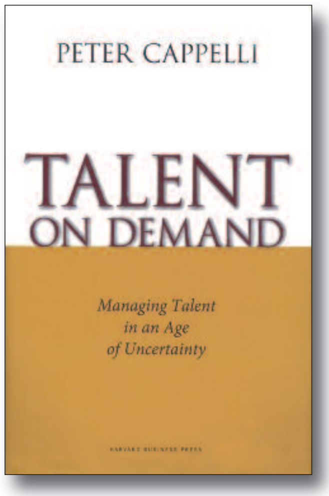
Talent on Demand



Based on *Talent on Demand: Managing Talent in an Age of Uncertainty,* **Peter Cappelli,** Harvard Business School Press, March 2008

All senior executives know that having the right people in the right jobs is key to business success. And yet, in the face of increasing uncertainty, most companies invest little or poorly in talent management. In *Talent on Demand,* Peter Cappelli proposes four new principles inspired by operations logics, to align talent with business needs.

According to Peter Cappelli, talent management practices fall into one of two equally dysfunctional camps. *"The first, and by far the most common, is to do nothing – making no attempt whatsoever to anticipate your future needs or develop plans for addressing them."* When talent needs arise, companies turn to outside hiring, an expensive and reactive approach that is unsustainable in the long term. *"The second, common only among large, older companies, relies on complex and bureaucratic models from the 1950s for forecasting and succession planning."* Here, companies provide employees with multiple training programs in order to align talent with strategic ambitions. This approach is also costly and unrealistic, given today's rapidly changing, uncertain, and highly competitive world. Cappelli thus calls for a new approach *"that addresses the challenge of finding cost-effective ways of anticipating and delivering the talent organizations need in the context of a highly uncertain operating environment."* By borrowing lessons learned from operations and supply chain research, companies can create new practices better-suited to today's realities. They simply need to respect four key principles – two that address the risks involved in estimating demand and two that address the uncertainty of supply.

PRINCIPLE 1: MAKE OR BUY TALENT?

Most companies continue to rely on one of the two available models: internal development, a model dating back to the 1950s, or outside hiring, a model inherited from the 1970s. However, neither one is adapted to today's realities.

Finding the right equilibrium

If internal development eliminates the costs of searching for, hiring and integrating new employees, outside hiring can be more rapid and reactive. But it would be a mistake to think that the choice is "Make versus Buy." For Cappelli, an optimal approach would be a combination of both models, and choosing the right mix is crucial to meeting talent management challenges. Figuring out the right combination of involves evaluating several factors, notably those associated costs and estimated talent needs.

Make **or buy?**

Here are a few key questions to help you figure out the right mix.

1. For how long will you need the talent? For long-term needs, internal development provides the best return on investment.

2. Does the organization's infrastructure enable candidates to learn through internal development?
If so, the easier it will be to develop talent internally.

3. Is it important to maintain the organization's current culture? In general, outside hiring (especially at the senior level), brings in individuals with different norms and values, changing the balance of company culture. If maintaining company culture is important, it may be best to stick with internal development.

4. How accurate is your talent forecast? The less certain the forecast, the greater the risk and cost of internal development.

Overshooting vs. undershooting – watch out for mismatch costs

Part of managing demand uncertainty is understanding the costs involved in producing too much or too little "homegrown" talent. Unlike in the 1950s, modern talent management is no longer solely concerned with falling short on talent: its primary goal is to minimize mismatch costs – that is, the difference between estimated and actual talent needs. For this purpose,

> **Every talent management process in use today was developed half a century ago. It's time for a new model.**

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companies must figure out the likely cost associated with overshooting AND with undershooting talent forecasts for the required supply level.

The mismatch problem at Unilever India

The problem of overshooting talent demand is illustrated by Unilever's Indian operations after 2005. Starting in the 1950s, the organization relied on a sophisticated model of in-house development, earning itself the title of model employer and talent developer. But around 2000, business began to decline, and suddenly the organization found itself with far too many well-trained managers. Unwilling or unable to lay them off, the company found places for them in its international operations.

Estimating talent demand across organizations

Note that costs associated with overshooting and undershooting differ not only across organizations but also by job. Figuring out those costs may take some trial and error. Cappelli proposes a "distribution of risks" approach, where talent demand is calculated according to: 1) the forecasting team's estimation of the right mix of outside hiring and internal development, 2) the anticipated state of the labor market, and 3) a careful consideration of demographics within the organization.

PRINCIPLE 2: MANAGE UNCERTAINTY IN TALENT NEEDS

This principle focuses on the "make" side of the equation. It explains *"how to structure internal development in order to reduce uncertainty and lower costs by using techniques from operations research."* Cappelli proposes three different strategies:

Shortening forecasts

In a world where market behavior and operating conditions are in constant flux, planning talent needs five years into the future no longer makes sense; there is simply no way to know exactly what you'll need that far ahead of time. So, according to the author, it's best to plan for the near future.

Relying on the portfolio principle

In finance, the portfolio concept is synonymous with the reduction of volatility. The talent-management application of this principle is especially relevant for decentralized organizations: companies should consolidate programs run by different divisions into one common program (the portfolio). This will reduce redundancy costs associated with multiple programs.

Improving responsiveness by shortening programs

"The longer it takes to develop talent, the more expensive it is on several levels," notes Cappelli. For example, longer programs make it difficult to respond effectively to changing business needs. To reduce this rigidity, the author proposes several shorter programs. With a five-year program, it can take a full five years before you can develop candidates with specialized skills. In the meantime, competencies that no longer correspond to the organization's future objectives continue to be produced. With shorter programs, you can update the curriculum regularly to align it with current needs.

PRINCIPLE 3: IMPROVE THE ROI OF DEVELOPMENT

Given today's high attrition rates, companies no longer want to invest limitless dollars in internal development; they know that employees will inevitably take the skills they learn elsewhere to benefit another employer. Yet, this is not an excuse for abandoning development programs altogether, which are necessary for building in-house expertise and key skills. So how can companies improve payoff of internal development?

Lowering the costs of internal development

Development costs can be optimized in several different ways:

• **Shorter programs:** in addition to increased reactivity, shorter programs reduce the amount of time employees spend away from their job.

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••• • **Online or distributed learning:** these programs can be used at any time and are much less expensive per capita than classroom-based programs.
• **Work and learning experiences:** skills development in the workplace, when supported by HR, makes it possible to optimize gains.
• **Peer learning:** peer exchange programs – tutoring or mentoring – are another way to improve development costs.

Optimizing retention policies

Optimizing employee retention is another way to improve the payoff of development. While it would be illusory to think that turnover can be eliminated, it can be made more predictable, says Cappelli. He proposes two techniques:
• **Better matches:** employees who feel that they mesh well with the organization are more likely to stay. When recruiting, it's important to carefully select employees that are sure to fit in.
• **Social relationships:** individuals are more likely to remain in organizations where they feel close social ties with their colleagues. Promote bonding through social activities and teamwork.

Maximizing the value of internal development

Since it is impossible to achieve zero turnover, employers should focus on maximizing their investment – even once it's out the door! The best way to do so is by keeping ties with former employees. Developing a social network with former employees outside organizational boundaries can create business opportunities and improve an employer's reputation…and in some cases, even incite a departed talent to come back!

PRINCIPLE 4: FACILITATE INDIVIDUAL CAREER MANAGEMENT

According to Cappelli, few employers are willing to invest in career planning programs, despite the fact that employees are increasingly demanding this type of service. How can employers provide workers with career assistance while keeping costs low? For Cappelli, the key is creating an in-house job market that allows employees to create their own job path within the organization.

Increasing internal mobility

Internal job boards make it easy for employees to apply for openings and change jobs within the organization. The most important attribute of the internal job board, says Cappelli, is that *"it transfers to employees the power and responsibility of managing their careers."* When employees feel like they have control over their internal advancement, they are more likely to stay with a company. Due to their popularity, an increasing number of businesses have adopted job boards. The Dow Chemical Company, for example, posts all of its jobs on the corporate internal job board. According to a survey of Fortune 500 conducted by Taleo Research (2005), 80% of companies now have formal internal mobility policies in place.

Development in **India**

Infosys, an Indian information technology services company, is a key player in the local economy. Between 1999 and 2005, the company expanded from a few hundred employees to more than 40,000. In light of this growth, the organization could no longer meet its needs through outside hiring. So, it created a training and development center to develop talent internally. Here, new hires participate in a 14-week training program; thereafter, they take part in about 12 days of annual training. The center also offers development programs for front-line workers seeking managerial positions.

Highly-developed career management

Companies may also choose to offer more sophisticated career guidance services. For instance, Deloitte gives its employees career management advice through the Deloitte Career Connections program, which includes coaching and follow-up assistance. Microsoft has also developed a career management system using a tool called Career Compass. It begins with an annual self-assessment of executives' performance and future aspirations. Supervisors then evaluate and catalogue this information. In turn, employees are asked to create a personal development plan based on their aspirations, current experience, and the information they've submitted.

The talent-on-demand framework represents a departure from previous models of talent management in several regards. Firstly, it moves away from the assumption that we can reduce uncertainty by forecasting long-term needs. Secondly, it argues that we need a combination of outside hiring and internal development. Thirdly, it provides a new way of thinking about how to develop talent internally to lower costs and reduce uncertainty. Finally, it advances the idea that employer and employee interests can indeed be reconciled. Inspired by markets and operations-based tools, talent on demand provides employers with a new paradigm that is better suited to the challenges of uncertainty. ■