The idea of managing talent is not new. Four or five decades ago, it was viewed as a peripheral responsibility best relegated to the personnel department. Now, talent management is an organizational function that is taken far more seriously. In The Conference Board’s 2007 *CEO Challenge* study, CEOs’ rankings of the importance of “finding qualified managerial talent” increased by 10 percentage points or more when compared to the same research conducted just one year earlier. Research conducted in 2008 by DDI and the Economist Intelligence Unit (EIU) found that 55 percent of executive-level respondents said their firms’ performance was likely or very likely to suffer in the near future due to insufficient leadership talent. This point of view was reiterated in one-on-one interviews with top executives, conducted as part of the same research study.

This emphasis on talent management is inevitable given that, on average, companies now spend over one-third of their revenues on employee wages and benefits. Your organization can create a new product and it is easily copied. Lower your prices and competitors will follow. Go after a lucrative market and someone is there right after you, careful to avoid making your initial mistakes. But replicating a high-quality, highly engaged workforce is nearly impossible. The ability to effectively hire, retain, deploy, and engage talent—at all levels—is really the only true competitive advantage an organization possesses.
TALENT MANAGEMENT DEFINED

There is no shortage of definitions for this term, used by corporate leadership the world over. With a nod to other points of view, DDI defines talent management as a mission critical process that ensures organizations have the quantity and quality of people in place to meet their current and future business priorities. The process covers all key aspects of an employee’s “life cycle:” selection, development, succession and performance management.

Key components of a highly effective talent management process include:

> A clear understanding of the organization’s current and future business strategies.
> Identification of the key gaps between the talent in place and the talent required to drive business success.
> A sound talent management plan designed to close the talent gaps. It should also be integrated with strategic and business plans.
> Accurate hiring and promotion decisions.
> Connection of individual and team goals to corporate goals, and providing clear expectations and feedback to manage performance.
> Development of talent to enhance performance in current positions as well as readiness for transition to the next level.
> A focus not just on the talent strategy itself, but the elements required for successful execution.
> Business impact and workforce effectiveness measurement during and after implementation.

WHAT’S DRIVING THE CURRENT EMPHASIS ON TALENT MANAGEMENT?

Organizations have been talking about the connection between great employees and superior organizational performance for decades. So, why the current emphasis on managing talent?

There are several drivers fueling this emphasis:

1. There is a demonstrated relationship between better talent and better business performance. Increasingly, organizations seek to quantify the return on their investment in talent. The result is a body of “proof” that paints a compelling picture of the impact talent has on business performance. To highlight just a few:

> A 2007 study from the Hackett Group found companies that excel at managing talent post earnings that are 15 percent higher than peers. For an average Fortune 500 company, such an improvement in performance means hundreds of millions of dollars.
> A study from IBM found public companies that are more effective at talent management had higher percentages of financial outperformers than groups of similar sized companies with less effective talent management.
> Similarly, a 2006 research study from McBassi & Co. revealed that high scorers in five categories of human capital management (leadership practices, employee engagement, knowledge accountability, workforce organization, and learning capacity) posted higher stock market returns and better safety records—two common business goals that are top of mind for today’s senior leadership.
2. **Talent is a rapidly increasing source of value creation.** The financial value of our companies often depends upon the quality of talent. In fact, the Brookings Institution found that in 1982, 62 percent of an average company’s value was attributed to its physical assets (including equipment and facilities) and only 38 percent to intangible assets (patents, intellectual property, brand, and, most of all, people). By 2003, these percentages nearly flip-flopped, with 80 percent of value attributable to intangible assets and 20 percent to tangible assets.¹

3. **The context in which we do business is more complex and dynamic.** Hyper-competition makes it more difficult than ever to sustain a competitive advantage long term. New products—and new business models—have shorter life cycles, demanding constant innovation. Technology enables greater access to information and forces us to move “at the speed of business.” Global expansion adds to these challenges—a single company may, for example, have its headquarters in Japan, its R&D function in China, and its worldwide sales operations based in California.

And as we mentioned already, the recent economic downturn following years of rapid economic growth adds a whole new dimension to how we manage talent. Record layoffs, lower engagement, and less opportunity for advancement all present additional challenges to managing talent.

4. **Boards and financial markets are expecting more.** Strategy + Business magazine once described CEOs as “the world’s most prominent temp workers.”²

In 2007, CEO turnover was 13.8 percent, and the median tenure for a CEO who left office was six years.³ Boards and investors are putting senior leaders under a microscope, expecting them to create value. This pressure, most visible at the CEO level but generally felt up and down the org chart, drives a growing emphasis on the quality of talent—not just at the C-level, but at all levels.

5. **Employee expectations are also changing.** This forces organizations to place a greater emphasis on talent management strategies and practices.

Employees today are:

> Increasingly interested in having challenging and meaningful work.

> More loyal to their profession than to the organization.

> Less accommodating of traditional structures and authority.

> More concerned about work-life balance.

> Prepared to take ownership of their careers and development.

Responding to these myriad challenges makes it difficult to capture both the “hearts” and “minds” of today’s workforce. Yet, it’s critical to do so, as research from IBM and the Human Capital Institute highlights.⁴ Their July 2008 study showed that 56 percent of financial performers understand and address employee engagement. This is just one piece of a large body of evidence that illustrates how the cultures built within our organizations are crucial to attracting and retaining key talent.
6. **Workforce demographics are evolving.** Organizations wage a new “war for talent” these days. Today, 60 percent of workers over the age of 60 are electing to postpone their retirement due to the financial crisis, according to a 2009 survey by CareerBuilder. Many hold top positions, squelching the opportunity for lower-level talent to advance and leaving younger workers feeling stuck (and potentially looking for opportunities with other organizations). At all levels, each deferred exit from the workforce is one less new hire in an already depressed job market.

**TALENT MANAGEMENT: DDI’S VIEW**

For four decades, DDI has helped thousands of organizations around the world achieve superior business results through hiring, developing, and retaining exceptional talent. Through both this experience and extensive research, we identified a number of best practices we believe should serve as the foundation for a talent management system.

**Best Practice #1: Start with the end in mind—talent strategy must be tightly aligned with business strategy.**

Effective talent management requires that your business goals and strategies drive the quality and quantity of the talent you need. Procter & Gamble, for example, views “business decisions and talent decisions as one.” And research put forth by the Aberdeen Group showed that best-in-class organizations are 34 percent more likely to connect succession management strategies with organizational strategies.

Below are statements made by organizations whose specific business goals and strategies drive their talent needs:

> “We acquired one of our largest competitors and have redundant talent. How will we ensure we retain the best? Who will oversee the integration? What is the right management team for our new company? Who will help us focus on quality and cost containment, while pursuing new markets? And which employees will best fit the new culture?”

> “We are a global automobile manufacturer that has steadily lost market share. What sort of talent are we going to need to shake up the status quo, rejuvenate our brand, and give us the action-orientation required to turn things around?”

> “We are introducing a ‘blockbuster’ drug that requires us to double our sales force in the next eight months. In addition to sheer numbers, we also need to add the right kind of talent—sales reps who take a consultative approach with physicians.”

The real scenarios described above represent clear-cut examples of why matching talent to business needs is so powerful. These organizations all hold a common belief that business success hinges on having the right talent in place—at the right time. Each of the organizations described above is proactively addressing its talent needs. But far too often, the connection between talent and business strategy is considered long after strategic plans are inked.

**Best Practice #2: Talent management professionals need to move from a seat at the table to setting the table.**

When we gather groups of HR professionals for events, we often ask them who owns talent management. They point to senior management. Many have a seat at the table, where they’re involved in discussions about business and leadership strategies that were
previously held behind closed boardroom doors. But securing the right to listen in is not enough. Talent managers need to own parts of the process and serve as partners, guides, and trusted advisors when it comes time to talk talent.

Research shows this is no easy feat. In fact, it looks as though neither HR nor senior leader is at the helm of the talent management ship. DDI regularly takes the pulse of leadership practices around the world. In the most recent report, the Global Leadership Forecast 2008/2009\(^1\)\(^2\), leaders were asked to rate the overall quality of HR. Only a quarter offered a very good or excellent rating, and just 30 percent of CEOs viewed HR as a strategic partner.

On the flipside, those critical CEOs face challenges of their own. Top corporate leaders, such as former General Electric CEO Jack Welch, report spending about 50 percent of their time on their people.\(^3\) They got involved in recruiting top talent, grooming high-potentials, and reviewing talent pools. Speaking on the topic of talent management, Campbell’s CEO Doug Conant tells us, “I would say CEOs, on average, understand and appreciate talent more than the everyday person because they know they can’t do their jobs without it.” Yet, we find evidence in our Global Leadership Forecast\(^4\) research that not all CEOs share this mindset. We asked both CEOs and HR professionals how often CEOs are actively engaged in four distinct talent management activities. Though half of CEOs took credit for personally developing or mentoring other executives, ratings from both CEOs and HR were startlingly low in all other categories, as illustrated in Figure 1.

If talent management is a core part of any organization—if it can be hard-wired into the fabric and operations of an organization’s most essential functions—HR and senior leadership must work together. The most successful initiatives are driven by HR with active and enthusiastic support from the CEO and other senior leaders—who provide the resources, the budget, the communication and support necessary for success.

But HR needs to step up and play a critical role—more so than in the past. One wouldn’t question who owns the marketing process, or the financial oversight of an organization—that’s clearly the domain of the top marketing or financial officer and their teams. Likewise, HR needs to own and put in place professional talent management processes. And they need to get closer to the business. One way to do this: Work with line managers to develop business plans that integrate talent plans, including advice on the ability to meet the business goal with the talent on board. When gaps exist, talent management professionals need to offer solutions to close them. In short, talent management professionals have to be trusted business advisors that execute the organization’s talent management process.
**Best Practice #3: You must know what you’re looking for—the role of Success Profiles℠.**

Numerous studies show that companies with better financial performance are more likely to use competencies as the basis for succession management, external hiring, and inside promotions. Research highlights include:

> The Aberdeen Group found 53 percent of best-in-class companies have clearly defined competency models, compared to just 31 percent of other organizations (which post less impressive performance).\(^\text{15}\)

> Aberdeen research also shows that best-in-class organizations are 45 percent more likely to have models for key positions\(^\text{16}\) and 64 percent more likely to have models for all levels of their organizations than other organizations.\(^\text{17}\)

> Research from the Hewitt Group illustrates that top global companies consistently apply their competency models across the organization, and their competencies are significantly more aligned with overall business strategies. Eighty-four percent of top global companies demonstrated alignment, compared to just 53 percent of other organizations.\(^\text{18}\)

The power of competencies broadens when organizations use what we call “Success Profiles℠.” There are two reasons this approach is more effective than mere competency models. First and foremost, Success Profiles℠ are designed to manage talent in relation to business objectives—they should reflect key plans and priorities as well as change with new strategies. Additionally, they go beyond just competencies to include four complementary components:

> **Competencies:** A cluster of related behaviors that is associated with success or failure in a job.

> **Personal Attributes:** Personal dispositions and motivations that relate to satisfaction, success, or failure in a job.

> **Knowledge:** Technical and/or professional information associated with successful performance of job activities.

> **Experience:** Educational and work achievements associated with successful performance of job activities.

The end result: detailed definitions of what is required for exceptional performance in a given role or job. Success Profiles can be used across the entire spectrum of talent management activities—from hiring and performance management to development.

**Best Practice #4: The talent pipeline is only as strong as its weakest link.**

Many organizations equate the concept of talent management with senior leadership succession management. While succession planning is obviously important, our belief is that talent management must encompass a far broader portion of the employee population. Value creation does not come from senior leadership alone. The ability of an organization to compete depends upon the performance of all its key talent, and its ability to develop and promote that talent. Many people know this as a Leadership Pipeline℠. Figure 2 illustrates DDI’s approach to managing talent using a Leadership Pipeline℠ strategy.
The Aberdeen Group found evidence to support the importance of a Leadership Pipeline approach in a 2008 report on succession management. They found the best-in-class organizations they studied are 40 percent more likely than all other organizations to focus on developing a Leadership Pipeline across all levels of the organization.

A more encompassing approach to managing talent is also essential to proactively manage career transitions. Each level in our model has different, but overlapping, Success Profiles, as well as its own set of transitional challenges. Effective talent management requires not only developing people for their current roles, but also getting them ready for their next transition. For example, individual contributors being considered for frontline leadership positions must make a critical transition from defining success based on their own performance to the performance of the team they manage. Similarly, the operational leader being groomed for a strategic leadership position must shift from a business unit or functional perspective to that of an enterprise guardian.

A planned approach to transitions is especially important as organizations place more emphasis on “growing their own leaders” rather than making often risky outside hires. The bad news is that few organizations have proactive succession processes in place at lower leadership levels. Our Global Leadership Forecast study revealed that only 28 percent of the companies we surveyed have a system in place for key individual contributors and just 38 percent have one for frontline leaders.

**Best Practice #5: Talent Management is not a democracy.**

Bank of America has a philosophy: Invest in the Best. Many companies do the opposite, and make a mistake by trying to spread limited resources for development equally across employees. We’ve found that organizations realize the best returns when promising individuals receive a differential focus when it comes to development dollars.

So who should get these benefits? Two major categories: high-potential leaders and individuals who create value for their organizations. For example, Sunoco places special emphasis on mid-level plant managers because these leaders are, for the first time, managing multiple functions. Extra development increases their success in these pivotal roles. Countless other organizations mine their mid-level ranks for leaders with the potential to advance into strategic or senior roles. And some companies focus on value creators such as engineers or sales associates whose results are most beneficial for their employers. These groups are most likely to return the most on any investment in their development.

**Best Practice #6: Potential, performance and readiness are not the same thing.**

Many organizations understand the idea of a high-potential pool or a group of people who receive more developmental attention. But sometimes, they fail to consider the differences between potential, performance, and readiness.
An excellent analogy to consider when examining the differences between potential and readiness is the early career of an athlete. The stars of today’s fields, courts, pools, rinks, and every other venue you can think of are ready. They’re ready to compete, and equipped to win. But they achieved their success through years of practice, with attention from coaches or trainers and countless hours of preparation and practice. One can assume they’ve had excellent performance at each level of competition—however good performance on a high school team may fall woefully short at the college level and good performance at one level of competition is no promise that the athlete can keep up at the next level. Early on in that athlete’s career, it’s likely that someone somewhere likely recognized his or her potential. The young athlete may still be learning the correct way to hold a bat or throw a ball, but coaches can see innate talent that signals a star athlete—with years of practice and coaching, of course.

Taking a leader from potential to readiness is an equally long process. It takes, on average, 10 years for a high-potential leader to advance into a senior position and along the way, that individual needs mentoring, stretch assignments, personalized development plans, and development activities to build key skills. In short, it’s a lot of work.

And it’s work, we’ve found, that organizations are not doing. The Global Leadership Forecast reports that only about half of the world’s organizations identify high potentials. Even fewer (39 percent) have programs to accelerate development. If organizations—like athletics—don’t scout for talent and then prepare individuals for top performance, how can they expect to have a winning team in the future?

Best Practice #7: Talent management is all about putting the right people in the right jobs.

The late Douglas Bray, Ph.D., a revered thought leader in the field of industrial and organizational psychology, devoted much of his career to one of the most famous and respected studies ever done on talent management: The AT&T Management Progress Study. Bray followed AT&T managerial talent throughout their 30-plus-year careers, marking changes in their skills and motivations over time. More than a decade ago, he made a statement that stuck with one of the authors of this white paper: “If you have only one dollar to spend on either improving the way you develop people or improving your selection and hiring process, pick the latter.”

Why should an organization place the higher priority on selection rather than development?

> Not everything can be developed. Many elements of Success Profiles are impossible, or at least very difficult, to develop. Training people to improve their judgment, learning agility, adaptability—all core requirements for most of the talent hired today—is difficult, if not impossible. Lack of motivation for a specific role or a poor fit between employees’ values and those of the organization leads to poor performance, and no classroom experience or learning activity will change this fundamental mismatch. But you can get a read on these areas during a well-designed hiring/promotion process.

> Hiring for the right skills is more efficient than developing those skills. What about the areas that are developable, like interpersonal skills, decision-making, or technical skills? Assessing those areas at the time of hire is likely to cost less than developing them later.
Best Practice #8: Talent management is more about the “hows” than the “whats.”

Organizations have many “whats” relative to talent management, including executive resource boards, software platforms, nine-box grid comparing potential to performance, development plans, and training, training and more training. These “whats” promise nothing on their own. Guarantees come from “hows” instead. Our five realization factors for sound execution are:

> **Communication**—Links the talent management initiative to the business drivers, puts forward a vision the organization can rally around, and sets expectations for what will happen in the organization.

> **Accountability**—Role clarity so that each individual in the talent management initiative knows what is expected of them.

> **Skill**—Developing the right skills and providing coaches and mentors for support.

> **Alignment**—Must align talent management initiatives to the business drivers but also need the right kinds of systems to identify high potentials, to diagnose for development, to link to performance management, and to do development that really changes behavior.

> **Measurement**—You can’t manage what you don’t measure. It creates the tension, and objectives become clearer to help execute a talent strategy. The most effective measurements go beyond mere statistics to quantify what’s working in talent management, why those initiatives are effective, and what impact they have on the organization.

As part of our *Global Leadership Forecast* research we compared the effectiveness of organizations’ leadership development efforts and how well they used the five factors of realization. Organizations with the most effective leadership development programs in place also used the realization factors most effectively to execute development strategies—outperforming organizations with the least effective development programs by 28-62 percentage points!

Best Practice #9: Software does not equal talent management.

Claiming a piece of software can provide a full talent management system is a bit like a food processor will produce a five-star meal. These tools are valuable in support of a good plan or recipe. The right tools clear the path for smoother execution and may improve the end product. But tools mean nothing without the right expertise and the right ingredients behind them.

A recipe for five-star talent management includes a potent blend of content, expertise, and technology. It takes best-in-class content to drive the assessment and development of people, and a system constructed by knowledgeable experts who have seen a range of implementations—they should know what works, and what doesn’t. Software should support the process, but it can’t stand alone.
ABOUT DDI’S TALENT MANAGEMENT APPROACH

DDI has combined the best practices described above into a comprehensive talent management approach, represented visually in Figure 3.

This approach, which we have applied successfully in multiple organizations, encompasses all of the major steps, processes, and activities required to systematically manage an organization’s talent.

What are the critical current and future business contexts and challenges your organization is facing? This includes strategic priorities, which come from long-range operational plans. Other elements are cultural, guiding how you expect your associates to act and behave. When combined, these priorities inform an organization’s business drivers, which are the challenges leaders and key talent must face to successfully execute on strategy and culture. A few examples of business drivers that our clients are using include: Build a High Performance Culture, Drive Product Innovation, and Enter New Markets.

Because our philosophy centers around starting with the end in mind, we look at the “outcomes” box (see Figure 5) next.

The first “business landscape” block is your starting point (see Figure 4).

FIGURE 3: DDI’s Talent Management Model

FIGURE 4: Business Landscape

FIGURE 5: Outcomes
Though last in line in this model, it’s important to examine what success looks like early. What are the targets for success, and how will they be measured? Workforce effectiveness measures deal with lead indicators such as engagement scores, cost of hire, time to productivity, number of open positions filled internally, and improvement of leadership skills. Business impact measures focus on the efficacy of talent management systems, including improvements in productivity, number of new innovations or patents, and growth in emerging markets to name a few examples.

So how are we getting to our outcomes? The initial focus is on “talent implications” (see Figure 6).

FIGURE 6: Talent Implications

Here you would ask, “does our organization have a sufficient supply of talent in key positions to execute our strategies today and tomorrow?” Examining capacity gaps entails looking at the quantity and quality of talent in house. Many companies compile a “talent balance sheet” to track strengths and liabilities of leaders and other key value creators. Next, look ahead to capacity projections. Ask where the business is going, and if you’ll have the capabilities necessary to accomplish longer-term goals. People trends are also part of the talent implication equation.

Internal and external forces such as retirements, cultural diversity, and regional recruiting trends all affect future success. Organizations want to ensure their supply of leaders meets demand, so identifying and addressing future gaps has to be part of the plan today. Finally, analysis of the organizational situation discerns the state of talent management within a company. It defines who owns talent management, how it is supported by senior leadership, what systems will support individual initiatives, and the role of HR in executing the strategy.

After talent implications, the focus turns to the “growth engine,” pictured in Figure 7.

FIGURE 7: Growth Engine

This encompasses the systematic and integrated initiatives that will close the talent gap:

> Selection to ensure a sufficient supply of talent at all levels;
> Development to build individuals’ readiness to achieve organizational, role, and personal objectives;
> Performance management to create the alignment and focus needed for strategy execution;
> And succession management to develop and elevate talent over time.
These initiatives are most effective when they are built on common competency models or, optimally, Success Profiles. The advantage of Success Profiles is that they are informed by the business drivers described in the business landscape box, so they naturally create the alignment we feel is so important to success.

**THE VALUE OF PLANNING**

Talent management has never been more of an immediate concern than it is right now. But in the rush to fill a perceived talent management void, organizations must be careful not to rush into implementing initiatives or programs that are more about taking action than about implementing a well-crafted solution.

Careful planning, culminating in a sound talent strategy that is tightly connected to the organization’s overall business strategies and business needs, is required for talent management to become ingrained in an organization’s culture and practices. Only when this happens is it possible for talent management to be both effective and sustainable.
In addition to the overview offered in this white paper, DDI can provide specific best practices and advice for implementing each of the components of the Talent Management model. To learn more about DDI’s approach and our talent management capabilities, including solutions for hiring, development, assessment, and performance management, contact your DDI representative, call 1-800-933-4463, or visit www.ddiworld.com.

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REFERENCES


