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## Talent management: a strategic imperative

Following research and identification of talent management practices in leading organisations, Guy Lubitsh and Ina Smith share thirteen dimensions of talent management. These offer organisations a framework for recognising the strategic choices they have made and reviewing whether their talent management systems will contribute to competitive advantage in the future.

There is an abundance of evidence to suggest that talent management (TM) is quickly moving to the top of corporate agendas. Our observation based on work with Ashridge clients, that talent management is becoming a key theme driving strategic HRM, is underpinned by IOMA's HR critical issues survey for 2006. This reveals that talent management is the top issue for 75% of respondents<sup>1</sup>. Talent management is becoming a strategic

conversation. Chief executives increasingly see responsibility for talent management as their key responsibility, and a recent survey by the Economist Intelligence Unit revealed that CEOs assign as much as 50% of their time to talent management<sup>2</sup>. So why is it assuming such importance?

**Demographics: the war for talent**  
First, demographic trends mean that talented workers are in increasingly short

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supply and the cost of employing and retaining them is rising rapidly. In a global survey of over 9,000 executives, concern about the supply of talented workers was ranked as the most significant managerial challenge and the cost of these people as most likely to constrain company growth<sup>3</sup>. Many mature and experienced workers are choosing to retire or leave work earlier than ever before, exacerbating the skills shortage. The number of people aged between 35 and 44, the age group most likely to fill vacated leadership positions, is estimated to be falling by 15% or more in the majority of developed countries<sup>4</sup>.

Even if top talent can be recruited, retention depends on more than money. Despite record bonuses, the *Financial Times* reported in June 2006 that 17% of City workers planned to change jobs after receiving their bonuses, while another 28% were undecided<sup>5</sup>. Gary Browning, Chief Executive of Penna: "In 2003, we did some research called 'itchy feet', which looked at how people behaved just after joining a new employer. Some of the results were quite shocking..... 48% of people had no intention of staying in their role for more than two years."<sup>6</sup>

The shift away from a psychological contract that provided job security and a mutual employment relationship, towards one where individuals have to maintain their "employability" through managing their own development and career progression, has undoubtedly shifted the balance of power towards talented professionals. As Gratton and Goshal have persuasively argued<sup>7</sup>, companies make a serious mistake if they try to treat highly educated professional employees as malleable resources. And Berger points out<sup>8</sup> that talented employees have the luxury of picking and choosing employers who offer them the right form of currency, such as work life balance; an effective diversity policy; or a context where talented people have a strong voice in the organisation.

## Economics: talent and the bottom line

More recently, the quality of leadership has been linked with business performance. Research by Hewitt Associates discovered that 85% of the top 20 performing businesses in a group of 373 held their leaders accountable for developing top talent, compared to 46% of leaders from the other organisations<sup>9</sup>. McKinsey also revealed a strong link between quality of succession planning and shareholder return<sup>10</sup>.

Other attempts to build an economic case for TM argue for a wider set of criteria than financial measurements. Morton *et al*<sup>11</sup> for example, say that a truer picture of the value of talented people must involve other measurable outcomes including:

- competitive advantage
- business results
- organisational capabilities
- strategy execution
- organisational morale
- attraction/retention of talent
- employee engagement.

They go on to argue that companies that lack talent suffer where it hurts – the bottom line. If companies calculate the return on investment and the cost of not managing talent, in the guise of losing a key individual or the cost of underperforming people, they will end up with a compelling argument for effectively managing their talent.

## Taking stock

In the light of the above evidence, we would like to challenge organisations to consider their existing TM strategies and practices, starting with the following three key questions:

- *Do we know if our current TM processes are working well?*

As Heinen and O'Neill<sup>12</sup> argue, if TM is defined as a set of interrelated management activities that identify, attract, integrate,

## The research

Ashridge Consulting was commissioned by the NHS to undertake research into the talent management practices of leading organisations. The case study methodology adopted included interviews, biography and observations. Seven case studies were undertaken within four global businesses (automotive, telecoms, pharmaceutical, manufacturing), two UK public sector organisations and a private healthcare provider. In return for anonymity, full access and uncensored report writing was agreed. The interview schedule captured the perspectives of the following groups of people:

### ***The talent management champion***

or person responsible for TM in the organisation, to get their vision of how TM should be working, what they are trying to achieve, how they are trying to achieve it, and what they are taking as their measures of success, as well as their reflections on difficulties and failures.

### ***Senior managers in the organisation***

responsible for implementing the TM process and carrying out reviews, etc. We wanted to know how they were putting TM into practice, what they thought of it and whether they were seeing any benefits. Was TM becoming part of their culture?

### ***Middle managers in the organisation***

at the heart of the TM process who might be expected to know where their career plan was taking them. Were they aware of being considered talented and did they realise they were going through a TM process? How did they view their career in their organisation? Did they consider themselves to be talented, and what were their career aspirations? What would contribute to them staying or leaving their organisation?

develop, motivate and retain talented individuals, **every organisation has a TM system whether it is by default or design.** In other words, even if you think you are not managing talent, you are – and your talent will draw their own conclusions! If this argument is accepted, companies need to understand whether their (albeit) invisible/implicit TM system is functioning as intended and is helping support the company's key priorities, goals and capabilities.

- *Can we afford to maintain the status quo?*  
Is there an approaching war for talent in which more forward looking companies will have an irreversible headstart?
- *Is there scope to improve TM and is the prize worth pursuing?*  
Given that the benefits of TM take time to accrue and are difficult to measure, business leaders need to be committed to building an organisation where talented people can thrive, because it is a prize worth gaining.

### Our findings

One of the key findings from our TM research report is that leading organisations view TM as a strategic priority and an important long term investment that needs reviewing, refining and reinvention (in some cases) as needs and priorities change. All the case studies demonstrated that there are no simple 'Ten steps to success' in TM. In reality it is a complex set of activities which touch upon virtually every aspect of organisational life. Devising a TM strategy means making choices and recognising that there must be trade-offs.

Nor is TM a one-off, quick-fix intervention. While individual processes can be improved, effective TM requires a systems-wide approach, requiring a breadth and depth of conversation rarely seen in other forms of organisational change and development. In a peculiar sense,

TM is very much a 'live' system operating through relationships across the organisation and which can therefore be strongly moulded and influenced, even sabotaged, by those who champion, implement and go through the TM system.

The case study organisations also accept that TM requires a long term investment. Whatever their approaches, they shared the view that TM is a strategic priority which will help them to survive in increasingly competitive, global marketplaces.

Our research has confirmed our strong belief that a TM system is unique to each organisation and must be designed to take account of a unique blend of strategy, people, culture and systems. TM systems inextricably link talent with the organisation.

The research has enabled us to identify a framework of 13 dimensions (**Fig 1**) that present various strategic choices at different phases of the talent management process, including:

- **Why talent?** Business priorities, market conditions and cultural factors that make TM a strategic imperative.
- **Definition and entry point:** How talent is defined, which groups of employees are targeted and the design of the TM system, especially entrances and exits
- **Managing the talent:** Considerations about who owns talent, depth and breath of conversations about talented individuals, how to develop and support these high performing employees.
- **Outcomes and benefits:** How to measure the performance and potential of talented people, linking back to the process of reviewing, refining and reinventing the TM process in the light of changing business priorities.

## Why talent?

### Dimension 1: Risk

How much risk is the organisation prepared to tolerate regarding succession plans?

Low risk approach

High risk tolerance

### Dimension 2: Transparency

How transparent is the system in the organisation?

Secret / opaque

Open / transparent

### Dimension 3: Culture

How competitive is the organisation's culture?

Individually competitive

Supportive teamwork

## Definition and entry point

### Dimension 4: Decision process

How broad is the group of people who decides who is talent?

Distributed decision

Concentrated decision

### Dimension 5: Permanency of definition

How permanent is the classification of 'talent'?

Transient

Permanent

### Dimension 6: Size of talent pool

How many people are included in the talent pool?

Only 1% of employees

All 100% of employees

### Dimension 7: Ease of entry

How easy is it to enter the talent pool?

Easy

Difficult

## Managing the talent

### Dimension 8: Ownership of talent

Where is the ownership of talent viewed to be in the organisation?

Local within business units

Shared round the organisation

### Dimension 9: Connected conversations

How many people are having conversations with individuals about their careers?

Individual line managers

Wider group of people

### Dimension 10: Development path

How are people developed once they have been identified as talent?

By an accelerated path

By a differentiated route

### Dimension 11: Development focus

Where is the focus of the organisation's development activities?

On strengths

On weaknesses

### Dimension 12: Support

How much support is provided to the talent pool?

Sink or swim

Paternal approach

## Outcomes and benefits

### Dimension 13: Performance management

How is people's performance measured in the organisation?

By outcomes/outputs

By behaviour/processes

Figure 1.

Strategic choices at different phases of the TM process

### Dimension 1: Risk

How much risk is your organisation prepared to tolerate in its decisions around career and succession planning? In many cases, we found this is related to organisational culture. Risk averse organisations push people along by taking 'little steps' each time. For example, in Automobile Co people rotate at the same level before moving up. Rather than providing promotion or rapid career advancement, the TM system helps ensure talented people know what skills and behaviours are necessary to progress and they are then given appropriate development opportunities. Organisations undergoing rapid growth – like Telecoms Co in its early days, and Healthcare Co (which also has an entrepreneurial culture) – are more inclined to adopt a more risky approach that opts for 'have a go/stretch' promotions, which take people beyond their comfort zone and probably their zone of skill and knowledge. Manufacturing Co is somewhere in the middle of this dimension, as it wants its TM system to help change the culture and encourage people to take risks in their careers and achieve high performance.

### Dimension 2: Transparency

How transparent is your TM system and to what extent are your talented people informed and involved in TM? The degree of transparency also determines how much and what type of data about talented people is shared across the organisation, such as feedback about the discussions held during a talent review and the talent rating given to individuals.

While Telecoms Co undertakes many different TM activities, the individuals who are being talent managed are not explicitly informed of this. Consumer Goods Co, on the other hand, is much more open and gives individuals the opportunity to discuss their position in the talent matrix at their annual review. An unexpected benefit of its TM system is to strengthen the loyalty of senior staff as they perceive

that the organisation is investing in them and recognising their value. Transparency can have advantages and disadvantages: it is probably more popular with staff who are highly rated as talent than those who are not!

### Dimension 3: Culture

Does your organisation have an 'individual competitive' culture or is it one of 'supportive teamwork'? Does your organisation's culture (or sub-cultures in the case of large, complex or global organisations) help or hinder the TM system?

The case study organisations all tend towards the supportive teamwork side, while the more individual competitive culture can be found within professional organisations where partnerships were at stake. Automobile Co believes that its culture helps strike a valuable balance between providing opportunities for growth alongside job security, leading to a high degree of retention. The culture of Consumer Goods Co is such that staff turnover is not an issue and the company has no need for explicit processes to retain talented people.

### Dimension 4: Decision process

The important question here is the extent to which your organisation wants to allow any one individual to have an impact on any other individual's career. In this dimension the extremes are 'distributed' at one end, such as the Automobile Co's model of all decisions being made by committees, to 'concentrated' at the other end which is more akin to the Media Co's modus operandi.

### Dimension 5: Permanency of definition

How permanent is your organisation's classification of 'talent'? In Media Co, people are basically only as good as their last programme. It can be all too easy for people to be derailed by the 'failure' of a programme and to be end up marginalised in a low priority activity where it is difficult

to demonstrate their talents to the people who matter. Some companies benefit from a temporary definition. For example, people ready to move to the next level of management within 12 months are cited as talent and a particularly focused investment is made in them to prepare for their new role. This allows talented people to cycle in and out of the talent pool without any sense of rejection or missed opportunity.

### Dimension 6: Size of pool

How many people are included in the organisation's talent pool? At Telecoms Co, everybody has the potential to be considered for the talent pool as they can self-select to go before the talent review panel for key positions. At Automobile Co, while the Personnel Development Committees (PDCs) review everyone's performance and potential so that the process applies to everybody, the top 10% are still identified annually.

This dimension can contribute to the retention and development of talented people. It can also aid recruitment if it is widely advertised that, for example, 25% of the organisation is talent managed. This may encourage less confident but talented individuals to apply.

### Dimension 7: Ease of entry

How easy is it to enter the talent pool? At Telecoms Co, individuals can self-select to be considered for the talent pool and therefore entry is considered as relatively easy. At Manufacturing Co, decisions about entry and exits are made by senior managers. Entry is more difficult in this system, with only a small percentage rated as potential leadership talent. At Media Co, entry is also more difficult as the assignments or programmes that individuals are allocated to determine their perceived degree of talent. It can also be difficult for individuals to know if they are still perceived as talented, and this anxiety can sometimes prompt valued people to 'exit' themselves by leaving the

organisation, often to go and work for the competition.

### Dimension 8: Ownership of talent

Which groups or areas of your organisation are perceived to 'own' talent? Most of the case study organisations tended towards the 'sharing' end of the dimension, although they may have started out at the 'local' end. Global businesses believed that the wider sharing of talent was one of the most valuable benefits of their TM system.

### Dimension 9: Connected conversations

How many people are having connected conversations with individuals about their careers? **Automobile Co takes an individual stance in this dimension as the decisions from the PDCs are discussed with the individual only by their line manager, while Media Co's culture allows individuals to discuss options with many different people throughout the organisation. Healthcare Co is somewhere in the middle as there is a formal (albeit covert) process for discussing talented people, but the company's culture also places a strong emphasis on informal conversations across the organisations.**

### Dimension 10: Development path

How are individuals actually developed once they have been identified as talent? **Graduate recruitment programmes, such as that at Media Co, to some extent are examples of an accelerated path, while the Healthcare Co approach to development is more bespoke – possibly due to the fact that the organisation is going through a process of rapid growth.**

### Dimension 11: Development focus

Where does the focus of your organisation's development activities lie? **Media Co tries to play to people's strengths, allowing them to become experts in their job role and quite specialist.** Most organisations, however, tend to set development objectives that focus the individual on their 'areas for

improvement' or weaknesses.

### Dimension 12: Support

How much support is provided to your talent pool? Are they thrown in at the deep end and left to 'sink or swim', or is there a more 'paternal' approach? **Telecoms Co combines the two by throwing people in at the deep end but then providing them with a mentor for some support to stop them drowning.**

### Dimension 13: Performance measurement

How is people's performance measured within the organisation? The two extremes are 'measured by outcomes/outputs' where someone can achieve great financial results – but upset everyone in the process, and 'measured by behaviour/process' where someone has great relations with their team but might not really achieve their output targets. Most organisations will lie somewhere between the two. **Automobile Co, for example, has performance targets in terms of outputs and leadership behaviours, with individuals reviewed against both.**

### Talent management in your organisation

Identifying your organisation's current practices, perhaps with the help of the framework we offer, can be a good way to begin a new look at your TM system. There is no 'one size fits all' approach to TM and practices must be kept continually under review. There are choices to be made, trade-offs to be taken into account and many strategic conversations to be held in devising a TM strategy that will be appropriate to the culture of your organisation and enable the achievement of business objectives in the future.

*Copies of the research report can be obtained from the Ashridge bookshop, price £15.00.*

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## Further reading

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