2

Managing Talent in a Changing Landscape

Peter Cappelli

Getting the right people with the right skills into the right jobs—a common definition of talent management—is the basic people management challenge in any organization. Though talent management often focuses on managerial and executive positions, the issues involved apply to all jobs. Among the major subtasks within the talent management function are the following:

- workforce planning, which estimates future demand
- hiring (entry-level and lateral) and internal development and promotion, which are the "make-versus-buy" options for meeting demand
- succession planning, which brings the planning process down to the individual level.

Failures in talent management may be more recognizable than the concept itself. These failures include mismatches between supply and demand—on the one hand, having too many employees, leading to layoffs and restructurings; and on the other hand, having too little talent or not being able to find the skills that are needed. These mismatches are among the biggest challenges that employers face. During the past decade, many employers have lurched from surpluses of talent to shortfalls and back again. These lurches are incredibly costly to organizations, although it is fair to say that most internal accounting systems are not yet sophisticated enough to be able to capture all those costs. (In general, it is easier to measure the costs of having too many workers than not enough or the wrong kind, as those costs spill over to the business.)

Before the Great Recession that started in 2008, most talent management practices in the United States fell into two equally dysfunctional camps. The first and most common was to do nothing—making no attempt to anticipate needs and developing no plans for addressing them. Data from a recent survey by the Society for Human Resource Management suggest that about two-thirds of all U.S. employers are in this category (Fegley, 2006). Making no attempt to anticipate and plan for needs in practice means that employers are relying on outside hiring to meet their needs. The downsides of this approach became more apparent as more competitors turned to it, making it harder and harder to find good candidates outside the organization. The second strategy, which was common among older companies, relies on complex bureaucratic models of forecasting and succession planning from the 1950s—legacy systems that grew up in an era when business was highly predictable. These models fail now because they are inaccurate and unresponsive, along with being costly in the face of uncertainty.

The current recession has halted most efforts to innovate in talent management. Many employers have learned from the recession that it is now important to make even fewer long-term commitments to employees in case the need to cut back returns. This has included investments in developing employees. Contracting, temporary help, and other contingent solutions have grown in importance as we have begun to pull out of the worst of the recession.

But these lessons are merely what not to do, and we have taken them about as far as they can go. It is hard to imagine that talent management can progress if we simply give up on the problem and essentially try to outsource it to the market, hoping talent needs can be met by outside hiring or contracting.

New Ways to Think About Talent Management

A number of new tools are now available to make talent management decisions easier. Most of these are software based, and for the most part, they automate tasks that were performed with paper and pencil: tracking employee performance gaps, tracking development experiences, making matches with training programs, and so on. Real progress can happen by making some tasks easier. We all know, for example, that it was possible to record TV shows decades ago using early VCRs, but it was so difficult to do that few people bothered. New technology such as TiVo has made it so much easier to record shows that it has changed how people watch TV. Making it easier to perform the separate tasks within talent management means at a minimum that they will more likely be done more efficiently.

Nevertheless, real innovations are less likely to come from these tools than from different ways of thinking about the basic challenge. The first step in a new approach is to be clear about the goal. Talent management is not an end in itself. The goal of talent management is the more general task of helping the organization achieve its overall objectives. In the business world, this objective is to make money. And making money requires that you understand the costs along with the benefits associated with your talent management choices. Governments and nonprofit organizations have an analogous concern: to maximize efficiency in the talent management process.

Helping an organization achieve its goals begins with recognizing that the most important problem facing virtually all employers is the need to respond quickly to changes in competitive environments. Employers now change strategies, structures, and operations quickly and repeatedly in response to customer demands, competitor innovations, regulatory changes, and other outside factors. Though these changes may be more pronounced in the for-profit world, governments and nonprofits also experience their own sea changes now on a regular basis. The developments driving these responses are difficult to predict, and mistakes in responding—waiting too long to change or planning for circumstances that fail to pan out—are costly.

In this context, the basic problem for organizations is to manage *risk*, which we can think of as the costs associated with events that are uncertain or at least difficult to predict. Business risk, driven by uncertainty about business demands, translates directly into risk for talent management.

Many of the most innovative models for managing talent come from outside the United States, especially from countries such as India and Singapore, where frequent and chronic talent shortages make problems in talent management easier to see and more pressing. The common attribute in these models is that they take costs and benefits seriously, including the costs of risk, and they rely on data to assess how they are doing. And much of the work on these models has been done by people from fields outside human resources—especially engineers—who thus have no prior legacy models to constrain their thinking. How some of these ideas might be applied to the subtasks within talent management is explored in the following pages.

Workforce Planning

Workforce planning in the past has been synonymous with forecasting. The problem is that business forecasts essentially don't work. The business environment is so uncertain that long-term forecasts are essentially worthless, and useful predictions are likely to be limited to short-term estimates based on real-time data: What customers are buying today is used to predict what they will buy next week.

The alternative to workforce planning is to recognize that the future is uncertain and try to assess what this uncertainty looks like. Scenario planning is useful in this regard, as are simulations that allow the parties to look for "robust" conclusions or estimates that are similar, even when important assumptions change.

Other techniques for making progress include borrowing lessons from supply chain management, such as minimizing the costs of being wrong in our forecasts (that is, is it worse to have too much or too little talent in our context?) and adjusting our forecasts accordingly (see Cappelli, 2009).

Cheaper Development

Another task that is central to improvements in talent management focuses on the development side. How can we recoup investments in employees when the need for their skills is uncertain in the long run and they can walk out the door, taking those skills with them? Better forecasts of skill needs certainly help in this regard, as do improvements in retention, although the latter often come with their own costs.

An alternative way to deal with the problem of recouping investments in development is to focus on reducing development costs. There is a great deal of interest in cheaper training systems, especially online and distributed training programs. But the problem with skills has more to do with work-based competencies. Here an alternative is to get employees to share the costs of development. Employees are now the main beneficiaries of investments in their development because of their ability to cash them in on the open market. The simplest way in which individuals contribute to the costs of their own development is by voluntarily taking on learning projects, perhaps in addition to their normal work.

Assuming that the candidates are more or less contributing their usual performance in their regular jobs and that their pay hasn't increased, they are essentially doing these development projects for free. Some employers now offer promising employees the opportunity to volunteer for projects with leadership teams, sometimes restricting them to projects outside their current functional area to broaden their experience. The employees get access to company leaders, a broadening experience, and good professional contacts—all of which will surely pay off later. But they pay for these benefits by contributing work of value to the employer. Similarly, tuition reimbursement programs, in which employers pay college tuition and employees attend classes on their own time, offer additional ways to share the investment in development.

The most important approach to developing employees focuses more on the benefits than the cost side: to increase the value of employee contributions by speeding the process that gets them to jobs that add greater value to the organization. This approach requires that you spot talent and potential early and then give the employees opportunities to advance faster than they otherwise might. Many companies are moving away from the difficult task of attempting to predict who is ready for which new job and moving toward a self-nomination model. The best of these provide opportunities to literally let an employee try out a role and see how they do. If you want to see who can lead a team, there is nothing better than giving various people the chance to try leading it. Finding opportunities like these, in which candidates can fail quickly and cheaply, is a key element of developing talent and an important task for line managers in the talent management process.

Alternatives to Succession Planning

Succession planning—the effort to predict vacancies, especially in executive roles, identify candidates to fill those vacancies, and then prepare them for succession—is arguably the biggest waste of time in the talent management portfolio of tasks. It is the focus of top executive attention, not only because it affects their careers but also because it is crucial to company success. It has been a remarkably underresearched topic, in part because of the difficulty in getting information on outcomes associated with different practices (Cappelli, 2010). But what we know about the practice of succession planning suggests that the process needs considerable improvement: Few organizations do it at all, and those that do rarely have evidence of success.

When you think about it, the reasons for this poor track record are obvious. Succession plans assume away uncertainty because they are based on the idea that we know which jobs will need to be filled in the future, what those jobs will require, and which current employees will be around to fill them. Many companies update their succession plans every year to try to keep up with the fact that jobs change and individuals leave. As a practical matter, how useful is a plan if it must be changed every year? What problem is it solving? Anecdotal evidence suggests that when these plans exist, they are actually used about one in four times. The most common outcome is for leaders to conclude that the plans do not reflect the current reality and to abandon them.

A better approach is to take uncertainty as given and find ways to manage it vis-à-vis questions of succession. One well-known approach is to use the principle of portfolios or talent pools, where one avoids trying to develop employees to fit narrow, specialized jobs. Instead, a group of employees is developed with broad and general competencies that should fit into a range of jobs. Once the candidates are developed, they are allocated to actual vacancies, as opposed to trying to guess years in advance where vacancies will occur and which individuals should slot into them. The fit between candidate and specific job may be less than perfect, but more just-in-time training and coaching can help close the gap. And this imperfect fit is a smaller problem than dealing with the likely risks of using traditional succession planning techniques—of promising an advancement that does not materialize or of having no one who fits the changing demands of jobs.

New Career Paths

Making matches between individuals and jobs is the process through which individual employees acquire the work-based skills necessary for purposeful career advancement. Making these matches used to be the most important task performed by the executives and managers in charge of talent management. These *chess masters*, as they were called, moved candidates around the business equivalent of a chessboard—the organization chart. If an employee refused to take a new position or a transfer, his or her career advancement stopped.

This chess master model ran into trouble when labor markets tightened because good candidates could easily say no and get a job somewhere else. To improve retention, virtually all companies—96 percent in a recent private survey of companies by the recruiting firm Taleo (www.taleo.com)—have moved away from this model to internal job boards, where employees apply for new positions inside the organization. If employees want new jobs, employers concluded, we should at least make it easier for them to find them within the organization.

This process effectively takes the problem of managing one's career and turns it over to employees. Although there are many benefits to this new approach, one drawback for employers is that they have much less control over their internal talent. Programs that attempt to mitigate this risk by negotiating a balance between the employee's and the employer's interests in career advancement are one of the truly new developments in talent management.

Some of these efforts involve simply providing information about career paths—that is, descriptions of how individuals have advanced in the past. Others go much further, attempting to negotiate compromises between the preferences of the organization and those of the employee. It is fair to say, however, that most organizations have not yet thought through how to handle the challenge of managing a more open internal market for talent. Whether employers are willing to let it become a real market, where internal hiring managers are allowed to compete for internal talent by raising wages or making their jobs more attractive, is an open question.

Managing Talent in the Future

The new way of managing talent described here takes organizational goals and not human resource targets as its starting point. Its purpose is to help the organization perform, and it does this by managing the talent risks that are generated by uncertainty in business demand and the new, more open labor markets. This new approach to talent management may help resuscitate the process of developing managerial talent, which risks being choked off because employers cannot envision how to do it in the current environment. And this lack of a process for developing talent internally increases the demand for outside hiring, which in turn causes retention problems elsewhere. This further undercuts the ability to develop talent internally and creates a vicious circle that erodes managerial talent.

To address these uncertainty-driven problems will require two different basic approaches:

- First, giving greater priority to the goals of talent management, in part by recognizing the value of doing it right versus the costs of doing it wrong.

- And second, pursuing greater integration of talent management and related practices across the organization and with each other.

It is useful to keep these overall approaches in mind as you delve into the details of the various aspects of talent management in the rest of this book.

References

Cappelli, Peter. 2009. "A Supply Chain Approach to Workforce Planning." *Organizational Dynamics*, January–March, 8–15.

———. 2010. "Succession Planning." In *APA Handbook of Industrial and Organizational Psychology*, edited by Sheldon Zedeck. Washington, DC: American Psychological Association.

Fegley, S. 2006. *Succession Planning: A Survey Report.* Alexandria, VA: Society for Human Resources Management.

About the Author

Peter Cappelli is George W. Taylor Professor of Management and director of the Center for Human Resources at the Wharton School of the University of Pennsylvania. He is also a research associate at the National Bureau of Economic Research, served as senior adviser on employment policy to the Kingdom of Bahrain from 2003 to 2005, and since 2007 has been a Distinguished Scholar of the Ministry of Manpower in Singapore. Previously, he was a staff member on the U.S. Secretary of Labor's Commission on Workforce Quality and Labor Market Efficiency and co-director of the U.S. Department of Education's National Center on the Educational Quality of the Workforce. His recent books include *Talent on Demand: Managing Talent in an Age of Uncertainty* (Harvard Business Press, 2008), which was named a best business book for 2008 by Booz Allen; *The India Way: How India's Top Business Leaders*

Are Revolutionizing Management (with Harbir Singh, Jitendra Singh, and Michael Useem; Harvard Business Press, 2010); and *Managing the Older Worker: How to Prepare for the New Organizational Order* (with Bill Novelli; Harvard Business Press, 2010). He received degrees in industrial relations from Cornell University and in labor economics from Oxford University, where he was a Fulbright Scholar.