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# Talent On Demand

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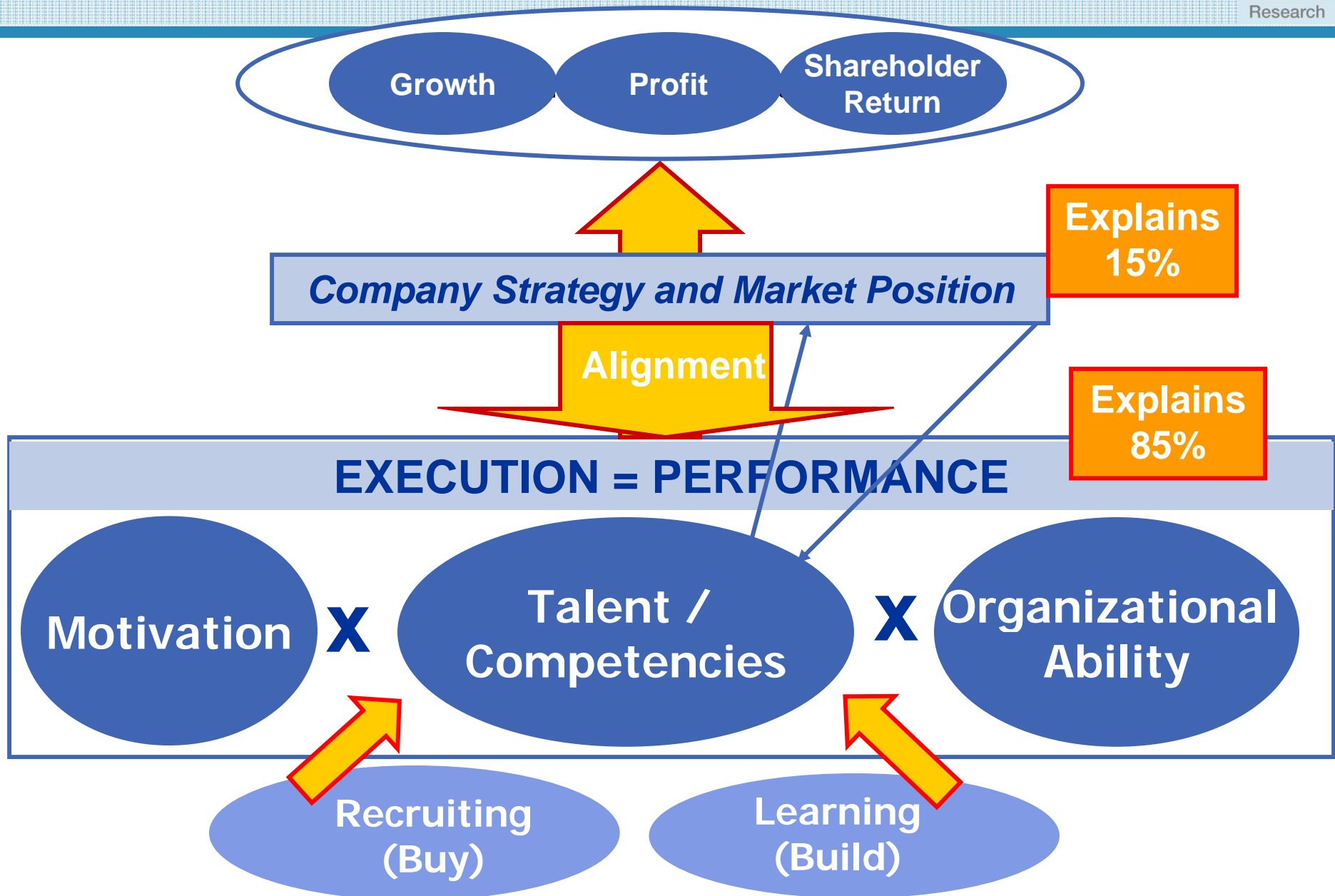
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# Performance and Talent Management Are Pivotal to Drive Financial Performance



# Peter Cappelli



- ✦ Peter Cappelli is the George W. Taylor Professor of Management at The University of Pennsylvania **Wharton** School and Director of Wharton's Center for Human Resources.
- ✦ He received his **PhD** in labor economics from **Oxford University**, where he was a Fulbright Scholar.
- ✦ He has been a faculty member at **MIT, the University of Illinois, and the University of California at Berkeley**.
- ✦ He was recently named by Vault.com as **one the 25 most important people working in the area of human capital**.

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*Talent Management for a  
New Generation*

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Peter Cappelli  
Professor and Director  
Center for Human Resources  
The Wharton School

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# Why should we care about managing talent?

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- Labor is about 65% costs of typical business
  - Performance differences are huge
  - Employees and how they're managed is source of most competencies

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Why should we “manage”  
talent?

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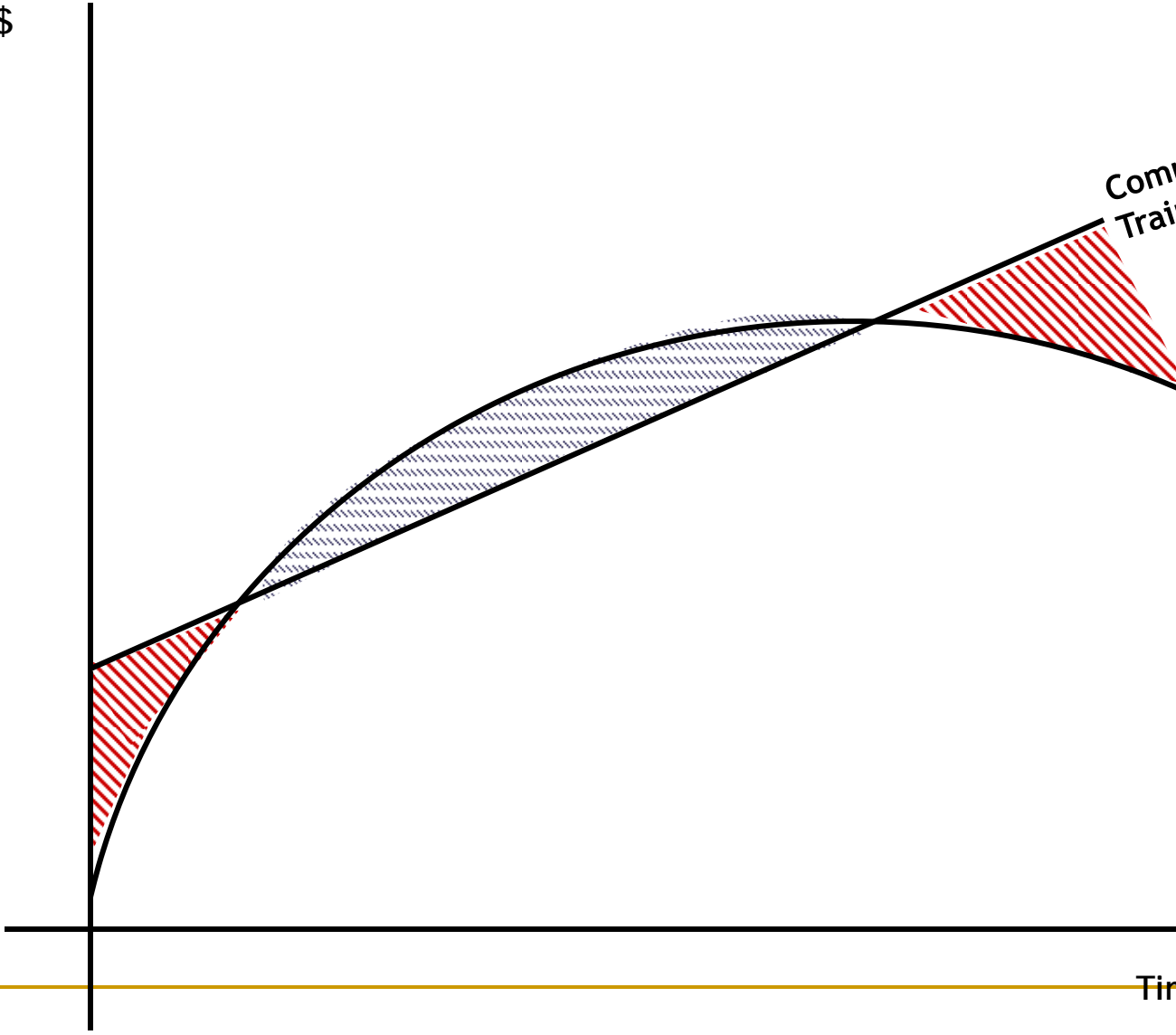
Why not just hire what we need when  
we need it?

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# The Finances of Managing Talent and Internal Development

- 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
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Compensation and  
Training/Development

Value

Time

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# The rise of the great corporate career

*Different practices made sense at different times*

- Open markets in the early years
  - 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
    - Detailed workforce and succession plans – 15 years out
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## 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
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# What Is Different Now?

## *The lifetime model breaking up*

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

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
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# The Four Principles of Managing Talent

- 1. Avoid Mismatch Costs – Balance “Make *and* Buy”
  - 2. Reduce Risk with Shorter Forecasts and Portfolios
  - 3. Design Development to Ensure Payback
  - 4. Balance Employee Interests in Career Moves
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# #1 – “Make *and* Buy”

## Avoiding Mismatch Costs

- “Deep benches” of candidates waiting for opportunity = inventory
    - Inventory in talent “walks” for jobs elsewhere, the biggest loss possible
  - Plan to undershoot because overshooting is now too expensive –
    - Use outside hiring to fill in gaps
  - Only hiring from outside also a mistake
    - No unique skills, no unique culture
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# How to Think About 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
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## #2 – Reducing Risk of Being Wrong

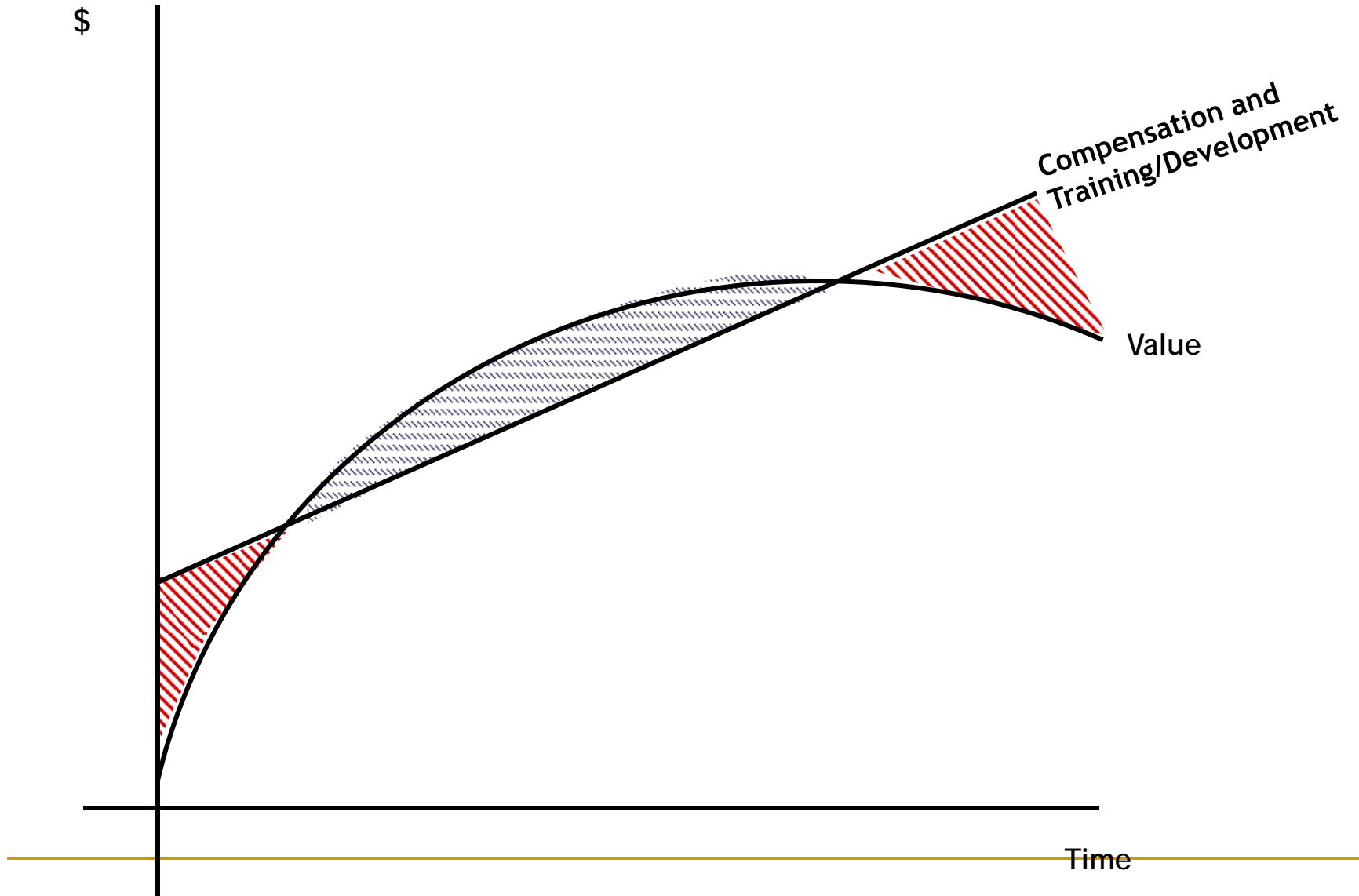
- Much harder to forecast business and talent demands into future
    - If we only have a two year business plan, how credible is a 10 year career plan?
  - Don't own the talent, they leave unpredictably
    - Long-term development and succession plans are not credible unless retention is nearly perfect
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# Rethink Internal Development...

- Poor quality of long-term forecasts is issue so....
  - The logic of portfolios for managing uncertainty
    - Centralize all development programs –
      - Balance out mismatches
    - “Talent pools” – match basic development to basic demand
      - Just-in-time development to fit
    - General development first, delay specific development until have shorter forecasts
      - E.g., no “5 yr mgmt manufacturing program”
      - Instead, “3 yr mgmt development” & “2 yr special manufacturing program”
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# #3 – Recouping Investments in Talent



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## Developing Talent Internally – How to Make It Pay....

- Reducing upfront costs – finding cheaper delivery options
  - Improve employee retention
  - Sharing development costs with employees
    - Training wages, tuition assistance plans, promote then develop, etc.
    - Increase employee value through work-based training and experience
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# 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
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What was your best  
developmental experience?

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# The skill of managing talent means...

- Matching development needs to available opportunities
  - Doesn't require changing jobs
    - Projects, tasks, coaching
    - Being opportunistic, negotiating for opportunity
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## #4 – Balancing Employee Interests

*How much control should employees have over development?*

- 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
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# Succession Planning....

*What's the problem we're trying to solve?*

- Succession planning based on “replacement planning” in military – who will grab flag?
    - *Is this crucial? If so, why do we tolerate so many outside searches?*
  - Succession plans map specific individuals to specific jobs years in advance
    - Matches are poor because demand & supply hard to predict
    - Leads to expectations that can't be met
    - Such specific plans aren't necessary or useful
  - Talent Reviews – assessing the talent we have and how to develop it – is crucial
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# What Will Remain from the Talent Wars?

- Can't go back to old model of lifetime jobs
    - Also can't just rely on outside hiring
  - Making money with talent mgmt requires strategy = *making choices*
  - Matching talent to supply is a business problem, requires business skills
  - Public policy concerns – expand work-based skills and learning
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