Talent on Demand: Managing Talent in an Uncertain Age

Peter Cappelli
Professor and Director
Center for Human Resources
The Wharton School
What is Talent Management? Why should we care about it?

- The issue is resources.
- Matching supply to demand:
  - The supply chain analogy –
Two Options for Getting Human Capital -

- In the traditional model, supply meant internal development
  - Up-front investment in candidates, recouped over time through improved performance
  - Can make money this way
  - Can also lose money if lose the investment

- Outside hiring, pay as you go
  - Can’t earn a return or be a source of advantage
The rise of the great corporate career

Different practices made sense at different times

- **Open markets in the early years**
- **The Rise of the Planning Approach**
  - 1950s-'60s average Fortune 500 exec had been with their company 24 years
  - Engineers and “blocked” technical career paths
- The typical career path…
  - 12-18mo training
  - 18-21 month job rotation
  - “Hi potential” program – accelerated promotions
  - 75% execs had > 5yrs on corporate staff
  - 40% execs began in marketing/sales
  - Detailed workforce and succession plans – 15 years out
Which is the Kindergarten Report Card
Which is the Performance Appraisal?

**System A**
Rank candidates on a scale of…Very Satisfactory – Satisfactory – Unsatisfactory
- Dependability
- Stability
- Imagination
- Originality
- Self-expression
- Health and Vitality
- Ability to plan and control
- Cooperation

**System B**
Rank candidates on a scale of…Satisfactory – Improving – Needs Improvement
- Can be depended upon
- Contributes to the good work of others
- Accepts and uses criticism
- Thinks critically
- Shows initiative
- Plans work well
- Physical resistance
- Self-expression
- Creative ability
The internal model breaking up: Demand is uncertain, people quit

The notion of a secure, long-term career is harder to imagine.

President/CEO tenure was:
10 yrs in 1950s;
5 years in 1960s;
<3 yrs now

CEO turnover (and exec team) up 53% since ’95
- Rising 2x as fast in UK and Europe as in US
- Firing for performance biggest cause, 2x as retirement
- 54% VP vacancies and above have an outside search
- Taleo reports 2/3rds of vacancies now filled from outside

Restructuring is non-stop
- AMA survey – 49% have downsizings even during the “boom” years
- Fortune 500 now employ ½ as many as 20 years ago
- 63 percent cutting in one division and expanding in another
- Cuts happened faster in this downturn than any time before
- Employee Tenure: Down with employer/Up with occupation
Little Sophistication in talent management now….

- In the management ranks - 2003 SHRM firm survey – 60% have no succession planning of any kind
  - More than 70% had it in late 1970s
- In the workforce as a whole - 2004 IPMA-HR survey – 63% have no workforce planning of any kind
  - 96% of large companies had a dedicated planning department in 1950s!
What changed on the employee side?

How did they respond to end of lifetime employment?
<table>
<thead>
<tr>
<th>I would leave for…</th>
<th>25% of Workers</th>
<th>50% of Workers</th>
<th>75% of Workers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Units</td>
<td>Dollars</td>
<td>Units</td>
</tr>
<tr>
<td>Stock Grant Face</td>
<td>50</td>
<td>$500</td>
<td>100</td>
</tr>
<tr>
<td>Value (shares)</td>
<td>100</td>
<td>$1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Vacation Days*</td>
<td>7 days</td>
<td>$652</td>
<td>10 days</td>
</tr>
<tr>
<td>Bonus Opportunity</td>
<td>$1,000</td>
<td>$1,000</td>
<td>$5,000</td>
</tr>
<tr>
<td>Salary Increase*</td>
<td>10%</td>
<td>$3,750</td>
<td>20%</td>
</tr>
<tr>
<td>Potential Salary in Five Years</td>
<td>$6,000</td>
<td>$6,000</td>
<td>$15k</td>
</tr>
<tr>
<td>One-time Retirement Contribution</td>
<td>$5,000</td>
<td>$5,000</td>
<td>$20k</td>
</tr>
</tbody>
</table>

Does the Next Generation Really Have Different Attitudes Toward Employers?

*What do they expect from jobs?*

*How should we manage them?*
Characteristics in First Employers*

Please rate the importance of each of the following in choosing a first employer

- Challenging assignments
- Company values balance between personal life and career
- Competitive benefits
- Competitive salary
- Financial strength
- Good reference for my future career
- High-achiever program
- High ethical standards
- Immediate responsibility
- Likeable/inspiring colleagues
- Ongoing educational opportunities
- Opportunity to influence my own work schedule
- Opportunity to specialize
- Opportunities for continuous learning
- Secure employment
- Variety of tasks or assignments

* From Pricewaterhouse survey of 1500 MBA students from around the world
<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good reference for my future career</td>
<td>42%</td>
</tr>
<tr>
<td>Company values balance between personal life and career</td>
<td>41%</td>
</tr>
<tr>
<td>Likeable/inspiring colleagues</td>
<td>37%</td>
</tr>
<tr>
<td>Competitive salary</td>
<td>34%</td>
</tr>
<tr>
<td>Challenging assignments</td>
<td>33%</td>
</tr>
<tr>
<td>Competitive benefits</td>
<td>32%</td>
</tr>
<tr>
<td>Opportunities for continuous learning</td>
<td>31%</td>
</tr>
<tr>
<td>Opportunity to specialize</td>
<td>30%</td>
</tr>
<tr>
<td>Secure employment</td>
<td>30%</td>
</tr>
<tr>
<td>Financial strength</td>
<td>29%</td>
</tr>
<tr>
<td>High ethical standards</td>
<td>29%</td>
</tr>
<tr>
<td>Ongoing educational opportunities</td>
<td>27%</td>
</tr>
<tr>
<td>High-achiever program</td>
<td>26%</td>
</tr>
<tr>
<td>Variety of tasks or assignments</td>
<td>26%</td>
</tr>
<tr>
<td>Immediate responsibility</td>
<td>24%</td>
</tr>
<tr>
<td>Opportunity to influence my own work schedule</td>
<td>24%</td>
</tr>
</tbody>
</table>
## IDEAL™ Employer Ranking - MBA Overall

<table>
<thead>
<tr>
<th>Employer</th>
<th>Ranking 2007</th>
<th>Preferred by 2007</th>
<th>Ranking 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Google</td>
<td>1</td>
<td>20.58%</td>
<td>2</td>
</tr>
<tr>
<td>McKinsey &amp; Company</td>
<td>2</td>
<td>16.31%</td>
<td>1</td>
</tr>
<tr>
<td>Goldman Sachs</td>
<td>3</td>
<td>13.95%</td>
<td>3</td>
</tr>
<tr>
<td>Bain &amp; Company</td>
<td>4</td>
<td>10.99%</td>
<td>4</td>
</tr>
<tr>
<td>The Boston Consulting Group</td>
<td>5</td>
<td>10.89%</td>
<td>5</td>
</tr>
<tr>
<td>Apple Computer</td>
<td>6</td>
<td>10.78%</td>
<td>7</td>
</tr>
<tr>
<td>Microsoft</td>
<td>7</td>
<td>7.82%</td>
<td>16</td>
</tr>
<tr>
<td>General Electric</td>
<td>8</td>
<td>7.71%</td>
<td>8</td>
</tr>
<tr>
<td>Nike</td>
<td>9</td>
<td>7.21%</td>
<td>12</td>
</tr>
<tr>
<td>Bank of America</td>
<td>10</td>
<td>6.91%</td>
<td>18</td>
</tr>
<tr>
<td>Citigroup</td>
<td>11</td>
<td>6.82%</td>
<td>6</td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>12</td>
<td>6.75%</td>
<td>10</td>
</tr>
<tr>
<td>Johnson &amp; Johnson</td>
<td>13</td>
<td>6.73%</td>
<td>9</td>
</tr>
<tr>
<td>Starbucks</td>
<td>14</td>
<td>6.66%</td>
<td>22</td>
</tr>
<tr>
<td>Lehman Brothers</td>
<td>15</td>
<td>6.49%</td>
<td>13</td>
</tr>
<tr>
<td>Booz Allen Hamilton</td>
<td>16</td>
<td>6.28%</td>
<td>15</td>
</tr>
<tr>
<td>Procter &amp; Gamble</td>
<td>17</td>
<td>6.19%</td>
<td>11</td>
</tr>
<tr>
<td>Deloitte</td>
<td>18</td>
<td>6.19%</td>
<td>17</td>
</tr>
<tr>
<td>Merrill Lynch</td>
<td>19</td>
<td>5.58%</td>
<td>20</td>
</tr>
<tr>
<td>Walt Disney</td>
<td>20</td>
<td>5.23%</td>
<td>14</td>
</tr>
<tr>
<td>JPMorgan Investment Bank</td>
<td>21</td>
<td>5.11%</td>
<td>21</td>
</tr>
<tr>
<td>Yahoo!</td>
<td>22</td>
<td>4.80%</td>
<td>26</td>
</tr>
<tr>
<td>IBM</td>
<td>23</td>
<td>4.71%</td>
<td>23</td>
</tr>
<tr>
<td>BMW</td>
<td>24</td>
<td>4.70%</td>
<td>19</td>
</tr>
<tr>
<td>Coca-Cola</td>
<td>25</td>
<td>4.44%</td>
<td>27</td>
</tr>
<tr>
<td>Amazon.com</td>
<td>26</td>
<td>4.24%</td>
<td>32</td>
</tr>
<tr>
<td>3M</td>
<td>27</td>
<td>4.13%</td>
<td>24</td>
</tr>
<tr>
<td>Toyota</td>
<td>28</td>
<td>4.11%</td>
<td>31</td>
</tr>
<tr>
<td>Target</td>
<td>29</td>
<td>3.99%</td>
<td>34</td>
</tr>
<tr>
<td>American Express</td>
<td>30</td>
<td>3.82%</td>
<td>33</td>
</tr>
</tbody>
</table>

- **Preferred industries**: Management consulting (22%), Financial services (22%), Consumer goods (16%)
- **Attractive Characteristics**: Industry leadership (38%), Attractive location(s) (26%), Innovation (25%)
What do *our* students say?

“In your last job…”

- % who could identify the next promotion ___
- % who thought they had good chance of getting that promotion ___
- % who thought they could become a leader if stayed with their company ___
- % of their execs who came from within ____
- How long they would wait for opportunity ____
The New Challenge for Talent Management….

- Generating the supply of talent to match estimated demand
  - When demand is very hard to predict
  - When the supply of talent won’t stay put

- The “mismatch problem” that killed corporate talent mgmt in the 1970s
  - The talent glut in the 1980s
  - …absorbed by the 1990s expansion
The Four Principles of Managing Talent

- 1. Avoid Mismatch Costs – Balance “Make and Buy”
- 2. Reduce Risk with Shorter Forecasts and Portfolio Approaches
- 3. Design Development to Ensure Payback
- 4. Balance Employee Interests in Career Moves
#1 How to Think About
The “Make or Buy” Decision:

- “Making” Talent is Cheaper, Better IF You’re Certain You’ll Need it
- “Buying” Talent/Just-in-Time Hiring, Costs More but Reduces Risk
  - How accurate is your forecast of demand?
    - If not very, do more buying
  - How long will the “talent” be needed?
    - If not long, do more buying
  - Do you have job ladders or “scale”?
    - If not, easier to hire
    - Hiring also changes organizational culture
Use a Mix of “Make and Buy” to Reduce Mismatch Costs

- From forecasts to simulations
  - Can your IT system handle this?
- Use supply chain analyses to minimize “mismatch costs”
  - Are “Deep benches” inventory?
- Overshooting is often more expensive –
  - Use outside hiring to fill in gaps
- Only hiring from outside also a mistake
  - Expensive, disrupts unique skills and culture
#2 – Managing Uncertainty

- The logic of portfolios for reducing uncertainty
  - Centralize all development programs –
    - Balance out mismatches
  - Forget “succession planning”
  - “Talent pools” instead – match basic development to basic demand
    - Just-in-time development to fit

- Improve responsiveness –
  - Hire more frequently
  - Delay specific development
    - E.g., no “5 yr manufacturing program” Instead, “3 yr general mgmt development” & “2 yr special manufacturing program”
Making Development Pay Off…

$\text{Value}

\text{Time} \rightarrow \text{Compensation and Training/Development}
#3 Developing Talent Internally – The Challenge is Earning a Return

- Reducing upfront costs – finding cheaper delivery options
- Improve employee retention
  - Make it more predictable
- Sharing development costs with employees
  - Training wages, tuition assistance plans, promote then develop, etc.
  - Increase employee value through work-based training and experience
- Asking for volunteers
The Real Key to Creating Value -

- Spot talent early and give opportunity before they could get it elsewhere
- Performance v. potential in identifying candidates – what’s the signal?
- Self-selection as an alternative approach
- How to spot talent and give opportunity?
  - Can try to assess/predict who will succeed?
  - Give it a try–P&G motto “Fail quickly and cheaply”
  - GE model: Keep small P&L for screening
What was your best developmental experience?

Q: What can you do to help your own employees?
The skill of developing and managing talent means...

- Matching development needs to available opportunities: *Tasks, not jobs*
- The technology behind better matches
  - This requires IT help: See EDS
- Doesn’t require changing jobs
  - Projects, tasks, coaching
  - Being opportunistic, negotiating for opportunity
#4 – Balancing Employee Interests

How much control should employees have over their career?

- The “Chess Master” model
  - Downside: Best candidates can go elsewhere

- Internal mobility programs - 96% large companies have them
  - Only ½ require current manager’s approval
  - McKinsey vs. Microsoft models

- How much direction and advice to give?
  - Raise expectations vs. losing control
  - Fidelity approach
  - IBM’s “hot skills” index
The Long-Run Trend

- Challenge of uncertainty unlikely to go away
  - Old “planning model” requires certainty
- Pressure for cost control in talent mgmt likely to grow
- “Skill shortage” driven by reliance on outside hiring and lack of development
- We need a different approach