

Ram Charan: Banking on talent

If businesses managed their finances as loosely as they manage their talent development, most would go bankrupt. But there are eight key principles that, if applied rigorously, can make you rich in the currency of talent, says Ram Charan

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Thousands of organisations that are masterful in their control of finances pay scant attention to identifying and developing their leaders. Eventually this approach will land them in trouble. In the fast-changing global marketplace, where familiar competitive advantages – market share, brands and patents, for instance – are constantly at risk, talent is the differentiator between companies that succeed and those that don't.

As Ron Nersesian, head of Agilent Technologies' electronics measurement group, says: "Developing people's talent is the whole of a company. Our products are all time-perishable. The only thing that stays is the institutional learning and the development of the skills and capabilities in our people."

Working for years with organisations that we call "talent masters" has led Bill Conaty (formerly head of HR at General Electric) and me to distil what we have observed into eight principles. Talent masters follow these principles with remarkable consistency, regardless of their stage of development – and any organisation can use them to diagnose its own talent development process.

1 A leadership team that "gets it" – beginning with the CEO

The starting point has to be a leader who sees talent as a competitive differentiator and makes a commitment to devote time and energy to developing talent. Most leaders pay too much attention to numbers and don't have enough energy or insight to figure out what causes superior performance in people. We have found that talent masters typically spend a quarter or more of their time spotting and developing leaders – whom they also expect to be equally committed to talent development.

Leaving immediate supervisors to identify future talent is not effective because their perspective on leadership may be narrow. When senior leaders are personally involved in identifying and recruiting people, the quality of the people entering the talent pipeline improves and leaders develop faster.

2 Explicitly defined and articulated values

Values should make it clear what is expected of both leaders and employees. Leaders should model the desired behaviours constantly and link reward and progression – or exits – with the values. So, if collaboration across silos is an organisational value, leaders should seek out natural collaborators and give them faster opportunities to develop, providing that they have other requisite leadership skills. If, say, they are doing well in Europe now, send them to India next year to stretch them and see how they develop in a different environment.

3 A culture of trust and candour

This may be the hardest part of becoming a talent master, but it's a key requirement. You can develop the right people only if you know who they are – and for that you need accurate information about people's abilities. Unlike information about business performance, which can easily be expressed in numbers, reliable information about individuals can come only from allowing people to speak candidly. They have to be able to trust the system to respect their candour and not squash it with hierarchical power or fear.

The culture of candour will exist in relation to talent only if it exists across the organisation as a whole. People should be coached to say what they see and think, while leaders should expect to hear opposing views without squashing them. This is especially important in today's information age, when it's impossible to keep the truth hidden for long.

Talent masters try hard to instil candour into all interactions, whether in group settings or in one-on-one meetings.

4 A goals and results orientation

Relate your leaders' and future leaders' goals to their personal development and their ability to develop others, as well as financial goals – and discuss how these goals relate to each other. Track progress between formal reviews through conversations either face to face or on the phone. Informal communication is better because it is more conducive to discovering the connections between leaders' talents and the business's performance.

5 An understanding that differentiation breeds meritocracy and sameness breeds mediocrity

This principle concerns ensuring that high performance is about more than merely meeting financial targets. Without exception, talent masters dig into the multiple causes underlying performance so that they can reward leaders according to their real talents and behaviours. These almost always include people-related behaviours, internal organisational issues and external factors.

Talent masters take corrective action by giving greater opportunities for high-achievers (see principle 2) and administering appropriate consequences for poor performers. That means delivering honest feedback, coaching people, moving them to another area where they can flourish or, if all else fails, moving them out. The key lessons here are that genuine performance-based management systems cover multiple factors, take qualitative judgments into account and build on people's natural strengths.

6 A rigorous approach to talent management

Talent masters review their people strategy as thoroughly and regularly as they review their operations, business performance, strategy and budgets. They have the discipline to look forward by segment and plan appropriately, asking questions such as: how many country managers will the organisation need in two years' time, where will it find them, who are the leaders of the future and how can it speed their development? It's akin to a chief financial officer saying: "I need to refinance our debt by 2013. How do I plan for that?"

Talent masters look at the bigger picture and integrate their review of people strategy with all the other strands of running the business, gathering and updating the information over time. Although people systems aren't required by law, talent masters understand that they are critically important to the organisation's longevity. They develop a rhythm and rigour in managing talent.

7 A business partnership with HR

Talent masters use HR leaders as active and effective business partners, raising them to at least the same level as the chief financial officer. Just as the CFO is the trustee of the financial system, the chief HR officer is the trustee of the people system. These disciplines are the right and left hands of the CEO – and we will see an increasing number of chief HR officers rise to become CEOs in such organisations.

To make this leap, an HR officer needs to have demonstrated business acumen. An increasing number of MBA graduates are going into HR and more HR people than before are attending financial courses. This is a positive sign. But there is no better builder of business acumen than profit-and-loss responsibility.

8 Continuous learning and improvement

Talent masters constantly refresh their “leadership brand” in order to attract the best talent. Refreshing doesn’t mean changing the core brand; it means updating what is required. A company’s core leadership brand may have been that it is fantastic at producing leaders who operate brilliantly in the US – but now they need people who can do equally well in India or China. Talent masters are never satisfied with the status quo. They continue to innovate their leadership brand because it enhances their business brand. They expect their leaders to learn and grow continuously as well