



# THE TALENT CRISIS

As the talent wars show no signs of slowing down, a new approach to talent management may be required, suggests Brian Davis of Personnel Decisions International.

**W**ith talent at a premium, organisations will need to adopt effective talent management strategies. McKinsey, a global management consultancy, predicted a war for talent in 1997, and it was right.

In fact, the battle is set to intensify over the next decade (see box, below) and, as Brian Davis, executive vice president of Personnel Decisions International (PDI), a leading human resources consulting firm, points out: 'Talent is not just a valuable asset; it is rapidly becoming the key factor in sustaining an organisation's competitive advantage.'

Further complicating the situation are changes in the organisational structure of talent management. Key aspects of the human resources function are being outsourced, a trend that is likely to continue. Losing core capabilities needed to compete on talent does not make the job any easier.

## SHORTAGE OF SKILLS

**By 2010**, the US will see a labour shortfall of ten million workers. **The 500 largest US companies** will lose 50% of senior management in the next five years

Source: US Bureau of Labour Statistics

**By 2025**, the number of people aged 15–64 is projected to fall by 7% in Germany, 9% in Italy and 14% in Japan. **Intangible assets** – including an organisation's skilled workforce – account for over half of the market capitalisation of public companies in the US

Source: Baruch Lev, professor of accounting at New York University, in 'The battle for brain-power', the *Economist*

**Intangible assets** represent 70% of the value of S&P 500 companies

Source: Accenture

## Identifying potential

Identifying the next generation of high-potential executives within organisations, therefore, will require some significant changes in conventional organisational thinking. More than merely drawing up 'talent maps' to assess present and future skills needs or carrying out worker engagement surveys, a systemic approach is needed that integrates people strategy with business strategy.

Davis explains: 'It all starts with understanding what an organisation's sustainable competitive advantage is: what is

its point of differentiation versus its competitors? Once an organisation has a clear picture of what its strategic advantages are, and how it will differentiate itself from its competitors, it can organise itself to maximise that. As part of this it requires a talent strategy to get superior talent into those pivotal talent pools that align with creating that strategic advantage.'

Once those talent pools have been identified, the talent management challenge can be broken down into four subsections, Davis explains.

One element is about selection – systematically ensuring that the organisation is hiring better people from the outside, or selecting the right people internally, for those roles. Another is about managing and rewarding performance effectively in a way that drives a performance culture. A third segment concerns how to use the information gathered from the performance management system, together with other information collected about people's potential, to create a succession management system. Finally, there needs to be a leadership development system that really accelerates the development of employees, particularly those with potential.

By integrating these four subsystems with a common talent architecture, you can begin to create superior talent in that pivotal talent pool, which further improves the organisation's performance, sustaining its competitive advantage.

## What makes a future winner?

Davis adds: 'An important part of constructing a successful talent architecture is understanding what you need to measure in order to assess if an individual is ready to perform at a certain level of the organisation, whether it is as mid-level leader or as a CEO.'

He explains: 'As you move through the key levels of an organisation, there are certain competencies that will be critical at one level and lead to early success, but at another level might halt a career in its tracks. Similarly, there are

## WHAT TO MEASURE

- Current performance
- Potential to move up through the organisation at least two levels
- Readiness
- Fit

competencies required at the top that are not required further down, as well as some core competencies required all the way through.'

Davis suggests measuring four components to fully assess your leadership talent (see box, below left). Of these, potential is one of the toughest factors to measure, but one of the most important.

## 'Most companies want to identify those who have the potential to take on roles of significantly greater responsibility early on in their careers.'

Davis explains: 'Most companies want to identify those who have the potential to take on roles of significantly greater responsibility early on in their careers. These performers, with the potential to advance two or more levels in the organisation, are referred to as high potentials. Companies invest more in developing this talent.'

Yet, according to business research firm the Conference Board, while 67% of companies do some form of identification of potential, only 15% are satisfied with their procedures. Most of the usual indicators used to assess potential are inadequate. Many are worse than chance.

Nominations by a person's boss is a common method for identifying high potential. The problem is that this method is highly subjective, inconsistent and heavily biased towards current performance. Present and past performance alone are not necessarily good predictors of future career success and competence at a higher level.

Davis says: 'While past performance is an important factor, the competencies that are required for success in future roles are often not observable in current positions, given that the leadership and business challenges of these future roles are quite different. For example, someone who is currently in a supervisory role may not have had the opportunity to engage in tasks such as strategic thinking – a task that might be critical for success as they move into higher level roles.

The best performing sales person is not always the best sales manager.'

Ability testing alone, another common method, is also insufficient, as it does not account for the impact of predispositions, motivations, and experience.

Davis adds: 'We all know people that we thought had modest ability at best and yet they ended up having great

success; they did that because they had tremendous drive to succeed, or they had the right sort of experiences and were in the right place at the right time.'

### The winning model

So what needs to be done? Davis suggests a possible model, which could be used as a basis for determining high potential.

Prerequisites are the basic entry-level requirements. This looks at current performance and comprises of results (what was achieved) and leadership (how it was achieved).

In addition to performance, there are four factors that should be considered when assessing potential. The first two factors comprise the foundation upon which high potential is built. This demonstrates the capacity for high potential. The components here are personality and motivation plus cognitive ability. These, says Davis, are an individual's hard-wired capacities: mental horsepower and inherent predispositions to demonstrate leadership behaviours.

Finally, there are what Davis calls the accelerators: factors that transform

raw potential into true potential. These include leadership experience and career goals and interests. For example, career goals and preferences would indicate whether an individual has the focus and drive to advance to higher management levels and whether they would find the work meaningful and interesting.

### The differentiating factor

But what sets this approach apart from any other attempt to identify talent? Davis says: 'The key differentiator is a research-based foundation for weighting different factors at different leadership levels in predicting likelihood of advancement in the future. This highly research-based approach to measurement enables you to measure what really matters, and do it across a range of components in a very comprehensive way.'

Because of PDI's extensive experience of working with leaders at every level in countries around the world in this area, it is able to construct an index of potential. This allows managers to measure the potential of talented employees against other people in the same industry and against a range of factors to provide a benchmark, which also serves as a practical tool that can be used to address issues that need working on to help individuals fulfil their potential.

Davis says: 'Talent is a key battleground for organisations seeking competitive advantage. The way the market has shifted, talent has become a critical focus of CEOs. Organisations cannot afford to rely on outside talent, they need to bring it from within, so identifying people early on, retaining the superstars, and taking and developing them is job one for CEOs.'

To do this requires an effective, content-rich, process-driven approach to talent management. The common talent-assessment and development-architecture approach, and the methods for identifying high-potential individuals that Davis outlines are part of a robust model that organisations would do well to consider. ■

### Further information

[www.personneldecisions.com](http://www.personneldecisions.com)

#### DETERMINING HIGH POTENTIAL

- **Prerequisites:** current performance
- **Foundations of potential:** cognitive ability, personality and motivation
- **Accelerators:** leadership experience, career goals and interests