

# Contents

<b>Acknowledgements</b>	<b>x</b>
<b>Foreword</b>	<b>xi</b>
<b>Introduction</b>	<b>1</b>
Making the business case	7
An introduction to talent management	9
An introduction to succession planning	22
<b>About the Toolkit</b>	<b>36</b>
How it works	36
Tools matrix	38
<b>Bibliography</b>	<b>39</b>
<b>THE TOOLS</b>	
<b>Section 1 – Foundation Tools</b>	<b>43</b>
Tool no. 1 Creating your own organisational definition of talent	45
Tool no. 2 How to decide which approach is best for your organisation	54
Tool no. 3 A checklist for a talent management strategy	58
Tool no. 4 Conducting a talent management audit	64
Tool no. 5 Examples of talent management processes	70
Tool no. 6 A checklist to help clarify roles	74
Tool no. 7 Readiness for change	83
<b>Section 2 – Business strategy and planning</b>	<b>87</b>
Tool no. 8 Where is the organisation going?	91
Tool no. 9 What factors will affect the future?	98
Tool no. 10 What are the potential future scenarios for which the organisation should plan?	102

Tool no. 11	Determining what is core and non-core to your activities	108
Tool no. 12	Critical success factors	113
Tool no. 13	Core competence	116
Tool no. 14	Creating a competency profile	125
Tool no. 15	Are HR activities supporting your core competence?	137
Tool no. 16	Demand and supply planning	145
<b>Section 3 – Planning succession</b>		<b>153</b>
Tool no. 17	How to identify critical roles	155
Tool no. 18	What are the different succession planning methods?	162
<b>Section 4 – Planning talent</b>		<b>175</b>
Tool no. 19	What talents does the organisation value?	177
Tool no. 20	What talents does the organisation already have?	187
Tool no. 21	Talent pools	199
Tool no. 22	How to keep track of talent	206
<b>Section 5 – Assessing performance and potential</b>		<b>213</b>
Tool no. 23	Methods of assessment	215
Tool no. 24	Assessing competence from achievements	221
Tool no. 25	Forced ranking	230
Tool no. 26	Assessing potential	234
Tool no. 27	Assessing levels of work	245
<b>Section 6 – Acquiring talent</b>		<b>253</b>
Tool no. 28	Becoming an employer of choice	255
Tool no. 29	Resourcing strategies	262
<b>Section 7 – Developing talent</b>		<b>269</b>
Tool no. 30	What a development plan looks like	271
Tool no. 31	Development activities	278

Tool no. 32	Creating your own talent management development programme	290
Tool no. 33	Talent de-railers, and how to keep talent on track	296
Tool no. 34	Having constructive career conversations with people in the talent pool	303
Tool no. 35	Career coaching	309
Tool no. 36	Identifying mentors, and working with them to develop your top talent	319
Tool no. 37	Niche development of talent	327
<b>Section 8 – Managing talent</b>		<b>333</b>
Tool no. 38	Managing talent	335
	Part 1: How to manage people on the talent matrix	337
	Part 2: Managing the flow of people through the organisation	340
	Part 3: Managing talent remotely	346
Tool no. 39	Problems and concerns that must be addressed	354
<b>Section 9 – Retaining talent</b>		<b>363</b>
Tool no. 40	Retaining talent	365
	Part 1: Understanding people’s attitudes and motivations	367
	Part 2: Designing a retention strategy	372
	Part 3: Reviewing checklists of retention tactics	377
	Part 4: How to maximise the leverage of your reward package	383
<b>Section 10 – Evaluating the effectiveness of the approaches adopted</b>		<b>387</b>
Tool no. 41	Evaluating your success	389

# Introduction

## Talent management and succession planning

Jane walked into her boss's office. 'Here is my resignation,' she said.

'But why?' asked John. 'You have just been promoted to a Grade 2. We sent you on that advanced management programme, and in maybe a few years you can get a promotion to Grade 3. Isn't that worth waiting for?'

'Frankly, no,' said Jane. 'I appreciate what you have done for me, but I don't want to climb the grade ladder. I want more flexibility to work on the projects I want to do. I want to work more from home to be with my children. I also believe that my skills are going to be enhanced by doing a greater variety of work.'

'Oh,' said John.

Welcome to the new world of talent management, in which the old assumptions about what people value in work are falling down. It was Winston Churchill who predicted that future empires would be 'of the mind', and in a world where knowledge industries are the engines of global growth – software, financial services, consultancy – he might have added that it will be the battles for minds that dominate the future. Indeed, the proportion of a company's assets that are intangible continues to grow. Knowledge industries need, at most, a computer as their physical asset base, with the rest represented by the abilities of the people and the goodwill generated by a track record.

Consider another case.

The CEO called his HR director. 'I think we need to press ahead urgently with the new product launch, so we need to staff up immediately.'

'But it will take weeks to hire the new staff. Also, given our union agreement, we need to retrain the old staff. That could take months.'

'We don't have months if we are to stay in the race. Our global competitors don't seem to be so constrained.'

'Ah ...'

A fast-moving competitive world demands new approaches to two major problems that all organisations face: the more independent mindset of staff who are less prepared to wait for an organisation's timing of jobs and rewards, and, simultaneously, the increasing need of organisations for their staff to be ready just-in-time for new projects. Organisations and people require much greater flexibility than in the past, and we have to find new tools to manage these challenges. 'Talent management' is the title of the discipline which incorporates a range of activities that can be used to address these problems. Succession planning has for many been relegated to the 'too difficult' box, and for this reason we have given it prominence in this Toolkit. It is, however, a subset of talent management.

### **Talent management**

Talent management is the process by which an organisation identifies, manages and develops its people currently and for the future. It is concerned with:

- developing a strategy to determine what the organisation needs to meet the current and future demands of the business plan
- establishing processes to measure competence – required and available
- creating a range of developmental tools and processes to provide tailored approaches depending on the individual needs of employees
- identifying ways to obtain and retain those who are critical to success
- establishing suitable approaches to deal with those who no longer fit organisation requirements
- measuring the impact these strategies have so that policy can be continually updated and refined to deliver high performance, now and in years to come.

Talent management has a bias towards focusing on individual needs to bring out the potential of each, and recognises the necessity of retaining key personnel in a competitive labour market. The basic idea behind talent management is the assumption that there is potential in each and every one,

and that any approach should be to try to release it. In addition, there are certain key competences an organisation requires for sustainable competitive advantage, and the aim is to identify, retain and nurture them.

### **Succession planning**

Succession planning has, by contrast, a bias towards satisfying organisation requirements. There is an assumption that failing to satisfy the majority of requirements from internally developed personnel is unlikely to provide the optimally effective organisation.

Succession planning is concerned with:

- identifying posts that are critical to success and deciding how best to satisfy future requirements
- developing strategies to determine the optimum mix of internal and external recruitment.

### **Why a Toolkit now?**

Although there is in general a reasonable understanding of the nature of talent management and succession planning, Veredus and others (2005) noted that ‘a staggering 74% of respondents reported that their organisation did not have a well developed plan.’ In their research they reported that many felt they lacked the necessary skills in-house to get it right.

There is no systematic and coordinated approach in the public and private sectors to developing and nurturing the next generation of business leaders.

(Veredus, 2005)

Another survey found that:

[only] 51% of respondents undertake talent management activities, though only 20% report having a formal definition for it.

(Clake and Winkler, 2006)

This Toolkit seeks to address this need by providing a step-by-step guide on how to do it.

## Why is talent management important?

In many mature markets there is an ongoing 'war for talent' – a phrase first coined by the consultancy McKinsey (Michaels *et al*, 2001) and that has now entered the management lexicon. This war is spurred on by a number of forces shaping our world. The main drivers are:

- *Continuing growth in specialisation in all disciplines associated with the explosion of knowledge.* This results in a smaller pool of experts in any one field from which to draw, and the necessity of finding, developing and retaining the skills needed. But there is also a greater pressure on sophisticated and broader levels of skill. McKinsey has argued that many more jobs require high levels of judgement based on integrating large amounts of complex data. To take one example, an IT manager 20 years ago was concerned with technology and getting software in on time and to budget. Now, we expect that same manager to take a 'balanced scorecard' approach (Kaplan and Norton, 1996) to his/her performance, balancing the needs of many different stakeholders – financial, customer, internal processes, and other people – and relying on an ability to change and keep up to date. This all adds up to greater complexity and greater demand for managers who are more broadly-skilled.
- *Limited flexibility of organisations to train from scratch, which encourages a search in the labour market for experienced staff.* The influence of the Internet and the spread of globalisation, impacting on so many walks of life, have resulted in a decline in the possibility of being successful if you are second-best. Businesses increasingly have to survive in markets that become characterised by 'winner takes all'. To be the winner requires the best people, and quickly.
- *The pressures for getting the mix of skills right in an organisation arising from the diversity agenda.* Diversity has real business benefits from a closer alignment with customer profiles as well as the synergistic benefits of mixing different thinking styles and backgrounds. Managing diversity, though, can be tough. In London, teachers and health workers have to contend with dozens of cultures requiring new and more sophisticated communication skills and cultural sensitivity.
- *A shortage of the right skills is an endemic problem in most advanced industrial societies.* In the UK, 82% in one survey reported difficulties in

finding the right staff, with a lack of specialist skills as the key reason (68%) (CIPD, 2006). In the USA, the Corporate Executive Board – an education and research foundation – recorded that some 62% of HR managers were worried about company-wide talent shortages (*Economist*, 2006). They also reported greater difficulties in recruitment measured by increasing time to fill vacancies and declining quality. This shortage is due in part to education and vocational training strategies that have failed to deliver what the changing economy requires. The shortages are being felt across the globe. Countries like China and India are trying to attract back their people, who have dispersed across the world, to fuel their rapidly growing economies.

- *The change in the psychological contract.* Historically, this contract is based on a pact of job security in return for high commitment and loyalty. It has been replaced by one based increasingly, for the employer, on high job demands for as long as required in return for higher pay. For the employee, the deal is based on commitment as long as it suits in return for a job that fits individual needs right now. ‘Talented people need the organisation less than the organisation needs talented people,’ said one entrepreneur. It could be argued that a consultant with half a dozen clients has greater job security than an employee with one boss.
- *The more bounded flexibility that the workforce increasingly exhibits.* The growth in dual career families, the search for work–life balance amongst the X and Y generations, the desire for many more requirements to be satisfied in the ideal job, all encourage staff to be more choosy about what they do and who they work for. This was highlighted recently in the world economic forum in Davos:

Companies will have to treat their employees like volunteers: every day they have to provide compelling reasons why their most talented employees should keep coming to work.

(*Financial Times*, 2006)

Finding community-building talent is the single most precious resource in the modern world.

(*Financial Times*, 2006)

### The framework for developing a talent management strategy

- 1** The starting point is to establish the business case for devoting resources to the activity. The lack of endeavour in this area is partly due to a lack of resources devoted to it. Using some of the Tools to create a clear link between the organisation's goals and the competence required to deliver them will help to make the case. In some organisations it might be useful to pull together a team to work on talent management. Organisations like Standard Chartered have their 'human capital management' team, and the Cabinet has set up a group to study the subject. The responsibility for initiating action has to come from the top, and although HR should play an essential role in facilitating the process, it is every manager's responsibility to be identifying and nurturing the talent in his or her area of responsibility. Jack Welch at GE made talent development a major priority, and GE is among many companies that have established in-house universities and other study institutes.
- 2** Recognising your core competence and the talent required to sustain it in the future will help to focus on the key talents that are essential. Although broader development activities designed to release the potential for all staff might be going on, focusing on those areas that are going to make a difference limits the scope of the work to be done.
- 3** Developing processes for assessing performance and potential that are robust and subject to scrutiny and audit is vital as a base. It is wise not to overlook the hidden talent within the organisation, which often lies unexploited. This data will provide the foundation-stone for future planning and actions, and so must be sound.
- 4** Identifying and scrutinising the processes you use for acquiring, developing and retaining talent can help to establish clearer quality criteria for the future.
- 5** Embedding a cycle of planning, review and decision-making about talent as part of the regular management review processes will help to keep the subject in focus.
- 6** Focusing first on those areas that give you the most return for your effort is likely to lead to lower initial investment. We must, however, avoid bureaucratising the process and burying it in a welter of forms.

A free sample chapter from *Talent Management and Succession Planning* by **James A. Cannon and Rita McGee**.  
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Ultimately, talent management and succession planning are concerned with stimulating informed conversations about people and creating the best outcomes possible. Tim Richardson of PwC thinks 'It [talent management] is likely to be less about tools, systems or being boxed in by competency frameworks – and more likely to be about mindset, attitude, flair and approach to learning' (CIPD, 2006).

## Making the business case

But what is the case for investing in talent management and succession planning? The present low rate of activity, despite the almost universal acceptance of the need to do it, implies that the business case has not been made. Yet considerable anecdotal evidence in the press, and more serious research (CIPD, 2006), points to the failure of organisations of all types to meet their potential through skill shortages, leadership weaknesses and organisational ineffectiveness. In a recent BBC report (22 August 2006) the First group, a transport company, pointed out that without immigration from the new accession countries to the EU, bus services would go unstaffed.

The case for talent management and succession planning rests on several arguments:

- *The cost of unfilled vacancies and replacement costs.* Hewitt Associates (quoted by Brittain, 2006) suggest that turnover can cost between 30 and 150% of annual salary. At an average replacement cost of £15,000 a time, many of the activities suggested in this book are easily justified by modest improvements in turnover.
- *The opportunity cost of foregoing the advantage to be gained by high performing individuals.* In key roles, marginal improvements in performance can have dramatic impacts on the bottom line. The engineer who anticipates a quality problem and institutes a redesign of the product *before* the customer complaints arrive, or the sales manager who finesses a sales campaign because she knows the customer's needs, all point to the value of competence in critical roles. It is useful to ask two questions of any role in the organisation: 'If this role did not exist, would the organisation be impaired?' and 'If there were only poor or mediocre

performance from the role incumbents, would the organisation's performance suffer?'

- *Releasing discretionary effort.* In an increasingly service-oriented world, ensuring that customer-facing staff give of their best is crucial. A bad service experience is relayed to more people than a good one. Some studies indicate that a determinant of how staff treat customers is the way in which staff are treated by their organisations. Talent management, at a minimum, demonstrates to staff an acknowledgment of their value and contribution – now and potentially for the future. Feeling valued and recognised are key motivators and important to retention.
- *Employee choices.* Where critical skills are scarce, employees have choices. In a mobile society where employability is a growing requirement for survival in the labour market, prospective employees will increasingly make their choice of employer based on their development practices. 'Will I get from this organisation the training and development I need to further my career and make me employable in the future, especially if this job comes to an end prematurely?'

It should be noted that the business case for focusing on those individuals most likely to add value may result in hard choices, but is likely to give the best return for your investment. In a recent survey (CIPD, 2006) it was found that only 28% of respondents used a 'whole workforce' approach to talent management.

### **How much will talent management and succession planning cost?**

Several factors should be taken into account in developing the budget:

- How vulnerable is the organisation if key roles are not filled or key individuals not retained? The greater the vulnerabilities, the greater the justification for investing in development schemes and succession planning.
- How scarce is critical talent? The more the business relies on people who are difficult to find in the marketplace, the greater the justification for investing in retention strategies.
- What lead times do you have to correct problems? Where staff are on short notice and are easily mobile, the greater is the justification for investing in planning and strategies to cover key positions quickly.

# SECTION 1

## Foundation Tools



### Overview

#### Overview of Tools 1–7

##### 1 Creating your own organisational definition of talent

Although there can be little argument that most people have potential, in succession planning and talent management we have to be able to differentiate between people on the basis of their potential. This Tool provides prompts to help you through the process of defining talent and potential. It also identifies possible risks in having ill-defined definitions.

##### 2 How to decide which approach is best for your organisation

Introducing talent management can be a difficult job when faced with stretched resources and an array of approaches. This Tool aims to inform your decision-making about which is the approach most suitable for your organisation. It is recommended that Tools 3 and 4 are also examined before any decision is made.

##### 3 A checklist for a talent management strategy

Talent management requires a serious commitment in time and effort, often by senior management, if it is to have any impact. To ensure the most effective use of time and resources there must be a strategy and a plan. This Tool is intended to provide a template which can be used as the basis for writing a talent management strategy.

##### 4 Conducting a talent management audit

This Tool identifies which areas need attention and which Tools will help address any gaps. In conjunction with Tool 3 it can act as the basis for an action plan and for writing your talent management strategy.

##### 5 Examples of talent management processes

Building a pool of talent and a sufficient pipeline requires disciplined processes, and in this Tool we provide an example or two.



## 6 A checklist to help clarify roles

In developing the talent management strategy it is critical to have clearly defined roles. This Tool is designed to help clarify expectations of each participant in the process, and to provide a template that will form the basis of a dialogue about the actual expectations of each participant in the delivery of the talent management strategy.

## 7 Readiness for change

Today, with many competing demands for time and attention in the boardroom, talent management has to fight its corner. Assessing whether the organisation is ready for the changes necessary to introduce some of the Tools and techniques suggested in this Toolkit can help determine whether effort will be rewarded.

# Creating your own organisational definition of talent



## Facilitator's notes

### Introduction

Although there can be little argument that most people have potential, in succession planning and talent management we have to be able to differentiate between people on the basis of their potential. This Tool provides prompts to help you through the process of defining talent and potential. It also identifies possible risks in having ill-defined definitions.

There are several components to consider when creating a definition of talent, including measures of current performance, outputs or results. Many definitions also include measures of potential, and indeed, one common definition of talent is the capability of someone who demonstrates both high performance and high potential. Some organisations focus on promotability, rating their top talent as those who are both high-performers and highly promotable. Finally, other definitions focus on inputs or competencies.

Any definition can quickly lose currency. Regular reviews are required to ensure that the right talent is being nurtured to meet the business needs.

### Aim of the Tool

To help clarify definitions of talent and potential.

### What it is

Checklists against which an organisation can create its definition.

### When to use it

In the early stages of creating the talent management and succession planning processes.



### **Materials needed**

None.

### **Procedure for using it**

Step 1: Consider the reasons for creating a definition of talent.

Step 2: Identify the possible risks associated with different definitions.

Step 3: Draft a definition that best suits the organisational context.

Step 4: Check the definition out with employees and managers.

Step 5: Regularly check the currency of the definition.

### **Evaluating its uses**

People will understand what the organisation means when it refers to talent.

### **Links to other Tools**

Most of the following Tools use a definition of talent.



# Creating your own organisational definition of talent

## The Tool

### Why does an organisation need to create its own definitions?

- to ensure that it sets out exactly what talent management is aiming to achieve
- to clarify what is excluded
- to focus the allocation of resources
- to help prioritise development
- to provide clarity for employees so they can assess themselves
- to enable organisations to segment/classify staff accurately
- to benchmark against other organisations.

What are *your* reasons?

### What are the risks when creating definitions?

#### Political/cultural/ethical

There is a question about whether it is acceptable to differentiate between people and to categorise some as 'low-talent' and label others as 'talent'. It may be acceptable for a US company to use a forced ranking system, threatening to fire the bottom 10%, but would that be accepted in central or local government in the UK?

#### Legal

Employment law is getting more, not less, complex, and employees enjoy greater legal protection with myriad employment rights. Definitions have to work within the legal framework, and indeed, many organisations had to amend their definitions when age discrimination legislation was introduced. Company policies like 'employees with a minimum of four and a maximum of



ten years' experience will be considered for the high-potential cadre' could be argued to discriminate on the basis of age – at both ends of the spectrum.

### **Motivational**

Many – although not everyone – in an organisation want to be on the 'high-flyer' list, and a definition that is too narrow can alienate people. For example, one organisation defines talent as 'people who can move two positions or more', which limits the numbers considerably. Once the definition is created, it sets out the organisation's intentions with regard to talent. Those people who are not covered but who are still essential to the business need to know where they stand and how they are valued. Consideration must also be given to labelling and the effects of removing a label. Someone who is 'high-potential' for two years and who then has this label removed will most likely feel demotivated. There is no easy solution to this problem, but the risk of losing talented people dictates that care is taken in crafting and communicating the definition.

### **Brand**

Where the organisation is knowledge- or human-capital-based there may be an expectation that everyone is talented. Creating a definition that has currency with all of the interested parties can be difficult. There are also risks attached to the external brand – clients of a creative agency may only want to work with the most talented people, regarding the brand thereafter in a bad light if they turn out to be not as talented as expected. It can also impact on the employer brand. For example, top graduates from the best universities who join a major consulting firm will have expectations that they will be highly valued. To find out later that there are different classes of talent may alienate them and cause future recruitment problems.

## **Drafting the definition**

What is the talent that the organisation needs – talent for what?

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Are there any organisational issues/norms that will influence the definition?

What are the political/cultural/ethical considerations or restrictions?

What about the legal considerations?

What are the brand values? How will you reflect those in the definition?

Are all segments of the workforce included? If not how will you handle each?

Who will be excluded, and why?



Can people be removed? Do you want to make it clear their place is only secured by ongoing performance?

What are the links to your competency/capability or other frameworks?

How many people does your organisation expect/need to be top talent?

Are there any other issues that should be considered?

## General definitions

### Talent

Innate ability, aptitude or faculty, esp. when unspecified; above-average ability

*Collins English Dictionary*

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**Potential**

Possible but not yet actual; capable of being or becoming but not yet in existence; latent; latent but unrealised ability or capacity

*Collins English Dictionary*

**Promote**

To further or encourage the progress or existence of . . . to raise to a higher rank, status, degree, etc

*Collins English Dictionary*

**Promotable**

Capable of moving upwards in the organisation

The authors' definition

**Organisational examples**

Talent is demonstrated by:

High performance – consistently demonstrated high ability across time and a range of experiences

High potential – potential ability over and above that currently required

**Talent**

We will focus on candidates with sufficient growth potential to advance the business, and specifically on those with high level general management potential

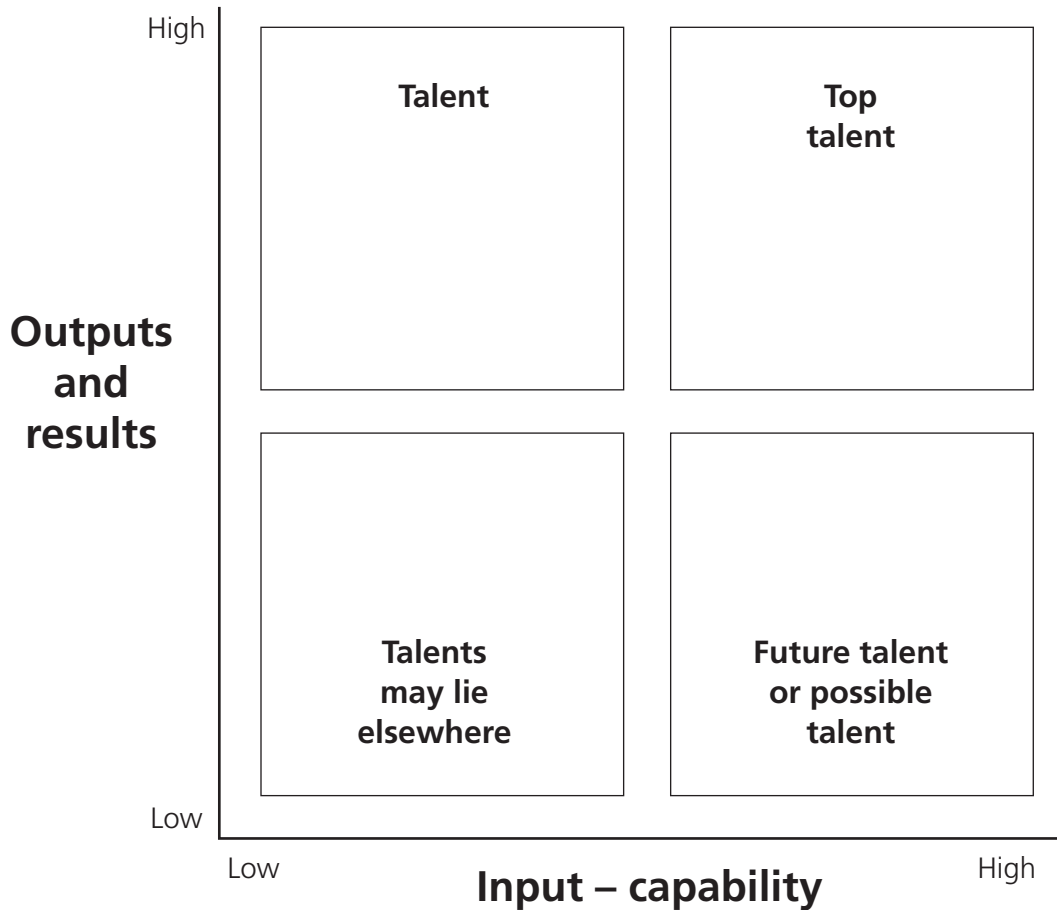
**Potential**

Those people who are capable of moving two or more places upwards in the organisation



## The talent matrix

A commonly used model for defining talent is the talent/potential matrix.



### Notes:

In the above model, the term 'capability' has been used as denoting a broader concept than 'competence'. Capability embraces all those elements that an individual brings to a job, whereas 'competence' tends to indicate a narrower definition (see Tool 14).

Also, in the above model the authors have carefully removed the more traditional labels that these days might seem too subjectively value-judgemental or even pejorative ('stars', 'high-potentials', 'solid citizens', 'plateaud', etc) but that may still be seen in some textbooks.

### Defining targets for talent

You may find it useful to define the numbers you expect or require (as a percentage) in each sector.

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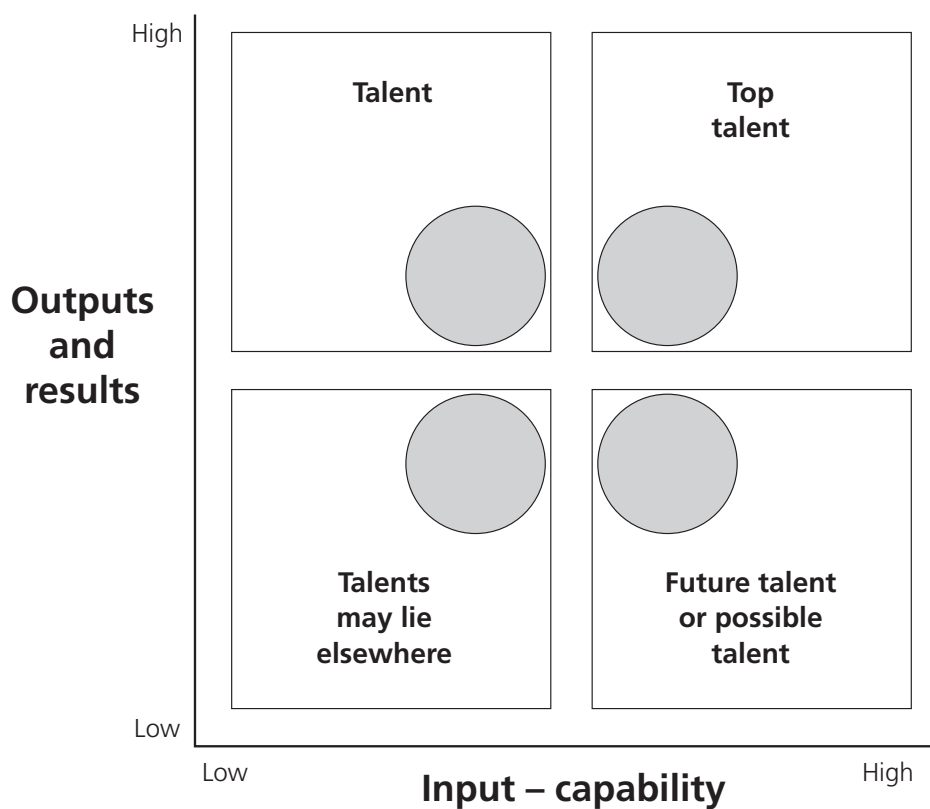
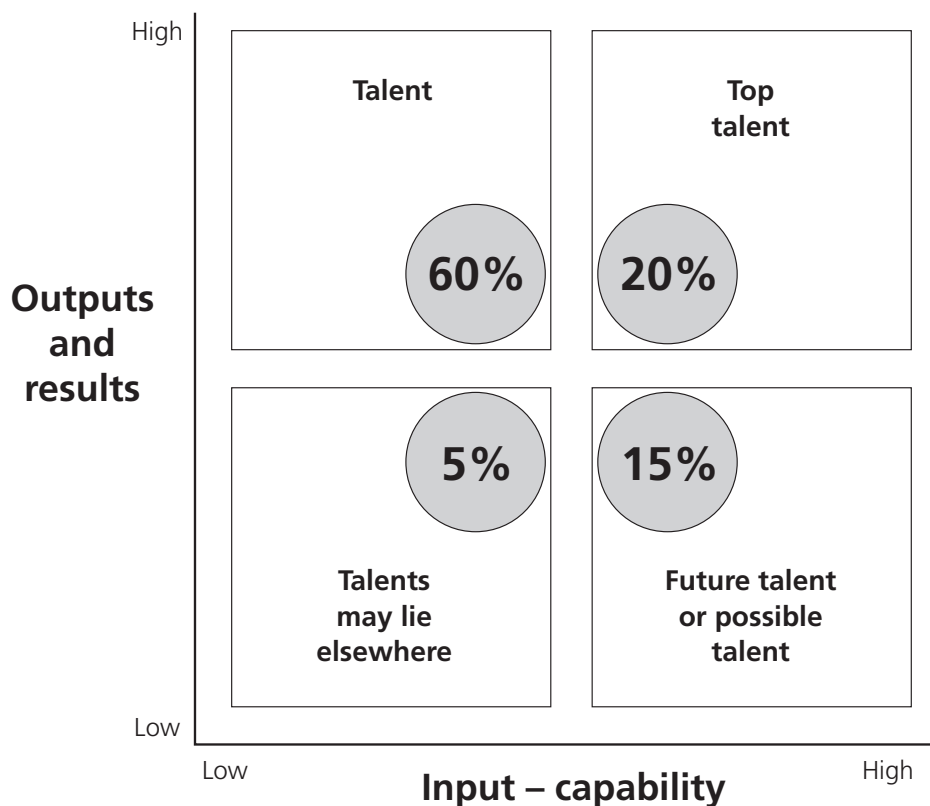
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For example:





# How to decide which approach is best for your organisation

## Facilitator's notes

### Introduction

Introducing talent management can be a difficult job when faced with stretched resources and an array of approaches. In the report *Talent Management: Understanding the dimensions*, the CIPD found that 75% of respondents were doing some form of talent management. There was, however, evidence of different strategic levels of engagement in the talent management process shown in the model below.

Before making a final decision on which approach is best for your organisation it may help to work through Tools 3 and 4 (the contents of which have not been duplicated here).

### Aim of the Tool

To inform your decision-making about which is the approach most suitable for your organisation.

### What it is

A set of alternative ways of approaching talent management, listing the advantages and disadvantages of each.

### When to use it

When first beginning to consider talent management

### Materials needed

Budgets and organisation charts.



### **Procedure for using it**

This is to be used by senior management in a discussion about talent management.

### **Evaluating its uses**

Is there greater retention of key people and competitive advantage from the quality of your organisation?

### **Links to other Tools**

Tool 3: A checklist for a talent management strategy

Tool 4: Conducting a talent management audit

### **References**

*Talent Management: Understanding the Dimensions*, CIPD (2006), page 6.



# How to decide which approach is best for your organisation

## The Tool

**A set of alternatives, their advantages and disadvantages**

Approach and description	Advantages	Disadvantages
<p><i>Resourcing managers</i> Managers whose specific remit is to manage the development, engagement and careers of staff</p>	<p>Ensures a focused and consistent process</p> <p>Frees line managers of the task to be able to concentrate on performance</p>	<p>May cut across existing line and HR management responsibilities</p>
<p><i>Talent manager</i> An individual who takes overall responsibility for ensuring that the organisation has the right people in the right job at the right time, and has a supply of talent coming up for the future</p>	<p>Is one point of reference</p> <p>Liaises with existing structure to ensure co-ordinated action</p>	<p>May cut across existing line and HR management responsibilities</p>
<p><i>Talent process</i> A set of tools and processes for every manager to use for his/her people</p>	<p>Makes clear that all have a role in talent management and lays down a structured approach</p>	<p>Requires implementation effort and policing</p> <p>Less local knowledge of organisational needs</p>
<p><i>Talent forum/committee</i> A group of usually senior people who examine the organisation as a whole and identify a succession plan for all roles</p>	<p>Permits a complete review of the organisation</p>	<p>Is time-consuming</p> <p>Requires implementation effort</p>

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Approach and description	Advantages	Disadvantages
<p><i>Risk-based replacement</i></p> <p>A group of usually senior people who examine the critical roles in the organisation and plan for their succession</p>	Is time-efficient	Makes no allowance that what is not critical today may become critical in the future

### Levels of maturity of organisational talent management

