to invest those resources and which strategies and products to pursue. The days of the broad conglomerates may be waning as companies divest businesses that are not core to their mission or split into multiple independent companies. Organizational functions have had to demonstrate that their structures, processes, initiatives, and people are aligned with a clear set of business objectives. Anything that does not clearly and directly support those strategies does not get funded. Like other functions, HR has had to become much more strategic, and at the center of that effort is the strategic role of talent management.

The connection between talent management and business strategy has its roots in two trends that have emerged since the mid-1990s:

- The emergence of talent as strategic resource and competitive advantage
- The evolution of the Human Resources function as a strategic business partner

Talent as a Strategic Resource

The idea of viewing talent as a strategic resource has been discussed for decades. For example in the 1960s, engineering talent was seen as a strategic resource needed for the United States to remain competitive with the Soviet Union in the space race. There was a rush to establish, fund, and promote engineering education in the United States.

In the 1990s, executive talent was beginning to be seen as a strategic resource and competitive advantage to business. This was evident in their high public profiles and the media attention they attracted, as well as the extraordinarily high compensation packages they were paid. There was also more visible attention paid to CEO turnover, with some companies, such as AT&T, having multiple CEOs in a relatively short time period. The individual differences in the skills, abilities, and experience of CEOs were often seen as directly affecting the financial results of a company. The business world and financial analysts paid attention to the way the business press depicted the impact of corporate leaders on company results and the "great man" theory of leadership seemed to regain some currency (Organ, 1996).

During this period Zuboff (1988) and Stewart (1997) were discussing the relationship between talent and business strategy by outlining the impact of technological innovations on the value of talent with specific technical skills and pointing out the difficulty of replacing that specialized talent from the marketplace. High-value, difficult-to-replace technical talent was beginning to be seen as a strategic asset. Their approach helped to identify the strategic talent in the organization, that is, those individuals or groups of individuals who create a competitive advantage for the company. Zuboff (1988) argued that talent is critical to business strategies, and Stewart (1997) suggested that this strategic talent might be found at all levels in the organization. Boudreau, Ramstad, and Dowling (2003) now call these *pivotal talent pools.*

In the same vein, Gubman (1998) was making the case that "your workforce is the only thing that is both necessary and sufficient to execute strategy" (p. 15). He argues "the real strategic opportunities for becoming a singular success, achieving uniqueness, and moving quickly lies in your most unique and potentially most powerful resource—your workforce" (p. 16).

Some companies, such as GE, gained a reputation for developing and producing successful corporate executives who were then highly sought after by other companies and moved into CEO positions in many other organizations. GE's executive leadership talent was seen as a strategic asset and a competitive advantage.

Others companies focused on different strategic talent pools. Capital One Financial created a huge corporation, almost from scratch, that put talent at the center of its business strategy. The objective was to build the business analyst and business entrepreneur talent pools, which in turn could start, build, and lead a wide range of businesses. Merck, a pharmaceutical company, gives a lot of attention to identifying and recruiting the leading scientific researchers in particular medical areas, such as diabetes, in order to capture the premier talent and become the leading provider of pharmaceutical products in that area. Honeywell, a wide-ranging manufacturing firm, focused on building a talent pool of general managers who could run a range of businesses. Strategic talent, in a variety of roles but particularly leadership talent, has moved to the center stage in the business world as a critical resource. Collins and Porras (1994) suggest that effectiveness in developing internal leadership talent is one of several factors that predict an organization's performance and longevity.

Companies are starting to see that some talent is not easily replaceable. The demand for leadership talent, particularly global leadership, is rising as the large baby boom generation of leaders is beginning to retire. More companies are chasing and competing for a shrinking resource (Michaels et al., 2001; Bartlett & Ghoshal, 2002). The McKinsey global surveys in 2006 and 2007 (McKinsey & Company, 2007; Guthridge, Komm, & Lawson, 2008) found that global respondents "regarded finding talented people as likely to be the single most important managerial preoccupation for the rest of this decade" and "expect an intensifying competition for talent—and the increasingly global nature of that competition—to have a major effect on their companies over the next five years" (p. 5).

Talent is seen as a scarce resource. And as Barney (1995, 2001) suggests, companies gain sustained competitive advantage when they develop "resources that are valuable, rare and hard to imitate." Some companies have tried to leverage their existing internal strategic talent for new business development, such as when an industrial company leverages its internal high-performing customer service function to start a separate customer service business. However, most companies, such as GE and Capital One Financial, build their strategic talent to match their business model and strategy.

Borrowing a phrase from Andy Grove (1999) at Intel, McKinsey Associates suggest that the "war for talent is a *strategic inflection point*" for business (p. 2). It is one of those turning points in business when something, such as a technological innovation or the emergence of a major new competitor, significantly changes the way everyone approaches their business. They argue "that talent is now a critical driver of corporate performance and that a company's ability to attract, develop and retain talent will be a major competitive advantage far into the future" (Michaels et al., 2001, p. 2).

Lawler (2008) notes that "increasingly, companies in a wide variety of businesses are finding that people can be their number one source of competitive advantage" (p. 1). In fact talent issues need to be carefully considered when developing business strategies. He suggests that "talent considerations are central to both the development and the implementation of business strategy" (p. 9).

In a recent global survey, senior executives from around the world indicate that their two most important management challenges are recruiting high-quality people from multiple territories and improving the appeal of the company culture and work environment. Over 85 percent of these same executives said "that people are vital to all aspects of their company's performance particularly their top strategic challenges: increased competition, innovation and technology" (Deloitte Touche Tohmatsu & Economist Intelligence Unit, 2007).

Some argue that selecting top performers makes a big difference in business results. Axelrod et al. (2001) suggest that the "top performing 20 percent or so of managers . . . were twice as likely as average ones to improve operational productivity and to raise sales and profits" (p. 2). Some argue that organizations should get the very best available talent in every position (Smart, 1999), and McKinsey (Michaels et al., 2001) seems to support the view of hiring only star players. But that approach may be counterproductive for organizations in some positions. We would argue that in an era of limited resources, organizations cannot afford to have the most talented individuals in every position: it would be costly and may even be detrimental to employee engagement and motivation. Highly talented individuals in strategically unimportant positions are likely not to receive the attention, work challenges, career opportunities, and rewards that they require to stay engaged. Boudreau and Ramstad (2005) suggest that resources should be focused on the strategic talent and not invested equally across all employees.

Strategic Human Resources

The most effective HR programs are designed to support and achieve specific business strategies. Each program must be able to clearly outline how it directly supports a strategy. In many cases, this is measured by specific concrete outcomes. Corporations are becoming leaner and wiser about where to invest limited resources, and HR is being required to demonstrate the value that human resource programs add to the business. As a consequence, we are getting much better at deciding where investment in talent management programs will create the most value and in measuring the impact of HR programs and contributions to the business strategy. This book is full of business examples of the connection between talent management initiatives and business strategy.

Converting Business Strategy into HR Strategy

Clear organizational attention has been given to translating business strategies into human resource and talent strategies. Increasingly these efforts include establishing an HR or talent brand for the company, establishing company values and an aligned internal culture, and building the broad organizational capabilities and competencies needed to achieve business objectives.

The process of aligning HR strategies with business strategies can be complex and challenging, particularly if HR efforts are only considered after the business strategies are already set. Many argue that HR needs to be involved in setting the business strategies as well (Beer, 1997; Ulrich, 1997). Lawler (2008) goes further and argues that talent strategies are business strategies.

Numerous people (Gubman, 1998; Sears, 2003) have outlined how business strategies can be translated into human resource and talent strategies. Gubman (1998) also suggests that the "lead" talent management practice may change depending on the business strategy or "strategic style." For example, he recommends a "selection for fit" approach for a customer strategy and a "performance-based compensation" approach for an operations strategy. Being aligned with the business strategy typically means more than just knowing what to do; it also means acting in ways that focus on and advance the business strategy.

Human Resource Professionals Need to be Strategic

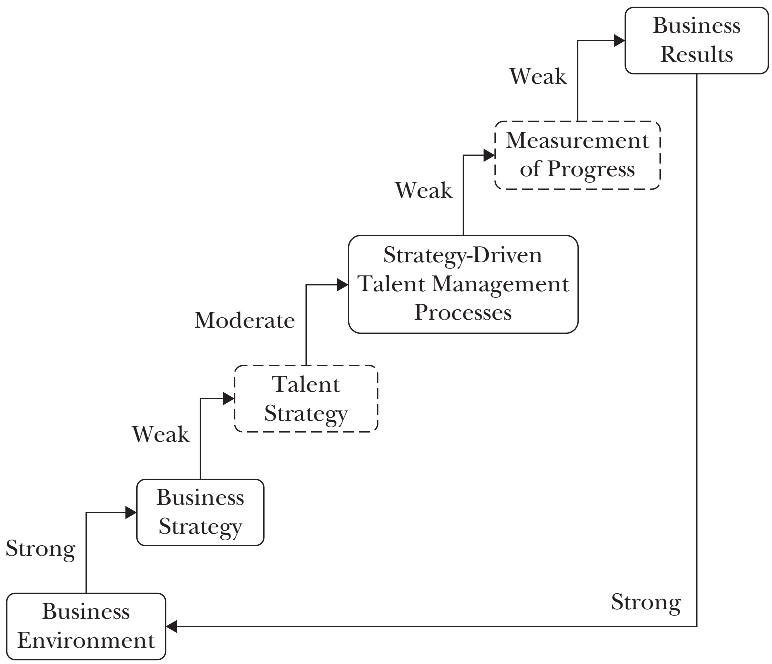
Human Resource professionals increasingly are considering their work to be strategic. In the distant past, only some HR executives had the strategic and analytical thinking skills and the broad business experience to understand the strategic implications of their work or perhaps the personal motivation and ambition to step up to a strategic role. In addition, business executives may have been hesitant to include HR executives in strategic discussions.

This is now changing with the advent of a new wave of HR professionals who have the required business experience and the strategic skills to get accepted as business partners. Chief financial officers went through a similar evolution in their roles. HR executives are now seeking opportunities to make strategic contributions at the executive level and are earning a seat at the strategic table as they demonstrate their added value.

Strategic Links

Once Human Resources decides to align processes, systems, and activities with the business strategies, then the next step is to pursue strategic talent management. How can your organization best attract, develop, engage, and retain talent to achieve those business strategies? The strategic links between these are not easily made (see Figure 1.3). While there is usually a strong link between the business environment (external market, competitors, customers, etc.)

Figure 1.3. Strength of Talent Management Links



and the business strategy, the next link to a talent strategy is often much weaker. This is often a result of the insufficient experience of many talent management professionals in translating business strategy into talent strategy. Once the talent strategy is understood, then talent management professionals seem to be more effective in translating it into specific talent programs, processes, and systems. For many talent management professionals, their primary expertise and experience are in developing systems, programs, and processes to achieve a specific HR or talent objective.

Once the talent systems and programs have been developed and implemented, HR has not been highly effective in measuring outcomes and progress against business and talent strategies. So the links to measuring progress and business results are weak. However, most organizations have fairly strong links from business results back to business strategies, and of course external financial analysts always seem ready to remind them of this link.

If the goal of HR is to align with the business strategies, to focus on deliverables, to be judged on impact, and to add measurable corporate value, then the corporation needs to have a clear and robust business strategy (Hewitt, 1997; Ulrich, 1997). If the strategy is clear, then, Hewitt (1997) suggests, HR can link to it by building the core strategic competencies, developing a process for leveraging those resources, and building a global strategic mindset in the organization. Of course, this may be easier said than done.

2. Integrated with Other Processes

Companies are learning that having a selection system pursue specific objectives and having a leadership development program pursue very different objectives leads to a waste of both financial and human resources. The various talent management initiatives and HR activities, systems, and processes need to be aligned at a minimum, but they are most effective when they are fully integrated.

Most organizations, however, do not have fully integrated talent management systems, but are operating at a more basic talent management stage. We suggest five stages of talent management integration: (1) reactive, (2) programmatic, (3) comprehensive, (4) aligned, and (5) strategic (see Table 1.3).

Table 1.3. Five Stages of Talent Management

Stage	*Definition*
5. **Strategic**	Talent management systems and processes: Collaboratively pursue shared goals and are driven by business strategies and talent strategies Are synergistic and fully integrated with other HR systems and processes Are managed as a core business practice in the organization and deliver the strategic capabilities and competencies that are required Are engrained in the organization as part of a talent mindset
4. **Aligned**	Talent management systems and processes: Coordinate and link with other HR systems and processes Are coordinated with the talent objectives and efforts of other systems and processes May be linked together using similar language and talent models
3. **Comprehensive**	Each talent management system and process: Is fully and rigorously developed Is carefully implemented to achieve specific program objectives Focuses independently on its own specific program objectives and a single aspect of talent needs
2. **Programmatic**	Each talent management system and process: Is sufficiently designed to be repeatable and consistent across multiple implementations Includes a defined process that allows a reliable implementation and delivery
1. **Reactive**	This talent management approach: Focuses on addressing short-term, immediate talent issues Often quickly adopts popular, available, and off-the-shelf programs to meet an urgent need Gives little attention to long-term needs or to building enduring programs and processes

Source: Adapted from American Productivity and Quality Center (2004) and Gubman & Green (2007).

Reactive—Stage 1

The most primitive stage of talent management puts an emphasis on quickly addressing immediate and urgent talent issues. This often means finding a quick and readily available program that appears to be a solution. This approach relies on the broad range of packaged off-the-shelf programs from outside consulting firms. These plug-and-play programs and tools are designed to be generic and quick fixes. Unfortunately, they rarely take into account the organization's culture and strategic issues, often do not adequately address the initial problem, and have a short life in most organizations.

Programmatic—Stage 2

Most large business organizations have built professional Human Resource functions that establish programs and processes that are at least consistent over time. They may not be well developed, but they are repeatable, which gives the perception, often false, of being effective (tradition is sometimes mistaken for proven). Many staffing programs in the past were very consistent—recruiting at the same schools, asking the same selection questions, relying on a single decision maker—but they were not always effective. They often failed to update the selection process and techniques to adapt to changing talent needs and candidate populations. These habits thrived in many industries, such as the textile industry, that had significant difficulty adapting to the changing business environment.

Comprehensive—Stage 3

Many organizations have tried to build and implement talent programs and processes that are rigorously developed and represent state-of-the-art thinking in the area. For example, in the 1990s there was a rush to build leading-edge leadership development programs in many companies, following the GE model. Many companies hired leadership development specialists to do this. The results were comprehensive programs and processes that were seen as very effective in achieving their specific and narrow development goals. Often, though, these programs were independent, freestanding efforts that were unconnected with other talent management efforts.

Aligned—Stage 4

Since the mid-1990s, there has been a great deal of effort in some companies to have an aligned talent management approach. In this stage, HR professionals link their HR systems and processes with other HR systems and processes and are aware of the range of talent objectives and efforts. The various efforts may be linked together using similar language and talent models. They also may work toward a shared goal when there seems to be a connection, but they are not all driven by larger business and talent strategies.

For example, those executing a sales recruiting program and those executing a sales training program are often aware of each other's goals and work to make sure their efforts are aligned, that is, they are not working against each other's objectives. However, their efforts may not be fully integrated, that is trainee performance results from the training program may not be used to adjust or modify the recruiting efforts. Similarly, the recruiting outcomes may not be used to modify the training approach. While they both may support producing high-quality sales staff in general, they are not taking advantage of the potential synergy between the two programs. Although they may have well-developed and comprehensive programs and are aware of their connection, they are not sufficiently integrated to realize the full possible synergistic benefits to the organization.

An organization might have recruiting, assessment, and development programs that are separately comprehensive and rigorous and that coordinate with each other. However, they may all have different goals. *Alignment* suggests separate components "forming a line" or "being arrayed on the same side of a cause" (Merriam-Webster, 2002). However we think a higher stage of talent management is to be both strategically driven and fully integrated.

Strategic—Stage 5

Ultimately the talent management approach should be strategically driven to be most effective. It is more than just being on the same side of a cause (alignment); it is actually intensely focusing on achieving the business and talent strategy. This requires that the talent management programs and processes have the same shared strategic goals as the recruiting and staffing processes. In this stage, HR programs and processes are synergistic and multiply their effectiveness across and through other systems, programs, and processes.

For example, a corporation may be interested in forming a business development unit to create innovative approaches to satisfy customer demand. From a talent strategy perspective, it needs to be staffed with entrepreneurial people who have the potential to start and lead new businesses. All of the HR systems and processes, from recruiting to assessment, development, retention, and compensation, need to fully understand and work together to achieve that business strategy and the talent strategy of hiring and building entrepreneurial talent. The type of talent needs to be specifically defined, and each HR area needs to identify its interface and shared responsibility with every other HR area. For example, a discussion of an individual who failed soon after moving into the new unit would need to be addressed by the larger team (recruiting, selecting, development, onboarding, and retention), not just by the selection staff.

A failure in one part of the talent effort is a failure for the strategy, and everyone should have some responsibility to correct it. In some ways, the strategy (business or talent) defines the team rather than the specific HR system or program. These systems and processes are strategically driven and fully integrated.

Other Approaches to Integration

Avedon and Scholes (see Chapter 2) discuss the importance of being integrated at three levels in the organization:

- Integration with business strategy and human resource strategy
- Integration within the talent management processes
- Integration with the culture of the organization

All three are important integration components, and an organization needs to do all three to have a fully integrated, strategically driven talent management system. Being integrated within talent management processes suggests alignment (stage 4) within HR.

But to be strategic (stage 5) also requires being integrated with both the human resource strategy and the business strategy. Being integrated with the culture suggests that the values embedded in talent management programs and processes are consistent with the cultural values of the organization and that they have been not only accepted but engrained in the culture (Strategic, stage 5). An “up or out” career philosophy might work in an organization that does not value having long-tenured employees but would probably not work in an organization that values the development of deep relationships between employees.

Gubman and Green (2007) suggest four stages of talent management: Programmatic, Systemic, Strategic, and Cultural (see Chapter 2 by Avedon and Scholes for a more complete description). Earlier Gubman (1998) also discussed alignment with business results and strategy but used the term *alignment* similarly to how we use the term *strategic*. The distinguishing feature of his *alignment model* is “a clear line of sight from strategy to people,” which is similar to our Strategic, stage 5 (p. 33).

Sloan et al. (2003) discuss how a company’s globalization strategy (global, international, transnational, or multidomestic) can link to defining leadership roles and requirements and to designing a talent management system. They also point out the importance of aligning three core talent management processes:

- Drawing people into the company (attract and retain)
- Assisting people to take on new roles (select and transition)
- Encouraging people to develop new skills and maintain high performance (mobilize and develop)

Others who have studied or written about talent management tend to use the term *integrated* to mean connected or aligned and not strategically driven (American Productivity and Quality Center, 2004; Morton, 2004; Smilansky, 2006). They suggest that talent management can be integrated by making the “right connections” between programs and processes. Some suggest that having a centralized competency model is the integration cornerstone for a company rather than the business strategies. In our opinion, being connected or aligned is a worthy goal but falls short of being strategically driven (that is, integrated with the strategies).

In a Conference Board survey (Morton, 2004), approximately one-third of 75 "HR-related executives" viewed their talent management initiatives as integrated or having "connections made to all critically related aspects in the organization" (p. 22) (for example, connected or aligned processes). The respondents suggest that this connection occurs primarily through the talent management processes (cited by 49 percent) and talent management professionals (cited by 49 percent). The HR areas that are mentioned most frequently as connected are performance management, recruitment and leadership, and high-potential development. The areas mentioned as the least connected are workforce planning, retention, feedback, and measurement. The survey respondents said the talent management initiatives that were the most important were leadership development and high-potential development (cited by 73 percent), performance management (cited by 44 percent), culture (cited by 21 percent), and retention (cited by 16 percent). Based on the survey data and corporate interviews Morton proposes a "road map to talent management maturity" and recommends a specific order for bringing HR processes into talent management maturity: (1) recruitment, (2) professional development, (3) culture, (4) retention, (5) performance management, (6) feedback and measurement, (7) leadership and high-potential development, and (8) workforce planning.

In discussing executive talent, Smilansky (2006) advocates integrating talent management with the core components that underpin these HR processes such as: an understanding of jobs and the hierarchy of managerial positions, the definition of managerial competencies, and culture and values. Although his focus is on executive talent, he does not emphasize business strategy as the foundation for talent management, even at the executive level.

Another talent management consortium benchmarking study (American Productivity and Quality Center, 2004) surveyed 21 companies and concluded that companies should "integrate the various elements of talent management into a comprehensive system—an overall talent management framework, a competency model consistently used across elements, opportunities for the various stakeholders to work together, the use of data from one process as input to other processes, and partnerships between HR and line managers are all mechanisms used to foster integration" (p. ii). This study (like those by the Conference Board and Smilansky) emphasizes coordination between HR programs and processes, but does not suggest that talent management processes need to be determined and driven by the business and talent strategies.

We think, however, that talent management systems need to be fully integrated with and driven by business and talent strategies. In addition, talent management programs and processes need to be integrated with each other and not just connected or aligned.

3. Managed as a Core Business Practice

In the past, senior executives in many organizations had limited contact with talent programs and processes. Frequently they attended annual replacement planning meetings that focused on discussing impending retirements and potential replacements for those positions. Over the years, these meetings have evolved through different phases, from replacement planning to human resource planning to full strategic talent management (see Table 1.4).

In the 1970s and early 1980s, some leading companies, notably Exxon and AT&T, moved from single position staffing and replacement planning to longer term Human Resource planning. This initially involved elaborate replacement plans and succession wall charts that identified not only individuals who were the likely near-term replacements for specific leadership positions but individuals who could be developed over one to three years to be viable future candidates. In the 1990s and 2000s, there was an evolution in organizations to talent management that focused on aligning Human Resource programs and processes in order to identify and develop talent, both leadership talent and specialized talent.

The talent planning and management process is now becoming a core business practice, driven by business strategy and talent strategy. Both Dowell (see Chapter 9) and Avedon and Scholes (see Chapter 2) make a clear case for the central business role of strategic talent management in organizations. Dowell argues that the talent review process "forms the third leg of the organization planning process along with reviews of the organization's strategy and operating plans." Avedon and Scholes suggest that it should be one of three core business practices along with the strategic planning process (including financial goals) and the annual operating review. Dowell points out, "The organization's strategy provides the foundation for identifying future talent needs, and the operating

Table 1.4. Evolution of Talent Management and Planning

	Framework	*Characteristic*
2010s–future	**Strategic talent management**	• Is driven by and fully integrated with business and talent strategies • Is managed as a core business process • Planning cycle matches business strategy and operation timelines • Engrained with a talent mindset throughout the organization
2000s	**Talent management**	• Focus is on developing and managing talent pools • Aligns HR programs and processes to meet talent needs • Considers time needed for recruiting and developing needed staff
1980s–1990s	**Human resource planning**	• Focus is on planning and managing staffing needs over time and includes succession planning • Planning usually covers next one to three years of leadership moves and management development • Involves forecasting staffing levels to meet business needs
1960s–1970s	**Replacement planning**	• Focus is on short-term continuity and filling likely, near-term, open positions • Planning usually covers next 12 months
1950s–1960s	**Single position staffing**	• Focus is on filling immediately open positions • Reactive approach to requests

plan provides the mechanism for allocating resources (financial and human) to support the actions identified during the talent review process (such as, new recruiting efforts, developmental programs for high potentials, and retention programs)." He makes the case that talent can be central to gaining competitive advantage:

> Organizations put their future at risk if they do not apply the same discipline to planning the development of their talent as they do

> to planning the development of products and services. The ability to formulate and execute strategy depends on having the necessary talent in place. An organization's talent is one of the sources of sustainable competitive advantage. When an organization has highly talented individuals in strategically critical positions, this talent becomes a source of competitive advantage that is one of the most difficult to replicate by competitors.

In fact, in leading organizations these three business processes form the foundation for effectively managing a corporation. They place as much emphasis on the strategic talent reviews as they do on the strategic planning process and the annual operating reviews.

Over the years, others have also suggested that talent planning should be considered an important business process. Walker (1980) makes a clear case for the long-range planning of human resources and argues for linking it with three levels of organizational planning: strategic planning, operational planning, and annual budgeting. Ulrich (1997) advocates for a strategic approach to Human Resources that puts an emphasis on adding corporate value, gaining impact, delivering results, and integrating HR practices into the business strategy.

Mohrman and Lawler (1997; Mohrman, Lawler, & McMahan, 1996) propose that Human Resources be a full business partner and an integral part of the management team. They include in the partnership role "developing strategy, designing the organization, change implementation and integrating performance management practices . . . (goal setting, performance appraisal, development practices and rewards) . . . with each other and with the business management practices of the organization" (Mohrman & Lawler, 1997, p. 246).

However, it has taken some time for organizations to see these links and to see Human Resources as a business partner. Some progressive companies, such as GE, PepsiCo, Bristol-Myers Squibb and Ingersoll Rand, have made these links and are leveraging their talent approach for their own business advantage. Other companies seem to be slow to make this transition. Hewitt (1997) suggests that this may be due to the false assumption that the corporation has "a robust concept and process of competitive strategy" (p. 39). He also suggests that an organization's strategic planning process is often little more than annual budgeting and that many current executives have limited strategic skills. Others note the weak links between the strategic planning apparatus in an organization and superior competitive performance (Ashkensas, Ulrich, Jick, & Kerr, 1995).

Some senior executives may have difficulty viewing HR as a strategic function. However in many organizations, such as at Ingersoll Rand and PepsiCo, both the Chief Executive Officer and the Chief Human Resource Officer see a critical strategic role for Human Resources and talent management.

4. Engrained as a Talent Mindset

Most companies, and most managers for that matter, rely on Human Resources to design, implement, and monitor various talent management programs and processes. In leading companies, such as PepsiCo, Microsoft, Bristol-Myers Squibb, and Ingersoll Rand, senior executives take an active role in linking talent management to business success. They now have or are building a talent mindset, or what Avedon and Scholes in Chapter 2 call *talent stewardship* in the company. As talent management becomes integral to the organization culture, every supervisor, manager, and leader in the company is expected to take responsibility and accountability for attracting, developing, deploying, and retaining talent. Everyone is expected to take an active role in talent management, from identifying and recruiting exceptional talent to coaching employees and guiding the careers of individuals with the potential to assume greater responsibility.

Many years ago companies discovered the value of using quality circles in manufacturing operations—an idea borrowed from Japanese companies that involved manufacturing plant employees taking responsibility for the product quality in their group or department. These groups later evolved into employee involvement groups (self-directed work groups), which had decision-making responsibility over the work in their group. Over the years, executives and managers became used to giving employees greater decision-making authority. This approach was seen as a way to improve product quality, empower employees, attract more talented people, and lower costs at the same time.

First-level supervisors were perhaps the last organizational level to fully accept shared decision making with their employees—and perhaps with some justification, since the process restricted their direct control and their span of responsibility and often led to a significant reduction in the number of supervisors.

By the time talent management emerged, employees, managers, and executives were used to the idea of pushing responsibility down into the organization. One of the last holdouts of tightly held responsibility was, and still is, the talent planning process. Executives often hold these meetings in private and are cautious about sharing their conclusions or even the process or decision rules or guidelines. Most corporations are still hesitant to let individuals know if they have been designated as high potential (see Chapter 5 by Rob Silzer and Allan Church in this book).

As organizations have made talent management a central focus across the whole company, and not just in HR, there is a need to involve and engage all managers and leaders in talent management activities. One trend that supports this distribution of talent responsibility is the emergence and use of organization-wide competency models (Hollenbeck, McCall, & Silzer, 2006) as a central organizing framework for talent management.

For example, Capital One Financial in the early 1990s developed a comprehensive research-based competency model, based on the business strategy of the company, that was widely shared with employees (Silzer, 1996; Silzer & Douma, 1998). Also developed with the actual competency model were many supporting programs and materials—selection tools, 360-degree feedback instruments, development catalogues, training programs, and performance management rating systems, for example—that were widely distributed to employees for self-directed use. The objective was to put as much talent-related information as possible in the hands of employees, managers and leaders, so they could take responsibility to improve their own performance, advance their own careers and improve the performance of their group. This was an early, and quite successful, attempt to push talent responsibility down into the organization and even to individual employees. One of the reasons this worked so well was that employees saw it as an opportunity to take some responsibility for their own development and careers.

Talent management became engrained in the Capital One organizational culture and became a manager responsibility and mindset. Ulrich (1997) suggests the "shared mindset of common culture represents the glue that holds an organization together" (p. 68). Leading talent companies such as PepsiCo and Capital One Financial understand that to successfully achieve business and talent strategies, talent management efforts must be a core business process that is the responsibility of all managers throughout the company.

McKinsey (Michaels et al., 2001) reinforced the importance of adopting a talent mindset in an organization in order to successfully compete in the war for talent. They described talent mindset as "a deep conviction that better talent leads to better corporate performance" and "the belief that better talent is a critical source of competitive advantage." Guthridge et al. (2008, p. 8) describe it as a "a deep commitment to talent throughout the organization, starting at the top and cascading through the ranks . . . a conviction among business unit heads and line leaders, that people really matter." Avedon and Scholes in Chapter 2 define it as "a frame of mind, or a culture, where every manager feels ownership and accountability for talent on behalf of the organization."

McKinsey (Michaels et al., 2001) proposed that talent management needs "to be a central part of how to run the company" and "a huge and crucial part" of every leader's job (p. 27). Gubman and Green (2007, p. 1) advise that talent management should be a "top-of-mind priority that becomes second nature to executives" (p. 1). Michaels et al. (2001, p. 22) go further and suggest that managers need to "commit a major part of their time and energy to strengthening their talent pool and helping others strengthen theirs." Jack Welch modeled this mindset when he said, "I view my primary job as strengthening our talent pools. So I view every conversation, every meeting as an opportunity to talk about our talented people" (Michaels et al,, 2001, p. 31).

Guthridge et al. (2008, p. 8), McKinsey consultants, point out that they "consistently see that top performing companies instill the mindset and the culture to manage talent effectively." Lawler advocates building a human capital-centric organization, where "every aspect of the organization is obsessed with talent and talent management" (2008, p. 10). He suggests that human capital–centric organizations "do everything they can to attract, retain, and develop the right talent" and that "talent management deserves at least as much focus as financial capital management" in a company.

McKinsey argues for a top-down approach (Michaels et al., 2001) that requires "the CEO's leadership and passion" and suggests that a leader "establish a gold standard for talent, get actively involved in people decisions deep within the organization, drive a simple, probing talent review process, instill a talent mindset in all managers, invest real money in talent and hold themselves and their managers accountable for the strength of the talent pools that they build" (p. 27).

Sears (2003, p. 140) suggests that there are two types of talent mindset: the first "clearly comes from the top," where the CEO champions a commitment to talent, while the second comes from "talent athletes" or "leader-managers," who "ultimately conceived, built, implemented and sustained" the business strategies and talent strategies (p. 140).

We think talent management must be championed by the CEO with the full commitment of senior leaders, but ultimately talent must be owned by managers and leaders at all levels. In the Capital One example, the mindset was easier to establish than in most mature organizations because the company had a limited history, the senior executives had a strong talent orientation at the beginning, the culture had a data-based learning orientation, and almost all associates (selected through rigorously developed selection tools) were hired with limited or no prior organizational experience. The associates were bright, highly motivated, ambitious, and committed to learning and using the talent management tools to improve their competencies and advance their careers. It should be noted that during the first ten years, Capital One Financial grew from 300 to 28,000 associates and had outstanding financial performance.

The creation of a talent mindset does need to start at the top with the CEO's commitment. In many organizations, this is probably the biggest hurdle to establishing a talent mindset. CEOs often do not understand it, are not interested, or have their own outdated view of talent. Their interest and involvement are based to some degree on their past organizational experience. If they had worked in a company committed to talent management at some time in their career, they would be more likely to understand it and actively support it. Larry Bossidy, for example, who spent many years in GE leadership before becoming CEO of Allied Signal and later of Honeywell, states, "There is no way to spend too much time on obtaining and developing the best people" (Bossidy, 2001, p. 46).

Executive commitment seems to be a starting point. McKinsey Associates, in a 2000 survey of corporate executives (reported in Michaels et al., 2001), revealed that talent was much more likely to be seen as a top priority by officers from high-performing companies (49 percent) than officers from average-performing companies (30 percent). However, while 93 percent of the officers surveyed think managers should be held accountable for the strength of the talent pool that they build, only 3 percent of the surveyed officers think their companies actually do this. Gaining CEO and executive commitment may be the greatest hurdle that Human Resource executives and talent management professionals face in establishing a talent mindset in their organization.

These four talent management success factors (the DIME model as presented in Exhibit 1.2) run through this book and show up in many of the chapters:

- Driven by business strategy
- Integrated with other processes
- Managed as a core business practice
- Engrained as a talent mindset

These are the design criteria for outstanding talent management systems and critical to the future success of talent management.

Other Talent Management Approaches

Other talent management frameworks have proposed similar and different design and implementation approaches. Avedon and Scholes (in Chapter 2 in this book) and Wellins et al. (2006) outline talent management models similar to ours (see Figures 1.1 and 1.2) and include common elements such as business strategy; attract, select, and identify; assess; develop and deploy; and retain. Wellins et al. (2006) describe their model as focusing exclusively on leadership talent, while in comparison, the

Avedon and Scholes model is more broadly applicable and lists connections to specific HR programs and processes. The American Productivity and Quality Center (2004) reported on a benchmarking study on talent management and found that the "best practice organizations" excelled at recruiting, identifying, developing, performance management, and retention.

Gubman (1998, p. 33) presents the Hewitt Associates alignment model, which is called the "Improving Business Results with People Model" and is designed to "line up all the critical elements in talent management." It takes a broad strategic approach emphasizing how business strategies get translated to business capabilities, people requirements, and workforce strategies. Gubman discusses how the strategic style of a company—its products, operations, and customers—can determine the lead talent management practice for the organization. Gubman identifies five key talent management practices (staffing, organizing, learning, performing, and rewarding) and gives company examples of each.

Sloan et al. (2003) discuss the strategic management of Global Leadership Talent, although their recommendations seem equally relevant for nonglobal talent. They propose five steps for designing a talent management system: (1) define the value proposition for employees, (2) identify talent gaps, (3) choose the source for needed talent, (4) align talent management processes, and (5) build organizational support mechanisms. They also identify six core talent management processes grouped in three clusters:

- Attract and retain—drawing people to the organization
- Select and transition—helping people take new roles
- Mobilize and develop—encouraging development and high performance

Smilansky (2006) focuses on the management of executive talent. His book is based on in-depth interviews with the heads of HR at 14, mostly European, companies. He outlines six key steps to effective talent management: (1) focus on critical jobs, (2) develop high-performance talent pools, (3) assess potential, (4) develop capabilities of high-potential executives, (5) reduce the impact of organizational silos, and (6) develop solid performers who may not be high potential.

Others discuss talent management in general or narrow ways. Lawler (2008) sees outstanding talent as critical to having a human capital–centric organization but discusses talent management only generally. He supports the importance of establishing management priorities and an employer brand but only briefly mentions identifying talent needs, selection, development, or retention. Similarly, Sears (2003) provides a more general discussion of talent management and focuses on strategy formation, delivery, and performance. He discusses six key talent processes: relating (establishing relationships), recruiting, retaining, performance management, learning, and rewarding.

Several thinkers in this area advocate applying models from other functional areas to talent management. Cappelli (2008a, 2008b) focuses on the “uncertainty of talent demands” in an organization and cautions against having an oversupply of talent because of costs and other factors. To address the risk uncertainty, he suggests using a supply chain management model and proposes a “talent on demand framework,” similar to just-in-time manufacturing, and that companies should undershoot their estimates of the talent that will be needed. While this theoretically may make sense for reducing costs it seems unlikely that companies will tolerate much risk in not having or being able to quickly attract the right talent when it is needed. Many companies, however, are already thoughtfully weighing the risks in make or buy decisions around specific talent groups.

Boudreau and Ramstad (2005, 2007) propose a decision science for managing talent resources and determining talent strategies that they call *talentship*. They offer an analytical approach, based on a financial management model, to understanding the impact of business strategy on talent planning and talent management and how investments in talent can provide strategic opportunities. Their model is complex and may be difficult to apply in practice. Underlying the approaches by Capelli (2008a, 2008b), as well as Boudreau and Ramstad (2005, 2007), is the premise that organizations should differentially invest in critical or pivotal talent capabilities and pools in an organization and focus on talent groups that can have the greatest impact on strategic success. This is not a new idea. Some leading companies have been selectively investing in critical functions, career paths, or positions for some time.

In addition, much has been written on the various components of the talent management process. The following are the relevant chapters in this book related to specific talent management components.

- Attracting and selecting (Chapters 3 and 4)
- Assessing (Chapter 5)
- Reviewing and planning (Chapter 9)
- Developing and deploying (Chapters 6, 7, and 8)
- Engaging and retaining (Chapter 10)
- Measuring progress (Chapter 12)
- Specific talent pools (Chapters 11, 13, and 14)
- Company approaches (Chapters 15, 16, 17, 18, and 19)
- General talent management discussion (Chapters 2, 20, 21, and 22). There is also a large body of literature on each of these components (Jeanneret & Silzer, 1998; Hollenbeck, 2002; Silzer, 2002a, 2004, 2005; Silzer & Adler, 2003).

Issues in Talent Management

Organizations face a number of issues and obstacles to the effective implementation of strategic talent management. They can be grouped into three areas: the nature of talent, design and execution issues, and influences and challenges.

The Nature of Talent

Organizations have to decide whom to include as talent and what they mean when they discuss "talent." This raises a few choices that can affect the design of the talent management approach and the organizational culture and brand.

Natural or Developed Talent

A core question in designing talent systems is whether there is a dominant view in the organization, and among the senior executives, about whether talent is something you are born with or whether talent can be developed. While most experienced industrial-organizational psychologists believe that the answer is "both," many executives, and even many HR professionals, have strong opinions and biases for one alternative or the other. This is usually due to their limited exposure to the research in this area and their own personal experiences. These beliefs can directly affect organizational decisions on whether to build or buy talent and whether to emphasize recruiting and selection programs or to create extensive training and development programs.

Believing only in natural talent leads an organization to focus heavily on a selection approach to talent, since it is assumed that there would be little development or learning on the job. Once the job requirements change, the job incumbent is moved out, and another individual is selected into the position as a better match to the new requirements. The result is frequent recruiting of talent from outside the company, and the resulting high turnover is considered a cost of doing business. Some companies pursued this approach (and some still do) when there was a ready and available supply of external talent to hire and the compensation was high enough to attract the specific talent needed. This is more of a "just in time" approach to talent (see Cappelli, 2008b). These organizations often develop a reputation for giving individuals a lot of early responsibility, but their tenure is generally short. The financial industry has developed a reputation for this approach over the years.

Believing only in developed talent leads to bringing in a large group of individuals early in their careers and using an extensive development effort to build their skills over time and sort out those individuals who learn and develop the most. The difficulty with this approach is that it is costly and time consuming and is generally seen as a luxury that few corporations can continue to afford. This approach may result in prematurely placing individuals in stretch roles with the hope that they will grow into the role. Although some people can do this, there typically are costly failures, which can be a financial drain on the corporation. Research suggests that a person's natural talent or abilities generally set a range of how much they can be developed in an area. Consider, for example, intellectual, interpersonal, and motivation skills. Individuals typically have different levels of natural talent in each of these areas, which can set limits on how much the individual can further develop in each area.

Many business organizations today have a selection or development bias, although not to the total exclusion of the other. Sometimes this is generated from the attitudes and beliefs of the CEO and senior executives or by the history of the company. Enlightened executives and HR professionals realize the need for a mix of selection and development efforts, and understand that well-designed development efforts can significantly build on and extend an individual's natural talents. Selection and development need to be closely integrated and driven by shared goals. The right mix depends on the specific situation and a range of considerations, such as the type of talent needed, the availability and cost of external talent, and the competitive advantage of having unique internal talent.

Broad or Narrow Inclusion

Some organizations have put a good deal of effort into identifying and developing only high-potential talent (see Chapter 5). Other organizations try to raise the talent level in all positions by developing a much broader group of employees. This raises the question of which way is best for building a more effective organization: a broad inclusion or a narrow inclusion of employees in development programs.

High-potential programs typically focus on identifying individuals who have the potential to advance several levels in the organization and then differentially invest in their development. This talent pool is often seen as the future of the company. Greater consideration is now being given to selectively focusing on the specific talent that will have the greatest impact on achieving strategic objectives and giving little, if any, development resources to other employees, who are seen as replaceable and not critical to achieving business objectives (Boudreau & Ramstad, 2005). The decision to restrict who receives developmental resources can be seen as a rational and strategic use of limited development resources.

Other organizations are interested in improving the effectiveness of all employees and broadly include larger numbers of employees in development efforts. There are several reasons to use this approach. One might argue that all employees can contribute to improving company performance through their own work efforts, even if in small ways. Some HR professionals are concerned about having only a select group of individuals get development attention and suggest that this is demotivating and feels exclusionary to those not included. They argue that development is an effective tool for engaging and motivating most employees. In addition, there is the risk that the individuals who are not included in the development efforts may decide as a result that their career will be limited at the company and may leave for better career opportunities and more development support at other companies, and they could turn out to be strong long-term contributors.

Most companies have a mixed approach, offering specialized and advanced development opportunities for select talent pools while also providing some level of development support for other employees. Selective investment but not exclusive investment seems to be a common approach. The choices that organizations make on this issue partially define their culture. Our experience is that effective talent organizations balance these two approaches, providing basic learning and development opportunities for most employees while having specialized and extensive development programs for individuals in strategically critical areas or with the greatest potential to contribute at higher levels in the organization.

Satisficing or Maximizing Talent

This issue focuses on the type of talent mix that is desired in the organization. Some organizations want the best talent available in every position, while others are comfortable hiring individuals in most positions who have just enough talent to satisfy the job requirements, and then hiring the best talent available in only a select few positions.

The maximizing organizations and consultants (Smart, 1999) suggest that the organization benefits in many ways by hiring the best talent possible in every position. They argue that only the best talent can bring new thinking and innovative ideas for improving effectiveness and efficiency in every position. GE famously pushed for managers to identify and turn over the bottom 10 percent of performers every year in an effort to constantly upgrade talent. Although there have been some employee lawsuits over this approach, it continues to be used in some business organizations.

Others take the satisficing approach and argue that hiring only the best talent available in every position can be an inefficient and wasteful use of corporate resources, given the high compensation costs associated with this approach (Boudreau & Ramstad, 2005). Boudreau and Ramstad suggest that the improvement in effectiveness is small, and the return does not justify the financial investment. Rather, they say, hiring people who can perform the job competently is all that is needed in many positions.

HR professionals again see the need for a mixed approach depending on the situation. If you are staffing an entire pharmaceutical research group, it might be smart to hire only the best research talent you can in order to maximize the likelihood that they will discover a medical breakthrough in treating a disease. But if you are staffing a customer call center with customer representatives, it might be wiser to bring in a mix of people: some who can advance to be call center supervisors and others who will be very happy being a solid, high-performing call representative for many years and who are not pushing for greater responsibilities or to redesign and upgrade their work.

Talent decisions around these issues are rarely easy and often require careful consideration of the situation, the culture, the strategic needs of the organization, and the talent brand that the company has or wants to establish. Only rarely can organizations make a clear, absolute, and companywide decision on any of these three talent issues.

Design and Execution Issues

Many functional areas in organizations, including HR, have trouble getting the right balance between design complexity and comprehensiveness and between execution ease and effectiveness. For example, the design of IT software programs and HR succession planning processes are known for being overdesigned, adding many extra features and complexities that often make them difficult to implement and use. They often crash (software programs) or are ignored (elaborate succession planning notebooks). Design and execution decisions can make or break a talent management program or process.

Comprehensive Design or Effective Implementation

Many HR professionals have read with great interest about the latest advances, tools, and programs for talent management programs. Often these features or ideas are promoted by external consulting firms or academics as essential to having an effective and leading-edge system. While some of these ideas make sense, others are short-lived fads that often soon prove to be unnecessary and distracting.

Less experienced HR professionals are more likely than experienced talent management professionals to get enamored with being on the leading edge of the field and can be more easily influenced by an aggressive consultant. Often the downside is that the programs take a long time to develop, are complicated to explain, are impractical, and ultimately are ineffective in addressing the business need. The most effective organizations and HR professionals know how to balance design and execution issues and always draw a clear line to solving a business need. Often simpler design leads to more effective execution.

Focusing on the Needs of the Individual or the Needs of the Organization

Most programs and processes are designed and implemented to meet specific business needs and strategies. In general, this has been a widely accepted approach, with little attention given to the interests and needs of individual employees. However, it is now recognized that employees are more motivated and effective when their needs and interests are considered in organizational decisions. Employees are often encouraged to take command of their own career and pursue their own career interests and goals. People have learned to manage their careers and make their own career choices.

However, this often comes in conflict with organizational plans and decisions. It is not uncommon for organizations to carefully plan out a series of leader moves, with one person replacing another in a chain of moves, when someone in the middle of the sequence turns down the offer (often because of their own interests or ambitions) and disrupts the whole series of moves. Frequently the individual's career interests, willingness to move, or personal life needs were not adequately known or considered beforehand. Executives and leaders who know their employees well enough to understand their individual interests and needs are more likely to make decisions that are consistent with the needs of both the organization and the individual.

Tell No One or Widely Communicate

On many issues, executives and HR professionals have to carefully decide what information can be shared and what information needs to remain confidential or closely managed. This is particularly true when dealing with sensitive HR and talent information. But where should the line be drawn between what must remain confidential and what can be shared? In the past, it seemed that everything was considered confidential, and the executive suite often resembled a locked fortress.

But a more open, transparent environment has evolved in some organizations that supports sharing certain information because it can motivate and engage employees to improve performance. The argument is that employees are more likely to set higher performance and career goals if they are aware of the possible benefits and rewards available to them. While some personal information, such as compensation level, is still considered confidential, other information, such as the development opportunities given to high potentials or high achievers, is seen as serving as an incentive for others. (See Chapter 5 by Rob Silzer and Allan Church for a discussion on what information gets shared with high-potential individuals.)

A balance must be found between protecting private individual data while communicating the talent processes and programs in enough detail so they can be understood and serve as incentives for all employees. High ethical standards need to be maintained when implementing and communicating talent programs and processes so that resources are allocated based on merit, not relationships or some other bias, and information is shared based on reasonable guidelines that consider both the organization's and the individual's needs. Transparency helps assure employees that developmental resources are being allocated fairly.

Influences and Challenges

The world is getting more complex and interconnected, and change is happening rapidly. These changes can be distracting or even defeating for some organizations. Others see them as an opportunity to gain competitive advantage and take the view that if "you are not changing, then you are falling behind." Here are some influences and challenges that can be seen as obstacles or opportunities for organizations.

Looking Forward or Looking Back

Many organizations are pushing HR and other functions to be more strategic in their view, processes, and decisions. Often this means looking into an ambiguous and quickly changing future to try to predict future situations and dynamics and then make the right decision for those circumstances. Years ago, these decisions were made intuitively, based on some fuzzy understanding of past experiences and current circumstances. More recently, there has been a movement toward analytical decision making based on solid data. Capital One Financial, primarily a credit card company but more recently a bank holding company, has had more than a decade of strong financial performance by relying on a data-based decision-making approach to business management and HR.

There is now an emergence of evidence-based HR approaches that rely on concrete data to guide decisions. Making talent decisions based on data analysis can be a big step up from a fuzzy intuitive approach to talent. For example, measuring and analyzing past leadership turnover rates and reasons may be more helpful in guiding talent system development than having a 20-year company veteran provide his personal intuitive views of what to do.

However, data analyses collect data from the past, look back at what happened, and are constrained by the circumstances of that past. For example, if the turnover data were collected during a strong economic period when switching companies to advance a career was both attractive and easy to do, then the data may not be entirely relevant to a slow economic period.

In psychology, one basic accepted premise is that the best predictor of future behavior in an individual is past behavior under similar circumstances. This is also true in predicting the future behavior of individuals and making future-oriented decisions about talent. Relying solely on an analysis of the past is looking backward and only captures the reality of the past. Looking forward, predicting the future, is frequently not just an extension of past. Looking forward should involve both careful analysis of the past and some judgment about how the future will be different from current or past circumstances.

Thinking strategically and making future-oriented decisions is different from analytical thinking and extrapolating the future from the past. The design of talent programs and processes, as well as the assessment of talent, needs to be based not only on past organizational and individual data but also on judgments of how business requirements might be different in the future and how individuals may change and grow in the future. The future belongs to those who can perform successfully in the future, not to those who duplicate the behaviors of the past.

Short-Term or Long-Term View

Over the years business cycles seem to be getting shorter, quarterly financial reports seem to be turning into monthly reports, executives are moving around financial assets to serve short-term balance sheet needs, and a CEO's survival seems to be increasingly based on quarter-to-quarter results. At the same time talent system cycles are getting much longer, often three to five years or more. The career paths of high-potential or early-career talent can bridge 10 to 20 years or longer in an organization. This presents a dilemma on how to effectively and simultaneously manage both of these fundamental business processes.

Some organizations force the talent system into the short-term business cycle. This involves addressing short-term talent needs and ignoring longer-term talent planning and management. This could be called replacement planning. It is often driven by a CEO who is either totally preoccupied with quarterly business results or is not capable of long-term thinking.

Other organizations understand the need to have different time cycles. They can readily deal with short-term talent issues and decisions while also maintaining a focus on long-term talent development. The companies that are known for developing talent, such as GE, are equally well known for the time and attention given to long-term talent reviews and planning.

A study by Hewitt Associates and the Human Resource Planning Society (2005) found that the top twenty companies for producing leaders, such as 3M, GE, and Johnson & Johnson, when compared to 350 other companies, are much more likely to have succession plans for the CEO and other executives. They also are much more likely to have their CEOs involved in the planning and to hold their leaders accountable for developing their direct reports. They do not succumb to the pressure of focusing only on short-term issues and crises. When they make short-term talent decisions, they also consider the long-term implications and try to satisfy both at the same time.

Expanding or Integrating into Global Markets

Most companies have global market opportunities and are facing global competitors, a situation that presents complex talent challenges. Senior executives are asking whether they have the talent to enter these global markets and whether they have the talent who can compete against the new competition. In the face of these challenges, some companies retreat into familiar markets and products. Most initially address these challenges by sending familiar internal talent into the new global markets to compete. While this offers a conservative entry approach, over time it often leads to limited success or even business failures. What this approach misses is the importance of having business leaders who understand and can execute within local culture and business practices. Most companies eventually move to hiring and developing local talent who are capable of running the business without compromising the organization's fundamental culture and principles.

Influencing or Being Influenced by the CEO

In most corporations, the CEO has a tremendous amount of authority to influence a wide range of decisions. Since the late 1990s, there has been an increase in the cult of the CEO in the business world. Whether the CEO is revered or reviled, there is little question about the CEO's clout in an organization. As a result, the CEO's views and biases regarding talent are often clearly reflected in talent policies, processes, and programs. In the past, the CEO exerted enormous control over the talent in organizations, which often resulted in either taking ownership over talent issues, delegating them (usually to other business executives), or ignoring them entirely. Because of the power of CEOs, many HR professionals have been hesitant to challenge their views or even voice alternative perspectives. So the talent system in most organizations has been heavily shaped by the CEO.

More recently (and throughout this book) human resource and talent professionals are being asked to take a more strategic role and be a business partner to the CEO. This means proactively influencing the CEO and educating him on talent issues rather than just simply implementing the CEO's talent views and biases. The most effective CEOs will recognize the value of this partnership and the seasoned views of others. This becomes a particularly critical issue when a company has a new CEO. Depending on the circumstances, it is often important to convince the CEO not to make rash changes to the existing talent approach while she gains perspective on this new role and organization.

Talent Roles

In order to develop and implement the talent practices, program, and culture that we have been discussing, different people in the organization should have talent management responsibility and accountability:

- Board of Directors
- CEO, senior executives
- Human Resource and talent professionals
- Line managers
- Individual employees—the talent

Corporate Board of Directors

The Board of Directors for corporations has historically not spent much board time on talent matters. Although the board members have usually been involved in the selection process and compensation packages for the CEO and other senior executives, they have had limited interest or involvement in broader talent management efforts. However, as talent management grows in strategic importance, there have been calls for more active board involvement in managing organizational talent (Michaels et al., 2001; Lawler, 2008).

McKinsey consultants (Michaels et al., 2001) find that boards have a limited knowledge and involvement in talent issues, and they advocate for the corporate board to take a more proactive role in managing the internal talent pool. They found that only 26 percent of 400 corporate officers somewhat or strongly agreed that "the Board of Directors really know the strengths and weaknesses of the company's top 20 to 100 executives" and only 35 percent thought that the "Board plays an important role in strengthening the overall talent pool of the company" (p. 172).

The American Productivity and Quality Center benchmarking study on talent management (2004) found that the 16 corporations sponsoring the study (with the surveys likely completed by HR and talent professionals) think the Chairman of the Board and the Board of Directors have the highest accountability for talent management in the organization. Others are rated as having lower talent accountability—in decreasing order, the CEO, the COO, Human Resources, the leadership development function, and other senior-level executives.

At about the same time a Conference Board survey of 75 HR talent professionals in 35 companies (Morton, 2004) found that 72 percent of respondents think their boards of directors take a direct interest in talent management integration. This suggests that HR and talent professionals think the board has primary accountability for talent management and takes some interest in talent management (although this could be an interest only for the most senior talent, that is, the top 5 to 20 executives).

Lawler and his colleagues at the Center for Effective Organizations have regularly surveyed corporate board members about their organizational role (Lawler, 2008). In 2006 they found that only 32 percent of board members say they track measures of human capital or talent to a great extent. In addition, they find that board members have little involvement in the development of key executives. In comparison, a survey of chief financial officers (CFO Services and Mercer Human Resource Consulting, 2003) found that only 23 percent of the 191 CFOs say that their boards are highly involved in human capital issues, even though the CFOs report that 49 percent of investors are beginning to ask about human capital issues to at least a moderate extent.

Lawler (2008) and Michaels et al. (2001) clearly advocate for much greater involvement by the boards of directors in talent issues. Lawler suggests that boards need the "power, knowledge, motivation, information, and opportunity" in order to take more responsibility for managing talent and human capital. and he challenges boards to spend as much time on talent as they do on financial and physical asset allocation and management.

We agree that boards should take a more active role in monitoring talent management efforts in the company, particularly now that talent management is accepted as a critical corporate strategy. Table 1.5 presents some talent responsibilities we recommend for the Board of Directors and other key roles in the organization. The board should be as involved in talent as it is in business strategy, financial management, and CEO effectiveness.

CEO and Senior Executives

The CEO probably has the single greatest influence on talent management effectiveness in an organization. In many studies, it is common to find that the commitment and involvement of the CEO and senior leadership are foundational requirements for successful talent management. They are expected not only to champion the efforts and role-model talent management behaviors to others but also to take responsibility for talent results.

Michaels et al. (2001) concluded from their 2000 executive survey that 49 percent of corporate officers at high-performing companies say that improving the talent pool is one of their top three priorities. In a benchmarking study at 16 corporations (American Productivity and Quality Center, 2004), 38 percent of the respondents said that the CEO is the primary champion of talent management in their organization, followed closely by senior-level executives (31 percent) and more distantly by HR (19 percent), the leadership development function (13 percent), and the board of directors (6 percent). In addition, 60 percent of the organizations say that their CEO and senior leaders spend 11 to 25 percent of their time on talent management, with one company, Celanese, reporting 30 percent of executive time. A Conference Board survey (Morton, 2004) concludes that during the 2000–2001 weak economy, two-thirds of corporate respondents reported that their companies did not significantly reduce any of their talent management initiatives. Some CEOs spend more time than others dealing with talent issues. Jeff Immelt,

Table 1.5. Talent Management Roles and Responsibilities

Role	*Talent Responsibilities*
Board of Directors	• Review and provide input on the organization's talent strategy and plans • Evaluate how well the CEO and senior executives manage talent • Take personal accountability for ensuring the quality of the talent in the top two levels of the organization, including selection and coaching • Establish a board-level talent committee with accountability beyond executive compensation • Advise the CEO and senior executives on how to strengthen the talent pool
CEO and senior executives	• Set clear talent policy, and provide strategic guidance in talent management • Conduct and involve executives in frequent talent reviews, planning, and development • Stay actively involved in talent management processes and programs: recruiting, assessment, development, retention • Serve as a role model to others, and develop talent management skills in others • Proactively reach out and get to know employees in critical positions • Take personal accountability for talent results • Hold managers and executives accountable, and reward them for talent management success

Human Resource and talent professionals	• Actively participate in the development and execution of talent strategy and business strategy • Be a subject matter expert on attracting, developing, and retaining talent • Help the CEO, the Board of Directors, executives, and line managers make better talent management decisions • Staff HR with the best talent professionals available who understand the link between talent and business strategy • Facilitate talent reviews and talent action planning • Be the architect for the development strategy for the top managers and executives • Use valid metrics to monitor talent management effectiveness • Act as a change agent for building and sustaining an effective talent management approach
Line managers	• Take responsibility and be held accountable for talent decisions and development • Take an active role in people decisions throughout their organization • Develop expertise in recruiting, managing, developing, and retaining the right talent for business needs • Establish a clear and high standard for talent • Use sound principles and metrics to make talent decisions that are rigorous and strategically relevant • Instill a talent mindset in others

(*Continued*)

Table 1.5. Talent Management Roles and Responsibilities (*Continued*)

Role	***Talent Responsibilities***
Individual employees—the talent	• Work to understand the talent requirements and business strategies in the company • Set a clear and high standard for your own performance • Know your own skills, abilities, development needs, and career interests • Take responsibility for pursuing your own development, and hold yourself accountable for development progress • Honestly communicate your career interests and limitations to your management • Find companies and career opportunities that are a good fit with your values, skills, abilities, and interests

Source: Partly based on Michaels et al. (2001), Lawler (2008), and Ulrich (1997).

GE's CEO, stated in GE's 2005 annual report, "developing and motivating people is the most important part of my job. I spend one third of my time on people" (see Lawler, 2008, p. 210).

CEOs and senior executives are also held accountable for talent. In the 2004 Conference Board study (Morton, 2004), 52 percent of respondents (human resource and talent professionals) said that the entire senior leadership team was accountable for talent management results, while 45 percent held human resources primarily responsible for results.

There is some evidence that senior leaders also hold themselves accountable. In an interview study with 50 CEOs, business unit leaders, and HR professionals, McKinsey Associates (Guthridge et al., 2006) conclude that senior managers blame themselves and business line managers for failing to give talent management enough time and attention and suggest that the failures are "largely human" or, as one executive stated, "Habits of the mind are the real barriers to talent management" (p. 1). The top obstacles cited by those interviewed are: "1) senior managers do not spend enough high quality time on talent management, 2) line managers are not sufficiently committed to people development, 3) the organization is siloed and does not encourage constructive collaboration, sharing resources, 4) line managers are unwilling to differentiate their people as top, average and underperformers and 5) senior leaders do not align talent management strategy with business strategy" (p. 2).

Clearly the CEO and senior executives have the authority and responsibility to significantly influence the talent management process and results in an organization. They need to understand and role model the talent mindset in the organization. Both Lawler (2008) and Michaels et al. (2001) discuss the talent responsibilities for senior executives. See Table 1.5 for CEO and senior executive responsibilities related to talent. The CEO in particular must be committed and involved, although we have seen talent champions in other senior executive roles who can help compensate for an unwilling or disinterested CEO.

Human Resource and Talent Professionals

A good deal of attention has been given to suggestions on ways to redirect and reshape the Human Resources function to make it more relevant and strategic (Lawler, 2008; Michaels et al., 2001; Ulrich, 1997). In some ways, it is part of a predictable evolution (similar to the finance function moving from financial reporting to strategic partner), but it also reflects frustrated expectations of Human Resources by executives and managers. Michaels et al. (2001) in the 2000 McKinsey survey found that 88 percent of officers thought "it was critical or very important that HR should be a high-impact partner to line managers in strengthening the talent pool" (p. 32); however, only 12 percent of the officers thought their HR leader actually played this role. Officers and line managers seem to want help from HR with talent issues. With the emerging organizational interest in talent management, it seems likely that HR is now stepping up to this challenge.

Part of the issue is deciding the talent accountability for HR. The Conference Board survey (Morton, 2004) found that HR was held accountable for talent management integration by 66 percent of the respondents, while the leadership team was seen as having the accountability by 30 percent of the respondents (compared to almost equal accountability between HR and the entire senior leadership team for talent management results). The strategic role of Human Resources is also being advocated. In a 2006 survey (Lawler, Boudreau, & Mohrman, 2006), 39 percent of senior Human Resource executives in Fortune 1000 companies thought their function was a full partner in developing their company's business strategy. However, only 24 percent of the line managers in the same companies agreed that HR actually was a full partner. Not only is there a difference in HR versus line manager perceptions, but as Lawler (2008) points out, there was agreement in 60 to 75 percent of these companies that HR is not yet a full partner in formulating and implementing business strategy.

Michaels et al. (2001), Lawler (2008), and Ulrich (1997) argue that the Human Resource function should be as strategically important to an organization as the finance function is. Michaels et al. (2001, p. 32) suggest that "attracting, developing and retaining talented people is the stuff of competitive advantage—more so than financing strategies, tax tactics, budgeting or even some acquisitions. Hence the HR leader has a much more strategic role to play in years ahead, arguably one equal to that of the CFO." Jack Welch, former CEO of General Electric, agrees: "If your CFO is more important than your CHRO [Chief Human Resource Officer], you're nuts!" (see Lawler, 2008, p. 180).

The discussion has focused on what HR should be doing in the future. Lawler (2008) advocates for three major responsibilities:

- HR administration (provide high-quality, low-cost services)
- Business support (help managers become more effective and make better human capital management decisions)
- Strategy development and implementation (align human capital management, organizational development, and organizational design with the company's business model)

Over the years, HR departments have been moving beyond HR transactions and administration (including outsourcing some operations) to working closely with business managers to make better talent decisions. The current transition for HR departments is to become more fully integrated and driven by shared strategic goals. Lawler (2008, p. 166) argues, "In HC [human capital] centric organizations nothing is more basic to the formulating of business strategy and to its implementation than talent and organizational effectiveness." Ulrich (1997) concurs that HR should be a strategic partner, which occurs "when they participate in the process of defining business strategy, when they ask questions that move strategy to action, and when they design HR practices that align with business strategy" (p. 27).

Despite these calls, a more strategic role for HR has been slow to develop. In 2000 only 7 percent of managers surveyed said that their companies "link business strategy to specific talent pool requirements" (Michaels et al., 2001, p. 32). We can only hope that that is noticeably improving with the current interest in strategically driven talent management.

The Human Resource function has some logical and obvious talent management responsibilities. Some of them are outlined in Table 1.5. To accomplish this, HR should have an exceptionally strong staff—the "best talent" (Lawler, 2008)—of talent professionals, industrial-organizational psychologists, and other subject matter experts who have the expertise in talent and can strengthen the link between business strategy and talent strategy.

Line Managers

Senior executives have a history of wanting to make most, if not all, of the talent decisions in a company. More recently, HR has been pressed to take a more active role, beyond just transactions and administration, to become talent experts. Human Resource and talent professionals have started to develop the skills and the motivation to fill that role. The next step in the evolution is for all managers to take personal responsibility and accountability for talent. We, and others, have called this a *talent mindset* throughout the organization.

In 2000 only 26 percent of 6,900 managers surveyed in a McKinsey survey (Michaels et al., 2001) strongly agree that talent is a top priority at their company. We suspect that more managers are now likely to see the importance of talent. In a more recent survey by Lawler et al. (2006), 56 percent of managers indicate that the business leaders' decisions that affect talent are "as rigorous and logical" as the decisions that affect other key organizational resources. But in the same survey, only 42 percent of human resource executives agreed. The conclusion is that there needs to be better objective and rigorous decision making regarding talent.

Michaels et al. (2001) found that 93 percent of corporate officers believe that line managers should be held accountable for the strength of their talent pool, but only 3 percent of the officers think that actually happens. In a later McKinsey article (Guthridge et al., 2006), 50 CEOs, business unit leaders, and HR professionals identified a number of obstacles related to line managers that prevent talent management programs from delivering business value including, "Line managers were not sufficiently committed to people development; . . . were unwilling to differentiate top performers [from] average performers and underperformers; [and] . . . did not address chronic underperformance" (p. 2).

The most successful talent companies, such as Johnson & Johnson and GE, have effectively created a talent mindset or culture in their organization where all managers are responsible and accountable for talent management. (Some of the talent responsibilities for line managers are listed in Table 1.5.) It seems obvious that if all managers have responsibility for managing financial resources in their area, then they should have equal responsibility for talent resources. As Michaels et al. (2001) suggest, “Once a manager believes that talent is his or her responsibility, the other imperatives (talent objectives) seem the logical and natural thing to do” (p. 22).

Individual Employees: The Talent

Most of the discussion on talent management focuses on what the organization, the leaders, and the managers can do to build and implement an effective talent management approach. However, in order for these efforts to be successful, they require the involvement and commitment of the talent: the employees who will be selected, assessed, reviewed, developed, deployed, and retained. As individuals take more responsibility for their own careers, they want to participate in the decisions that will affect them. Their interests, needs, and life preferences need to be understood and considered in the talent decisions in order for the decisions to be successful.

Of course they have some responsibilities as well in the talent process. (Table 1.5 lists a few of them.) Ultimately an effective talent management effort is a partnership between individuals and the organization, and both need to be committed to its success.

Talent Management Going Forward

This chapter has provided an overview of the key issues and challenges organizations face in pursuing strategy-driven talent management. It will require HR to have a more sophisticated understanding of business strategies and talent strategies and to develop, implement, and evaluate the talent systems, processes, and programs that will achieve those strategic objectives. We expect that HR will continue to step up to these challenges and become a full business partner to the CEO and senior executives. This book presents a range of approaches that organizations are taking to these challenges and an array of ideas and solutions that will guide the future of talent management.

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