



## Talent On Demand

Managing Talent in an Age of Uncertainty

by Peter Cappelli

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### Take-Aways

- The succession-planning model created 50 years ago is no longer practical.
- The ultimate goal of talent management is to help an organization make money – not to develop people.
- Calculate “the return on talent management investments.”
- Applying supply chain management practices to hiring can help manage uncertainty and minimize risks. Your goal is to move people smoothly through your pipeline.
- Yet, some 60% of U.S. and European companies carry out no workforce or succession planning.
- Determine whether to train internally or hire from the outside.
- Uncertainty about future talent needs makes internal development difficult to calibrate.
- Outside hiring can be expensive and disruptive.
- Higher employee turnover has caused organizations to re-examine their training initiatives and become more responsive.
- Manage your “internal market to match talent to jobs.” Determine if a talent pool would give you future flexibility or an expensive backlog of personnel.

## Relevance

### What You Will Learn

In this Abstract, you will learn: 1) Why companies are struggling to manage talent and to predict their future personnel needs; 2) How to build and sustain your company's leadership base; and 3) How to structure your talent management program using four fundamental principles.

### Overview

If you don't know what products or services your company will need in five years, how can you know how many staff members you will need? Talent management, like every other aspect of big business, has changed so dramatically that decision makers aren't sure where to turn. For years, corporate giants relied upon "traditional succession plans" to ensure smooth leadership transitions. Those plans are no longer effective. Hiring from the outside, a trend that once gained rapid popularity, did not turn out to be a panacea. Author Peter Cappelli believes companies cannot eliminate unpredictability – they can only contain it. He finds that supply chain management approaches can cut the expense and boost the effectiveness of talent management.

## Abstract

### Struggling to Manage Talent

Talent management is a critically important function for any organization. Predicting your company's employment needs, and planning to satisfy them, is difficult. The talent management challenge is much greater and more complicated than it once was because so many dynamics and variables have changed. To create the talent base your company needs, focus on your real objective. Put succinctly, "The goal of talent management isn't to develop people. It is to help the organization make money."

Over the course of the past 20 years or so, large companies seem to have either accumulated a surplus of employees or suffered a shortage. In attempting to address these inconsistencies, some organizations essentially put on blinders – they exist from day to day, and they fail to develop strategic plans. Meanwhile, they use outdated methods, such as "traditional succession planning," that by-and-large are no longer applicable. The contemporary approach to managing talent rests on being responsive to your employees while reducing your exposure to risk.

Before World War II, managers changed jobs often, but by the mid-1950s, companies were using many tactics that seem modern now – coaching, long-term succession plans, rotating jobs – to nurture and retain talent. For decades, corporations elevated their most talented people through the ranks. Employees remained with the same companies for their entire careers. However, over time, talent development dropped lower on the priority list. During the U.S. economic crisis in the early 1980s, many organizations had to lay off white-collar workers and, consequently, they discontinued their internal development programs. For a while, these firms successfully addressed their talent needs by hiring from the outside. But eventually companies realized that they were caught in an expensive revolving door: They were searching hard-to-import experienced workers who might not fit in while their veteran employees were leaving for opportunities elsewhere.

"The goal of talent management is the more general and more important task of helping the organization achieve its overall objectives. In the business world, that objective is to make money."

"Organizations are ready for a paradigm shift in managing talent."

“The old approach of hiring raw talent and developing it into the needed skills now seems quaint.”

“The problems of talent management are causing immediate pain to employers, although few internal accounting systems are sophisticated enough to calculate that pain with precision.”

“Proponents of traditional succession plans may argue that an incomplete plan is still better than no plan at all. But that is not likely to be the case. The reason is that all plans come with costs.”

“The biggest cost is managing the unpredictability of the demand for talent.”

Marketplaces now change so rapidly that managers find it increasingly difficult to anticipate future demands. Companies are better off if they bypass forecasting and use simulations to try to determine their needs. However, being wrong is expensive. To minimize risk and control cost, approach talent management by using the principles of supply chain management. Whether you’re “moving products through a supply chain” or moving employees through your talent channel, the goal is to avoid clogging the pipeline. You want a smooth, speedy and efficient process with minimal risk. Use four fundamental concepts to address talent supply-and-demand issues:

1. Consider “the make-versus-buy decision.”
2. Understand “the problem of uncertainty in talent demand.”
3. Calculate “the return on talent management investments.”
4. Manage your “internal market to match talent to jobs.”

### “Make versus Buy”

Companies must avoid either having too much talent, which is costly and can lead to layoffs, or too little talent, which can hurt growth. Years ago, when business demands were easier to anticipate, firms focused on internal talent development. Companies were committed to training their employees, knowing they could expect a return on the investment. Now, organizations are reluctant to tie up money and commit resources to training, knowing their human investments may walk out the door any time. Non-U.S. firms seem to put greater emphasis on talent development, even though 60% of employers in both the U.S. and England lack formal succession plans. Some 66% of German employers utilize succession planning – the highest percentage in the European Union.

Once, upper-level managers expected to rise up through the ranks, accumulating knowledge and skills toward eventual advancement. They often spent their careers with a single company, so they were willing to wait and labor upward, knowing their turn would come eventually. Today’s rising stars aren’t as patient and they expect to change companies several times over the course of their careers. They are anxious to prove themselves and won’t hesitate to accept a good offer from your competitor.

One issue is that the former cords of loyalty between employer and employee are badly frayed. Some 55% of CEOs and nearly 65% of executive vice presidents would “consider becoming a candidate” for a position elsewhere. Losing a strong manager or managerial candidate is painful and expensive, especially when your company has invested time and money in training and development. On the other hand, stockpiling talent is risky and also expensive. In fact, companies may be wise to underestimate their talent requirements, train people to meet specific needs and hire from outside to address shortages. However, excess reliance on outside hiring is also dangerous – even though that trend, which began in the mid-1980s, continues to gain momentum. Outside hiring has its role, but it can’t substitute internal talent development. Organizations must use both to cut the risks and costs of inaccurate forecasts.

During the 1990s, 25% of large corporations that once traditionally promoted CEOs from within instead hired executives from other firms. Lifetime job security, the former career foundation of executives at corporate giants like General Motors and IBM, is a thing of the past. Turnover rates have increased dramatically. Many executives work for five or more companies before their mid-40s. The economic rewards that once motivated individuals to sustain long tenures with single employers are disappearing. Seniority no longer guarantees automatic raises or lofty salaries. Companies have drastically reduced their contributions to pension funds or eliminated them.

“In the world of talent management, it is possible to have too little talent, and it is also possible to have too much, the equivalent of a human-capital supply closet.”

“It would be good to be able to report a great deal of progress in forecasting talent needs, but despite the potential advantages in data and tools, little progress has been made.”

“The most important new idea in the management of careers is the effort to turn over control for at least some aspects of the process to employees.”

“Virtually every organization has begun to think about shifting to more internal development of talent.”

### “Uncertainty in Talent Demand”

For decades, many companies relied on succession planning to manage talent. They established a series of positions that promising young executives were expected to occupy on their way up. But succession planning began to falter when corporate leaders with vacancies to fill became unsatisfied with the designated successors on hand and hired outsiders. Traditional succession planning aims to match individuals with particular positions – perhaps years down the road. However, this fairly inflexible approach does not account for the shifts and changes in today’s business climate, and it doesn’t respond to the needs of current or future managers. Models that worked in the past are not guaranteed to work in the future. In fact, a succession plan that forces you to follow a predetermined course can be more detrimental than no plan at all.

Instead, companies should use diversification – a strategy stock market investors employ to reduce risk – in their talent management programs. Instead of targeting an individual for a particular job, train a group of employees to fill a variety of positions. Creating a talent pool is expensive, but it breeds the flexibility to address a broad range of future staffing needs.

Many organizations now see that decentralization, a popular trend in the ’80s and ’90s, can undermine talent management. Decentralization was meant to give managers more autonomy over their business divisions. Managers created talent development programs tailored to their units, effectively limiting their employees’ outside learning opportunities. Corporations now insist that local managers identify high-potential candidates who could benefit the company in other areas. Even though managers may be reluctant to risk losing their best people, organizations are using corporate-wide training programs and tracking high-potential candidates through centralized databases.

### “Return on Talent Management”

Today, employee movement is common. Companies actively recruit their competitors’ best and brightest people. In fact, employees stand to benefit more from training than employers. Training makes employees more valuable in the market. Yet, companies cannot afford to abandon it. Internal development with a focus on long-term retention is essential to corporate viability.

However, you also must protect your return on your training investment. Since employees gain the most from training, expecting them to foot part of the bill is not unreasonable. This does not apply to mandatory training necessary to perform a job, but to optional training for self-improvement. Firms can offer such programs at night or on weekends. Broader knowledge makes people more valuable, and can lead to raises and promotions. Another approach to reducing employer costs is to pay lower wages during an employee’s training period. Then, adjust the compensation as the employee advances to a higher level. This practice is common in “craft work” where companies increase apprentices’ wages when they become journeymen. At companies such as Procter & Gamble, employees are willing to earn less than they could make from a competitor because the opportunities are greater.

Tuition assistance programs have proven quite effective as cost-sharing vehicles. Employers pay a portion of the tuition for college-level programs, and employees attend classes and study on their own time. These programs tend to attract higher-caliber employees who respond to the opportunity to better themselves. In some companies, employees must take college-equivalent courses to be considered for leadership positions.

“Another important aspect of talent management concerns a more discrete problem: knowing whether it is worth maintaining investments in given talent into the future.”

### “Managing an Internal Market”

Giving employees control of the talent management process is a growing trend. Many companies once frowned on the idea of “internal job boards,” but with the success of Internet job sites, they realized they were fighting a losing battle. Hewlett-Packard, which has used job boards for two decades, took the process a step further: Internal applicants for new positions now can test themselves online to gauge their skills and readiness to advance.

At the Dow Chemical Company, roughly 10% of employees change jobs every year, but retention has greatly improved because the company has heeded employees’ ambitions. In fact, turnover has dropped by half. About 80% of *Fortune* 500 companies have formal programs for “internal mobility” in order to lower turnover, save money on staffing and fill vacancies more rapidly. Line managers tend to complain loudest about job switching because they can lose valuable staffers. Some organizations deal with this internal conflict by insisting on mediation. The parties involved typically find solutions instead of letting such problems reach the attention of upper management.

Internal job boards, despite their advantages, do not address individual career management issues. Employees may not know how to acquire skills or what jobs to pursue to increase their management capabilities. Microsoft addressed this problem by setting up an online tool that asks employees to assess their experience and list their goals. Supervisors review the answers and create individualized lists of “career derailers” that could adversely affect each person’s professional path. Employees then can access detailed requirements for particular positions and create “personal development plans,” according to their strengths, weaknesses and aspirations. Employees and their supervisors determine how to implement the plans. Microsoft may not have the perfect solution, but considering how far talent management has fallen, any remedial measures that work for a company and its people constitute healthy signs of progress.

Reduce your risk exposure by heeding these rules:

- Train carefully – Train the people you think you’ll need and don’t clog your internal development pipeline. Less may be more.
- Broaden your perspective – Instead of training employees for specific jobs, first develop their overall managerial skills. This will strengthen your roster. When a job opens, you can fill it quickly, and then provide specific training and coaching.
- Shorten your timeline – Improving your ability to identify promising young employees enables you to move them quickly in and out of development programs. Encourage employees to seek more training voluntarily. Taking on an extra project or attending night classes on the company’s dime can boost an employee’s skills.
- Provide opportunities – Good employees may leave if they think they will not have decent advancement opportunities within your company. Even employees you are grooming for promotion can get restless waiting for their big break. Post your internal openings on a job board to show what’s available. You may draw unexpected candidates.

“There is no trick to developing talent if you do not care what it costs.”

## About the Author

Peter Cappelli, a former Fulbright Scholar, directs the Wharton School’s Center for Human Resources and is a research associate at the National Bureau of Economic Research.