



CENTRE FOR
PERFORMANCE-LED HR

Talent Management: Time To Question The Tablets of Stone?

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1. Introduction

“We have found immense variability in the way this technology is used.”

This White Paper is intended to evaluate the current situation with regard to the importance, role, and status of Talent Management within both private and public sector organisations, including an analysis of how that role is predicted to develop in the future. We are all aware of how the organisational role of Talent Manager, Talent Director has assumed greater prominence in recent times and has, for instance, superseded, in status terms, the role of Head/Director of Learning and Development or Head/Director of Employee Relations.

There have been five meetings of the Talent Management Special Interest Group (SIG) that have fed ideas and data into the development of this White Paper. These meetings have involved the talent specialists from Systems, Cabinet Office, Co-operative Financial Services/ Britannia Building Society, Hansons, IBM, Legal & General, McDonalds, Nestlé, Nuclear Decommissioning Authority, NG Bailey, Prudential, Royal Bank of Scotland, Royal Mail, Sellafield, Shell International and Vodafone. During these five days of meetings between experts and academics there has been a sharing of practice and critical review and exchange of ideas in the talent management field. The recorded material serves as our database. In addition, a sub group of the Talent SIG has also conducted its own research into the challenge of boardroom engagement with the talent reports that they receive. The White Paper also draws upon a survey of talent specialists from 15 organisations and analysis of their systems.

We need to clarify what we understand by the term “Talent” as it is clear that the term can be interpreted in a number of ways. Our paper examines the latest thinking from key writers, and develops our own thinking, in order to answer the following key questions:

1. How can we reconcile the different philosophies and practices that abound in the field of talent management?
2. What do Talent Management see as the biggest challenges they face?
3. How can we move beyond the 9-Box model: what is really meant by potential and performance in a talent context?
4. What is the impact and experience of forced rank thinking?
5. How can we get the top teams to have the right talent conversation?
6. How can we move the talent agenda towards a more strategic form of workforce planning and data handling?
7. How do we provide better governance and align the management of business risk and talent?

The overall focus of our white paper is summarised in what we have termed the 4 Ps of Talent Strategy - Philosophy, Providers, Practices and Principles - illustrated diagrammatically below:

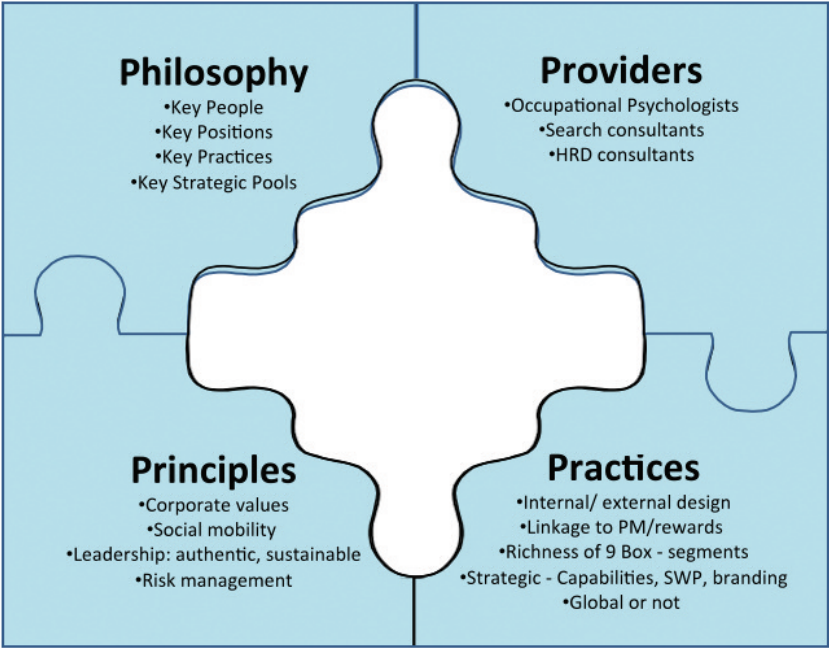


Figure 1: The 4P's of Talent Strategy © CPHR 2011

We shall see that for the majority of organisations talent management has come to operate around a few core technologies and tools – notably systems that categorise people as talented based on evaluations of their performance and potential. Yet in our research we have found immense variability in the way this technology is used.

2. What Is Talent Management? Four Philosophies

“In our work on business model change we found that ...HR Directors reported that the organisational capabilities featured in their planning processes were new to the strategy... and that there had been a shift in the jobs, roles or skill groups that were consequently seen as critical to performance”

The first P in Figure 1 refers to Philosophy. This reflects the basic assumptions that are made about the differentiation, focus, transparency, ownership, risk taking, and responsibilities involved in the talent system. We examine the different schools of thought that have influenced Talent Directors. For some talent is seen as being just about top elites, for others it applies to all employees as a rebranded form of people management. The problem of viewing talent management as something for all is that it may become an exercise of mutual disappointment. A recent study found that 98% of those employees who were categorised as talent by their employer thought they were indeed talent, but then so did 88% of employees who are not deemed as talent!¹. Yet others see talent management as a branch of human capital management, building and utilising sophisticated metrics to capture the efficiency and effectiveness of their HRM.

In this first section, we lay out four philosophies that shape our thinking about talent management, and then think about the best design for talent systems. In the following section, we lay out a number of mini case studies which we used to help elicit the underlying logics and philosophies that exist.

In our work with Talent Directors, as Figure 1 shows, when you explore any organisation’s talent management strategy, or the assumptions of its Talent Directors, although on the surface they may be using the same tools and technologies (see our discussion for example of the ubiquitous use of the 9-Box model) there may be very different underlying philosophies.

- Is talent management really about the management of top elites, an important, but small, handful of key people?
- Should everybody be seen as talent – in which case talent management is about a small set of important HR practices – a rebranded form of HRM?
- Is talent management best served through the use of a focused set of metrics that can be used to evidence the most effective and efficient use of human capital?
- Is talent management more about critical roles, not critical people?

There has been a running debate on what organisations might mean by “Talent” and “Talent Management”.

Before we say much more about talent, the reader has to decide and accept which philosophy they – or their organisation – come from. However:

1. If you end up agreeing with each philosophy that we lay out, your employees are likely as confused about HR as you might be!
2. Although we lay out four alternatives, our own explorations of talent strategies in practice leads us to confidently state that for the majority of organisations the term and the

consequent activity has its prime focus as unearthing those employees who qualify for the term “high potentials” and/or, if they do not exist internally, searching outside the organisation.

However we need to recognise that there are advocates of the stance that “all employees have talent” and thus that Talent Management should be about exploiting/optimising the capabilities of all employees. Whether you look at discussion of talent management in the academic literature and business press, or whether you look at the actual practices that are brought together as part of a talent strategy, there is immense variation in what is meant by talent management. Four different perspectives emerge².

1. Key People Approach: Talent Management As A Categorisation Of People.
2. Key Practices Approach: Talent Management As The Presence Of Key HRM Practices
3. Key Position Approach: Talent Management As The Identification Of Pivotal Positions
4. Key Strategic Pools Approach: Talent Management As Internal Talent Pools And Succession Planning

The Key People Approach: Talent Management As A Categorisation Of People.

Collins English Dictionary defines talent as “innate ability, aptitude, or faculty, especially when unspecified; above average ability”³. David Sears in his book “Successful Talent Strategies” when discussing The War for Talent⁴ describes the situation as “the struggle of employers to land and “upskill” employees in a cut throat free-agent employment market”⁵.

The notion of The War for Talent was first expressed by Steven Hankin of McKinsey and Company in 1997 and further reinforced by the book of the same name published in 2001 and authored by Ed Michaels, Helen Handfield-Jones and Beth Axelrod⁶. The book focuses upon the increasingly competitive environment for recruiting and retaining talented employees. They advocated organisations adopting a talent “mindset”. Michaels et al define talent thus:

“We can say, however, that managerial talent is some combination of a sharp strategic mind, leadership ability, emotional maturity, communications skills, the ability to attract and inspire other talented people, entrepreneurial instincts, functional skills and the ability to deliver results”.

There are then employees with unique skill sets – skills that are rare and much sought after by competing organisations. These talented individuals are hard to find and therefore difficult to replace and add a disproportionate amount of value to the organisation compared to other employees. A talent management strategy starts with identifying these individual star performers who are a source of competitive advantage and advocate strategies that attract, retain, and develop these high performance and high potential employees,

The “Key People” perspective on talent has been suggested by a number of writers such as Shoshana Zuboff, Elaine Chambers and colleagues, Beth Axelrod, Helen Handfield-Jones, Ed Michaels, and Matthew Guthridge and colleagues⁷. This perspective is also highlighted by the CIPD who define talent management as involving the systematic attraction, identification, development, engagement/retention and deployment of those individuals who through their potential have a positive immediate or long term impact on organisational performance⁸.

It is perhaps best known through the approach taken by McKinsey and the authors of *The War For Talent*. The whole HR System of an organisation has to be aligned to such a performance-led talent strategy that makes it clear that only the very best are recruited, retained, and the rest are slowly exited from the system. Talent management is all about differentiation, and

‘... Differentiation means assessing the performance and potential of your people and then giving them ... promotion, compensation, and development opportunities. It means investing in the A players, affirming B players, and acting decisively on C players’.⁹

All HR systems - particularly performance appraisal, rewards and incentives, work or job design – are designed around a pay-for-the-person as opposed to pay-for-the-job philosophy. The employer brand is then positioned to attract stars – to exceed their expectations.

A number of consulting firms also now argue the need for workforce segmentation - to isolate particularly critical workforce segments based on a combination of their needs as consumers of the talent system - what critical talent cares about most – or based on some kind of strategic differentiation of their importance e.g. contribution to the revenue and their linkage to the value chain. It is hard to see how the latter actually differs from the A, B and C player mentality – though perhaps there is a bit more science behind the differentiation. By way of example, not endorsement, here are two consulting firm discussions:

“The [Critical People] focus was, at the time, on getting employees in the door, and in general spending as much money as possible to keep them employed and retained... This traditional or contemporary approach does not work for a number of reasons. Firstly it does not capture the hearts and minds of employees i.e. what’s important to them, secondly its focus is generally on acquiring, which is not a solution to retention, and thirdly it is predominantly salary driven therefore it can be easily matched by other employers, and finally and most importantly it is not at all linked to the business strategy”.¹⁰

“..There are many ways to approach talent segmentation... but segmentation based purely on performance is a simplistic approach... considerations include: effect on the business (both when the position is filled and when it is vacant); scarcity of skills in the marketplace (including cost and time to acquire); rate of salary increases in the market, time to proficiency once a position is filled, and its impact on productivity”.¹¹

Each of these positions attracts their supporters and detractors. By way of example, the Key People perspective was famously attacked by Jeffrey Pfeffer¹².

Is Fighting The War For Talent Hazardous For Your Health?

Pfeffer famously considered that fighting the war for talent, which emphasised a fight for sourcing talented individuals, was hazardous to the organisation's health.

"... The consultants at McKinsey were preaching at Enron what they believed about themselves. They were there looking for people who had the talent to think outside the box. It never occurred to them that, if everyone had to think out of the box, maybe it was the box that needed fixing "

His key objections were:

1. The Star approach to talent shifts the emphasis on individual performance at the expense of teamwork and gives rise to a system that can create disharmony between employees who otherwise need to work collaboratively. The HR practices that go along with such an approach, for example individual based performance related pay, can make it hard for sharing of knowledge, ideas, and best practices.
2. Celebration of individual brilliance can lead to an elitist attitude marked by arrogance and can lead to a poor learning attitude, where those dubbed as "Stars" have their way over an otherwise perfectly good idea but coming from a "B" or "C" player.
3. The very fact that most companies that adopt the "A" player approach to talent management rely heavily on monetary incentives to attract and retain these key individuals, makes this approach non-strategic as it is easily imitable. If money is the major motive behind the functioning of these star performers, other companies can offer more money and lure away these stars. Retention of stars tied to a company only through monetary incentives is a big problem.
4. Probably one of the biggest issues is how to treat the employees labeled as "C" players. Labeling by itself can have a damaging effect on the performance of these employees leading to a negative self-fulfilling prophecy. Lower expectations lead to less resources being available to these employees, can lead to demoralisation, and thus poor performance; exactly the opposite becomes true for the "A" players.
5. The "Star" perspective on talent also seems to suggest individual ability as a fixed invariant trait, which is again a dangerous assumption not supported by research. There is ample evidence that performance appraisals, the bedrock of the "Star" approach to talent management, are susceptible to the horn and halo effect. Past performances can bias a supervisor's judgement of current performance and future potential.

Groysberg, Nanda, and Nohria highlighted some other reasons to be careful while adopting the “Star” approach to talent management¹³. They reporting a 2001 study by Baks conducted on mutual fund managers which found that just 30% of a star’s performance could be attributed to individual ability - 70% of it was due to resources and qualities specific to the company such as reputation, information technology, leadership training, and team chemistry. From their own study of 1052 star stock analysts working for 78 investment banks from 1988 to 1996, Groysberg and colleagues found that when star employees moved across to other companies, they were seldom able to repeat their high performance in the new company. Talent declines as CEOs change organisations, indicating that performance is also due to the organisation’s resources, systems, processes and networks of people.

This, along with academic research on CEO failures¹⁴, again points out to that a good part of individual performance is actually driven by the good systems prevalent in the company than just due to individual brilliance.

The Key Practices Approach: Talent Management As The Presence Of Key HRM Practices

War for Talent thinking argued that the differentiator for high-performing firms was not sophisticated human resource management (HRM) processes concerned with succession planning, recruitment and compensation, but rather a fundamental belief held by leaders throughout the organisation about the importance of individual talent and the creation of internal “talent markets”.

As work on employee segmentation began to demonstrate, the War for Talent argument that sophisticated succession planning and associated HR processes were not necessary was not accepted by all organisations. For example, the consumer multinational Diageo exemplified a competing philosophy. It considered that in order to build talent it did indeed need a sophisticated performance development review process. It assessed both an individual’s contribution to organisational-level capabilities such as consumer insight, business system transformation and rapid capability development, coupled with more traditional individual leadership competencies such as living the values, emotional energy, ideas generation and so forth. This system had to be embedded in a surrounding package of HR practices, which included a deployment decision forum, high-potential review process, external resourcing strategy, reward and recognition policy driven by data from employee motivation surveys, talent benchmarking system based on 360 degree feedback and personal development plans, and a partnership approach with managers driven by personal coaching.

Many organisations then see talent management as a collection of key activities or practices that need to be integrated. Typically, these key activities revolve around:

- Identifying and recruiting talent (analysis of labour pools, benchmarking competitor strategies, decentralising or centralising recruitment strategies, co-ordinating preferred suppliers, establishing brand and reputation amongst key employee segments)

- Minimising attrition (effective onboarding, aligning rewards structures, improving line management skills and engagement with talent)
- Identifying key internal talent (systematic and effective approaches to affirm individuals with the status of talent, identify the roles that are most talent dependent, and use of assessment instruments and frameworks)
- Managing talent flows (developing effective succession systems, creating flexibility in internal mobility, career management systems)
- Developing employees (flexible portfolios of development activities and options for employees, team learning processes, strategic and operational leadership development programmes, coaching) and
- Delivering performance (linking data on performance to the selection of talent, stretching the performance of talented individuals, managing under-performance)

Organisations may choose to build suites of sophisticated practices, activities, and processes, sharpen and align the focus of this suite, ensure that the activities build high quality data, use this data to reduce risk, and ensure that it serves to help calibrate different parts of the organisation. For example, a 2007 and ongoing study by Claudio Fernández-Aráoz, Boris Graysberg and Nitin Nohria¹⁵ drawing on interviews with executive from 70 organisations finds that only 15% of major organisations in North America and Asia, and 30% in Europe, believe they have enough qualified successors for qualified positions. In this context they class advanced programmes aimed at identifying and managing a pipeline of high potentials as a typical “battle strategy” (see Section 4) but note that these programmes are not simple to execute. Noting that firms such as GE, Unilever, PepsiCo and Shell have a reputation for effective practices in the area, but are not the norm, they identify what organisations active in the area define as their cutting edge practices to ensure a supply of high potential managers. Advanced practices require three activities:

1. The establishment of clear strategic priorities that shape the way high-potential leaders must be groomed – aligning the program with corporate strategy
2. Careful selection of candidates and communication of who is in the pool to the rest of the organisation through a combination of nominations and objective assessments
3. The management of the talent pool to ensure development, reward and retention, by rotation through matched jobs.

On transparency and high potential, they note:

*“...The only real reason to keep [who is on the list] quiet is that you suspect the process is overly subjective and unfair”.*¹⁶

*“...We are surprised to discover how many companies launch high-potential programs without first clearly establishing what they mean by “potential”.*¹⁷

Of course, even where processes may be very smooth and sophisticated, HR often still needs to educate the line how what good talent development looks like and track actions.

The Key Position Approach: Talent Management As The Identification Of Pivotal Positions

Picking up on the Jeffrey Pfeffer critique, Mark Huselid and colleagues noted that some HR professionals had ethical objections to classifying people as “A, B, or C”, but there might not be the same emotional reactivity to classifying positions – or segmenting jobs - within the organisation. “A positions” have two major characteristics¹⁸:

- a) “they have a disproportionate role in a company’s ability in executing some part of its strategy, and
- b) there is a wide variability in the quality of work displayed by the employees in that position”

Different ways of identifying key positions are used. For Mark Huselid:

- A positions: strategic, require autonomous decision making, have performance based compensation, create disproportionate value for the organisation as compared to other positions, and the consequences of mistakes (in job design or in hiring the wrong employee) can have serious financial repercussions
- B positions: largely support roles that may be strategic for the company but the skills required to perform them are common and there may be little variability in the performance of employees in these positions.
- C Positions: may be required for the company to function but are not strategic to its success and may easily be outsourced or even weeded out.

In our work on business model change we found that in 2009 59% of HR Directors reported that the organisational capabilities featured in their planning processes were new to the strategy. 40% reported that there had been a shift in the jobs, roles or skill groups that were consequently seen as critical to performance¹⁹.

These positions do not just include those near the strategic core of the organisation – they may be a key part of the operating core. In our work on employee engagement with McDonalds, it is clear that, as also predicted by work on the service-profit chain, customer facing crew members become the “A Position” as having satisfied happy customers is their key performance driver. Given that not all crew members have the same skills and abilities to handle customers, attention is given to keeping the best crew out in the dining area rather than in the kitchen.

The key implications of the position perspective on talent management

1. Talent management is no longer just linked to top tier employees of the organisation. These positions can be anywhere and talent management truly becomes a company wide strategy.
2. It de-links the talent management strategy from leadership development and makes talent management more contextual and dependent on the business model
3. The success (or failure) of the business model becomes crucially dependent on designing a small number of mission-critical jobs - key positions – well.
4. You no longer need A players throughout the organisation; you just need A players in A positions.
5. “A Positions” can also be more enriched and give substantial job autonomy to the employees in those positions. By making an element of intrinsic reward in-built into these positions for those who seek job enrichment at their work place, the talent management strategy can be less reliant on monetary rewards, making the strategy more acceptable to the wider organisation
6. It gives a more differentiated view of talent as different types of “capital” that becomes important in order for talent to be successful (we will differentiate these later in the white paper).

David Collings and Kemal Mellahi²⁰ take a very similar approach to the “Position” approach. For them, strategic talent management is seen to include those:

“...activities and processes that involve the systematic identification of key positions which differentially contribute to the organisation’s sustainable competitive advantage, the development of a talent pool of high potential and high performance incumbents to fill these roles, and the development of a differentiated human resource architecture to facilitate filling these positions with competent incumbents and to ensure their continued commitment to the organisation.”

The Key Strategic Pools Approach: Talent Management As Internal Talent Pools And Human Capital Planning

Typically seen in the work of writers such as John Boudreau²¹ and colleagues, or of Jon Ingham²², this takes the key positions argument in a different direction. It argues that organisations draw their energy from people, their individual strengths, interests and motivations, but that these must be better aligned with long-term business strategy in order to provide a basis for differentiation and competitive advantage. HR and business leaders are implored to broaden their traditional focus and develop frameworks to identify what decisions about human capital are most crucial, and how to connect those decisions logically to organisational effectiveness. Organisations can identify 'pivotal talent pools' i.e. groupings and clusters of talent where human capital investments make the biggest difference to strategic success. They use the examples of FedEx, where the top few critical components of its success are shipping time and efficiency, and Disney, for whom it the visitor experience in the park.

"...HR and business leaders asked to identify the key talent at Federal Express will name pilots, logistics designers, and top leaders. No one can deny their importance. Yet, at Federal Express Asia Pacific, some of the largest opportunities to improve on-time performance and customer satisfaction might lie with a relatively "undervalued" talent pool: couriers and dispatchers...The quality of courier responses, multiplied across hundreds of incidents every day, contributes significantly to the effectiveness or ineffectiveness of the entire system... Improving the quality of the courier-dispatcher talent pool on this important aligned action is actually more pivotal even than improving pilot quality".²³

They apply the principles of decision sciences such as finance and marketing to the field of talent management in order to link superior human capital and talent to sustainable competitive advantage. They talk about the need to "retool" the HR function with tools that help understand where performance makes a greatest difference - strategy pivot points - and to then make decisions about the optimal use of talent around these points. For Boudreau and colleagues there are three anchor points, the last of which relates to talent systems:

- efficiency (Do you deliver HR programs and practices through frugal use of resources such as time, money and labor?),
- effectiveness (When you implement HR programs and practices, do they have an effect on the people to whom you apply them?), and
- impact (Do you apply your HR programs and practices to the talent pools where they have the greatest effect on your strategic and organisational effectiveness?).

The focus is still on pivotal groups of people in whom investments should be made to achieve greatest leverage, but effective use of metrics and a more open form of strategic thinking is needed to identify these pools.

Matching The Talent System Architecture To The Four Philosophies

Some important questions should be asked about these four different talent philosophies. We have explored with Talent Directors whether there might be some simple decision rules as to when to emphasise one approach over another. Might there be some simple 2x2 matrix that could be used to help this? In testing out some obvious options, it becomes clear that we should avoid simple messages. Talent management is a craft, not a science. It is very context-dependent, and so is the decision when to favour one approach over another.

"... This a very helpful way of thinking about the approaches we have. But I don't think they are competing philosophies. It is more about dilemmas. As it becomes increasingly obvious that some of the critical roles in the organisation need to change, then we put an emphasis on those. That is not to say that the other philosophy of focusing on the top tier of talent disappears. There is not a competition as such that one is right and one is wrong. It is more about how you combine them..."

"... They are different philosophies, but I am not sure they are necessarily competing. Trying to put these perspectives into some kind of matrix is overly simplistic. The choice of what you do is so context specific, and depends on so many things. But to say exactly when I would push one approach over another, I am struggling to give you a decent answer"

"... We have to accept we have four components. It is about maturity, being able to use all four thought processes"

"... This shows that Talent management tries to look very clean, but it is very messy. Look at the craft in this. Talent management is a craft and consultants can only be of limited help. You have to serve your apprenticeship in resourcing to be able to do this"

However, we can make some important observations about the use of the different approaches:

Do organisations push towards a preferred talent philosophy or are they pulled in the direction of the philosophy? Business model change often pulls the talent system in directions it has not previously gone – talent systems generally lag behind the strategy. Organisations can however be more proactive in and push a new talent system into the organisation., but these talent systems have to learn how to cope with new business realities – and practices should only be honed once the strategic talent pools and positions have been surfaced.

Can organisations pursue multiple combinations of talent philosophy? As the above reflections and our case studies in the next section will show, clearly the answer is yes, but there can be some hidden risks in doing so. Some of the philosophies can be combined. Most talent systems can attend to both the critical roles and critical people at certain points in time. Other philosophies do not really fit together very well. The Key People approach, with its argument that talent management is not about sophisticated process but is about differentiation, for example, stands in stark contrast to the Key Practices approach, which is about honed practices to a known

recipe for talent. You cannot pursue both these philosophies without risking sending mixed messages to the line. Communicating why there is a changed focus from one philosophy to another is important. However, the balance is industry specific., even within an organisation the balance may need to be different from business division to division.

Is there a best approach? Not necessarily, but the key decision point is whether there is significant business model change or not, in which case we would argue the logical way to work around the approaches is as follows: Is the business facing a high degree of business model change and strategic uncertainty? If yes, then use a Key Position or Key Strategic Pools approach. Only consider a Key Practice or Key People approach once the strategic capabilities the organisation needs are clearer.

Can you adopt either a people focus or a position/ systems approach? No. In times of strategic uncertainty redefine the pivotal positions first and design around these, and then also consider how to match the people challenges to the positions.

As we move through the second decade of the twenty first century, the scope of Talent Management is moving from a predominant focus upon evaluating organisation talent strength linked to the identification of high potentials to a broader remit that links to this more strategic focus on workforce planning. We will explore this movement later in the White Paper.

3. From Measurement To Management Of Talent: Cases And Challenges

“[Given] this gap between intent (everyone has talents) and existing processes (central systems that can only focus on a handful of high talent), many organisations have been decentralising their talent management operations”

In the previous section we discussed the various approaches to talent management.

What, however, are the priorities as seen by Talent Directors themselves? In this section we:

- Present some mini case studies where the organisations have shared with us some of the key aspects of their talent management process.
- Identify the five major challenges that Talent Directors see their function facing.

Talent Management Systems In Practice

Table 1 summarises eight case studies in which early in our work with Talent Directors we sought the answers to three questions:

1. What is the fundamental philosophy behind their talent thinking: who is talent?
2. Who is responsible for managing talent in their organisation? Where does HR fit in?
3. What matrices are used to identify talent?

The quick answer to the last question is that the majority of organisations use what is called the Nine Box Model of performance versus potential. We devote a section to this model given its ubiquitous use.

The previous section revealed four different philosophies behind talent management systems. Table 1 shows that the majority of talent systems are based on a Critical People philosophy – on the use of performance-potential assessments to differentiate talented individuals.

However, in three instances there is also a critical role philosophy – where a periodic critical role analysis sits side by side with critical people analysis. Where both philosophies were incorporated into the system:

“... [The system] starts with the analysis of critical roles and individuals. There is a definition for what constitutes critical roles. Questions are asked as to whether this role should be in the business any more, what would the impact be of not having it”

Table 1 shows that in two organisations - Financial Services 2 and Advanced Engineering and Manufacturing Service organisation - the talent management system was based on a range of key practices.

In the Advanced Engineering and Manufacturing Service organisation six component processes are brought together under a talent management umbrella: Performance and Development Review; Behavioural Performance Feedback; Performance and Potential Rating; Management and Functions Resources Review; Reward Review; Development programmes. In the Financial Services 2 organisation nine component practices are brought together under the talent umbrella: leadership development, career planning, high potential employee development, performance management, succession planning, learning and development, competency management, retention and

professional development. Work is underway to align these nine components to other HR and learning and development processes. This organisation, known for a strong ethical position, defines talent as:

"...Those individuals assessed as having the ambition and leadership capability to deliver greater contribution in their current roles and the potential to develop into roles of greater depth and/or breadth over time... However, just performance or potential is not enough; the performance should be achieved without compromising on organisational values and potential should show leadership capabilities to lead with values".

They emphasise that these leaders have to have the values that the organisation espouses. These values play a pivotal role in leadership model on which the definition of talent is based and in the identification process for talent. Middle managers and above are placed on the leadership talent matrix at end of year appraisal and the Talent management system is largely geared to identify future leaders.

Organisation Type	Key aspects of the talent process
Food Manufacturer	<ul style="list-style-type: none"> • Identify an individual's talent category by using a 9 Box performance/potential matrix (with a defined model of potential) • Process is owned by the business (line) and facilitated by HR • Annual management development cycle with two talent management processes – talent assessment and succession planning. • Each market runs its own talent and succession planning process, summated up to a Group level • Senior leadership team devotes two days/year to review organisation talent and for future talent plans • HR expertise resides in a Talent management and International HR Centre of Expertise • HR Business Partner Talent management network established • e-enabled talent management systems for managers and individuals • Recently revised leadership framework and gender balance initiatives put in place • Limited use of external suppliers for executive coaching

Organisation Type	Key aspects of the talent process
Distribution Services and Logistics	<ul style="list-style-type: none"> • Three resource groups to manage talent: Group Talent Team; BU Talent Leads; and regional support staff • Group talent approach covers top 140 people, with progressively less detail down to senior and middle management level • Talent approach enshrined in six sets of principles about: resourcing, Performance management, talent identification, succession planning, Group-level talent development, and leadership model design • All Senior Leaders assessed against set of 11 organisation-specific set of skills and an experience matrix to deliver strategy • Group-level talent assessed on a performance and potential –matrix to identify talent / senior Leaders of the future • Grid introduced to help with succession and development planning • Specific set of talent differentiators (called agilities) applied: emotional, strategic and learning • Group wide consistent approach • Development has an individual focus • Group & Local Talent pools • Governance is through the Group Talent Board – chaired and attended by Non-Execs and also key Business Unit Directors • Key challenges are: development of core skills (programme management, commercial, innovation); Risk-taking on talent; Early identification of key successors; and consistency of deployment • Internally designed system
Financial Services 1	<ul style="list-style-type: none"> • Executive, Management Committee and their Direct Reports, are managed & supported as a group-wide resource • Five stage talent process: <ol style="list-style-type: none"> 1. Analysis of: critical roles and people; 2. Talent review using nine box performance by potential model 3. Talent forum used for benchmarking and calibration of talent across the divisions, chaired by business division CEOs

Organisation Type	Key aspects of the talent process
Financial Services 1 (continued)	<ol style="list-style-type: none"> 4. Talent actions: succession planning, key critical moves, development plans for individuals 5. Talent reporting through formalised documentation <ul style="list-style-type: none"> • Internally designed system • Talent expertise sits in Group HR centre to provide policy, process and expert knowledge. Central team provides the reporting from the national and business-level forums • Recently devolved business division level talent specialists • Talent Dashboard reports key metrics for business leaders e.g. the proportion of successors for key roles. Dashboard is part of the input for business leaders' own performance review, • Talent metrics used to support divisions and focus on hot spots that need interventions
Financial Services 2	<ul style="list-style-type: none"> • Talent management based around nine component practices: leadership development, career planning, high potential employee development, performance management, succession planning, learning and development, competency management, retention and professional development. • Middle managers and above placed on the leadership talent matrix at end of year appraisal • Talent identification of talent driven through line • Consultation with business leaders confirms list of prospective candidates • Use 9 Box model of potential versus performance to identify leadership pool • Run a fast track general management development programme called Excellerate • Gateway process to consider leadership ambition and identify preferred development route • Assessment Centre (based on underlying leadership model) to identify leadership talent pool

Organisation Type	Key aspects of the talent process
Financial Services 2 (continued)	<ul style="list-style-type: none"> • Development within function / line for talent with non leadership ambition (management academy, executive coaching) • Series of high-impact group development events supported by 1:1 coaching • Small central talent team (2 FTE) looks after organisation-wide activities (leadership talent) and Excellerate, • Some standalone local programmes also exist (e.g. branch network management development programme)
Civil Service Directorate	<ul style="list-style-type: none"> • Three talent segments: early talent (population of over 9000 higher and senior executive officers equivalent to middle managers); 1800 senior managers; and 300 senior director-level civil servants • Fit for Now (performance) and Fit for Future (potential) focus. Management teams tasked to have discussions around the 3x3 performance x potential grid data every two months. • Long-term programmes to pull people through the talent pipeline • Fast stream and Reach programmes (Accelerated Development for Underrepresented Groups) to cover first line staff to middle managers • Planning based on both critical roles (contingency emergency cover) and longer term succession plan (critical people). • Key talent indicators (e.g. attrition, engagement scores) used to identify risks and set priorities • Integrating leadership and talent systems to avoid people going on programmes who are not deemed talent • Specific programmes for Graduates and Emerging Talent populations
Food Services	<ul style="list-style-type: none"> • The talent pool is considered to be employees who run their stores and operations • Talent management and identification program closely linked to a rolling long-term planning process that identifies operational and performance priorities over next 3 years

Organisation Type	Key aspects of the talent process
Food Services (continued)	<ul style="list-style-type: none"> • Capability analysis conducted against the three year plans - any indicated changes in requisite skills incorporated into resourcing and training practices • Formalised process for top 300 employees - owned and managed by the HR team, but very small corporate function to manage data • Individual data captured as part of performance calibration process - uses a nine box model based on performance and potential to identify store management potential • Readiness for progress (“ready now” = 1-6 months / “ready future” = 6-24 months), mobility, turnover risk • Responds to ‘Vital Few’ criteria: critical talent demand that will not be met without a special initiative or intervention; or a significant threat to talent supply that will not be mitigated without a special initiative or intervention • Business operations input to identify business critical roles linked to strategic needs of business e.g. appointment of Head of Food • Executive Review of analysis • Link to organisation design function to address structural/ job design issues raised • Integration of talent ratings with long-term incentive grants • Training budget centralised to enable control over delivery to top talent • Internally designed system
Information Systems and High Technology	<ul style="list-style-type: none"> • Managers identify employees for the pipeline through the Pipeline Identification Process • Business and Technical Leadership Partners in HR manage the cycle of talent reviews and placement activities • Integrated pipeline management and succession planning process for business and technical leadership resources • Leadership Acceleration and Development System to bring leadership pipeline data into integrated database

Organisation Type	Key aspects of the talent process
Information Systems and High Technology (continued)	<ul style="list-style-type: none"> • Potential is the primary evaluation factor. Eight role capabilities examined • Talent insight reporting on gender diversity balance and global visibility • Talent reviews to facilitate the placement of talent across the lines of business • Individual development plans around capabilities, competencies and skills • Three talent populations or segments: individuals on a path to senior leadership positions; executive positions; and current business and technical executives • Global responsibility and accountability for identifying, developing the leadership pipeline and placing business and technical leaders • Internally designed system
Advanced Engineering and Manufacturing Service	<ul style="list-style-type: none"> • Annual Integrated Business Planning process for individual businesses to establish and plan delivery of objectives in line with Company strategy • Individual performance is assessed by Performance Development Reviews, project performance by Contract Reviews • Performance Centred Leadership (PCL) one of five mandated core business management processes covering management resourcing and people development. • Six component processes: Performance and Development Review; Behavioural Performance Feedback; Performance and Potential Rating; Management and Functions Resources Review; Reward Review; Development programmes • Processes lead to management resource reviews, personal development plans and incentive plans • Line Leaders and Functional Directors responsible for: ensuring the PCL Framework is implemented; conducting management resource review process; and calibration of ratings

Organisation Type	Key aspects of the talent process
Advanced Engineering and Manufacturing Service (continued)	<ul style="list-style-type: none"> • Line managers responsible for rating an individual's performance and potential (9 box model) • HR responsible for development interventions and process governance • External Providers for development programmes and assessment tools

Table 1: Eight Example Talent Management Systems

However, compare and contrast the different philosophies that guide talent management systems when it comes to the question of the coverage and scope of talent systems. In the Civil Service department, the beliefs on which the talent system operate are stated quite clearly. They are as follows. Everyone has talent. The focus is on growing internal rather external talent (to 70/30 from 100/0). Talent development is recognised as a key leadership role. The filling of senior vacancies must be seen to be based on fair and open competition. The talent management specialists believe they can not compromise at appointment, but will not watch people fail. They support simple and effective talent development processes and believe that diversity of talent is critical to their future success.

"... Everyone has talent – it is about matching talent with the right job and progressing those with lots of talent into leadership".

However, several Talent Directors, all from commercial organisations, summed up the "everyone is talented but some more than others" dilemma that HR practitioners face thus:

"... We definitely believe that all of our employees can make the difference to our long term business performance. We want to help them reach their full potential and have a long and successful career"

"... We do believe that everyone has talent... but we will invest in and accelerate only the high potential".

"... Who is talent? Everyone is regarded as having talents which should be developed. However, the business defines its talent as individuals who are demonstrating performance and potential to progress to a larger or more senior role within the next 12 – 18 months. As a minimum both Group and businesses must have clarity on their talent populations from managerial level up to CEO ... to develop breadth and depth and raise the leadership bench-strength to drive business performance"

These quotes show the paradox that organisations face while reserving the term talent for only a select few – in the latter quote the talent system covers 0.2% of employees, and then within this total system coverage an even smaller subset of individuals are identified as key players for critical roles and subsequently tracked under succession planning.

In response to this gap between intent (everyone has talents) and existing processes (central systems that can only focus on a handful of high talent), many organisations have been decentralising their talent management operations, handing over responsibility to line managers for the conduct of wider review processes:

“...Every manager is a talent manager. They have to be responsible to grow the business and grow the ‘people’. Everyone has potential – it is not just about the ‘hi-po’s”

This shift has put even more pressure on the transparency and validity of talent systems, HR’s role as a facilitator and broker of talent judgements, and the need to avoid overly-complex or sophisticated systems. It has focused the attention of many Talent functions on issues of line manager willingness and confidence to talent manage, and HR Business Partner capability to facilitate mature line manager-employee discussions.

To summarise, different organisations pursue different logics in the design and conduct of their talent management systems. However, their Talent functions face the same core challenges.

The Five Challenges Facing Talent Directors

We have worked with Talent Directors across a number of Special Interest Group meetings, and the conversations can be brought down to five major and ongoing challenges:

- Conversations around strategy, organisational design and development
- Achieving and enabling full potential and a return on investment
- Diversity: Managing the 3G’s of gender, geography, and generation
- Relationship management
- Operational integration

In each of the boxes below we lay out the key elements of each challenge. We use some quotes from the conversations to expand on the issue. We begin with the first set of challenges - strategic and organisation design/ development issues.

Conversations around Strategy, Organisational Design and Development

- Strategic workforce planning and data handling
- Getting top teams to have talent conversations
- Getting top teams to then have the right conversations (language)
- What should talent functions bring to the talent conversation for long-term development?
- Changing business models and changing critical roles
- Aligning business risk and talent (governance)

"...How do we get the right conversations about talent management around the top table – are we engaging with the Board in the right way?"

"...Is there a language issue with this? What do we really need to bring to the table? How do we maintain strategic long-term conversations and not get locked into the data?"

"...Our challenge is working with the board on talent implications – we love to play at succession planning but not on the bigger stuff"

"...How to move to more to more value add with the Board? It needs a return on investment conversation... and what we call sustained conversations"

"...Understanding of our business model is changing... and so is the internal landscape in the organisation"

"...We need to identify critical gaps roles, build success profiles around these role gaps, understand the pipeline and look for issues and specific actions to facilitate movement in the pipeline"

"...(Doing more with what) we know are the mission critical roles in the organisation. We do a capability analysis – and focus on the areas where we need a better skill set"

"... We need to look more at critical roles – then the competencies piece – but understanding the strategic piece for the next 5-10 years, not in the next couple of years"

"...How does workforce planning fit in with all of this? It can only be the strategic and high-end workforce planning around capabilities for the future"

The view from the majority of Talent Directors is that organisations have to deal with and solve the above set of challenges. Then time spent solving the following challenges becomes more worth while.

The second set of challenges has been around how to achieve and enable the full potential of the talent function.

Achieving and enabling full potential and a return on investment

- Articulating the link between talent and more sustainable contribution and performance
- Managing the volatility in the talent population
- Combining quantitative and qualitative data insights

"...We want a more realistic performance-potential grid – people need to be moved down to more realistic levels in evaluations"

"...Data is improving on every employee – but it is not fantastic - a big issue is joining up the data – lining up the quantitative and the qualitative. Making us more profitable is about understanding this two-dimensional aspect to talent data. We need qualitative data on things like sales acumen, business intuition"

"...The 9 box grid reigns supreme, but to work it needs line managers to act as a talent manager - and we're not there yet"

"...Creating a talent mindset is not just only about the willingness of the line to discuss the capabilities of talent, how we engage them with that and equip them to do it well ...but whether they see the value in that, and this is fundamentally about the design of the relationships in the talent system"

"...How can HR challenge the quality of talent data and the issues they have to deal with... There are two dimensions to it. One is the data and the second is the presentation of this data – what should be on the talent dashboard"

The third set of challenges are around some of the things that the board should discuss but do not always do – with the subsequent challenge for Talent functions that in the context of very business-focused talent discussions they need to move their organisations into more sustainable models of talent. The 3Gs of gender, geography and generation press their claims to be seen as part of the talent population.

Diversity: Managing the 3G's of gender, geography, and generation

- Building a business case for the 3Gs at board level
- Resource planning for the under-represented Gs

"The business case for diversity, how we motivate senior leaders to take the diversity agenda into the board... understanding the various glass ceilings and doing something about it, and in terms of resource planning there is a fear that we will struggle to attract [talented] people from more diverse backgrounds"

"Yes, we have lots of papers and lots of studies, but we need to understand what we are actually doing to actually make a practical change to any of those agendas – that is a very difficult question"

The fourth set of challenges concern issues of relationship management.

Relationship management

- A new skillset needed by Talent Directors in working with the line
- Preparation of line manager to have the right conversations and what they should be about
- Clarification of roles in the talent process – having the conversation with the right people
- Objective/subjective conversations to help managers accept the talent proposition

"...We want to support talent with more practical "how's it going" conversations"

"...In terms of the line's understanding of the whole talent conversation, the barriers are of course preparation and communication with line managers"

"...Clarification of roles within the talent process. – being clear about these depending on the way you have structured your talent processes, the organisations' contribution, the line managers, and the people running talent... It is the execution and the way you design the talent system that will make it work or not"

"...How do we motivate and reward the talent champions in the business?"

"...Mobilising talent is about establishing connections between talent and enabling opportunities"

"...We need more confidence in having conversations at the top end of talent – i.e. telling people that they will not be going further - ... and in pushing people to longer term plans"

Finally, the fifth set of challenges pick up operational issues of alignment and integration.

Operational integration

- Getting the right people, at the right time, in the right place
- The totality of talent data
- Alignment and globalisation of talent systems

"...It is still about joining up HR – to what extent we are aligned with design and reward – so it is not about jargon but about how that linkage works, how the metrics we use drive policy"

"...Alignment is an issue – we have some great talent management – lots of different BU's doing their own thing – but HRBPs don't always get the recognition for it. Perhaps HR should be a broker rather than the expert?"

"...Integrating our HR systems [including talent systems] with overarching strategies is still a long way a way. We relate to the corporate centre and then strong business units – so although we have some overarching systems there are still lots of fiefdoms"

"...In a globally integrated enterprise – a global corporation – all processes, everything, has to be globalised. We compete on a global basis, so our talent system needs to be a global system".

"...It has to be less about the UK, and more international – we need international talent. Strategically, we need to understand how to integrate and work in a global business"

4. The Emergence Of Talent Management As A Major HR Function and Activity

“I understand what we mean by Performance, but Potential and its meaning is another issue!”

The second P in Figure 1 refers to Providers. The field of Talent Management has drawn upon the work of a number of providers including occupational psychologists, search companies and more traditional HR consultants. Each of these providers in turn are influenced by different models of human behaviour, and will look to the questions of potential, talent deployment, career advancement and derailment with different models.

Our research indicates that a number of organisations consider utilising the services of external providers when working on the development of a definition of “potential”. It is clear that when HR teams are facing some of the more complex challenges in developing their talent system, that they need to make a realistic assessment of whether they have enough talent system design capability in-house, or whether they require external support. We also note the increasing use of major search consultancies by organisations who wish to bench-strengthen the capability of some of their key functional teams. Talent Directors need to be aware of some of the services that are now available in the marketplace.

We saw in the talent case studies that the vast majority of organisations used some derivative of the 9 Box model to identify talent. However, what constitutes performance and, more importantly for talent management, what is meant by potential? We explore this last question in this section.

Functionally, Talent Management has its origins in two earlier HR activities - Recruitment and Career Development. Clearly recruitment of all levels of employees has been a key HR/Personnel activity for many years whereas a conscious focus upon career development is a later development around the late 1980s/early 1990s. Organisationally a role emerged in some larger companies that focussed upon the general stewardship of the cadre of senior managers /directors possibly the “Top 500”. Responsibilities for these “Heads of Resourcing” included senior employee role rotation, development of the senior cadre, identifying those members of the cadre with the highest potential for board level roles and, where considered necessary, the exits of low performing members.

With the growing emphasis upon the War for Talent we believe that the “Head of Resourcing” role developed into the role of Talent Head/Director/VP. These emerging Talent Directors became major players in the HR hierarchy as CEOs, and the boards they led, became increasingly aware of the need to possess talented employees in terms of competitive advantage.

The portfolio of responsibilities for many Talent Directors included high potential identification, succession planning, critical role analysis, external search and recruitment, executive strength benchmarking and in some organisations performance management and strategic workforce planning. A key output for many Talent Directors was the periodic production of Talent Review reports for the board to assess the overall level of competitive advantage.

There was then also a series of debates as the Talent Management function matured. These were about who owns the talent? Are they a board resource for the organisation, or for line managers? Who knows talent? What is the line or HR responsibility over the systems? Should you outsource or insource the function to a third party provider? Once these debates had been held, it then made the debate about Potential a much more interesting one.

HR As The Function That Categorises Talent And High Potentials

As we have noted earlier, in practice the majority of organisations have adopted the Key People philosophy of talent management.

The HR sub-function of Talent has therefore emerged and developed internal talent teams. These teams looked for frameworks that would aid the categorisation of all their managerial employees, in particular, frameworks that would isolate/highlight so called high potentials. These early HR “pioneers” of Talent tended, by chance or otherwise, to turn to some of the key strategic product/market portfolio matrices, in particular, the BCG Growth Share Matrix and the Directional Policy (GE-McKinsey) Matrix to adapt for usage as portfolios for talent categorisation. Both portfolios focus, in terms of markets and products, on balance, attractiveness and fit and lend themselves to be readily adapted for an application to classifying individual managers in terms of potential and performance. As early as 1984 George Odiorne²⁴ wrote an article in which he recommended utilising the BCG matrix as the basis for constructing what he terms a “Human Resources Portfolio”.

Odiorne determined potential as:

“the likelihood of the job holder making a future contribution to the organisation”.

Odiorne’s Six Factor Approach to Potential

- | | |
|--|------------------------------|
| 1. Past Performance | 4. Interests and desires |
| 2. Intelligence and aptitude | 5. Supply and demand factors |
| 3. Future “availability” to the organisation | 6. Biographical information. |

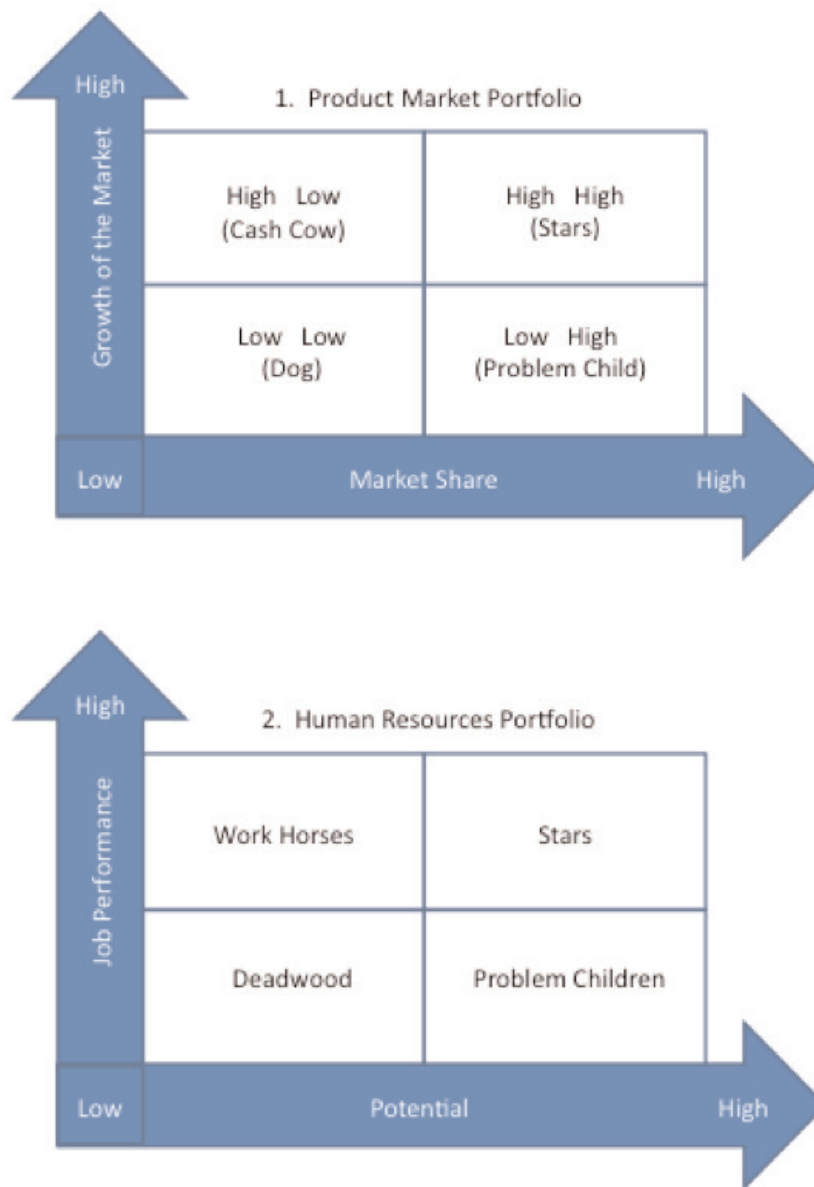


Figure 2: The BCG Matrix

Research amongst corporate members of CPHR at Lancaster University Management School has indicated that more companies have adopted a derivative from the Directional Policy Matrix for their Talent portfolio than have adopted a BCG derivative. Thus the “Talent Management Nine – Box Grid ” was the most commonly employed by CPHR members.

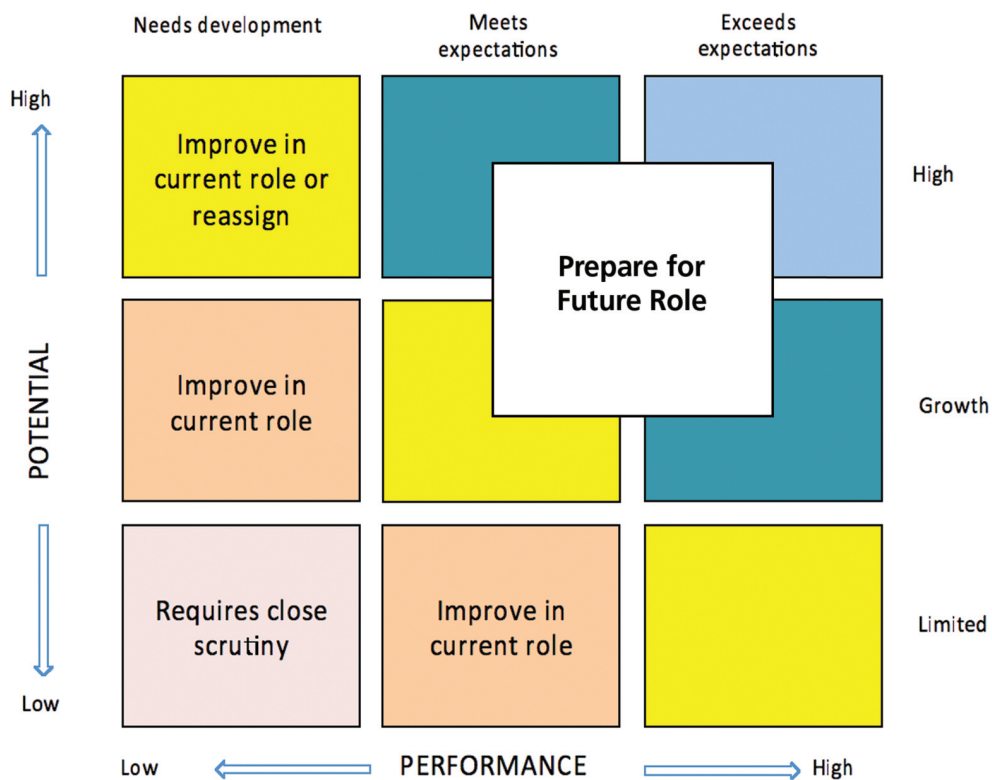


Figure 3: Typical rendition of the 9 Box model

Most of the Talent Portfolio frameworks are based upon two axes: Performance and Potential. Defining and prescribing what organisations understand by “Performance” has been relatively straightforward and underpinned by Performance Management Systems that are in operation in many companies. However gaining agreement on what is meant by “Potential” has been fraught with difficulty with no commonly agreed definition emerging. We will explore this issue in the next section.

Performance Versus Potential

Whenever the topic of Talent Management is discussed by HR Leaders, HR Professionals, CEOs, Non-Executive Directors the issue of defining what is meant by “Potential” frequently emerges as a key area of focus. When some CPHR member managers conducted a research project into the issue of board engagement (the project is covered more comprehensively later in the white paper) some of the very senior non-HR managers admitted they were puzzled by what their particular organisation meant by “Potential”. It was quite common for respondents in our interview process to say something on the lines of “I understand what we mean by Performance but Potential and its meaning is another issue”

We need to explore why a measure of Potential is so important a component of most talent systems and processes. It would appear, quite correctly in our view, that both line and HR managers fear that an over concentration on past performance as a high potential assessment would leave organisations with a plethora of “Peter Principle” problems, with a number of managers over promoted and operating above their actual level of competence. High Potentials are clearly those individuals who are far from reaching their natural “ceiling” and thus the need arises for criteria that will indicate potential for successful further advancement becomes crucial.

Our work with Talent Management Directors has tended to indicate that the approaches to defining and understanding “Potential” have increased in sophistication in recent years.

In the 1990s we find that the debate tended to polarise around whether IQ or EQ was the key element in determining future potential, particularly with the publication of Daniel Goleman’s book “Emotional Intelligence” in 1995²⁵. Throughout this IQ/EQ debate attention was also directed to whether potential high potentials possessed qualities that might be best described as “Drive” which encompassed both ambition and stamina.

However more recently the exploration of Potential has focussed more on high potential individuals possessing, to some degree, a range of characteristics or abilities. It might be worth, at this point, describing two recent publications in the talent field.

In their 2010 Harvard Business Review article “How to Keep Your Top Talent” Jean Martin and Conrad Schmidt²⁶ studied 20,000 employees rated as ‘emerging stars’ in 100 organisations worldwide over a period of 6 years. They claim that their research shows that 70% of today’s top performers lack the critical attributes essential to their success in future roles. According to Martin and Schmidt successful high potentials need to possess to a degree all of the following characteristics:

1. Ability-intellectual, technical and emotional skills.
2. Engagement-personal connection and commitment the employee feels towards the company.
3. Aspiration-the desire for recognition, advancement and future rewards

Martin and Schmidt are clear from their research that equating current high performance with future potential is a mistake. Interestingly their research also indicates that that it is an incorrect assumption on the part of employers to assume that high potentials have a tendency to be highly engaged. Of their 20,000 “emerging stars” 1 in 4 intends to leave their current employer within a year, 1 in 3 admits to non optimising their effort in the job, 1 in 5 believe there is a mis-match in personal and employer aspirations for them, and 4 in 10 have low confidence in their co-workers and the senior team!

In their article in Harvard Business Review June 2010 "Are You a High Potential" Douglas Ready, Jay Conger and Linda Hill base their findings upon 15 years of studying High Potential programmes, a recent survey of 45 companies, 12 interviews with HR Directors/VPs and discussions with high potentials. The companies in their sample regarded the high potential population as constituting 3 to 5% of total employees.

High Potentials "consistently and significantly outperform peer groups in a variety of settings and circumstances. While achieving these superior levels of performance, they exhibit behaviours that reflect their companies culture and values in an exemplary manner"

Ready, Conger and Hill believe there are four differentiating factors that distinguish High Potentials²⁷. In Figure 5 we lay out the four factors they identify.

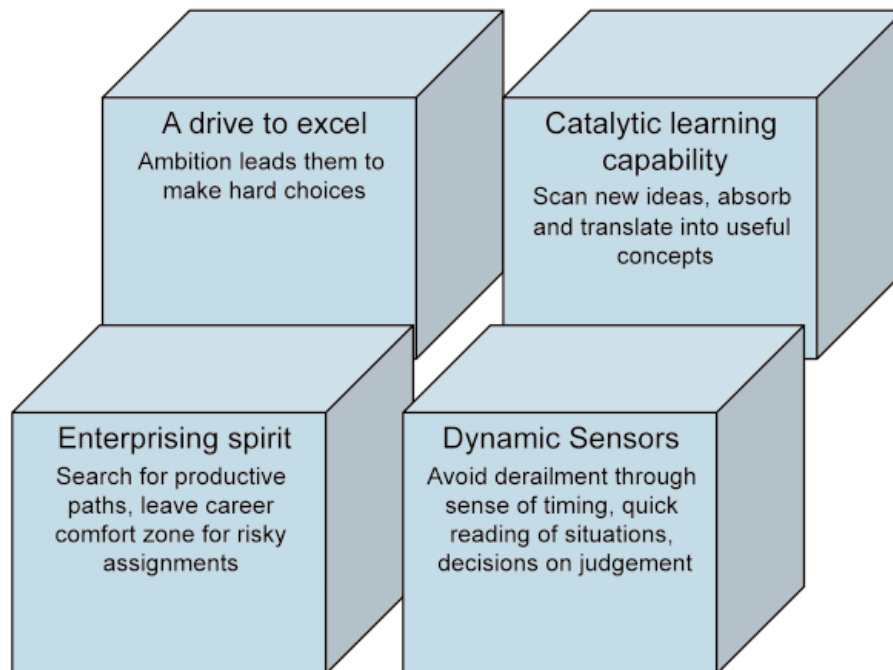


Figure 4: High Potential Differentiators

In his book Claudio Fernandez Araoz "Great People Decisions"²⁸ believes that the key to long term potential is very much about the degree to which the individual possesses emotional intelligence. Araoz who was lead partner for Egon Zender in the area of Talent Management has conducted applied research into the key capabilities of High Potentials and is of the view that:

"If only two categories can be achieved for a generic search, then the most powerful combination to predict success should be relevant experience and high EI"

Araoz also provides his definition of potential. He says that when he refers to "Potential":

"I'm asking whether an individual has the ability to grow significantly in the future, and therefore take on larger challenges"

He believes that there are three main components of potential,

1. Ambition
2. The ability to learn from experience and
3. Specific competences that tend to be future oriented, including, strategic orientation, change leadership and results orientation.

Any discussion on manager high potential would be incomplete without reference to the issue of management "Derailment", which essentially refers to the interpersonal behaviours of individuals that adversely affect their performance or reputation at work. Derailers have their origins in the work of clinical psychologists on personality disorders that can lead to what can be termed "dysfunctional dispositions".

The instrument that is most commonly used (administered by trained individuals) to identify derailment issues is the HDS instrument developed in 1992 by Robert Hogan, an American psychologist. The instrument assesses which of 11 personality characteristics can initially be an individual's great strength but, which, under great stress, may become overdone and ultimately unhelpful.

In broad terms the concept highlights that some proposed high potentials may be more prone to derailment than others and a prediction of likely individual derailers may need to be identified prior to placing certain individuals on a rapid promotion route.

"... At the end of the day, the judgement about Potential by line managers is always subjective and would not be exactly repeatable if you swapped out some of the assessors. But consideration of derailment helps you check out the judgements and explore some of the reasoning behind the scoring"

Clearly, with the help of external providers, HR Directors and Talent Directors are developing increasingly sophisticated definitions of what Potential means. However, our research indicates that this may in itself may lead to a problem, which is one of comprehension. The issue is that non-HR senior leaders (executive and non-executive) may become irritated and confused when attempting to understand these sometimes complex definitions of Potential. We will discuss this in Section 6.

Reflections On The 9-Box

To summarise, do Talent functions need to go beyond the 9 Box model? The view from Talent Directors is circumspect. In many instances it has only been actively used in organisations for the last 3 years or so, and so the initial benefits are still current:

"... Whilst for some it may be considered old hat, it is still incredibly powerful. As a diagnostic it is still pretty good... Our line managers love it. When you talk about the 'high-high' they immediately know who you are talking about, and for me to data-mine, it is very easy... The real question is what can we do better with the output from the 9 Box. The big issue for us is that we can see who the 'high-high's' are, but we do not have any resource to run programmes We also would want to sharpen up the questions we ask to ascertain what is high potential – how do we make it even better?"

"I would agree. The notion of promotability is still in the mindset of line managers when they talk about potential. They recognise their need to create that pull of these people and can see they need to develop them, but there are cultural differences. In our Germanic operations the idea of putting the box number on people is great. They absolutely love it. In Spain and Latin Europe, because we want people to know where they sit on both axis they want you to add an additional layer of transparency about the 'so what' results from the number "

"There is more of an issue with the ability of managers to give feedback than there is with a 9 Box model per se. They will just avoid it and shy away from dealing with it"

From this perspective, Talent Directors are asking 'Why go beyond the 9-Box – We have plenty of other things to improve". There is sense in this view. The one caveat that we would make is that the 9 Box model is often associated historically with the much-criticised view of potential, and with an over-emphasis on a Talent As Critical People philosophy, which as we have said, in a mature Talent system, is counter-balanced by other activities.

5. Forced Ranking And Talent Management

“We would predict that the forced ranking debate will run on and on. However, there is a risk that in taking a forced ranking approach, organisations are tempted to narrow their definition of what they mean by Potential.”

The third P in Figure 1 refers to Practices. Organisations clearly apply the main tools and techniques quite differently. Systems may be internally or externally designed, with all the implications about the sense of ownership and the level of internal HR expertise that this implies. The talent evaluation processes may be formally linked to the performance management (PM) system, importing performance data and simply adding data on potential, or the data may be independent of the PM system. There might be no link to rewards other than the reputational advantage and intrinsic motivation of being nominated in the talent pool, or those who are in the talent pool may experience differentiated and immediate financial and career enhancing rewards. If there is a centre of expertise for talent management, it might focus on a narrow set of practices, or it might assume responsibility for, or involvement in, a linked set of practices to do with strategic workforce planning, employer branding and organisational capability assessment. Finally, the talent system and its data might operate on a decentralised, business-by-business or geography-by-geography basis, or on a global basis.

There is quite a large degree of anecdotal evidence, from our research, that the operation of Talent Systems suffered, in terms of their effectiveness, from issues of manager patronage, leading to an inability to really differentiate high potentials from what could be termed “solid citizen” managers. As a consequence of this issue some companies introduced forced ranking/ forced distribution of their management population when administering their particular talent process/system. Hence the emergence of the highly publicised GE ranking system under Jack Welch. However there are major potential legal repercussions that can arise from the implementation of forced ranking and, at present, many companies are wary.

A number of very pragmatic debates about the robustness of talent management philosophies and practices were then developed earlier in the decade. The Enron principle of “fluid movement” and an open talent market for hiring - whereby anyone could apply for any job they wanted - was exposed to critical comment. The charge leveled in John Sullivan’s classic piece was that Enron had failed because of its HRM and talent management policy, not despite of its HRM²⁹. The broadsheet newspapers began to ask whether managers had been allowed to move towards the business units that they found the most exciting and attractive, thereby shaping the business in the direction of those activities that people found the most rewarding, as opposed to those that customers and shareholders might have wished to be resourced³⁰.

Also less well received by history was the now infamous ‘forced ranking’ (less flatteringly known as the ‘rank and yank’ system but also variously called Topgrading, the Vitality Curve, Forced Distribution or Differentiation) of performance management. Forced ranking required that very high differentiating rewards would be lavished on the top ten per cent of people whilst the under-performing bottom ten per cent had to be managed out of the organisation, broadly on the basis of a robust performance management system. By 2001 forced ranking systems had been adopted

by 20% of US organisations, including General Electric, Cisco Systems, EDS, Hewlett Packard, Microsoft, PepsiCo, Caterpillar, Sun Microsystems, Ford, Goodyear and Capital One.

What is meant by forced ranking is of course open to debate, but at its heart it involves the following elements:

- The use of intense yearly evaluations to identify organisation's best and worst performing employees, against articulated criteria
- The use of person-to-person comparisons to create a relative, not absolute, distribution of performance, generally into narrow top-end and bottom-end categories to reflect a normal distribution
- The strict application of set numbers or percentages to the allocation of people into each category

On the positive side such practices can jolt managers out of complacency, combat artificially inflated performance ratings, and reduce favoritism, nepotism, and promotions that may be based on factors other than performance. It might surface significant variations in the talent data provided by the performance appraisal system and the data provided by the forced ranking process. It might, though harsh and encumbered by negative side effects as noted earlier by Jeffrey Pfeffer, lead to overall improvements in productivity (folk wisdom suggests that around 40% of people labeled as C players leave the organisation of their own accord). Yet even if successful in improving productivity for a short time, it leaves the conundrum of then having to penalize now positively performing people, so some argue it has a time limit to its effective use and should be dropped after having created an initial system shock.

However, it brings subtle challenges. The assumption that organisations had employees capable of running such performance and talent management procedures fairly came under legal challenge. Ford, Goodyear and Capital One were sued for age-related employment discrimination arising from the forced ranking performance evaluation process. The American Bar Association reported on legal action³¹ (according to the allegations in Siegel v. Ford Motor Co., No. 01-102583-CL Wayne Co., Mich., Apr. 27, 2001) whereby the system implemented in 2000 at Ford for approximately 18,000 management employees force-ranked them into three categories, with A representing the top 10 percent, B the middle 80 percent, and C the bottom 10 percent. On March 14, 2002, the Michigan court approved the settlement of both Siegel v. Ford and a second class action arising from Ford's forced ranking system for \$10.5 million.

Despite such challenges, a July 2003 review of the debate in Workforce concluded that:

"...It might be the toughest corporate survivor of all. It has outlasted boom and bust, employee enmity, workforce managers' opposition, media criticism, crippling lawsuits, Enron's implosion and the de-deification of its biggest and most vocal champion, former General Electric CEO Jack Welch. For all that - partly by keeping its head down and going by a number of colorful aliases - it has remained very much at large. It is known as forced ranking and is variously called Topgrading, the Vitality Curve, Forced

Distribution, Differentiation and Rank and Yank. And by some estimates, the controversial employee-rating system has taken root in as many as one in five Fortune 500 companies".³²

Talent Directors have to deal with the natural inclination of managers to either avoid having difficult but necessary conversations with under performers, or to gameplay the allocation of scores for either understandable but short-term considerations, or for less desirable reasons. They also need to provide the Board with data that in simple language gets to the core of the organisation's bench strength of talent and encourages the Board to release resources that can be used to develop more people.

So they may argue, with a degree of pragmatism, that it is easy to be too tough on forced ranking and forced distributions. The language that they use to describe what actually happens inside these processes actual practice includes phrases such as "guided distribution" or a "sense check" i.e. the view that a forced rank system may be applied religiously, but is often also run very flexibly, i.e. it is the discussion of what is really meant and needed by performance and potential that is the ultimate outcome.

Make your own choice. We would predict that the forced ranking debate will run on and on. However, our observations of practice lead us to the view that there is a risk that in taking a forced ranking approach, organisations (and the rankers) are tempted to narrow their definition of what they mean by Potential.

6. Engaging The Senior Team In Talent Issues

“... Your airtime is very limited, their bandwidth is limited. How do you get the most of the short time that you have reporting on talent, and how do you keep it relevant?”

At CPHR a lot of our time is spent working with our Special Interest Groups (SIGs). SIGs are formed from practitioner leads from our Centre Partners in areas such as Talent, Organisational Design, and Engagement. At an early Talent SIG meeting we were discussing what were pressing issues for those present and it became clear that a number of our members were concerned about the issues of attaining real, authentic board/senior team interest and involvement in real talent problems and decisions. In summary most of our members have reasonably sophisticated talent systems with various cycles of review that support the systems but feel that the senior team are not always fully engaged in working real outcomes from the data produced by those systems.

A second and associated point of interest for us was whether the complex HR jargon that did occur in some of the language used in talent systems constituted a sort of barrier for non-HR senior team members (executive and non-executive) that inhibited the contribution that they made to talent discussions.

As a result of these discussions six members of the Talent SIG : Claire Campbell (Department for Work and Pensions), Louise Cartwright (Royal Mail), Simon Haben (Royal Mail), Kathryn Gray (Royal Bank of Scotland), Sally McGuire (N G Bailey) and Martin Hird (CPHR) resolved to undertake some research into the issue focussing upon two areas:

1. Obtaining a significant level of board engagement in talent matters.
2. Exploring the possibility that board members, including non-executive directors may be de-motivated and non-engaged because of the use of jargonistic terminology.

Thirty interviews were conducted within our sub-group's employing companies plus some respondents accessed by CPHR, namely Royal Dutch Shell and Vodafone. Interviewees included CEOs, Managing Directors, Non-Executive Directors, Chief Financial Officer, top Civil Servants, a Group HR Director, Group Planning and Analysis Director and Global Talent Director from one of the most sophisticated global organisations. Our research approach was qualitative in nature, and involved individual interviews of approximately one hours duration. We designed a set of semi-structured questions which focussed upon the strengths and weaknesses of the respondent's organisation's talent system, whether there were issues of HR jargon, what could be done to maximise the effectiveness of the system and also the respondents' views on the use of external talent consultants to support in-house HR.

The findings from the team's research can be summarised under five key headings:

1. The CEO and HR Credibility-there are two intertwined themes in this cluster. Perhaps the prime factor in influencing senior team engagement in talent is unsurprisingly, the real, visible, and authentic commitment of the CEO to the talent process. A particularly important component of this role is the ability of the CEO to effectively brief the non-executive directors about the key elements, and key people, within the talent process. What is also clear is that

this key CEO “lead” factor is reinforced if the HR Director is also credible with the senior team and can thus reinforce the impact of the CEO by also giving a solid functional lead to the organisation’s talent process.

2. Culture and Leadership Perspective-our research indicated that even when the CEO is committed to issues of talent management, serious impediments to effective talent management will occur when the culture of an organisation perceives that the ownership of talent management is solely invested in HR and that line managers do not accept real accountability. We also noted an issue of differentiation in some larger multi-business unit organisations , with some units enthusiastic in their use of talent processes but where others only paid lip service to talent management. Some organisations had issues of “hoarding ‘by businesses who ‘hid” their high potentials from other units. Finally, in terms of this cluster, some organisations were wary of highlighting key individuals as “high performers”
3. Optimising the Talent System/Process-all of the organisations included in the project had a talent system in place. Some of these systems had been embedded for 10 years or more. The core issue we unearthed, with regard to these systems, was feedback from non-HR managers and directors that there was a feeling of being “overwhelmed” with data about high potentials. Specifically senior team members often felt that too many individuals were nominated for talent reviews and thus they (the senior team members) had little real knowledge or awareness of the high potentials. This situation tends to support the view that boards should focus upon a small number of very senior managers in their talent debates, for instance, potential board successors.
4. The Meaning Of “Potential”-this issue has been covered earlier in the paper but our research reinforces the view that the term “Potential” used in most of the talent matrices does cause a level of confusion with senior non-HR leaders.
5. HR Jargon – as we anticipated, at the start of the research project, non-HR senior leaders (executive and non-executive) did express concerns about the excessive use of HR jargon in their talent systems, particularly in relation to defining “potential”.

The team of CPHR managers who undertook the research, made a series of practical recommendations, as follows:

How you engage your senior team in terms of talent management:

- *Understand and reflect the business direction and priorities;*
- *Engage with the CEO early and understand their talent concerns and priorities;*
- *Identify practices which will support the organisation culture and values;*
- *Be clear on the roles and responsibilities within the process-HR versus line manager versus Talent Board;*
- *Ensure talent activities support the business planning cycle;*
- *Help the senior team to develop a shared understanding of “talent” and “potential”;*
- *Speak to high potentials in the organisation to understand what they are looking for;*
- *Make explicit links to organisation design and other HR processes;*
- *Keep the process and paperwork to a minimum;*
- *Keep the number of candidates for discussion to a realistic level and ideally a target grouping that the senior team will know personally;*
- *Avoid the use of jargon terms and acronyms-use plain English;*
- *Follow through on actions agreed and ensure feedback is given to individuals who have been discussed;*
- *Seek feedback regularly to ensure meetings are useful and valued*

7. The Future Development Path Of Talent Management Functions

“Initiatives have raised the need for better horizontal coordination of tools, techniques and processes for talent management across internal functions”

In the early days of talent management it was always argued that it is a CEO responsibility, but in practice the development and management of talent processes has been handled by HR functions. However, HR’s control over this function is by no means certain in the future.

One of the issues that will be explored increasingly by organisations is where is to position HR in an era of organisational design where the classic functions no longer dominate and where talent functions – and talented individuals - need new types of organisational and business knowledge (see the next section). This knowledge is increasingly cross-function and created through the development of hybrid skills with networks of people with architectural and strategic capabilities. Talent also has to operate in a world where business services are delivered in cross-organisation models.

We are aware that some non-HR Heads of OD are advocating that they should have responsibility for Talent Management. There is an emerging argument that says that Talent management should come under the umbrella of the Chief Operating Officer. This is being explored in other work in CPHR.

Independent of this, there are two generic trends raising the need for better co-ordination of talent management:

1. The return of strategic workforce planning developments
2. The need in many organisations to globalise talent systems.

Workforce Planning Developments

Competitive forces are also requiring organisations to take control of the skills supply-chain through the use of more forward planning activity such as strategic workforce planning.

Human capital (or workforce) analytics or accounting (HCA) blends techniques such as forecasting principles and scenario planning to create forecasts of the current and future workforce, often looking at key roles under various business scenarios.

This in turn is evolving towards Strategic workforce planning (SWP), aimed at identifying the characteristics of human capital needed to achieve a strategic objective and then scaling the activities needed. It tends to use a combination of data and analytics to create insight into relative value of specific talent to the execution of an important strategy, and the necessary investments and actions needed to avoid any loss of value. These insights typically include:

- Translating the organisational capabilities articulated in the strategy into specifications for talent
- Using frameworks to segment the existing or target talent population in different ways (either on the basis of the centrality of the roles to the strategy, or through the application of

marketing and consumer thinking and treating talent segments on the basis of their expectations of the organisation)

- Assessing the consequences or feasibility of the above for build or buy talent strategies.

The workforce plan in essence becomes the talent component to the business strategy. SWP approaches are generally seen as a subset of Talent Management, although in terms of the HRM structure and reporting relationships, this is not always the case.

In many instances, these SWP initiatives are triggered by changes in the global supply of skills, significant changes in the business model, or by the pressures created by demographic shifts. For example:

1. In response to the need to rapidly build capability in emerging markets, Astra Zeneca using a strategic workforce planning process to develop an Asia Talent Pool and Talent Plan on the basis of reviews of performance track and talent potential data of existing employees, reviews of current workforce data around demographics, hiring patterns, turnover and movement, establishing and reviewing external labour market data and trends, projecting future capability profiles, replacement costs, defining workforce optimisation plans around projected business volumes, staffing needs and alternative staffing models³³.
2. The success of the iPhone has been partly attributed to the technological innovation of the product, but Apple also reputedly leveraged its organisational capabilities of research and development, brand recognition, marketing, and distribution by acquiring the talent it needed to beat the competition³⁴.

In practice, organisations tend to set up networks of global experts, or special task forces, to undertake the work, because the results of a strategic workforce plan will have implications for several central functions such as international mobility, rewards and resourcing, those HRM professional in-the-business (HRM Business Partners) and local HRM operations (HRM-in-the-country)³⁵. Organisations are looking at ways of integrating and aligning their talent management and international mobility functions.

These sorts of initiatives have also raised the need for better horizontal coordination of tools, techniques and processes for talent management across internal functions. Peter Cappelli³⁶ of the Wharton School of Business, University of Pennsylvania, has examined the nature of the new employment relationship at work and the implications of a market-driven workforce, the management of talent, and talent strategies best adopted, in an age of uncertainty. His work has revealed key failures in talent management, which include mismatches between supply and demand, and the existence of dysfunctional camps, where organisations make no attempt to anticipate and plan for needs, or complex bureaucratic models of forecasting and succession planning. He has argued that as organisations change strategies, structures, and operations quickly and repeatedly in response to customer demands, the basic challenge is the management of risk. From this perspective, talent management challenges can best be seen through operations research tools and supply chain thinking.

Should Strategic Workforce Planning really be an HR/ talent issue, or is it really part of Resourcing and Operations?

Some Talent Directors express the view that Strategic Workforce Planning may just be Resource management – the two should be separate functions. Does the bundling together of component HR functions make sense? Given that the line does the resource planning as part of the business plan, should they only come to HR when the SWP has laid out the recruitment and resourcing need? This debate raises two important questions. Who should have ultimate Accountability for SWP, as opposed to just Responsibility, which involves the lesser role of being a key contributor to it? As always, it depends. In practice, HR may have involvement via the expertise networks that get set up to carry out the analysis of data as part of a strategic workforce plan, and to some that may be enough. From our research, we would argue that there are two situations when there needs to be greater functional responsibility for this within HR:

1. Business model change and the creation of new hybrid skills: This often creates the need for people insight, not just operational insight, into:
 - Deep understanding of crucial ingredients: advanced technological skills resident in handful of high-talent on which organisations place bets or take an option to ensure the success of its business model
 - Hybrid skill or insight: bringing together different component skills. HR captures new insights into the skill through analysis of the business dialogues that helped to articulate it
 - Transformation or evolution of existing skill or knowledge base into new mindsets that “glue” together the business model.
2. Globalisation and the need to transfer organisational capabilities to new markets: for example, when Astra Zeneca created its Plan for China the planning process required the development of clarity around the mid to long term business strategy, reviews of current workforce data around demographics, hiring patterns, turnover and movement, establishing and reviewing external labour market data and trends, projecting future capability profiles, replacement costs, defining workforce optimisation plans around projected business volumes, staffing needs and alternative staffing models.

Globalisation Of Talent Systems

We saw that amongst the five challenges facing Talent Directors – under the set of operational integration issues – was the issue of the need for more global integration across talent systems. For example, the Information Systems and High Technology organisation is undergoing a significant transformation process and is now positioned as a service rather than a manufacturing organisation. It is also going through an organisational structural change which has implications for the question “who is talent” within the organisation.

“...we are on a journey to become a globally integrated enterprise. This vision is to have a global corporation...one way to think about it is an organisation that is one step above being multinational.....an organisation where the whole process to talent activity is globalised... ..the goal of the talent program is to develop world-class and global leadership team ...that means can someone in India run Europe for example.....in principal yes they can, but how do we make it happen”.

In the Food Manufacturer international experience has always been highly valued.

“Talent management has historically been more about moving people and replacement planning. Now we are seeing the development of a supply of right skills for the business starts with understanding the business plan. We develop our people’s abilities and potential as a company resource – and use a common global approach”.

The role of corporate HR functions in global talent management depends on a number of important contingency variables: the choice of capability strategy, the political influence and control mechanisms necessary to develop appropriate business model insight in different geographies, and the central alignment of talent management systems versus the development of local or regional co-ordination. Each of these issues brings its’ own significant challenges.

Global talent management goes beyond the notion of having policies and practices in place, towards ensuring a seamless flow of talent, and hence a seamless system to support this.

8. Better Governance and Balancing of Business Risk And Talent

“Talent management is about marshalling thoughtful strategy.... We need to be far more challenging before we label someone Talent”

The fourth P in Figure 1 refers to Principles. In this final section we ask:

1. Have we over-hyped “Leadership” at the expense of a focus on the “craft” of managing?
2. Do our Talent Processes pay enough attention to the “managing” of capabilities of our supposed high potentials – putting the strategy back in talent?
3. How should we ensure sufficient governance or risk in this management?

Talent management is very dependent on the individual beliefs and initiatives of each business leader and their HRBP, and this has led to a need to re-stipulate what is expected of leaders. We have seen a return to core principles in talent management.

Questioning Our Leadership Models

Several organisations have for example re-stressed their underlying corporate values in the designation of talent. Or they have given renewed attention to the Leadership model that informs their definition of talent. We see a return to calls for specific brands of leadership – such as authentic³⁷, or sustainable³⁸. We hear of authentic leadership models incorporate the leadership theories of positive leadership, transformational leadership and moral /ethical leadership, with leadership driven by personal conviction to values, self-awareness, balanced information seeking and openness in relationships. Or perhaps the language is one of Sustainable leadership, talking of talent as being leaders whose worldview is one of engendering shared responsibility that does not unduly deplete human or financial resources, and that cares for and avoids exerting negative damage on the surrounding community and environment. Is this just a trendy and socially acceptable way of packaging talent management, or has HR quietly and subtly rewired the system? The surface technology of assessments of potential and performance looks the same, but HR has changed the measurements made.

The best-known advocate of the importance of the “craft” of management in determining the success of organisations is Henry Mintzberg, Professor of Management Studies at McGill University. In 1973 Mintzberg wrote his seminal book *The Nature of Managerial Work* which revealed what managers actually do, day to day, week to week, based on the diaries of five CEOs³⁹. In 2009 his book *Managing* was published, which involved in depth interviews with 29 different senior managers⁴⁰. His research for the latest book led him to conclude that the key management roles that emerged in 1973 are still valid today.

The Mintzberg Roles		
Interpersonal	Informational	Decisional
Figurehead	Monitor	Entrepreneur
Leader	Disseminator	Disturbance handler
Liaison	Spokesperson	Resource allocator
		Negotiator

Mintzberg is critical of our contemporary focus on “leadership” as against “managing”.

“I wish to describe leadership as a necessary component of management – specifically about helping to engage people in the unit to function more effectively”

“We idolise ‘leaders’ – we fill bookstores with biographies of them, we pretend to train huge numbers of students to become them”

“The manager can be described as the energy centre of the unit’s culture”.

Certainly it is worth reflecting upon whether enough attention is directed in contemporary talent systems to assessing individuals on their capability in ‘managing’ – and we will not accept the excuse that the performance matrix of the 9 Box Model covers off the management issue!

Whilst reflecting on the underlying management or leadership model, we also see organisations looking at their talent systems with an eye to its ability to engender true social mobility or diversity – as we saw in the challenge of managing the 3Gs of diversity: gender, geography and generation,

The Language Of Risk

Very importantly, the language of risk management has rightly been given prominence again in talent thinking. Of course investing in talent creates opportunities, but it also contains risk, in that the investment in potential may never be delivered in end performance. As the credit crunch also showed, those deemed talented may also risk the organisation through their performance.

Governance of talent systems, and the management of risk, has become an important consideration. Not surprisingly, in the financial services sector, two questions were asked of their (undoubtedly sophisticated pre- financial crisis) talent management systems.

- 1 Did the financial crisis show that the wrong people were in some key roles i.e. should the talent management system give more attention to risk management?
2. Given that the reality now is the need to manage in a very unstable environment, do these organisations need different competencies?

The answer to both questions was considered to be yes.

Internal work by one of the Centre members on future scenarios has led to a series of conclusions, of which one is that the pace of change will expose executives to events they have very little prior experience of. This new reality raises deep questions about the sorts of skillsets needed by top talent. Consider the quote below:

"..(Strategic leaders) cannot hide behind economic rationality and analysis, and have to admit... they may be as lost as the rest of us, sailing and experimenting in uncharted waters, tentatively seeking answers to what are increasingly loaded questions, and understanding increasingly the limits to their power and the 'downside' to their decisions... (strategic leadership) is inextricably linked with the management of strategic risk... This managerial role specification has given rise to concerns about the 'cognitive limits' of managers. Are they capable of such skilful thought?"

It was actually written 11 years ago by one of the authors of this report, in a study of the natural limitations of strategic leaders having to operate in a hypercompetitive business system – strategic leadership in a world turned upside down⁴¹.

Talent For What?: Putting The Strategy Back In Talent

We have to de-risk talent systems, but how should we do it?

We think there are three ways of doing this:

1. Change the competencies: Shift the focus of the underlying leadership model to one based not just on ideas of authentic leadership, but also to the skills and competencies needed to ensure organisational competence in the context of hypercompetition and strategic uncertainty
2. Broaden the data capture: Augment the talent system data with much better qualitative data around the depth of strategic insight and capability that individuals have. We argue that this data needs to pull out what is called the business model, social and political capital of individuals
3. Manage the collective wisdom of talent: Focus less on just identifying talent, and more on getting effective brokerage out of the talent data i.e. by getting talent to talk to each other. We argue that HR needs to proactively manage the talent data and treat talent systems as what we call a “distributed capability system”.

A key question we must all ask is Talent For What? Clearly, the what has to be the particular strategy of the organisation or business. On this link to strategy, Fernández-Aráoz, Graysberg and Nohria argue that:

*“...Potential is situational, and programs that manage it should be aligned with strategy”.*⁴²

However, beyond saying that flexibility over the pool of candidates in a talent pool is called for, and the pool should be refreshed depending on whether the strategy might to grow in emerging markets, or some other strategic priority, little has been said in the talent management literature about the problem of strategic alignment.

We think we can be more focused in answering the Talent For What question.

The Two Bellweather Judgements About Talent

If you really want to future-proof your talent system, there are two bellweather judgements that have to be made:

- is this individual capable of high quality strategic thought? and/or
- does the “capital” they possess enable a potential contribution to value creation?

These are not things that are easily discernable within talent. The rules of the game have changed, have they not? We live in an age of 'Hypercompetition' – a phrase used by strategists to characterise the typical organisational response to high levels of disorder, stress and unpredictability seen in today's workplaces. Strategists are faced increasingly with a complex, ambiguous and continuously changing environment inside their organisation. What sorts of managers can absorb, process, make sense of, then disseminate a bewildering flow of information in order to make sound decisions and solve problems? We need to be far more challenging before we label someone Talent.

First, we need to change the competencies that we assess. Why? We have clearly entered an environment of unprecedented business risk – nations are pitched against capital markets, markets could disappear overnight along with the ability to finance business models, and consumer behaviour may take years to revert to normality, or indeed create a new normality. As organisations have to navigate their way through turbulent waters, the demands placed upon those deemed to be the leading talent will be extreme.

Talent management is about marshalling thoughtful strategy. As such, we all accept that the current crisis has laid bare the (limited) depth of talent that many organisations really have.

- We have taken too narrow and too convenient a view of what 'talent' really means. We also risk applying too simple technology to make judgements about complex capabilities - the real judgements need more than just a performance-potential matrix.
- We need to supplement the expensive technology of assessment centres, psychometric testing, attention to emotional intelligence and coaching, with better qualitative data that assesses the full range of capital that talent needs.

Second, we need to broaden the assessment. We need to be mindful of what talent have in mind – how sound is their strategic competence? In the section on Five Challenges for Talent Directors one of the comments was that the talent dashboard needs much better qualitative data that enables the organisation to manage the strategic risk around individuals. However, when we say we need better qualitative data about talent --- WHAT should that data capture?

We can look to empirical and theoretical insights from the field of strategic management and the cognitive and organisational sciences, to establish the talent management agenda for HR functions. Talent are only really talent if they possess all four forms of capital as follows:

Capitalising Talent

- Threshold skills and competencies necessary to be deemed talented (called Human capital)
- Understanding of the key components of the business model (mission execution), how these components fit together and with what organisational consequences (called Business model capital)
- Collective value of an individual's social networks and the inclinations that arise from these networks for members to do things for each other and for that individual (called Social capital)
- Being known in the network for getting things done and the capacity to effectively build constituent support and acquire legitimacy by using traditional forms of power (called Political or reputational and representative capital)

Talent Systems As A Genetic Fingerprint

An interesting analysis we have conducted shows that talent systems in organisations operate almost as a genetic fingerprint. We surveyed 15 Talent Directors from a wide range of organisations: from a Food manufacturer, Distribution services and Logistics, Mutual Business Group, Financial Services 1, Financial Services 2, Civil Service Directorate, Legal services partnership, Oil and Gas facilities provider, Construction and aggregates, Electrical Maintenance and Management, Water and Waste Water Design Services, Nuclear energy site, Airport Group, Food services, and Healthcare products and services organisation.

We asked them to review their talent systems in the light of four types of capital outlined above. They had 100 points to allocate across the four types of capital – from 0 to 100 as long as the total across all was 100. What is the shape of their current talent system in terms of how it “captures” potential? Figure 6 shows the results of the first exercise. The messages?

- Skills and competencies form a major focus in some firms (construction and aggregates, food service, financial services 2, healthcare products and service and the mutual business group) but are much less important in the distribution and logistics organisation or oil and gas facilities provider.
- Intellectual capability - business model capital – dominates in the Civil Service directorate
- In the airport group and global food manufacturer potential is all about political capital
- In the legal partnership, family-owned electrical maintenance provider and oil and gas facilities provider it is all about social capital – who you know – in the nicest sense of the word.

Talent formed within one system has to demonstrate very different capabilities – so why should they transfer easily from one talent system to another?

When we asked the Talent Directors to allocate points for how their talent system should in future be designed, the role of political capital went down, and social capital and business model capital up.

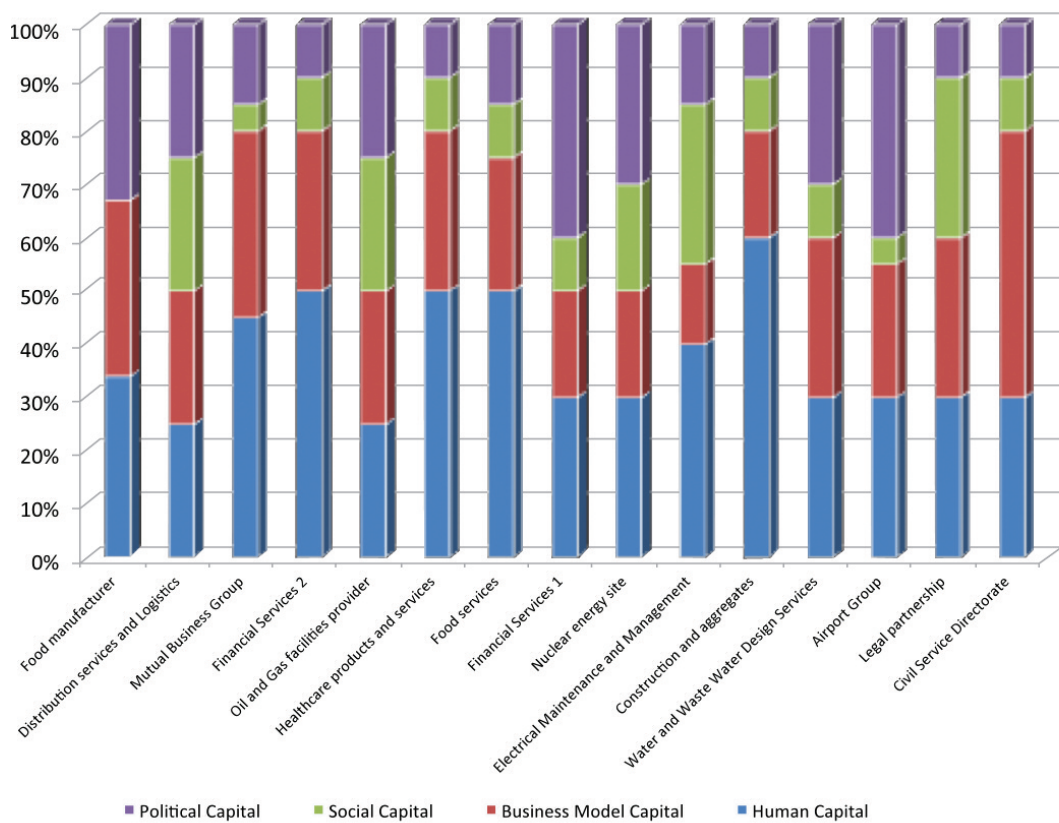


Figure 5: Genetic Fingerprint - What Currently Constitutes Potential?

When Is Talent Not Talent? When Talent Systems Do Not Capture All Four Types Of Capital

So we start to ask, when is talent not talent? Jeffrey Pfeffer has argued that the ability of HR functions to identify and help others discover the mental models that are in operation inside the organisation, coupled with the capability to change these mindsets, has become a crucial skill⁴³. As we all know to our cost, unchallenged mental models and strategic decision making processes are damaging for organisational health. Yet we only have ourselves to blame for this situation. Management cognition researchers, whose work HR Directors should look at, have long known that individuals are characterised by a number of fundamental limitations that preclude the

processing of information to the extent implied by rational theories of strategy making, forcing us to question the confidence which talent systems often bestow upon the talented.

The answer is to build talent systems that capture the full range of people-related capital that talent must possess: human, business model, social and political. This means being much more selective – and understanding that even the highest talent can be “in the groove” at one point in their career, but can soon be out of it again, simply because the business context has changed. Talent management is more than managing cadres of the anointed.

HUMAN CAPITAL

This concerns the skills and competencies necessary to be deemed talented. We actually know quite a bit about the sorts of “cognitive” skills that senior managers need to cope with a hyper-competitive environment⁴⁴, but when you read the outline of the skills needed to avoid the problem of bias, you might ask how many senior managers have been deemed talented whilst still having limited strategic competence.

The Risk of Biased Thinking

First, work on cognition shows that left to their own devices (even very senior) strategists develop simplified mental representations to represent competitive environments (variously referred to as 'schemata', 'cognitive maps' and 'mental models'). They attend most to a limited subset of potentially available competitors and define competitive territories in relatively narrow ways. Once formed, their mental models are slow to change, rendering talent and the organisations to which they belong vulnerable to the actions of new entrants, innovations, and weakly signalled risks, the significance of which might not be realised until the potential for adaptation has been severely eroded. Most strategic planning processes are too dominated by small handfuls of managers.

Second, work on behavioural decision-making also shows that strategists, despite appearing to be open-minded, actually simplify assumptions and create rules of thumb (they use what are called “heuristic processing strategies”). Why? Because they reduce the computational burdens on decision makers and focus attention on selected portions of the problem and surrounding environment. Research shows that much strategic analysis in fact leads to:

- biases, which come to the fore during different stages of the decision process: a tendency to inappropriately bolster a hypothesis or conclusion by reliance on pre-existing beliefs and only seeking information that supports these (confirmation bias);

- accounting for decisions based on what seems like good explanations of the conclusions, rather than on real insights into the decision process (this is called the plausibility bias);
- the application of rules (heuristics) which may be flawed for a variety of reasons, such as errors in probabilistic reasoning, selective perception and consequential biases.

These two biases, left unchecked, create unnecessary risk. They restrict talent's information search, generation of alternatives, and use analogies in the final evaluation stage of a group decision, and it leads to an over use of beliefs to anchor or restrain the judgements that get made. They tempt talent to overestimate the extent to which past experiences are applicable, reinforce partial descriptions of strategic alternatives, devalue and dismiss important information by the group, and create misdirected searches for certainty. Ultimately they lead to what are called "illusions of control".

Illusions of control... doesn't that sound familiar? So how do we design talent systems that build the sorts of managers equipped to deal with strategic complexity?

Without wanting to become too detailed, research on the selection of strategists does give us some clues as to what sorts of competencies should figure in the talent system.

In a world of strategic turbulence, we have to give more weight to three individual differences that effect what are called the upstream strategic processes (the formulation of strategy):

1. sense making and sense giving;
2. locus of control and what is called self-efficacy; and
3. "dual" information processing skills that combine effective use of analysis but also guided intuition.

The first upstream skill is the ability to proactively shape the thought processes of others – and this is done through the inter-related processes of sensemaking and sense-giving.

Talent That Is Capable of Sensemaking and Sensegiving

Sensemaking is the process whereby members of an organisation confront surprising or confusing events, issues and actions. It both precedes decision making and follows it, but it is still a relatively unexplored social skill.

Sensegiving, concerns the attempts of individuals to influence the outcome and communicate their thoughts about a change to others in order to gain their support. One of the roles of talent is to meet this requirement, creating insights within the followers' own mindsets.

A second upstream skill relates to intellectual skills and cognitive style, to the beliefs that managers have about their own internal ability to control events, and the collective capabilities that are necessary.

A third upstream skill relates to the way that managers “think”. Strategic competence requires talent to form (then share) rich and validated views (called “cognitive maps” or “mental representations”) about the business model and its successful operation – oh that talent systems do not assess how good these “maps” are.

However, here lies a potential dilemma. On the one hand, strategists need to be able access and process a considerable volume of information with attention to detail. Often it is in the detail that real insights can occur that will prevent organisations from embarking on courses of action that are destined to failure from the outset and/or will enable them to recognise when hitherto unforeseen problems are beginning to emerge, so as to be able to take the necessary corrective action.

On the other hand, too much information is also problematic, given the limited processing capabilities of the strategist to process information.

Two sorts of competency are required to deal with this paradoxical state of affairs:

- Analytical skills are needed in order to process detail,
- A complementary set of more intuitive skills, enabling individuals to monitor the ‘bigger picture’ in a more holistic fashion.

The phrase ‘switching cognitive gears’ has been used to characterise this vital “dual processing” competence. Effectiveness may be as much a function of talent’s capacity to sense when such a switch is required, as it of their ability to process information in one mode or another. We can assess these forms of information processing.

All these limitations in strategic competence can be assessed and better managed. But they can only be managed through the collective wisdom of talent. So when HR thinks about its role in ensuring that the organisation is strategically competent, it can make two contributions:

1. Make sure that the competencies select out the natural inclination for talented managers to assume their analysis is foolproof – this means assessing the cognitive skills of senior managers very carefully, as we now explain
2. Find ways of joining up all those in the talent pool in ways that encourages a collective and group analysis of strategy – give those in the talent pool voice – simply for being in the talent pool.

So equipped, talent is more likely to build the next ingredient – business model capital.

The Questions for HR Directors

- Do you know which of your top talent have biases in their strategic thinking?
- Have you got sufficient business acumen to be able to realise the bias? This is not just about assessing behaviours
- Have you got the power in the organisation, or robustness in your systems, to do anything about mis-labelled talent?
- Do your systems weed out – or more politely help coach and re-educate – the following people?

BUSINESS MODEL CAPITAL

The second type of “capital”, after having the appropriate skills and competencies, is what is called business model capital. This concerns knowledge and insight into the business model. Organisation learning experts long ago made a distinction between two different types of knowledge that talent has to be able to combine:

- an understanding of the key components of the business model (called component knowledge); and
- a shared understanding of the interconnection of all the components - how these components fit together, and with what organisational consequences (called architectural knowledge).

This type of knowledge is hard to come by. It is limited to a handful of people – and it is not really something that can easily be imported into the organisation i.e. you can’t just buy stars.

Talent has to be able to inquire into the implicit intelligence or tacit knowledge that resides inside their organisation. To do this they must master a further three capabilities

- understand the nature of the internal “information markets” within their organisation – who trades information with who and what information gets attended to - the brokerage of information across these markets is considered the major commodity that talent can trade.
- have the process skills to create and manage communities of practice and global expertise networks, and pick up on the tacit knowledge transfer within these;
- manage what is called “distributed cognition” – improving and leveraging value in the strategy by having the insight into mutual capabilities across key networks, understanding and knowing where to find particular expertise, based on a deep understanding of mutual capabilities (this is called transactive memory – a memory in the transactions!).

SOCIAL CAPITAL

How can these strategic skills be evidenced? In the section on the Five Challenges Facing talent Directors we have a quote saying that HR should focus less on identifying talent and more on getting talent to talk to each other. The need for superior intelligence into the social power that talent has, and to manage and shape this power, in part reflects the limitations that may exist when this is left to line managers:

“... 95% of managers are not [the highest] talent, and you are asking them to take responsibility for managing the development of those who are...”

So, in the High Technology organisation, for example, a new scheme has introduced the role of Sponsors. They have a different role than Mentors, and line managers, in that they are directly involved in building the visibility of talent, helping establish their social networks, and reflect on their performance in the eyes of this broader network. In the Armed Services the Appointer process in part serves this role. Some technical organisations use Professorial Fellows to oversee the technical development of key talent in critical skill groups. Perhaps we are seeing a return to formal career brokers being established to manage the performance of talent.

What Talent Directors are arguing with such initiatives, is that they need to know more about not just of an individual's social networks and the inclinations that arise from these networks, but the collective value of these networks, and the ability to manage this to do things for each other and for that individual. Who you know (in the nicest sense of the word – meaning the depth and reach of your relationships) and your power in this network of relationships, is an essential mark of talent. It is an individual's social capital that leads to trust, and only with this trust are they able to show that their competencies (human capital) and business acumen (business model capital) are worth the organisation taking a bet on. Social capital is then very powerful, but it is rarely assessed or understood by organisations. HR needs to understand the organisation's networks first before they can see the limits to, or strength of, an individual's talent within the network.

Mapping Talent's Social Capital

Look at your talent and list all the key people/units that form part of each individual's network. Then, ask the following about their key relationships:

- How frequently do they interact with this person?
- To what extent do they transfer expert knowledge to/ from them?
- To what extent do they broker information to/ from them?
- To what extent do they provide consulting support to/ from them?
- To what extent do they have to persuade them to do something?
- How deep is the relationship?

- How much power do they have in the relationship?
- What would happen if interaction never took place! How serious would the consequence be for the strategy?
- To what extent is value added or created for the organisation from this relationship
- To what extent is value protected through this relationship (e.g. brand/reputation, corporate social responsibility, risks controlled)
- What is the level of reciprocation in this relationship?
- Who most influences what is delivered?
- How central to (the organisation's) strategy is the relationship?

POLITICAL CAPITAL

Finally, you can be as well-connected as you like, but of course it is only political capital that leads to legitimacy. Social scientists tell us that political capital has two dimensions - being known in the network for getting things done (called reputational capital) and the capacity to effectively build constituent support and acquire legitimacy by using traditional forms of power (called representative capital). The latter becomes more crucial the higher the level of risk there is in a strategy.

Form of capital that talent needs	How you replicate and distribute it
Human capital	<ul style="list-style-type: none"> • Performance-manage high talent in ways that ensure they coach internal successors • Reward processual skills that reflect the building of collective dialogue, organisational inquiry, and strategic conversation
Business model	<ul style="list-style-type: none"> • What did original talent believe to be the sources of complementary knowledge that makes up skilled performance? • What were their insights about strengths and limitations of unit expertise, about resources, and about where expertise lies?
Social	<ul style="list-style-type: none"> • Map the social networks that high talent uses to execute strategy, assess others against the strength of their capital, set development tasks to put successors in front of the network • Manage the networks. Build them around principles of redundancy and overlapping business processes, strategic rotation of actors, free access to information (reduced information differentials) and single, integrated databases
Political	<ul style="list-style-type: none"> • Set up network shadowers and arrangements to capture the unique contacts/ insights of the original talent

Building Talent Around Distributed Capability Systems

In conclusion, what does this view of talent say about how organisations can better utilise their internal talent pools to fill senior positions? First we have said that we need to change the competencies against which talent are assessed, especially their cognitive skills. Second we have said that we have to broaden the assessment of what gives people talent, and that that means we need much richer qualitative information to be captured and mined in the talent system, providing insights not just into the skills and competencies, but also the intellectual and business capital that talent has, the networks and social capital they have built, and their political and reputational capital. And thirdly?

We have said we need to manage the collective wisdom of talent. The real solution is to have previously captured the intelligence and insight that high talent has and to have replicated it elsewhere i.e. designing your talent system along the principles of what we call “distributed capability systems”.

Paint two pictures in your mind – first one of military teams that lose communication in the fog of war, or see an officer go down but have self-correcting mechanisms – and second one of research units that recruit the highest technical talent, but make sure that if the individual goes under a bus, not all investment in knowledge is lost! Intelligence has to be distributed for talent to still operate.

What does research show has to have happened to mitigate the risks?

1. You put in systems and processes to understand and capture the capabilities (the intelligence, organisational memory, and strategies and networks mobilised to exploit that intelligence) that made the previous incumbent “talented”. Teams are forced to regularly build and share mutual qualitative insight into this.
2. You put in place the distribution systems that share the knowledge of talent. We are well aware in saying this that most Talent Directors would dearly love to be given the resources to better connect those in the Talent pool to build mutual insight and dialogue. But the need for such investment has never been higher.
3. Finally, you work out your plan for how you will do this not for the roles, but for the (distributed network of) individuals who possess the necessary capital to create value for the organisation.

Do these three things, and you can claim that talent management makes a strategic contribution. Don't, and be criticised for not hedging the initial high salary investment that talent continues to demand.

In terms of risk management and governance, organisations need to start correcting this now, before the next talent accident happens.

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