Perspectives—Point/Counterpoint

Anna Tavis, Perspectives Editor

This *Point/Counterpoint* focuses on the broadly debated topic of talent management in the 21st century. We invited Peter Cappelli of the Wharton School to lead the discussion with this provocative thesis: *A Supply Chain Model for Talent Management*. Cappelli launches a spirited debate among the diverse group of human resources consultants, academics and corporate practitioners from the United States, Europe and Asia. Also joining in the HR debate is Jamie Flinchbaugh, a supply-chain and lean-manufacturing specialist and the founder of the Lean Center. Together the discussants present an emerging picture of talent management as a customized, agile and business- and culture-aligned process. The bottom line is a shared responsibility among HR, business leadership, management—and employees themselves. Your response to this discussion will be much appreciated. Please write to us at **perspectives@hrps.org.**

A Supply Chain Model for Talent Management

Peter Cappelli, University of Pennsylvania

Talent management is the process through which employers anticipate and meet their needs for human capital. 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. While talent management often focuses on managerial and executive positions, the issues involved apply to all jobs that are difficult to fill.

Failures in talent management may be more recognizable than the concept itself. Those 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 generation, many employers have lurched from surpluses of talent to shortfalls and back again. Something is wrong with this picture.

Most talent-management practices, especially in the United States, fall into two equally dysfunctional camps:

- The first and most common is to do nothing. Make no attempt to anticipate your needs and develop no plans for addressing them. Recent survey data suggest that about two-thirds of all U.S. employers are in this category. Making no attempt to anticipate and plan for needs means relying on outside hiring, a reactive approach that has begun to fail now that the costs and difficulty of finding candidates has risen.
- The second strategy, which is common among older companies, relies on complex bureaucratic models of forecasting and succession planning from the 1950s. These legacy systems grew up in an era when business was highly predictable. These models fail now because they are inaccurate and unresponsive. They also are costly in the face of uncertainty.

A New Way to Think About Talent Management

Helping the organization achieve its goals begins with recognizing that the most important problem faced by virtually all employers is uncertainty. This results in a need for a more rapid response to changes in competitive environments. Employers now change strategies, structures and operations quickly and repeatedly in answer to customer demands, competitor innovations, regulatory changes and other outside factors. 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.

There are two great risks in talent management:

- First, there are inherent costs in a mismatch of employees and skills (not enough talent to meet business demands, or too much, leading to layoffs or a poor fit between individual attributes and requirements).

- Second, the costs of losing your investments in talent through the failure to retain employees.

The risk-management problem facing talent management is analogous to problems already analyzed in the field of operations research. For example, the practical definition of talent management, getting the right person in the right job at the right time, is identical to the basic task of supply chains. Perhaps not surprisingly, it is newer companies—and often those outside the United States where the talent crunch is greatest—that are the innovators because they have no stake in the older practices. Their innovations, along with basic lessons on managing risk from supply-chain management, led me to formulate four key principles for managing talent in the contemporary environment, where uncertainty is the major challenge.

Principle 1: "Make and Buy" to Manage Demand-side Risk

Risk has two aspects: the uncertainty of a given outcome occurring and the costs of that outcome. It may be possible to reduce somewhat the uncertainty associated with business outcomes through better forecasting, but it is easier to make progress in managing risk by understanding and then reducing the costs of mistakes.

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For example, it is difficult to forecast with accuracy how many units of some product will be needed, but it is relatively easy to know the costs of not having enough product and services to meet demand (losing opportunities as a result) versus the costs of exceeding demand (producing inventory). Cost effectiveness demands that we choose the amount to supply that minimizes both costs. In other words, it is not enough simply to estimate the demand. To minimize costs you need to know what the costs will be when you are wrong, as you inevitably will be in an uncertain world.

A deep bench of talent is inventory. Unlike other forms of inventory, talent does not willingly stay on the shelf until it is called on. It walks out the door for better opportunities elsewhere.

Producing too little talent may be less of a concern than in the past because it is almost always possible to hire from the outside to make up any shortfall in talent.

Although the cost of outside hires typically is greater than the cost of candidates developed internally, that difference pales in comparison to the cost of losing a developed candidate to a competitor.

Producing too much talent, or having a "deep bench" as some describe it, is now very costly. A deep bench of talent is inventory. And unlike other forms of inventory, talent does not willingly stay on the shelf until it is called on. It walks out the door for better opportunities elsewhere.

The way to deal with the costs of uncertainty above is "make *and* buy," choosing the mix of internal development and outside hiring to minimize the risk and associated costs of being wrong in our forecasts. In most cases, that means beginning with the best workforce forecasts we have and then planning a level of internal development to make certain that we minimize the risk of "inventory," or overshooting the actual demand for talent and then making up any shortfall through excess hiring.

Principle 2: Reduce the Uncertainty in Talent Demand

The business needs we must predict are more complex than any contemporary forecasting techniques can handle: markets contain more competitors that innovate faster, businesses react to their competitors' strategies more quickly and the options for doing business (outsourcing, joint ventures, acquisitions, etc.) are greater. Long-term succession plans in particular are mistakes because they assume that we know what jobs will need to be filled in the future and what 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?

A better approach is to take that uncertainty as given and find ways to manage it. One way to reduce the effects of uncertainty is to use the principle of portfolios. To apply this concept to talent management, consider the ➤

idea of talent pools, where you avoid developing employees to fit narrow, specialized jobs. Instead, you develop a group of employees with broad and general competencies that should fit into a range of jobs. Once the candidates are developed, you can allocate them to the actual vacancies, as opposed to trying to guess years in advance where vacancies will occur and what individuals should be slotted into them. The fit between candidate and specific job may be less than perfect. But just-in-time training and coaching can help close the gap.

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Principle 3: Earn a Return on Investments in Developing Employees

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? One way to improve the payoff from development is to rely on shorter, more accurate forecasts and improve the odds that the investments will pay off. Lessons from supply chain management can help here as well.

Consider the problem of bringing a new class of candidates into an organization. For those employers who hire people directly out of college, an alternative arrangement hires half the new class in June and the other half at the end of the summer in September. Instead of 100 developmental assignments, now the program needs to find only 50 in June and then rotate the new hires through them in three months. The June cohort steps out of those roles at the end of the summer when the September cohort steps into them. Then rather than having to find 100 permanent assignments in September for the June cohort, the organization need find only 50, and so on. The more important advantage is that hiring forecasts can be shorter and more accurate. This eases the match with the first developmental assignment and then with every set of assignments along the progression of that cohort.

An important way to deal with the problem of recouping investments in development is to get employees to share the costs. 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 that individuals contribute to the costs of their own development is by taking on learning projects voluntarily, perhaps in addition to their normal work. Assuming that the candidates are more or less contributing their usual performance in their regular jobs and their pay has not increased, they essentially are doing these development projects for free.

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Several companies now offer promising employees the opportunity to volunteer for projects working with their leadership team, 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 it. Similarly, tuition reimbursement programs in which employers pay college tuition and the employees attend classes on their own time, offer another way to share the investment in development.

The most important approach to developing employees increases 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 on 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 what new job and toward a self-nomination model. The best of these provide opportunities to literally try out a role to 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 it. Finding opportunities like these, in which candidates can fail quickly and inexpensively, is a key element of developing talent and an important task for line managers in the talent management process. That takes us to our final talent management principle.

Principle 4: Balance Employee Interests by Using an Internal Market

Career decisions—making matches between individuals and jobs—used to be the most important task performed by the executives and managers in charge of talent management. Internal job boards, where employees bid on posted openings and through which virtually all internal job moves now take place, coincided with employers giving up on career planning. They effectively turned over the problem of managing one's career to employees. Employees, rather than the employer, now initiate job changes and drive career paths.

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 that 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 simply involve providing information about career paths and 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, though, 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.

How to Manage Talent on Demand

The new way of managing talent described here is fundamentally different from what has come before it, first because it takes as its starting point organizational goals and not human resource targets. Its purpose is to help the organization perform, and it does that by managing the talent risks that are generated by uncertainty in business demand and the new, more open labor markets. The new approach to talent management may help to resuscitate the development of managerial talent, something that risks being choked off because employers cannot envision how to make it work in the current environment.

The lack of internal development of talent has increased the demand for outside hiring, which in turn causes retention problems elsewhere, undercuts the ability to develop talent internally and creates a vicious circle that erodes managerial talent. The only way forward is to recognize these problems and adapt to the uncertainty that drives them.

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THE U.S. PERSPECTIVES

An Agreement, a Disagreement and an Added Risk

Don Ruse, Axiom Consulting Partners

I find myself in agreement with much of what my esteemed colleague, Peter Cappelli, has to say about the need to think and act differently when managing talent and the benefits of applying the concepts of supply chain management to do so.

I think the most important point Cappelli makes, and one that I hope everyone who reads his perspective takes to heart, is that managing talent should not just focus on managerial and executive positions. This is a myopic and failed approach that does not recognize the importance of roles outside the management ranks. In today's information- and innovation-based business world, scientific, technical, creative and customer-facing roles often have a greater impact on a company's success than do managerial and executive roles.

Companies such as Corning, Inc. and 3M have taken this to heart and applied two additional key business concepts from marketing and finance—segmentation and portfolio management—to understand and manage the relative value and impact that roles (not people) have in achieving their strategic objectives. This understanding enables them to effectively manage their talent as a portfolio of assets and make informed decisions regarding investments and divestments in tal-