



CENTRE FOR  
PERFORMANCE-LED HR

# Talent Management: Time To Question The Tablets of Stone?

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## Executive Briefing

The latest White Paper from the influential Centre for Performance-led HR at Lancaster University Management School addresses seven critical questions about Talent Management<sup>1</sup>:

1. What do talent management see as the biggest challenges they face?
2. How can we reconcile the different philosophies and practices that abound in the field of talent management?
3. What is really meant by potential and performance in a talent context? How can we move beyond the 9-Box model?
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?

## High-level Conclusions

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 behavior 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 leading talent will be extreme.

The report concludes that we have over-hyped Leadership at the expense of a focus on the “craft” of managing. It asks whether the more recent calls for authentic or sustainable leadership are just a trendy and socially acceptable way of packaging traditional talent management, but notes that some real changes are afoot and that HR are quietly and subtly rewiring the system to make talent systems more robust.

Talent management has to about marshaling thoughtful strategy. The current crisis has laid bare in many instances the (limited) depth of talent that many organisations really have. We need to put the strategy back in talent.

The language of risk management has rightly been given prominence again in talent thinking but there is still not sufficient governance of risk in talent management.

Two questions can be asked of the 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 organisations need to evidence different competencies?

The answer to both questions is considered to be yes.

The new realities raise deep questions about the sorts of skillsets needed by top talent.

### **The Key Recommendations: De-risking Talent Systems**

Given the natural limitations of strategic leaders having to operate in a hypercompetitive business system – strategic leadership in a world turned upside down can be associated with illusions of control or escalating commitment to a defunct strategy - we have to both sharpen up but also de-risk talent systems. But how should we do it?

The report argues there are three ways of de-risking talent systems:

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 hyper-competition and strategic uncertainty. It lays out what research on strategic management shows these competencies to be
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. The report argues that this data needs to pull out what is called the business model, social and political capital of individuals, and suggests ways of doing this
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. The report argues that HR needs to proactively manage the talent data and design talent systems as “distributed capability systems” rather than just basing them on Critical People.

### **What do Talent Directors themselves see as the biggest challenges they face?**

The study identifies the five major challenges that Talent Directors themselves see their function facing. These are:

1. **Conversations around Strategy, Organisation Design and Development** – not getting the right conversations about talent management around the top table and not engaging the Board in the right way.
2. **Achieving and enabling full potential and a return on investment** -Articulating the link between talent and more sustainable contribution and performance.
3. **Diversity: Managing the 3G's** of gender, geography, and generation.
4. **Issues of relationship management** – a new skillset needed by Talent Directors in working with the line.
5. **Operational integration** – Alignment and globalisation of talent systems.

## How did we get here? Reconciling the different philosophies and practices that abound in the field of talent management

1. There is immense variation in what is meant by talent management. *Four different philosophies or perspectives* emerge, each of which are detailed in the report:

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

2. *Talent management is a craft, not a science.* It is very context-dependent, and so is the decision when to favour one of the above approaches over another. The balance of the four components that are needed depends on the maturity of the talent system, and on the line being able to use all four thought processes. They are not competing philosophies, but they do create dilemmas. There is not a competition as such that one is right and one is wrong but there are debates about best to combine them.

3. However, *experience shows*:

- Business model change often pulls the talent system in directions it has not previously gone – *talent systems generally lag behind the strategy.*
- The *balance is industry specific*, and even within an organisation the balance may need to be different from business division to division – hence the temptation to decentralise talent management systems.
- The *majority of talent systems are based on a Critical People philosophy* – the vast majority of organisations use some derivative of the 9 Box model (three levels of performance against three levels of potential) to identify talent.
- However, *this is problematic* because...

4. The report *cautions against an over emphasis on a Talent as Key People approach*, by reminding us that academic research on pay-for-the-person HR systems, and on CEO failures, both point out that a good part of individual performance is actually driven by good systems and other capital prevalent in the company, rather than just due to individual brilliance

5. Despite a need to keep things simple, the paradox is that talent management *also needs sophisticated practice* - organisations may choose to build suites of practices, activities, and processes that sharpen and align the focus of functional activity, 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.

6. Equally important, what constitutes a *Key Position or Role is increasingly open to question and in many organisations needs re-analysing.* In its work on business model change the Centre found that 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 performance.* The success (or failure) of the business model becomes crucially dependent on designing a small number of mission-critical jobs - key positions – well.

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

### The Performance versus Potential Debate

1. Talent functions understand what they mean by Performance, but Potential and its meaning is another issue!
2. 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 are in turn influenced by different models of human behavior.
3. When HR teams are facing some of the more complex challenges in developing their talent system, they need to make a realistic assessment of whether they have enough talent system design capability in-house, or whether they require external support. The study notes the increasing use of major search consultancies by organisations that wish to bench-strengthen the capability of some of their key functional teams.
4. Any discussion on manager high potential is 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 - personality disorders that can lead to what can be termed "*dysfunctional dispositions*".

### The Forced Ranking Debate

1. Given the study argues a Critical People approach to Talent management has limitations and needs to be counter-balanced by other perspectives, and that talent management needs to access distributed capability, it is critical of a full-blown Forced ranking and extreme differentiation approach.
2. It points out that Forced Ranking has not been well received by history. However, what constitutes '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 is still open to debate and practices are often not clear in terms of how differentiation happens in practice.
3. The operation of Talent Systems has 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, some companies introduced forced ranking/ forced distribution of their management population when administering their particular talent process/system.
4. Talent Directors are divided about its benefits, and in practice even if using it, may adopt a softer version that can be called guided or shaped distribution (i.e. an emphasis on teasing out differences but with less differentiation of reward and softer management of underperformance based on these data).

5. Advocates point to the following advantages: it 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.
6. However, there are also pragmatic doubts that the data used to rank performance may be robust enough – or perceived to be discrimination-free enough – to withstand potential legal issues. Transparency remains a challenge.
7. The study predicts that the forced ranking debate will run on and on.
8. However, it cautions there is a risk that in taking a forced ranking approach, organisations are tempted to narrow their definition of what they mean by Potential.

### Future Trends

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

1. Competitive forces are requiring organisations to take control of the skills supply-chain through the use of more forward planning activity such as strategic workforce planning
2. The need in many organisations to globalise talent systems.

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<sup>1</sup> The views in the report are those of the authors. There have been five meetings of the Talent Management Special Interest Group (SIG) over a period of 18 months that have fed ideas and data into the development of this White Paper. These meetings have involved the talent specialists from BAE 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 Ltd. Shell International and Vodafone. During these five days of meetings between experts and academics there has been a sharing of practice, critical review, and an exchange of ideas in the talent management field. The recorded material serves as part of the paper's 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 other organisations and analysis of their systems.