How Should We Value Talent Management?

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Organizations, and their HR functions, have learned how to engineer and hone sophisticated talent management processes. However, as our last White Paper explained, many are also looking at their Talent Centres of Expertise and both broadening their remit and linking them much more flexibly both to related areas of expertise such as Learning and Development, Resourcing and Engagement, and to broad change programmes. This is allowing us the option to think more strategically about the role, remit and value of Talent Management. This thinking also has implications for the HR Analytics debate – the topic of our next paper. From this paper it should be clear that HR Directors should beware the pursuit of formulaic metrics. They miss the true nature of value. In this paper we bring what we know about strategic value creation to bear on the talent management debate. We ask what are the critical tests that should guide the design of our talent systems? We then lay out a series of Design Principles that should be used to guide and evaluate the value of a talent management system.

For HR practitioners this White Paper gets to the heart of:

- being able to articulate and argue what the return on investment is on the organization’s approach to talent management – this paper has implications for the debates on HR analytics and HR metrics
- making choices about how best to integrate and combine currently very siloed Centres of Expertise – this paper has implications for related activities such as Organizational Effectiveness, Organization Design and Learning and Development.

We think it is timely to review the value of talent management. In thinking about how we can increase the value of the activity, we can address some of the criticisms that have been levelled at current approaches. From the Centre’s first analysis of leading practice in 2011, we concluded it was “time to question the tablets of stone”. This White Paper moves this understanding on. But first, a short recap of recent debate.

Practitioner interest in talent management was sparked in 1998 by the now infamous McKinsey article on The War For Talent and the subsequent book. Interest seemed to peak around 2007, since which time, despite there being a continued calls to arms there has also been a sense of discomfort amongst the practitioners about the impact and sustainability of their systems. For example, studies from 2007 to 2011 by Claudio Fernández-Aráoz, Boris Graysberg and Nitin Nohria drawing on interviews with executive from 70 organizations noted that whilst firms such as GE, Unilever, PepsiCo and Shell have a reputation for effective practices in the area, this is not the norm. Over a decade on from the original call to arms, only 15% of major organizations in North America and Asia, and 30% in Europe, believed they had enough qualified successors for qualified positions. Programmes aimed at identifying and managing a pipeline of high potentials are seen as a “battle strategy” but they are neither easy to execute, nor transparent. Practitioners are asking how can they make more sustainable judgements about performance versus potential?:
“as practitioners in this area we have both bought into this notion, and worked for many years to make it happen. We have worked with CEOs, undertaking extensive talent reviews. We have worked with psychologists assessing people’s capability. We have worked with technology specialists to introduce databases to capture skills across the workforce. We have worked with ‘the talent’ as coaches. We have worked with recruiters to scour the market for more talent. And yet when we reflected on the difference this activity was really making we felt that it was still not enough... the struggle was systemic... in truth, we had metaphorically put sticking plasters over the obvious issues without really getting to the root cause of the problem... it felt to us that organizations were operating in a talent ‘doom loop’”

Practitioners’ critique of their practice

• Talent management needs to be about knowledge, innovation and relationships today, rather than executive potential tomorrow.

• The vital many are as important as the special few.

• The interdependence between people within and across organizations is critical - the social dimension matters more than the capability and resources of individuals.

• Individuals control when and who they share their potential with, so the idea that organizations can manage talent may be an outdated conceit.

• We need to manage how talent works – to look at the whole ecology of an organization and its ability to create talent and the social capital talent needs.

For practitioners, then, three problems remain:

1. It is line managers, and not HR, that operate the processes, and to many talent management is still a dark art that lacks transparency, is subject to bias, and is capable of simply reinforcing all that is narrow about an organization and its culture.

2. Even the best processes can still have little impact at Board level.

3. Good processes for the few can lead to denuded resources for the many, and depending whether the organizational problem is one of customer centricity, innovation, efficiency and effectiveness, or globalization, in allowing resources to be denuded in the wrong areas would be a fundamental failing by HR.

This paper moves this debate on by:

• looking at the four different talent management philosophies,

• surfacing the different claims each philosophy makes about the value of individual talent and talent management architectures.
Each of these philosophies, indirectly, also says much about the way HR functions are now trying to join up their Centres of expertise – if that is what they will still call them – more flexibly.

Having done this, we then:

- draw upon a number of non-HR literatures from the field of strategic management on value creation, strategic resources and dynamic capabilities, and global knowledge management to help talent practitioners think about the nature of strategic “value”
- use this to inform the choices about the design of a talent management system or architecture
- develop a framework based on four separate value-generating processes that a talent system needs to include (we call these value creation, value capture, value leverage and value protection).

From the outset we should signal that once those versed in talent management start to think about work and ideas from the field of strategy – once they see how strategists address the question of “value” – they may be moved out of their comfort zone. But we also believe that in asking more searching questions about their practice, they will see a clear path through their future activities.
Talent management has received a remarkable degree of both practitioner and academic interest over the last two decades. However, this attention continues to demonstrate:

1. There is still no precise definition of what is meant by talent management, which continues to hamper the development of the field.
2. There is no consensus around the intellectual and functional boundaries needed to understand the topic. Talent management combines ideas from HRM, supply chain and operations, and marketing to name a few.
3. Discussions around the practice of talent management have been dominated both by study of Anglo-Saxon organizations and by analysis of US academics. Organizations need a more global understanding because the effectiveness of, and different types of talent management activities, have yet to be fully understood.

The field of talent management continues to mature, but it is also being impeded both by the scale of debates taking place. The field continues to argue that talent management “adds value” to the organization. Some claims made are taken for granted. Others are more tentative.

To overcome this, strategic management academics have long since argued we need a “theory of value”. Only then will it be clearer which elements of talent management are the most valuable for organizational effectiveness.

In this White Paper we begin by laying out the different talent management philosophies – there are four of these – as well as the tacit or explicit assumptions about the value that each provides. Organizations act on different assumptions about whether talent is exclusive or is developable in all and whether it is a stable and enduring trait or a more a temporary potential. Each philosophy tends to be presented as a competing approach to and alternative conceptualisation and definition of talent management - a better or worse ways of doing things.

**Four different talent management philosophies**

1. People approach: talent management as a categorisation of people.
2. Practices approach: talent management as the presence of key HRM practices.
3. Position approach: talent management as the identification of pivotal positions.
4. Strategic pools approach: talent management as internal talent pools and succession planning.
Before we go on to ask the harder questions about talent management – like how does it add value - we need to replay a little history and rehearse the current stage of evolution. In the next sections in we use the above categorisation to:

• organise the discussion about the nature of strategic talent management,
• outline the assumptions made about human capital implicit in each,
• signal the resultant practices, strategies, implicit dilemmas, and subsequent critiques.

For those well-versed in these approaches, it is the final sections that become of most interest. Having reminded us of what we currently do, we bring in ideas based a theory of value (mainly from the fields of strategy but influenced by many other non-HR functions) to help us clarify what contribution each part of a talent management architecture is likely to make, and which assumptions need to change.
Insight into the dysfunctional consequences of over-relying on a star-based talent system by academics pre-dated by about eight years the subsequent post-financial crisis acknowledgement that maybe organizations (with their HR functions being complicit) had designed inappropriate talent systems. It was around the year 2000 that the warnings first started to appear – only a couple of years after the consultants at McKinsey had pushed The War For Talent agenda.

This philosophy focuses on the people aspects of talent management (but it has implications for some of the practices that are pursued). It looks at the differential management of a small elite of high performance and high potential employees, considered to have unique skill sets that are much sought after by competing organizations.

2. Talent Management as the Categorisation of People

If I could turn back time

Although a categorization and differentiation philosophy was famously captured in the War for Talent dialogue of the late 1990s, it was underpinned by three prior enabling concepts. Those that dislike the War for Talent mentality (and it still has plenty of supporters) might still grudgingly accept the three insights the realities that led up to it.

1. A belief that businesses were at a moment of dramatic change – an inflexion point – that required a significant shift in policy, because workplaces designed for the circulation of information (described as “informed”) and their more fluid, social, distributed, and less hierarchical work arrangements were changing the value of talent. It upgraded certain skills – notably the need for people with the power to analyse alternative business models and to understand business and social opportunities that now existed (these were called intellective skills).

2. The individualisation of organizations and an understanding of the contribution made by management competencies, shifting organizations and their selection systems away from a pay-for-the-job approach (which assumed jobs could be designed, evaluated and differentiated dependent on size and complexity and employees fitted to the job) to a pay-for-the-person approach (which argued jobs were too flexible, uncertain and unpredictable to be “sized” so HR systems must enable highly skilled people with job crafting capabilities to design their jobs in the most appropriate ways).

3. An implicit strategic portfolios approach that differentiates investments in people (in the same way businesses were placed in a portfolio) on a two dimensional matrix of performance versus potential.
To truly be unique, their skills (defined in the broadest sense) are assumed to be rare, hard to find, difficult to replace, and to add a disproportionate amount of value to the organization compared to other employees\textsuperscript{17}. The philosophy advocates differentiating the management of these people using a range of mechanisms designed to attract, retain, and develop.

**Borrowed ideas about people as a strategic portfolio**

The now ubiquitous 9-Box model which uses a $3 \times 3$ differentiation of performance versus potential sends a clear message. HR are the function who categorize people, and people represent a strategic portfolio. This all stems from the ideas of George Odiorne\textsuperscript{18} who recommended utilizing the Boston Consulting Group strategic portfolio matrix as the basis for constructing what he termed a “Human Resources Portfolio”. By the early 1990s many HR functions based their high potential identification and succession management practices – and much of the Talent System architectures - around frameworks derived from Odiorne’s Human Resource Portfolio. Talent management practitioners converted the original strategic product market portfolios of business units (that could be categorized as stars, cash cows, problem children and dogs), through to a human resources portfolio of high-low potential and high-low performance (which categorized people as stars, work horses, problem children and deadwood). Potential was seen as the likelihood of the job holder making a future contribution to the organization. For Odiorne this was to be based on six factors: past performance, intelligence and aptitude, future availability to the organization; interests and desires; supply and demand factors; and biographical information.

A key people philosophy implicitly stresses the need for a talent management architecture establishes two competitions – called interpersonal versus intrapersonal - and best seen as part of the giftedness or excellence literature\textsuperscript{19}:

1. **Between individual talent** (an inter-personal talent management focus), which stresses that high-level performances are not feasible for everyone, hence the justification for differential investments.

2. **Within individual talent** (an intra-personal competition), concerned with maintaining peak personal performance and avoiding career derailment, and couched in the language of sports psychology and coaching. Any individual talent needs to be managed to be of their best. Although the high costs of provided such support naturally limits the investment to a chosen few, an intrapersonal perspective also lends support to a more egalitarian and positive psychology view that everyone has talents and can improve their effectiveness.
The first Inter-personal competition was couched in terms of a series of competitive HR and marketing strategies that helped instil a cultural mindset, designed to help organizations “land” and “upskill” employees in a cut-throat free-agent employment market. It positioned talent management as a leadership imperative, needing to give attention as much to under-performance as well as excellent performance through the explicit categorization and segmentation of employees into A, B and C players, with the elite recruited, retained, and lavishly rewarded and the tail slowly exited from the system\(^20\).

This in turn required:

- an underpinning of internal marketing through the development of “employee value propositions”, and
- external marketing (employer brand and market mapping) to shape the behaviour of potential talent and drive attraction and retention behaviour and convey statements of explicit obligations that the organization would commit to for talent.

The categorisation of people philosophy has attracted three different criticisms:

1. Is human capital the right fulcrum if you want to improve organizational effectiveness?
2. Are the strategic judgements made by star talent reliable enough to create sustained value (i.e. so even the best senior managers have cognitive limits that place risk around their perceived value)?
3. The problem is level of balance between a categorisation approach and other parts of a talent system (or the attention given to other employee segments).

The first criticism concerns where the real locus of organizational effectiveness lies.

This argument, based on studies of productive systems or CEO failure\(^21\), objects to the proposition that human capital, rather than systems, is the primary source of competitive advantage\(^22\). It argues that a focus on elite human capital (i.e. people, or stars):

- is the wrong fulcrum for improving effectiveness,
- detracts attention from the right fulcrum (which is systems),
- requires some practices (e.g. the level of reward given to those differentiated by the system) that create a set of side effect behaviours and performance that nullify any returns on the star human capital.
Is fighting the war for talent hazardous for your health?

Jeffrey Pfeffer famously considered that fighting the war for talent, which emphasized a fight for sourcing talented individuals, was hazardous to the organisation’s health.

“... The consultants at McKinsey were preaching at Enron what they believed about themselves. They were there looking for people who had the talent to think outside the box. It never occurred to them that, if everyone had to think out of the box, may be it was the box that needed fixing ”

His key objections were:

1. The Star approach to talent shifts the emphasis on individual performance at the expense of teamwork and gives rise to a system that can create disharmony between employees who otherwise need to work collaboratively. The HR practices that go along with such an approach, for example individual based performance related pay, can make it hard for sharing of knowledge, ideas, and best practices.

2. Celebration of individual brilliance can lead to an elitist attitude marked by arrogance and a poor learning attitude, where those dubbed as “Stars” have their way over an otherwise perfectly good idea but coming from a “B” or “C” player.

3. The very fact that most companies that adopt the “A” player approach to talent management rely heavily on monetary incentives to attract and retain these key individuals, makes this approach non-strategic as it is easily imitable. If money is the major motive behind the functioning of these star performers, other companies can offer more money and lure away these stars. Retention of stars tied to a company only through monetary incentives is big problem.

4. Probably one of the biggest issues is how to treat the employees labelled as “C” players. Labelling by itself can have damaging effect on the performance of these employees leading to a negative self-fulfilling prophecy. Lower expectations leads to less resources being available to these employees, can lead to demoralisation, and thus poor performance; exactly the opposite becomes true for the “A” players.

5. The “Star” perspective on talent also seem to suggest individual ability as a fixed invariant trait, which is again a dangerous assumption not supported by research. There is ample evidence of performance appraisals, the bedrock of the “Star” approach to talent management, are susceptible to the horn and halo effect. Past performances can bias a supervisor’s judgement of current performance and future potential.
The second criticism – that a star-based talent system created an over-reliance on the quality of strategic thought of a narrow set of senior managers - also dates back to the year 2000. This drew attention to the cognitive limits problem. Derived from work on management cognition and the psychology of strategic management, these researchers asked ‘how could organizations with high profile and historically successful track records fall prey to catastrophic chains of events that led to their demise’? Interesting that these questions were asked many years before the financial services crisis.

**Ignore the complexity of strategy and star talent operating beyond their cognitive limits at your peril**

Gerard Hodgkinson and Paul Sparrow drew attention to limitations in the mental models of strategic leaders operating in a hypercompetitive business system. They argued talent management systems were too narrow and were using the wrong assessment and selection technologies. Instead, they must be designed to make two bellweather judgements about the knowledge possessed by talent (not their performance and potential):

- is the individual capable of high quality strategic thought?; and
- does the "capital" that they possess enable them to make a potential contribution to value creation?

They argued the ability of organizations (or more precisely their members) to acquire, store, recall, interpret and act upon information of relevance to the longer-term survival and well-being of the organization, and that the risks of being able to effectively capture value from talent, needed a talent management that was embedded in a broader knowledge management and organization cognition framework. It is the management of the talent – and the knowledge they possess – rather than individual talent management – that creates sustainable value.

The cognitive limitations of strategic actors means they are only of value if the talent system can also leverage whatever insights human capital as a collective have through knowledge transfer. Individual elite talent are only useful if they are embedded in a broader capability system i.e. see talent management as one (and only one) mechanism for building and distributing broader capability around the organization and create centres of expertise that bring together this broader capability.
Talent (in an organizational context as opposed to the many other human endeavours) therefore must be defined in the broadest sense to include:

- human capital,
- social capital,
- reputational/political capital, and
- business model (intellectual) capital.

The third criticism concerned the level of balance between a categorisation approach and other parts of a talent system (or the attention given to other less elite employee segments).

This came from two angles:

1. an organization effectiveness and design perspective, that argued that whilst star talent management is necessary it is not sufficient, and organizations must seek a balance between sourcing great individual talent, and managing such talent into a collective organizational capability, thereby ensuring their knowledge is turned into performance.

2. a critique based on cultural discomfort with the excesses of a differentiated approach to talent, which argued that a more egalitarian, universal and inclusive set of talent management practices were needed that focus that related to the majority of all employees was needed.

What do you need to prove to show a star-based talent system adds value?

A series of claims are made about added value through a star-based talent management approach. To support this part of the architecture, you need evidence that proves:

- the informating of work has changed the potential value of talent and increased the level of power, business and social opportunity open to those with intellecitive skills,
- elite managers (or expert talent), generate sustainable value (create value) for an organization in a disproportionate manner, and only through prioritisation of limited investment resources can this value be released,
- elite human capital are the true locus of organizational effectiveness capital, rather than more systemic sources of organizational performance (for example the systems and broader organizational capabilities).
Over time there have been different prescriptions of what the bundle of practices should be, and the descriptions are usually case study based. Attempts to benchmark are problematic, because it is not just the presence, efficiency and effectiveness of each practice that matters or is of value, but the collective impact.

The second talent management philosophy is the Practices approach. The People approach outlined above argues that the differentiator for high-performing firms is not sophisticated HRM processes, but rather a fundamental belief held by leaders throughout the organization about the importance of individual talent and the creation of internal “talent markets”. In contrast, the Practices approach argues that a dedicated set of advanced and sophisticated practices are essential.

Build the talent management function around a broader cluster of practices

This perspective reflects arguments aired in the HR bundles debate and adopts much of the thinking implicit in the HR architectures literature. Talent management must be designed as a collection of key activities, components or practices, all of which need to be connected and integrated if any one part is to be effective. These component practices have to be more than just a string of HR programmes, practices and processes. They must form part of a broader system and core business process, matched to the business strategy. The word architecture is intended to reflect a combination of the systems, practices, competencies (skills), and employee role behaviours needed to develop and manage the firm’s strategic human capital.

The “architecture” needs to be developed in two ways:

First, different strategies (e.g. innovation, customer centrivity, lean management) each emphasize different internal business processes in terms of competitive advantage. Therefore the HR architecture (including the talent management architecture) needs to be different depending upon the sort of strategic outcomes that the organization is trying to achieve.

Second, the potential for value creation increases when the scope of practices is extended beyond traditional HRM concerns, as for example seen in the extension and cross-over of talent management specialists into:

- communication and marketing concerns of branding, value propositions, and advocacy;
- interventions down the supply chain and skill formation process (called talent pipeline); and
- interpersonal and intrapersonal competition activities.
One model identified three important sets of practices:

1. to establish clear strategic priorities and shape the way high-potential leaders must be groomed and aligned with corporate strategy programmes;

2. to ensure careful selection of candidates and communication of who is in the pool to the rest of the organization through a combination of nominations and objective assessments; and

3. to enable active management of a talent pool to ensure development, reward and retention, by rotation through matched jobs. This in turn requires three core elements:
   - a sophisticated performance development review process;
   - assessment of both an individual’s contribution to organizational-level capabilities coupled with more traditional individual leadership competencies;
   - a surrounding package of HR practices (including deployment decision forums, high-potential review processes, external resourcing strategies, reward and recognition policies driven by data from employee motivation surveys, talent benchmarking system based on 360 degree feedback and personal development plans, and a partnership approach with managers driven by personal coaching).

Another identified seven key activities or components of talent management:

1. identifying and recruiting talent (analysis of labour pools, benchmarking competitor strategies, decentralising or centralising recruitment strategies, co-ordinating preferred suppliers, establishing brand and reputation amongst key employee segments);

2. attracting talent to the organization (creation of employee value propositions, management of an employer brand);

3. minimising attrition through engagement and retention (effective onboarding, aligning rewards and recognition structures, improving line management skills and engagement with talent, retention initiatives);

4. identifying key internal talent (systematic and effective approaches to affirm individuals with the status of talent, high potential identification systems, identify the roles that are most talent dependent, and use of assessment instruments and frameworks);

5. managing talent flows (developing effective succession systems, creating flexibility in internal mobility, career management and planning systems, succession management);

6. developing employees (coaching and mentoring, flexible portfolios of development activities, learning opportunities and options for employees, team learning processes, strategic and operational leadership development programmes, coaching);

7. delivering performance (organization talent review processes, linking data on organizational performance to the selection of talent, stretching the performance of talented individuals, managing under-performance).
Many of these practices bring new ways of adding value – and suggest different ways of argued a return on investment. They have the power to engage or disengage talent. This in turn is leading organizations to create much stronger connections between their Talent and other Centres of Expertise.

High performance work practices, including the collection of branding, marketing, communications and HR concepts that together form employer branding, act as an external and internal organizational signal, and as such create impressions of:

- quality and
- prominence

These are two key elements in managing employer reputations. The ability of such brands to create identification and engagement of employees has a leveraging effect – it amplifies – the value already inherent in the organization’s strategic positioning. Branding “leverages” the value added by a talent system by doing the following:

- shaping how the organization and individuals manage diverse career orientations and personal reputations,
- linking talent to the organization’s need to be simultaneously different from competitors,
- securing general recognition, approval and esteem by remaining socially legitimate.

What do you need to prove that the practices involved in a talent system add value?

A series of claims are made about the added value of a key practices approach to talent management. To support this part of the architecture, you need evidence that proves:

- Talent management is only effective if it is managed as part of a broad architecture (set of systems, practices, competencies, and employee role behaviours designed to engineer human capital in a set way).
- This whole architecture is aligned – and also differentiated - towards important strategic outcomes (such as competition in terms of innovation, quality, efficiency and effectiveness) requires different types of skill, capability, and leadership in order to create strategic value.
- The set of practices in the talent system serve to improve or amplify the efficiency of the existing strategic performance (for example by optimising an individual’s existing talent, or by matching or aligning it more effectively to the strategic drivers).
4. Talent Management as the Management of Key Positions

When there is a high level of strategic uncertainty or a new business model is in operation, it is the relative contribution of important roles that is critical to the success of organization change, with talent management being more about the design of a small number of mission-critical jobs and their fit into an organization design.

The third talent management philosophy argues that the locus of organization effectiveness (and implicitly value creation) really lies in the management of key positions (and how these positions relate to the organization design and the delivery of the business model) rather than in key people.

Manage the organization design, which talent must then serve

Mark Huselid and his colleagues noted that whilst some HR professionals have ethical objections to classifying people as “A, B, or C”, there is less emotional reactivity to classifying positions – or segmenting jobs - within the organization. “A positions” have two major characteristics: a disproportionate role in an organization’s ability in executing some part of its strategy, but wide variability in the quality of work displayed by among the employees in that position. B positions may still be strategic for the company but the skills required to perform them are common and there may be little variability in the performance of employees in these positions. C Positions serve functions but may be deemed non-core or outsourced. It is not that star talent is unimportant – it is – but only if directed and placed in certain roles.

Advocates of this philosophy call for a matched strategy combining this approach with some elements of a people categorization philosophy, through it is systematic identification of key positions which differentially contribute to the organization’s sustainable competitive advantage accompanied by the development of a talent pool of high potential and high performance incumbents to fill these roles.

Two observations have been made about the key positions philosophy:

1. Whilst it is invariably always used as a matched strategy, it becomes of particular importance when there is a high level of strategic uncertainty, and a new business model is in operation, making a small number of jobs especially mission-critical.
2. The assessment of how “valuable” a role is, is itself complex and needs a range of important processes inside the organization. The strategic value of key positions varies, and this requires skillsets that talent specialists often do not have.
In our early work in the Centre for Performance-led HR, we argued that the added value of HR should be seen in three ways:

1. value creation (operationalized as: the ability to build, capture and develop talent in line with the dictates of the business model; develop a value proposition that aligns such talent to the organizational capabilities inherent in the business model; and develop performance outcomes of innovation, service, efficiency and effectiveness);

2. value leverage (operationalized as enhancing a business model [and talent] through learning how to best execute a strategy in hand, transfer of knowledge and learning, and manage through structural channels to ensure engagement of the broader organization with the business model); and

3. value protection (ensuring value once created and captured is not lost, operationalized through design and maintenance of effective governance of talent, constructive surfacing of risks in business models and mitigation strategies, reputation across stakeholders; and ability to retain the best capabilities). Often it is only the accident that shows the true value (or lack of) of jobs or of talent.

What do you need to prove that it is the design of positions, not people, that makes a talent system add value?

A series of claims are made about the added value of a key positions approach to talent management. To support this part of the architecture, you need evidence that proves:

• how the systematic identification of such positions (and how they contribute to the organization’s sustainable competitive advantage) becomes a key contributor (through aligned organization design, control and co-ordination) to the efficiency of strategic execution, and indirectly the speed of execution,

• the way in which these mission-critical roles, given certain assumptions about the capability of individuals within them, help create, leverage and protect (or preserve) the value in the strategy.
5. Talent Management as the Identification of Strategic Pools and Management of Collective Human Capital

Two capabilities are needed to convert any human capital planning cycle into a talent management system. First, measurement of the impact that human capital (talent seen as either an individual elite or seen as a collective of particular skill groups or otherwise segmented population) has on the ability to execute an organization’s business processes in terms of impact on operational outcomes. Second, the forward-looking skills of trending, forecasting and predicting, described as a necessary yet dangerous art.

The fourth and final talent philosophy, in a refinement of the Positions perspective, is one of human capital management. Drawing upon ideas of human capital (or workforce) analytics or accounting (HCA) and strategic workforce planning (SWP)\(^3\). A strategic pools philosophy, embedded in human capital management traditions, is underwritten by three arguments:

1. the costs associated with the development and retention of talent should be viewed as investments on behalf of the firm (human capital theory),
2. people have choices about the investments in themselves they chose to make and will invest more if there are signals that they are in an area of especial importance to the organization (expectancy theory),
3. strategic assets (e.g. talent) come with associated risks and assets, on which organizations might take an option\(^4\). For example, where the business model is fluid and successful winning technologies as yet still to be demonstrated, organizations manage risk by explicitly taking different “talent options” against the various projected developments of their business model. They “future-proof” their organization by attracting pools of talent associated with alternative ways in which the organization might need to develop (real options theory).

As our next White Paper on HR analytics makes clear, this measurement capability broadens out the assessment of value, by bringing in concerns around the protection and preservation of value, and the associated prior investments in talent such protection necessitates. It draws on ideas of from risk management, optimization and mitigation disciplines, or supply chain management under conditions of uncertainty. Value is also protected by making investments and taking actions needed to avoid any loss of value.

Key developments in the human capital tradition

Jac Fitz-enz, coming from a human resource accounting traditions, a long ago argued that the debate about talent management either ignores, avoids or throws gratuitous or simplistic platitudes at the question of human value in business environments\(^5\). A number of key writers have addressed this problem. For Peter Cappelli talent management is the process through which employers anticipate and meet their needs for human capital\(^6\). His approach to talent management draws upon supply chain management theory in...
order to embrace planning in environments characterised by uncertainty in supply and demand and an inability to forecast away uncertainty and plan years into the future. The ability to capture the full benefit of talent sourcing strategies is greatest when supported by a complimentary set of organization capabilities. It is these capabilities – to do with knowledge sharing, HR analytics and information management systems - that the talent management function must master.

John Boudreau and Pete Ramstad ask the question 'how do you create value from your human capital', bring the notion of 'pivotal talent pools' - groupings and clusters of talent (viewed either as people or positions) - where human capital investments will most improve organizational capabilities and have the biggest impact on strategic success and competitiveness. This is a refinement of the strategic portfolios notion, arguing instead that if investments have to be rationed, they are best differentiated for maximum return, and differs from the strategic positions philosophy through its advocacy of both the use of metrics, and a more open form of strategic thinking needed, to identify pivotal pools.

Wayne Cascio and John Boudreau address the question of value and human capital by using a risk optimization, management and mitigation framework to look at human resource strategy and strategic workforce planning. Cautioning against the illusion of predictability, they call for increased precision in predictions about future supply and demand for skills, and the application of quality-control tools to talent management processes to achieve the same "low-defect" rigour seen in engineering and operations processes. Risk-aligned talent strategies balance the risks in talent planning, with investments in talent for several future scenarios, according to their relative likelihood and risk. Human capital strategies have to be built on the reduction of uncertainty, elimination of bad outcomes, and insurance against bad outcomes.

In our own work we have drawn attention to the tasks that face HR in helping the organization future-proof its talent. HR functions need to work with the business to do three things:

1. take technological options or bets on expert talent, and develop targeted searches to map the market for such specialist talent;

2. develop skills strategies to help create and develop new hybrid skills or insights: by understanding the nature of new hybrid skills that are emerging; bringing together different component skills. (deep operational dialogue) HR captures new insights through business dialogues that helped to articulate it;

3. develop strategies to transform or evolve the existing skill or knowledge base into the new mindsets that “glue” together the business model.
This human capital management philosophy has been criticised, mainly on pragmatic grounds. The three warnings are:

1. decisions in practice are not based on such frameworks, but still driven by the informed preferences and intuitive instincts that senior managers have of the visible talent within their organization\textsuperscript{46};

2. even when informed by data provided by HR functions, organizations and their managers often lack a synthesis, and any metrics and analysis provided rarely come with important nuances explained\textsuperscript{47};

3. most managers do not have the time, capability nor inclination to access data and are driven by their previous experiences and beliefs about what talent should look like, selecting those who are “good enough”\textsuperscript{48}.

**What do you need to prove that a strategic talent pools approach adds value?**

A series of claims are made about the added value of a strategic talent pools approach to talent management. Measurement of the impact that human capital has on operational outcomes (talent as either an individual elite or seen as a collective of particular skill groups or otherwise segmented population). To support this part of the architecture, you need evidence that proves:

- identifies and translates the organizational capabilities articulated in the strategy into specifications for talent;
- creates insight into the relative value of specific talent to the execution of strategy;
- assesses the consequences or feasibility for build or buy talent strategies; and
- shows that methods of segmenting the existing or target talent population in different ways (either on the basis of the centrality of the roles to the strategy, or through the application of marketing and consumer thinking and treating talent segments on the basis of their expectations of the organization) has an impact on strategic considerations.
6. The Need to Consider Four Value-Driven Processes within a Talent Management Architecture

We now outline what we see as four crucial value-driven processes that must result from talent management. If you were to design a valuable talent management function from scratch, you would combine all four processes and manage them within a single architecture. If you are reconfiguring your talent management function based on existing activities, you should combine activities that forge connections between the four. If you are thinking about metrics and analytics, think more broadly.

So far we have laid out four different ways to think about what talent management is, or should be. By now it should be evident that:

- The various talent philosophies that exist are not competing and alternative approaches, but reflect different and alternative dimensions of a more strategic approach to talent management.
- Each approach makes different contributions and creates value in different ways.
- They are in need of a more balanced application.

But we are still using a number of terms and concepts, such as value creation, capture, leverage and protection, rather loosely. In this final part of the paper, we provide more clarity around this terminology and explain the contributions that the strategy literature can make in helping HR professionals answer the question what is the value of talent management?

A quick primer on the Resource-based view

From this perspective, “human capital” is one set of resources open to the firm, and this refers to the knowledge, skills, capabilities, intelligence, relationships and experience of the firm's employees. Such resources need to be implemented in ways dictated by a prior value-creating strategy. In order to support such value creation, and act as a source of competitive advantage, these resources must:

- Vary across competing firms (called being heterogeneous) and
- Be difficult to transfer from one firm to another (called being immobile).

Hence the mantra that they must be valuable, rare, imperfectly imitable and un-substitutable. In an HRM context, “value” refers to the potential of the human capital at hand to contribute to its organization’s core competence and enhance its competitive advantage. In thinking about how talent management may create value for the organization, a distinction is made between: the definition of valuable talent that is used, and the process of creating such value through the talent management system and architecture that is adopted. However, three things become important:

1. Talent resources are strategic assets that have the potential to create and capture value and execute business strategies.
2. Organizations must have in place talent management strategies, systems and practices that identify, develop and retain talent resources.

3. Sustained competitive advantage is only realised when a firm succeeds in organizing its internal processes, policies and procedures to exploit the potential of its valuable, rare and inimitable resources (be that elite or collective capital)\(^5\).

The most valuable “rents” that talent can create - through superior management skills and expertise – are firm-specific skills in the form of developed knowledge and relationships with customers, suppliers, and critical employees, and a deep understanding of internal technologies\(^5\).

We draw upon the general management literature to lay out a theory of value that clarifies four ways in which talent management can be valuable to the organization (see Figure 1). We explain how each process should be assumed to operate, and use this insight to suggest a series of Design Principles – and ways of thinking about the return on Investment argument. Talent specialists should use these conclusions to help sharpen the design and integration of their talent management systems.

Figure 1: Four value-driven processes within a talent management architecture

- **Value Creation**
  - Amplifying talent through
  - Renewal, augmenting and adapting current capabilities through combining individual skills with tacit organizational knowledge
  - Structured management activities and practices improving the efficiency and effectiveness of strategic execution
  - Motivating and supporting effects
  - Creating organizational learning
  - Distributed capability system
  - Knowledge acquisition, creation, capture, storage, flow, transfer and diffusion

- **Value Capture**
  - Capture through decoding and translating (isolating) mechanisms that manage:
  - Unique position of the individual in a social network
  - Nature of relationships with others in the network
  - Insights and tacit knowledge (craft know-how)
  - Structured portfolio of talent resources
  - Bundling into new capabilities to exploit market opportunities
  - Bargaining power and exchange willingness

- **Value Preservation**
  - Design and maintenance of effective governance of talent
  - Use of risk optimization, management and mitigation frameworks
  - Constructive surfacing of risks in business models to identify proportional risks and hazards of talent
  - Consideration of reputational issues
  - Modeling and retention of capabilities
  - Limiting value appropriation or leakage to competitors
  - Estimates of talent lifetime value, costs of lost talent, accelerated failure of relationships, and talent disengagement

- **Value Leverage**
  - Ability to build and acquire talent - e.g. recruiting people
  - Sustainable gains over time outweigh alternative investments
  - Individual creativity leading to novel tools, services, business models
  - Balanced perceived use value between customer and supplier of talent
  - Creation of “tone use value” in a new context
  - Contingent level of business model change,
7. How is Value Created Through Talent Management?

If we bring what we know about strategic value creation to bear on talent management, what are the critical tests that should guide the design of our talent systems? In this and the subsequent sections, we lay out a series of Design Principles that should be used to guide the design and evaluate the value of a talent management system.

To understand the strategic value of assets, we need to first ask what is value, how is it created and who captures it? There is still disagreement about what value creation actually is within the general management literature, let alone that on talent management. However, it is useful to think about the question of “value” in three ways:

1. by looking at the content of talent management (what is valuable, who values what and where the value resides);
2. by thinking about the different targets for whom value is being created by talent management (business owners, organizations, stakeholders such as society or nation states, customers, employees, or important employee segments); or
3. by looking at the processes by which value is created or generated by talent management (the mechanisms that allow value, once created by the talent system, to actually be captured and exploited beyond the individual).

Individuals – star or expert talent – can be value-creating “by acting creatively to make their job/service more novel and appropriate in the eyes of their employer or some other end user in a particular context”.

The myth of talent management?

Strategists believe the view that it is individual talent or stars who are value creating is misleading. They call it the myth of talent management. They argue that human capital is better understood as the broader “collective capital” of the firm. This capital is not something that can easily be transferred or embedded in other organizations, because:

- The knowledge that resides within stars represents only the starting point.
- A deeper organizational capability (and hence value) is only created once this knowledge has been internalised into the organization and supported by all of the supporting systems, structures, and processes.
- This is the result more of the collective interactions and interconnections between talent, than what is in the mind of any one individual.
- It is more easily built rather than bought, because such insight is very difficult to export or recreate from one organization to another.
The myth that it is individuals or stars that create the value – and the potential advantage that their intellectual capacity and insight into new value-creating possibilities represents - is actually a danger, or a risk.

In practice, star talent is only really likely to be able to add value when the level of flux in business models is low – when there is strategic stability. In such a situation the links between the sorts of knowledge that is needed have been learned, are more obvious and easier to explain, and therefore to codify in the talent system and the decisions it makes about selection and promotion. Only in low business model change environments does it become easier to:

• predict who will be successful,
• figure out what constitutes being talented (to pursue a people approach with a degree of validity) and
• to hone and improve specific talent practices that form part of the talent system accordingly.

Too much importance is given to the notion of general management potential, underplaying the value of expert knowledge. The competitive advantage of organizations in high-talent industries is increasingly rooted both in the stock of experts they can access, but also in the organizational capabilities that such talent can harness. There are risks in relying on a particular talented individual.

So, one way of thinking about the value of your talent management systems is to consider the extent to which they enable you to manage (broadly in the organization’s favour) what is called Use Value and Exchange Value.

Thinking about the Use Value and the Exchange Value of Star Talent

When strategists think about resources or assets, and how they create value at the organizational level, they differentiate two types of value:

• use value and
• exchange value.

Use value refers to the specific quality of a new job, task, product, or service as perceived by users in relation to their needs. How might we think about the use value of either procured valuable (star) talent, and the ability of the broader talent management system as a whole to generate value, by being of use? Use value requires an assessment of the novelty and usefulness of star talent, which assumes that users of the talent possess specialized knowledge so they can evaluate the knowledge of new talent. Much acquired and potentially useful talent gets rejected at birth. The perceived use value of talent management is also directly related to senior executives’ perceptions of the value they expect by investing in talent management strategies, and these perceptions vary from one
organization to another. The monetarisation of this perceived “use value”, is determined mainly at the point of purchase, and this reflects the price the customer (purchasing organization) is willing to pay for such talent, minus the opportunity costs.

Exchange value, on the other hand, refers to either the monetary amount realized at a certain point in time, when the exchange of the new task, good, service, or product takes place, or the amount paid by the user to the seller for the use value of this. In terms of exchange value, for an individual to be value-creating, there are two pre-conditions that must be created:

1. The monetary amount exchanged must exceed the producer’s costs (costs may be in terms of money, time, effort, or joy).
2. The perceived performance difference is that between the new value that is created, and the closest alternative that existed (current tasks, product or service).

It is not easy for an organization’s talent system to create this more sustainable “new use value”, nor does elite talent automatically have the ability to create such new use value. Business models require two types of knowledge:

- knowledge of the business model’s parts rather than the whole (called component knowledge); and
- a shared understanding of the interconnection of all the components, or how things must fit together, in order to deliver effective performance (called architectural knowledge).

The understanding of how these two sorts of knowledge combine is what was earlier referred to as an intellective capability. People talented for a particular business model know how to combine both types of knowledge. Business model change, then, alters the strategic value that is attached to particular types of knowledge and the way that different types of knowledge have to relate to each other.

Following a similar logic, another way is to look at how good your organization is at transferring and internalising valuable people. Strategists have also analysed how value is created when a strategic asset – any strategic asset - is transferred from Organization A to Organization B.

What does a talent system have to do to ensure use value? When strategists look at the transfer of strategic assets, they also make a distinction between what they call “initial use value” and “new use value”. It works like this:

- Use value is created in organization A.
- That value is then exchanged between organization A and B.
- A monetarised exchange value is realized.
Then the use value of the asset has to be “transformed” so that it creates the same or additional use in Organization B.

The true value of this “new use value” is only clear once that strategic asset is lost, or moves on again voluntarily to Organization C.

Valuable talent acquired externally can only be expected to create what is called an “initial use value”. A more sustainable, and valuable, “new use value” (for the acquiring organization) is only created if the talent system goes on to make a further transformation. New use value is “… created by the actions of organizational members, who combine to transform the use values that the organization has acquired”[61].

Put simply, the onus is on the receiving organization to know how to translate the potential use value talent has into useful value in the new organization context – strategists never assume that use value automatically exports.

### Five Critical Design Principles For Value Creation

The first five of our Design Principles for a talent management system, if it is to claim that it creates value.

1. Additional value is only created by ‘stars’ if it outweighs the value that is shared with them (salaries, bonuses, share rights), provides sustainable gains over time, and outweighs the efforts to manage such talent or lost productivity (through lost effort) of the alternative people who might otherwise have been invested in.

2. Individual stars can create value only through their individual creativity i.e. to the extent that they can create novel tasks, services, business models that could not have been arrived at through alternative investments. For value to be created the investment in stars has to outperform similar investment in existing resources and skillbase.

3. The greater the gap between the price the customer is willing to pay, and the price the supplier (star talent) has the power to extract (i.e. the less monopoly power the supplier has), the higher the perceived “value for money” (use value).

4. In acquiring a strategic talent asset, value is only created when organizations can put the assumed use value to work, and create “new use value” in a new context, and organizations need “decoding and translating mechanisms” for this “different use value” to yield added exchange value.

5. The ability of elite talent to create new use value is likely to be contingent upon the level of business model change, and higher only where there are relatively stable and incremental levels of change.

What are the tools, policies and practices that would help your talent system to measure up to the above?
8. How is Value Captured by Talent Management?

Talent systems need to ensure that the organization has viable options in any negotiations that take place between actors in the talent system. Organizations need mechanisms to capture, assimilate, and re-create captured know how – and commoditise that know-how – if they are not to be overly dependent on the provider of talent.

Following our theory of value, and thinking about the successful transfer of strategic assets, strategists go on to argue that to focus simply on value creation is not sufficient. They prefer the concept of value capture. The source that creates value in some way (the talent system), may or may not however be able to “capture” the value for the organization once it has been created. You need separate and additional processes to ensure this happens.

1. Artful procurement (of talent that has “use value”) has to be supplemented with processes that ensure that the value they have the potential to create is actually captured.

2. Organizations need what strategists call “isolating mechanisms” that enable them to actually capture this value. These mechanisms help decode and translate what it is that is making the individual have talent so that it can be applied more widely.

Those who believe that human capital is central to value generation obscure the importance of knowledge production – and this knowledge is only really captured through relationships. The ability of organizations and their talent architectures to capture value depends on other factors. In addition to being able to decode and translate the value that talent brings, the following must exist:

- Organizations need additional processes to “capture” that value once they have created the transferable “new use value”.
- Talent, whilst having the potential to deliver use value to the organization, might chose not to hand it over.
- The capture of value is therefore a function of the bargaining process between the actors involved (be they customers, employees or suppliers).
- The economic basis of these power relationships is a function of the organization’s perceived dependence.
Capturing the value of talent: lessons from economics

From an economic perspective, star talent are actors who have “...value creating advantages, capabilities and action potential”. To capture these, organizations need systems that can motivate and capture co-created value. Strategists draw upon the economic notion of “incomplete linkages” and “frictions” between buyers and sellers that limit the abilities of buyers to find alternatives. They use coalitional game theory to argue that:

- Organizations in effect are selling their resources to valuable talent, in the hope of capturing value from that talent.
- That value is only captured when there are freeform exchanges.
- The value offered by one coalition partner can only be decoded and captured when the resources and capabilities of all the players involved are equal.

For a talent management architecture to be effective:

- it has to entice talent to actually give of their talent,
- but then reduce the dependence of the organization on such talent (akin to the battles between regulators and investment bankers in the financial services sector).

If we bring what know about strategic value capture to bear on talent management, what are the critical tests that should guide the design – and evaluation - of our talent systems?

Three Critical Design Principles For Value Capture

There are three more Design Principles for a talent management system, if it is to claim that it captures value from talent.

1. Even where a particular employee or group of employees have high exchange value and may be seen as a vital element in a business model once provided with access to the organization’s resources, the organization (as sellers of these resources) may only capture minuscule amounts of exchange value where they have weak bargaining power.

2. In order to capture the value from talent at the individual level, organizations (and their talent management architecture) need decoding and translation mechanisms that exploit: the unique position of the individual in a social network; the nature of their relationship with others in the network; and their insights into otherwise tacit knowledge associated with the performance of a new task, service or business model (craft know-how).
3. In order to capture the value from talent at the organizational level, organizations (and their talent management architecture) need isolating mechanisms that structures the portfolio of talent resources, bundles these resources together in ways that builds new capabilities, and leverages these new capabilities to exploit market opportunities.

What are the tools, policies and practices that would help your talent system to measure up to the above?
9. How is Value Amplified, or Leveraged, by Talent Management?

Leveraging refers to the successful application of a firm’s capabilities, through processes of learning, mobilisation, co-ordinating and deploying.

Our theory of value argues that the next thing to do is to amplify the value that has been captured – make it even more impactful – so that it can be more widely leveraged across the organization. Insight into the ways in which talent management can do this come from studies that have looked at the:

• utility of resourcing practices,
• economic benefit created by the intellectual capabilities, knowledge and social capital of talent in the professional services sector,
• importance of organizational learning and high-level or meta-learning,
• management of intangible assets,
• evaluation of the efficiency and effectiveness of practices needed for the implementation of organizational strategies; and
• analysis of how firms build global capabilities and transfer knowledge.

Insights into how to argue return on investment needs from a leveraging perspective come from four sources: studies that look at the development and aggregation of the whole system; studies that examine the effects that human capital has on the firm performance; consideration of the role of intellectual capital; the identification of financial and non-financial value-based measures; and international HRM research that looks at how organizational capabilities have to be leveraged across different geographical markets and how talent management forms part of a capabilities-building and knowledge-transfer strategy. Much of this really concerns the integration of Learning and development and Talent management Centres of Expertise.

Ways of thinking about the leveraging contribution of talent management

From all of these perspectives, the following lessons can be drawn:

• Those HR processes (typically around recruitment, selection, training and career development) that reduce the cost of providing employees with relevant information, assess the “whole person” beyond just the immediate task performance needs, or increase the speed to competence (improve efficiency), all free up existing resources. They leverage investment by enabling more to be done for the same spend.

• Those intra-person (within the person) talent management practices that enable an individual to be the best they can, serving to optimise and amplify their performance, also leverage the initial investments made in that person.

• There is often a U-shaped effect, where only at a certain point does the leveraging of human capital have a positive and increasing effect e.g. firms typically pay more to employees in their early career (invest in development) on the assumption that they will recoup investment and leverage future productivity.
• Processes are needed to combine individual skills with tacit organizational knowledge in ways that leads to novel and valuable outcomes create greater human capital for the serving of customers e.g. the assignment of young talent to strategically important projects and clients, mentoring and exploitation of networks.

• Processes are needed to extract the “value components” and “drivers” associated with an organization’s strategy (such as customers, competitors, employees, information, partners, processes, services, technology) and help identify the performance-based activities that leverage these drivers e.g. the generation of new ideas that improve skills and services; structuring of resources to capture, transfer and share knowledge and interactions between such resources; and cultural reinforcers of collaboration, creativity, communication and trust.

• A set of “intangible” value drivers serve to leverage firm and market-level financial outcomes including: activities associated with customer satisfaction, brand equity, patents, and processes that focus attention on things like total quality management, business process engineering, customer relationship management, and teamwork.

• More collective processes of knowledge generation and talent management, such as those that improve: the ability of social networks to conduct conversations and have dialogue; improve the organizational capacity to combine and exchange knowledge; acquire, integrate and reconfigure important practices.

• From a knowledge management perspective, investments in talent can also be “leveraged” through: the management of a series of “knowledge integration mechanisms” such as centres of excellence, expatriate advice networks and transnational teams; a more proactive role of international mobility functions in creating social capital; and the active management of global expertise networks, based on communities of practice and social communities.

If we bring what know about the leveraging of value to bear on talent management, what are the critical tests that should guide the design – and evaluation - of our talent systems?
Three Critical Design Principles For Value Leveraging

There are three Design Principles for a talent management system to enable the leveraging of value from talent.

1. In order for organizations to renew, augment and adapt their current capabilities, they need to build processes into their talent management architecture that combine individual skills with tacit organizational knowledge in ways that leads to novel and valuable outcomes.

2. A series of talent management activities and practices are capable of being structured in ways that will leverage value by improving the efficiency and effectiveness of strategic execution, through their motivational, learning and supporting effects.

3. Organizations need to position talent management as part of a broader knowledge and capability strategy, and build a distributed capability system that combines the acquisition, creation, capture, and storage of knowledge, through activities that ensure its subsequent flow, transfer and diffusion.

What are the tools, policies and practices that would help your talent system to measure up to the above?
10. How can Value be Protected, Preserved and Retained by Talent Management?

For once HRM and strategy experts agree. HRM specialists argue the importance of ensuring that value once created and captured is not lost. Strategists and economists argue that an organization can only preserve value – stop it from being captured by others – through a series of “isolating mechanisms” that stop rival firms from acquiring or replicating a desired bundle of resources. The value of any strategic asset – including talent - has to be protected.

Finally, we consider the fourth value adding process in the theory of value, which is that of retention, protection and preservation. Our final suggestions come from a number of perspectives have helped articulate what is involved in this final value-generating (more accurately preserving) process. All the judgements below of course map over into the value of talent and talent management architectures. Imagine co-opting specialists with these insights into your talent function.

The issue of protection comes from studies and disciplines

- human capital metrics, that look at the value and utility of human resource interventions, such as salary growth and promotions on job turnover,
- avoiding dysfunctional high performance employee turnover through organizational practices that influence the performance distribution of leavers,
- the organizational benefits of retaining top talent by demonstrating that top talent produces a disproportionately large amount of output,
- the retention of top managers and other value-creating human capital in mergers based on the creation of governance arrangements that provide credible commitments and maintenance of managerial discretion,
- intellectual property rights, which identify a value chain of generation, protection utilization and appropriation needed to capture but then also protect the returns to value creation from the forces of competition,
- guarding against the threats of value leakage caused by the spread of competitive intelligence incursions and the passing of information through a supply chain or within knowledge sharing networks i.e. the more knowledge, in more heads, under less control problem,
- the question of customer value, with value models that contain ideas that can be mapped over to talent. These look at the perceptions needed in order for a customer to buy (such as wants or esteem value, worth or exchange value, and needs or utility value); or benefits-costs ratio models (that look at perceptions customer value based on the benefits received versus sacrifices incurred),
- Marketing research gives attention to: customer acquisition and customer expansion through cross-selling. At the heart of these two processes is the challenge of customer retention and the subsequent development of customer lifetime value.
Investments in talent may be viewed in all these ways, with ideas about customer lifetime value particularly relevant. Value exists in customer relationships over their whole life cycle (value is defined as the present value of all the future profits obtained from a customer over the life of their relationship with the organization). Small increases in customer retention, and the avoidance of customer defections to competitors, can lead to large increases in net present value profits under certain conditions.

Given the curvilinear relationship between human capital and return on investment mentioned in the previous section, talent management likely operates on the same basis as customers, with increases in retention having considerable benefit. This requires arguments to be developed about preserving and protecting prior investments in talent by giving value to the intensity or longevity of the relationship that the talent management architecture creates. How might this be done?

Customer retention models estimate the value of a range of outcomes:

- lost for good and brand-switching customers (talent that leaves),
- customers’s loyalty and remaining alive and repeat buying (for us talent being engaged or disengaged), and
- they estimate the cost of accelerated failure of a relationship, or the proportional risks or hazards (see the previous discussion of risk optimization and mitigation in talent management).

All of these constructs would seem to ones that can be mapped over onto the consequences of talent management systems, their practices, and the talent they spawn.

If we bring what know about the protection of value to bear on talent management, what are the critical tests that should guide the design – and evaluation - of our talent systems?

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**Three Critical Design Principles For Value Protection**

Three final Design Principles for a talent management system are:

1. The protection of prior talent investments requires a talent management architecture built around processes of: design and maintenance of effective governance of talent; the use of risk optimization, management and mitigation frameworks; constructive surfacing of risks in business models; consideration of reputational issues.

2. Talent architectures need to include processes that enable the modelling and retention of the best capabilities by limiting levels of value appropriation or leakage to competitors.
3. The utility of talent protection strategies may be captured through estimates of talent lifetime value, which includes the proportional risks, hazards, and costs of lost good talent, the accelerated failure of talent relationships, and talent disengagement.

What are the tools, policies, and practices that would help your talent system to measure up to the above?
11. Conclusions

By surfacing the assumptions made by four different talent management philosophies - talent management as a categorisation of people, the presence of key HRM practices, the identification of pivotal positions, and human capital planning and management around strategically important internal talent pools – we have shown that each perspective brings with it implicit claims about the value of talent management. However, most of these claims are in the main still untested.

Yet as this paper demonstrates, as the field matures, we should now adopt a broader set of frameworks in order to consider how individual talent, and the broader talent management architecture, is of value to the organization.

If we are to attempt to argue return on investment, then we need to design more strategic talent systems, and to do this we need to co-opt the language and thinking of other management fields, such as strategy. This is what we have done in this White Paper.

By thinking more broadly about what it is that talent is supposed to be doing, the value of this activity, and its contribution to the underlying strategic purpose of the organization, we hope we have made three contributions.

First, it has enabled us to identify the different types of value that should be provided by either individual talent or the broader talent architecture and system. The incorporation of these broader and non-HR literatures into our framework leads to the identification of a series of processes that become important, which we call value creation; value capture; value leverage (or amplification), and value protection (retention and preservation).

Second, it has helped us explain how each type of value is likely delivered in general terms, and therefore what the contribution and scope of a talent management architecture should be if it is really be effective or of value to the organization.

Third, by thinking this way, it becomes possible to organize and position many of the sub-debates and criticisms of the talent management field, linking these debates to the broader question of value.
12. End notes


Sparrow, P.R., Scullion, H. & Tarique, I. (2014) Ibid.


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