"Considering that staff costs including salaries and benefits comprise a very large percentage of most companies' overall spending, it is vitally important to run talent management like a business in order to drive maximum return on investment in people."

HR + OD = Integrated Talent Management

By Howard Morgan and David Jardin

These are indeed exciting times for HR and OD practitioners and the organizations they serve because the business and socioeconomic implications of managing talent have never been so well understood, measureable, or vital. There are immense opportunities for HR and OD professionals to collaborate and actually lead the formulation and execution of winning talent management strategies in their organizations. The demand for strategy-based talent management has never been greater. Senior management, boards of directors, analysts, and investors often factor a company's talent management maturity and the quality of its workforce into the valuation equation. Considering that staff costs including salaries and benefits comprise a very large percentage of most companies' overall spending, it is vitally important to run talent management like a business in order to drive maximum return on investment in people.

In this article we focus more on *what* the actual work is rather than *who* should deliver it. The fact is that who actually has responsibility for the different elements of talent management varies from organization to organization. By focusing on the work to be done or HR and OD domains, it is our hope that business and HR and OD leaders will have a guide to help them define specific roles, responsibilities and structures that best suit and leverage their organizations' values, vision, mission, and strategy. Our goals for this article are to:

1. Examine examples of current role confusion and overlap between HR and OD practitioners when it comes to practicing talent management.
2. Review the strong business case for talent management and position it as the only potential sustainable competitive advantage that a company can develop.
3. Explore opportunities for HR and OD to collaborate and use their valuable interdependencies and complimentary skill sets, knowledge, and roles to leverage their unique purview of the whole organization and have impact at the whole system level. We propose a structure to more clearly define the separate domains of HR and OD work and the area of overlap we call integrated talent management.
4. Introduce a conceptual yet practical model of integrated talent management that helps HR, OD, and others work together more effectively and realize synergies created by their complementary strengths and capabilities.

HR and OD Evolution and the Role Confusion that Followed

In many ways HR and OD are technically different but practically the same. Despite different origins, HR and OD have collided on the corporate battlefield and can no longer be separated in many companies. The lines are pretty clear in theory but they become blurred in a practical sense. Confusion is a natural outgrowth of the increasing overlap between the two practice areas. HR and OD have fought for decades to evolve beyond reactive transactional work to establish credibility and earn a seat

at the strategy table. Both functions have evolved over time and have made many significant contributions to both individual and organizational effectiveness. If this evolution proceeds at a gradual pace, HR and OD practitioners could miss a massive window of opportunity to take their game to the next level.

We believe however that transformative change is currently afoot and that building two highly interdependent, strong functional areas with clearly articulated operational mandates and aligned goals would yield great results for organizations while increasing practitioners' stature as strategic business partners. This evolution must continue to ensure that HR and OD begin their work at the top of the organizational mountain (i.e., strategy) versus simply slugging it out from the middle (bureaucratic, political, and personal agendas, etc.). Resistance is generally less, or at least the payoff is greater for overcoming resistance at senior management levels. Making change happen in the middle or lower levels of an organization is much more difficult unless there is clear buy-in and commitment from executives.

A Strong Business Case for Talent Management

> Your competition can copy every advantage you've got—except one. That's why the world's best companies are realizing that no matter what business they're in, their real business is building leaders.
>
> —Geoff Colvin

A McKinsey study (Axelrod, et al., 2010) concluded that organizations scoring in the top quintile of talent management practices outperform their industry, as measured by return on shareholder value, by a remarkable 22%. The quality and engagement of a firm's talent has far reaching implications on its ability to outperform competitors and to maintain that edge going forward. McKinsey polled 410 corporate officers and found that high performers generated significantly more value than average performers. The differences are striking:

- Increased productivity in operations roles (40%)
- Increased profit in general management roles (49%)
- Increased revenue in sales roles (67%)

Developing top talent is a strategic business imperative. As part of the strategic planning process, companies divide customers into different segments so they properly address individual needs and they invest in developing each segment differently according to the potential for greater revenue, margins, etc. Companies should do the same for their jobs and talent. The idea is to have your best talent in your most important jobs. We define *top talent* as employees who routinely exceed expectations while exhibiting the right behaviors and are agile in learning and approach. These are people who customers pay a premium to do business with and others strive to work with. Demand for top talent will always exceed supply because there is no such thing as too much top talent—there's always room to raise the bar. Ordinary employees are capable of exceptional performance some of the time, but top talent performs exceptionally, practically all of the time.

Developing top talent requires a strategic approach. Long startup times mean lost productivity. Most companies have a poor track record of onboarding new employees from outside the organization. Onboarding consists of two interconnected elements: orientation and assimilation. The good news is that it is actually possible to accelerate the point at which a person who is new in a role begins to add net value to the organization. The first few months on the job are critical, major missteps can jeopardize long-term performance. Watkins (2003) refers to the breakeven point as the point at which new leaders have contributed as much value to their organizations as they have consumed from it. Watkins's survey of 210 CEOs and presidents concluded that the average time it takes a typical midlevel manager to reach the breakeven point was 6.2 months. His basic premise is that it is possible and advantageous to accelerate transitions of individuals who assume new roles.

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Talent Management Demands the Best of Both HR and OD

Talent is a hot topic that has just about everyone's attention. Today more and more companies are jumping on the talent management bandwagon. Whether by choice or out of necessity companies know they need to be proactive to field a workforce with the right knowledge, skills, abilities, behaviors, and relationships to achieve strategic business objectives.

Cummings and Worley (2001) define organization development as a system wide application of behavioral science knowledge to the planned development, improvement, and reinforcement of the strategies, structures, and processes that lead to organizational effectiveness. They

Figure 1: HR and OD "Sweet Spot"

also define human resources systems as mechanisms and procedures for selecting, training, and developing employees; these may include reward systems, goal setting, career planning and development, and stress management. Clearly HR and OD need a wide array of knowledge and skills that cross multiple of the behavioral and social sciences disciplines to increase organizational effectiveness.

With all the importance being placed on managing talent we believe that the best course of action is to leverage the complementary knowledge and skill sets of HR and OD to capitalize on what is quickly becoming a recognized key to strategic success. The intersection of HR and OD in the practice of *integrated talent management* (ITM) also gives the profession a chance to define our collective value in practical terms that executives and employees understand and embrace (*Figure 1*).

Human Resources Domain

Following Cummings and Worley we define the domain of HR work to be anything associated with acquiring, deploying, developing, and retaining talent. HR should take the lead to address the following questions:

1. Is talent discussed at the strategy table? (Shared with OD)
2. Are we attracting and retaining top talent?
3. Are our best leaders in the most critical jobs?
4. Do we have retention plans for key executives and positions?
5. Who can we not live without? What could have been done to keep the top talent we lost?
6. Are there situations where high potentials are being blocked in their advancement?
7. Why do people join our company? Stay? Leave?
8. Do we have plans in place to increase or sustain employee productivity, development, and retention? Are the plans working?

Organization Development Domain

We define an organization as a group of two or more people who share one or more common objectives and who possess at least some of the means necessary to achieve the objectives. Organizations are naturally complex because they comprise multiple individuals who must engage in relationships to get things done and create value.

Getting employees to engage and perform at a high level requires the right organizational design and is an important area where an OD practioner's skill set comes into play. OD should take the lead to address the following questions:

1. Is talent discussed at the strategy table? (Shared with HR)
2. Do our corporate values reflect talent as a priority?
3. What is our Culture? Does it fit with what we say it is?
4. Do standards exist that describe the skills, behaviors, and attributes of an exceptional leader?
5. Does the organization design support the strategy?
6. Succession depth, do we have multiple backups for critical positions? Will we have the talent we'll need for success in 2 years? 5 years? 10 years?
7. Which talent segments add the most value?
8. Are we good at workforce planning? How can we improve?
9. Do we have a plan to increase employee engagement? Is the plan working?

Integrated Talent Management Domain (where HR and OD intersect)

The term *talent management* is quite prevalent today but it hasn't been consistently defined. We see talent management as a professional practice or discipline that is evolving as more and more companies realize that they will need to take immediate proactive steps to ensure they have the individual and organizational capabilities needed to succeed.

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For all the talk about talent management it is still a curiously vague subject—there is not a widely held definition. Some define it narrowly as just recruitment or as just succession planning while others define it more broadly. Still, what is

missing is a clear cut linkage of strategy, organization, and talent. As we define it, *integrated talent management* involves four interrelated practices (*Figure 2*):

» Measurement of organizational and individual capability gaps
» Alignment of strategy, organization design, and people
» Deployment of talent
» Expansion of organizational and individual capabilities

ITM is focused on delivering the critical organizational and individual capabilities required to consistently meet or exceed strategic business objectives over time, a condition we call *sustainable high performance*. There will always be capability gaps (room to expand capabilities) because there will always be room for higher performance, engagement, and retention. By tying together strategy, organization design, and people, integrated talent management increases the likelihood that a company will field a workforce with the right knowledge, skills, abilities, and characteristics to achieve sustainable high performance.

At the core of the ITM framework are the continuous identification of critical capability gaps and the collection, processing/conversion, and dissemination of actionable data that facilitates development of a common language, informed decision making, collaboration, calibration, and best practice sharing that leads to closing the gaps. Better quality at the core means better talent management practices and better business results.

ITM Practice #1: Measure

The continuous identification and quantification of capability gaps ensures focus on the right things to increase individual and organization capability. Metrics should focus on relevant and measurable outcomes that drive the business. Firmly attaching the outcomes of effective talent management to the business strategy will solidify HR's and OD's importance and credibility as strategic business partners. We see three macro metrics and tangible outcomes that could achieve this and reflect an organization's talent management maturity and effectiveness and that drive sustainable high performance: performance, engagement, and retention. Performance metrics are: revenue per employee and percent of financial targets achieved. Engagement metrics are: engagement index and engagement survey response satisfaction. Retention metrics are: overall talent retention and top talent retention. We call performance and engagement, *performing factors*, and engagement and retention, *sustaining factors*.

It is important to note that while measurement is absolutely essential, there is a potential downside if metrics are not aligned to business objectives and outcomes, are overly onerous to calculate, or are inaccurate. For example, it is tempting for people to invent metrics for metrics sake, or try to calculate return on investment (ROI) despite the existence of heavily subjective or soft data. The reality is that it is much more difficult, or less meaningful,

Figure 2: Integrated Talent Management = "MADE" Framework

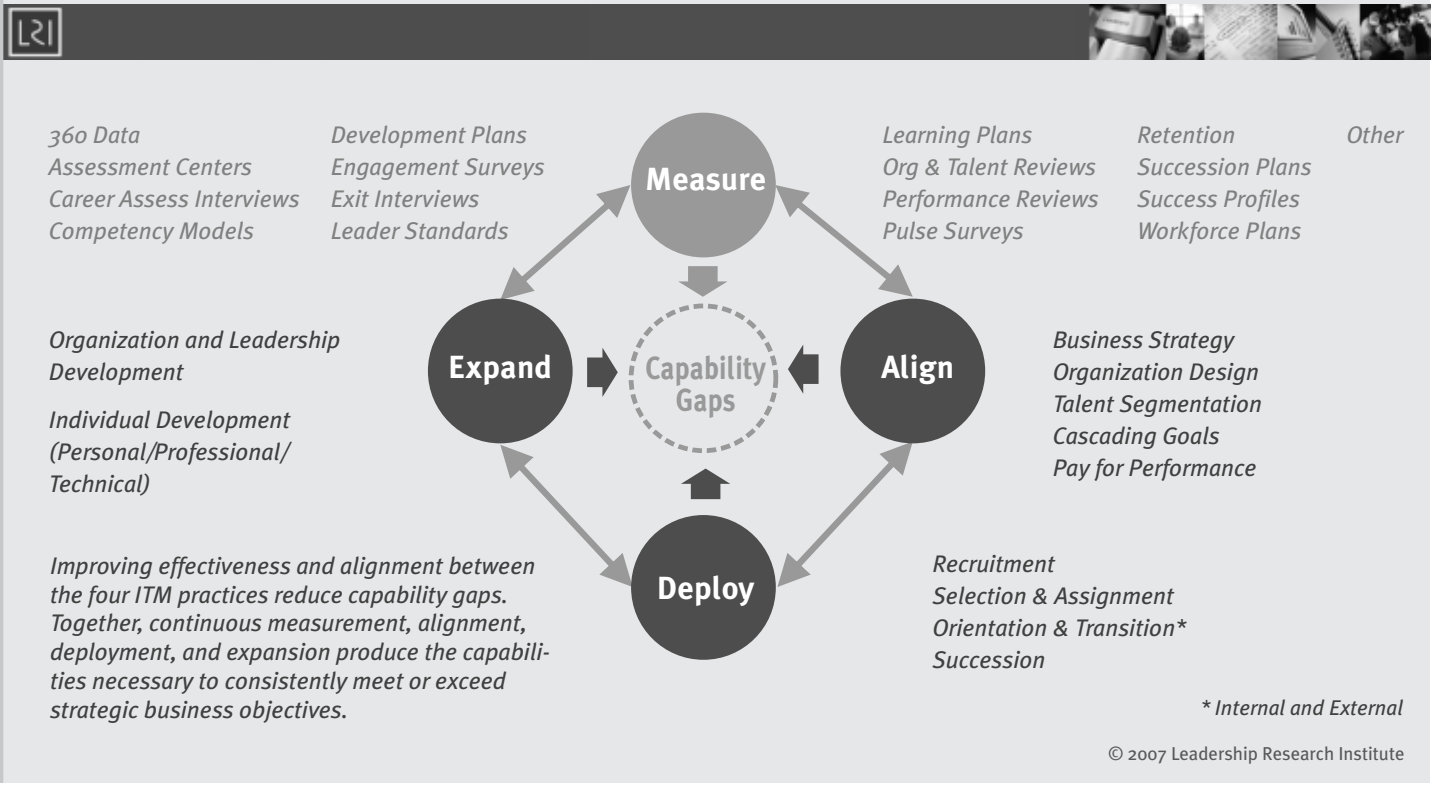
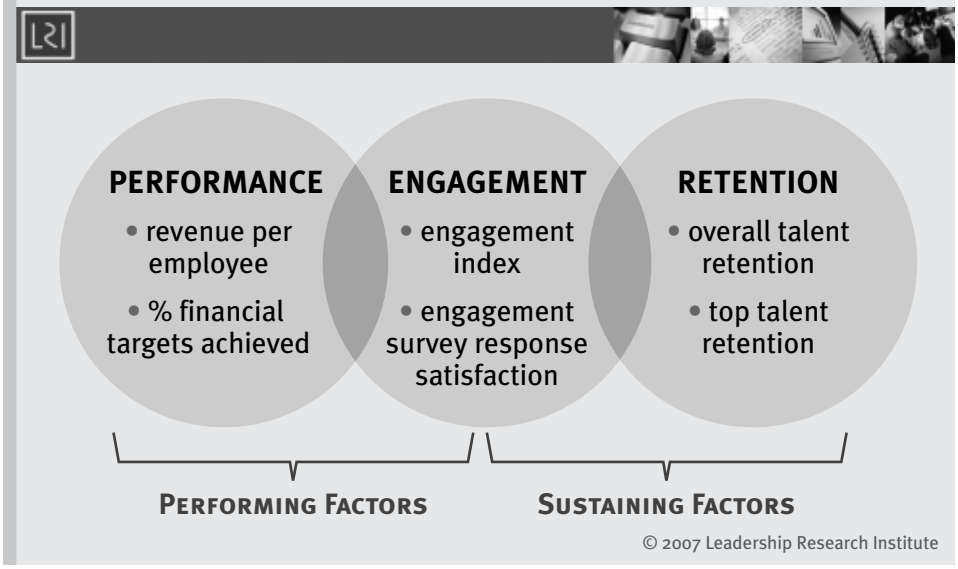


Figure 3: Macro Metrics Link People and Organizational Effectiveness



or in some cases, practically impossible to calculate ROI for many programs (*Figure 3*).

ITM Practice #2: Align

Kaplan and Norton (2001) estimated that 90% of strategies fail and that the driving reason is lack of execution, not the quality of the underlying strategy. It is impossible to achieve sustainable high performance if the organization design and placement of talent are not aligned with the strategy. Organization design includes structure, processes, systems, and controls. If strategy, organization design, and talent are not aligned it doesn't matter how talented the workforce is because the underlying systems and processes are so misaligned. Organization design should be reviewed as part of the talent review at least annually and more often if the pace of change warrants. For example each business and function leader should make a statement assessing how well structure, policies, and processes relate to driving the business strategy. Strategy should be aligned and operationalized by articulating vision, mission, strategy, business plan, and engaging all colleagues via cascading goals. Goal achievement flows into performance management.

Great managers drive high performance by translating higher level objectives into discrete and measurable outcomes or goals. This creates line of sight whereby employees can see how their daily work ties to their manager's goals and the overall vision, mission, and strategy. They make sure that goals are SMART as defined by Blanchard, et al. (1985): specific, measurable, attainable, relevant, and trackable. Goals help managers provide employees with the needed guidance, motivation, and resources to achieve their personal goals. There is a well established body of research demonstrating that SMART goals drive high employee commitment and high performance:

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For instance, Locke's goal setting theory is well known and frequently cited in studies and texts (Klein, Wesson, Hollenbeck, & Alge, 1999; O'Leary-Kelly et al., 1994; Tubbs, 1986; Yearta, Maitlis, & Briner, 1995). Established in 1968, the theory asserts that specific goals result in greater effort than do more general goals; difficult goals result in greater effort than do easier goals; feedback results in greater effort than does the lack of feedback; goals are immediate regulators of behavior; goals mobilize effort, direct attention, and encourage persistence and strategic direction. The literature contains a great deal about the impact of goal setting on performance. Studies have shown positive correlations between performance and commitment level (Klein et al., 1999; Wofford et al., 1992), specificity (Locke, Chah, Harrison, & Lustgarten, 1989), difficulty (Chesney & Locke, 1991), expected evaluation (Earley, Northcraft, Lee, & Lituchy, 1990; Frink & Ferris, 1998), and normative information (Martin & Manning, 1995).

Jardin (2003)

ITM Practice #3: Deploy

Deployment refers to the hiring, positioning, and exiting of talent. Exiting may be either at the desire of the company, the individual, or both. What is important is that decisions are made carefully and deliberately. We believe that approximately 80% of a person's development should be derived from their current job. Therefore, the single most important decision is how to deploy talent in a way that supports both strategy and individual development. Clearly the quality of decisions about what work will get done and who will do it matter a great deal. Where possible, jobs should be designed around top talent in order to leverage their capabilities and to

accelerate their development. Talent and work should be allocated as needed to pair top talent and high impact work.

People should be moved methodically and timely through a series of developmental assignments so they can reach their ultimate career potential. Ideally, the time a person should be in a position is near the point at which the development curve begins to flatten. There may be business or other reasons that warrant an exception but the principle should be kept top of mind as a guideline. At the same time care should be taken to prevent moving talent before the impact of their strategies and decisions can be measured.

High potential employees should be exposed to a mix of assignments and experiences that help them develop a big picture view, contribute innovative ideas, and interact with company executives. It is important to grow well-rounded future leaders whose decisions foster increased productivity and cooperation. It is also important to balance individual development needs with strategic business objectives. In addition, attention must be paid to situations where top talent is being blocked in their advancement. Blockers are employees who have occupied a position for a long time and are not likely to advance. There may be valid business or other reasons to keep a blocker in a position, but scrutiny should be given to prevent high potential employees from being denied valuable development opportunities and advancement.

It isn't a natural impulse for managers to give up top talent, especially if they don't have a ready successor. Yet planful mobility is the engine that drives integrated talent management if we assume that approximately 80% of a person's development (and engagement, contribution, rewards, etc.) is related to their job. It is therefore important to recognize and reward managers who let go of top talent at the right time, and who develop and export top talent consistently.

ITM Practice #4: Expand

Expansion consists of planned actions that increase capabilities at the organization, leadership, technical, professional and personal levels. Continuously developing capabilities at each level increases performance both in the near-term and over time. In a recent McKinsey global survey (2010) of 604 senior leadership team members, 15% ranked capability building as the top strategic priority, another 55% ranked it among the top three priorities and yet another 21% ranked it among the top 10 priorities. The same study pointed out that organizational resistance to change, lack of resources, lack of clear vision or objectives, and inconsistent application of methods and processes were the biggest challenges in building institutional capabilities.

Expand Organizational and Leadership Capabilities

Engagement measures employees' attitudes and satisfaction with areas including: pride in working for a company, belief of a long-term future with the company, and their relationship with their manager. Effective ITM practice results in higher engagement which has been linked to higher performance and retention.

A Towers Perrin study in August 2005 covered 85,000 people employed in large and midsize companies in 16 countries on four continents. It shows that there is a vast reserve of untapped employee performance potential that can drive better financial results if companies can successfully tap into this reserve. The study shows that highly engaged workers believe they can and do contribute more directly to business results than less engaged employees. For instance:

- 84% of highly engaged employees believe they can positively impact the quality of their company's products, compared with 31% of the disengaged.
- 72% of the highly engaged believe they can positively affect customer service, versus 27% of the disengaged.
- 68% of the highly engaged believe they can positively impact costs in their job or unit, versus 19% of the disengaged.

World-class leadership development is needed to ensure current leadership effectiveness as well as a deep pipeline of future leaders. According to the Corporate Leadership Council (2003), organizations with top-tier leadership teams out performed average companies by 18.8%. Clearly, organizations should take great care and effort to develop their leadership capabilities. This is yet another important area of intersection and interdependence between HR and OD. It is important to equip managers with the skills they'll need to manage talent.

A Conference Board study asked employees what they expected from their employers. The top three responses were: 1. interesting, challenging work; 2. open, two-way communication; 3. opportunities for growth and development. It's clear that the manager is the key to delivering on these expectations. A survey by McKinsey of 6,500 senior and midlevel managers at 35 large companies quantified the cost of a bad boss. Fifty-eight percent (58%) of respondents reported that they had worked for an underperformer. When asked the impact it had on them they said that a poor manager:

- "Prevented me from learning" (76%)
- "Hurt my career development" (81%)
- "Prevented me from making a larger contribution to the bottom line" (82%)
- "Made me want to leave the company" (86%)

Expand Individual Capabilities (Personal/Professional/Technical)

We believe that approximately 20% of a person's development should come from non-job-related sources like projects, feedback, coaching, mentoring, and formal training. Allow employees to follow career paths that are aligned to their capabilities, aspirations, and life circumstances and accelerate the development and increase the retention of top talent. Enable people to manage their development and hold them accountable for managing their career. Give them the time and resources they will need. Formal training in a classroom or e-learning mode is an essential part of development, but is a far less significant source of development than are job-related or people-related development activities.

Conclusions

The lack of universally defined roles, outcomes, and metrics is an impediment that is preventing HR and OD from evolving into a full-fledged valued profession on par with Finance, Marketing, Technology, and Legal in terms of strategic importance. The opportunity for HR and OD professionals to align and collaborate to become a major strategic force has never been more important to the HR and OD professions or the businesses they serve. If they make the right moves quickly enough they will enjoy the stature that comes with being strategic business partners. By ending turf battles and leveraging complimentary knowledge, skills, and insights they can eliminate gaps and overlaps and provide world-class services that drive the achievement of strategic objectives through the development of individual and organizational capabilities.

We believe that HR and OD practitioners are ideally poised and that they are in control of their own destiny. The greatest hockey player of all time, Wayne Gretzky, was asked what it was that differentiated him from other hockey greats. He replied by saying that "other players skated to where the puck was, I skated to where the puck was going to be." HR and OD practitioners have a great opportunity to solidify their standing as strategic business partners who drive sustainable high performance at both the organizational and individual levels. If they make the right moves, they can get out in front and literally skate to where the talent management puck is headed.

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