Talent Management for a New Generation

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The Task of Talent Management is the Basic Operations Problem:

*Matching Supply (talent) to Estimates of Demand*
Loyalty for security and stability: The rise of the great corporate career

- 1950s-’60s average Fortune 500 exec had been with their company 24 years

- 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
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
What Is Different Now?

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
- 2003 SHRM firm survey – 60% have no succession planning
- 2004 IPMA-HR survey – 63% have no workforce planning

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
What happened to the ability to plan?

- 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
  - Virtually every large company did it in 1950s
What had changed on the talent side - about employee expectation?

Can we make this work?
What are the implications for business?
For you?
I would change jobs for…?

<table>
<thead>
<tr>
<th>I would leave for…</th>
<th>25% of Workers</th>
<th>50% of Workers</th>
<th>75% of Workers</th>
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<tbody>
<tr>
<td></td>
<td>Units</td>
<td>Dollars</td>
<td>Units</td>
</tr>
<tr>
<td>Stock Grant Face Value</td>
<td>50 shares</td>
<td>$500</td>
<td>100 shares</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>
Unemployment and Annual Turnover: 1983 - 2003

Sources: U.S. Bureau of Labor Statistics (unemployment); BNA, Inc. (turnover rate)
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
Characteristics in First Employers

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

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Rating</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>
Changes in Life Priorities – College Students 1966-1998

Figure 72: Greed Trumps Community Among College Freshmen, 1966–1998
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 ___
Their Attitudes Are Different

- They don’t believe the old deal.
- More willing to take risks -- failure ok
- Building careers across jobs
  - autonomy
  - clear performance management
  - prefer flat hierarchy
- What to do?
  - Explicit and short-term contracts
  - tailor job to individual
How about “Work-Life” Balance?

- How new is this concern?
  - How much is about “flexibility?”
  - Is better performance management the answer?
- Should employers pull back on their demands on employees?
  - If so, which demands?
  - How about employees who do not want to pull back?
So…what’s the deal?

What should employers and employees expect from each other?
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 Economics behind the challenge....
  - The “make or buy” choice and the costs of internal development
  - The ‘mismatch” costs of not matching demand
Who Should You Hire?

A case study....

- What criteria predict the “best” workers?
- How do you balance internal versus outside candidates?
- How do you balance current performance versus future potential?
What Predicts Job Performance?

- Criteria that work reasonably well:
  - Previous experience, work samples, intelligence

- Moderately Well:
  - Personality tests, structured interviews

- Not Well:
  - Unstructured Interviews, handwriting
Pick a Job....

- How crucial is that job?
- What are the key competencies you need
  - Which ones can you learn on the job?
- What predicts whether you have them?
  - Identify a good “behavioral” question
Another Alternative … Getting Better at Recruiting

- You’ll be doing more of it anyway, and better “fits” reduce turnover
- The Marriott Experience Targeting Applicants
- Moving toward internships and coops –
  - 50% of grads may have commitments to employers beginning of senior year
  - The GE Experience
  - Accenture – in Sophomore year
Employers Getting Closer to Schools….
What is Your “Employee Value Proposition?”

Suppose you had to sell your job to applicants who have choices....could you hire the people you want?
The Problem: Retention

The new development: “poaching” of intellectual capital by competitors

- Why this is not going away:
  - The need for speed
  - Better information about opportunities

- The law and ethics of hiring from competitors…?

- Outside hiring drives internal candidates away

- Poor “fits” leave quicker in tight labor markets
Retention Problem

- Hiring Directly From College into Management Training Program
- 50% now leaving within 5 years
- Mainly for competitors elsewhere
- Q: How Do you Know if This is a Problem?
- Q: If it is, What Should You Do About It?
Online Recruiting Changes the Context for Employees and Firms

- Opening up the labor markets
- Making information free, shifted the balance of power to employees
  - Web sites like Vault.com/Employers troll myspace.com
  - Will employees continue to believe management?
- The “passive” applicant now SO easy to find and hire
  - Cisco problem solving contests
Some will leave… At least Shape Who and When….

- Manage the flow of the river – who, when, where
- Can you pay them to stay?
  - Differentiating among employees
  - Tailoring to their needs
- Social relations hold employees
  - The power of social ties
  - Reorganizing work
- Project work -- help them build their C.V.
- Using development for retention – Fleet Bank story
Alternatives: When you Can’t Keep Everyone

- Accommodate it -- what’s the real problem?
  - Maybe retention isn’t the only answer
  - Redistribute turnover and manage flows better
- Keep the intellectual capital
  - Even if the people leave
3rd Performance Management –
Why it matters more now…

- The “best” employees are *much* better
  - Jobs offer more scope for contributions
  - Poor performers are demoralizing

- Performance Management is about
  - Identifying performance differences
  - Managing to raise the level of performance
Is treating people equally the same as treating people fairly?
Figure 1. Mean job performance for each payment group over time.
How do you feel about forced rankings?

Is Competition Important?
The GE Experience....
Alternative ways of managing performance...

- More feedback earlier
- More objective performance measures
- 360 feedback – hearing it from peers
- Goal setting

Why this matters more to the next generation....
4th Developing Talent

Information about career advancement
The Finances of Managing Talent:
Step 1

- The Task is to “match” supply of talent to anticipated demand
- In the traditional model, supply meant internal development
  - Up-front investment in candidates, recouped over time through improved performance
- Alternative: Outside hiring, pay as you go
  - Can’t earn a return or be a source of advantage
- Can earn return on internal development, but, can also lose the investment
Why is it more difficult to do now?

- Much harder to forecast business and talent demands into future
- We don’t own the talent, they leave unpredictably
- Old model expensive – hard to make it pay
  - Required “training” jobs – rotation, longer job ladders
  - Big up-front investments
  - Big commitment from line mgmt
- To meet immediate talent needs, we hire from outside, cheaper and faster –
  - That disrupts career paths…leads to turnover
  - Picking outside talent is a skill. Do you have it?
The “Make or Buy” Decision:

- How accurate is your forecast of demand?
  - If not, do more buying

- Do you have the “scale” to develop?
  - If not, do more buying

- Is there a job ladder to pull talent through?
  - If not long, do more buying

- How long will the “talent” be needed?
  - If not long, do more buying

- Do you want to change culture/direction?
  - If yes, do more buying
The Challenge in Matching....

- Matching supply with demand – mismatches are costly

- Oversupply is more costly than undersupply
  - Can always hire on outside to fill in
  - Excess supply leads to retention problems – *lose the entire investment!*
  - Are “deep benches” truly an advantage? “Inventory” is costly – the GE story
Step 2: When Running a Program to Develop Talent…

- Faster is better
  - Forecasts more accurate
  - More “just-in-time” development
- Forecasts better when “pool” programs
  - Separate development programs lead to forecasting errors
- Delay differentiation of candidates
Step 3: Once Decide How Much Talent To Develop, Make Money By….

- Reduce upfront investments
  - Just in time, on the job, spread them out
- The big returns come from giving internal candidates opportunities before they would get them outside

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
Other approaches to cut costs....

- Share costs with employees
  - Tuition assistance
- Promote and then develop – DuPont
  - Just-in-time training
- Make development cheaper –
  - “Outsource” it
  - Bidding for project work
  - Coaching to make sense of job experiences
The New Internal Market –
Among large companies…

- 96% have internal mobility programs –
  - Fill 46 percent of vacancies internally
  - Only ¼ always turn to internal candidates first
- Criteria for moving – 90 % say satisfactory performance reviews
  - Only ½ require current manager’s approval
  - But only 15% require fit with succession plans
- 1/3rd post internally and externally at same time
- 36% target (or plan to) individuals with info on openings

Source: Taleo research, “Internal Mobility,” 2005
Internal markets give control to employees

- Designed to improve retention –
  - The good ones easily leave, have veto power
  - More internal movement / lowers turnover: is the tradeoff worth it?

- Facilitates work-based development –
  - Making matches with projects – McKinsey, Oticon A/S, PNC Bank
Challenges facing the Internal Market....

- The logistic challenges:
  - Keeping track of experiences and skills
  - Mapping out job requirements in detail
  - Trade-off between company and employee interests

- How much direction to give on career planning?
  - Raise expectations vs. losing control
  - Fidelity approach

- Will this be an auction market or something else?
Q: What was your best developmental experience?

How could you replicate it?

(The Boeing experience)
Tough Questions: Will talent be a local or corporate asset?

- Where divisions have operating autonomy and P&L responsibility, who pays?
  - Separate programs costly, forecasting errors

- Big disincentives for local operations to develop and identify talent if it costs them and they lose the assets

- Job posting systems let employees self-identify, avoid “hiding talent”
Should you have “hi potential” programs?

- How far out can you plan?
  - Can you predict who will succeed?
  - Effect on non-hi-potentials
  - How will candidates get in and out, is it better to use potential or performance?

- Should you hire for potential?
  - Remember legal issues

- How formal should the process be?
  - More formal is less flexible
Managing Your Own Career...
Descriptive statistics for the Fortune 100 companies in 1980 and 2001

Total assets, sales and net income are in million USD.

Full sample
Top executive attributes and experiences in 1980 and 2001 for the 26 companies in both the 1980 and 2001 samples

- Percentage of lifetime executives: 67% in 1980, 69% in 2001
- Time to top positions: 29.2 years in 1980, 27 years in 2001
- Number of positions held: 6.2 in 1980, 6.6 in 2001
- Average job tenure: 4.4 years in 1980, 3.8 years in 2001
- Average promotion: 1.1 in 1980, 1.34 in 2001
- Organizational tenure: 23 years in 1980, 21.1 years in 2001
Some surprising findings….

■ Women execs get to the top about four years faster than men….

■ Best functional area to begin your career… finance

■ Lifetime execs in 2001 got to top as fast as those who switched (…did they stay because they were advancing?)
## Pick Your Industry:
Change in Speed to Top….

<table>
<thead>
<tr>
<th>Industry</th>
<th>1980</th>
<th>2001</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steel</td>
<td>31</td>
<td>23.6</td>
<td>-7.4</td>
</tr>
<tr>
<td>Business services</td>
<td>32</td>
<td>25.5</td>
<td>-6.5</td>
</tr>
<tr>
<td>Electric Utilities</td>
<td>28.5</td>
<td>23.7</td>
<td>-4.8</td>
</tr>
<tr>
<td>Communications</td>
<td>28.2</td>
<td>24.4</td>
<td>-3.8</td>
</tr>
<tr>
<td>Healthcare</td>
<td>27</td>
<td>23.2</td>
<td>-3.8</td>
</tr>
<tr>
<td>Food</td>
<td>28.7</td>
<td>25</td>
<td>-3.7</td>
</tr>
<tr>
<td>Energy</td>
<td>28.4</td>
<td>26</td>
<td>-2.4</td>
</tr>
<tr>
<td>Chemicals</td>
<td>28.6</td>
<td>26.6</td>
<td>-2.0</td>
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<tr>
<td>Aerospace</td>
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<td>25</td>
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<td>Retail</td>
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<tr>
<td>Automotive</td>
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<td>+0.6</td>
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<td>Manufacturing</td>
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<tr>
<td>Paper</td>
<td>26</td>
<td>28.3</td>
<td>+2.3</td>
</tr>
</tbody>
</table>
Betting on the company…

- A growing organization really matters
  - *But less so the higher up you go*
- Smaller cohorts help
  - *Standouts bypass the usual route*
- Younger firms offer faster but less certain paths to the top
- Change jobs/companies early, then stay put
When is it time to move on?

As time to top shrinks, blocked career hurts more

- “Tournament” competition
  - Must win the first round: Don’t hold back early on
- Promotions come early in tenure (“halo” effect?)
  - Q: Have you been in job longer than peers?
- “Stars” fail when they move (unless their team moves)
- Finding new jobs - who are more helpful: “strong” ties (close friends) or “weak” (acquaintances)?
- Executive search study
  - The big promotions are still internal – who is willing to take a chance on you?
  - Outside moves tend to be lateral: same title, bigger firm
  - “Reputation” of company drives lateral advancement
Watch for “Choke Points” Where Promotions Get Harder….

- **Coca-Cola Org Chart**
  - Chairman & CEO (1)
  - Vice Chairman (1)
  - President & COO (1)
  - EVP = CFO & General Counsel and EVP/President/COO in charge of broad regions (5)
  - Strategy SVP-s = In charge of a major function (e.g. planning) (10)
  - VP-s = In charge of a function (M&A, Global HR Planning, Chief Creativity Officer) (40)
  - Regional/Country Presidents (22)
Citrin and Smith’s “5 Patterns of Extraordinary Careers”

- Know your own value in the market
- Practice benevolence
- Seek opportunities in current jobs
  - Ask: Seize the day: Negotiate
- Focus on visible outcomes
  - Break current performance standards
  - Redefine goals/focus on “new” goals
- “Fit” with your strengths
  - Avoid the traditional career ladder
What Will Remain from the Talent Wars?

- “Talent” remains in short supply even if workers aren’t -- talent mgt matters
- Open labor markets demand new approaches
  - The next generation expects it
- Retention, making training investments pay, and commitment continue to be challenges
- Manage your own career like an investor