



3 rules for talent management

Principles to sustain success

- there is **no best practice solution** that will work anytime, anyplace, anywhere
- but there are **three principles** that represent robust criteria to guide what to do and how to do it in the design and implementation of talent management
- these three rules provide actionable insights to **optimise the odds** that your talent management game plan will succeed

The challenge

Where do we start, and what do we do, if we are:

- an established professional services firm looking to reinvent ourselves for a different future
- the Catholic Church in Ireland facing a shortage of priests
- an ambitious mid table Premier football team without the deep pockets of a wealthy owner
- a major blue chip multinational alarmed by the threat of new competitors
- a school in an inner city that is finding it difficult to attract a head teacher
- a high street retailer faced with the challenges of survival in an on line world
- a global bank that is shifting the balance between the corporate centre and its different business activities across the world
- a successful start up planning an aggressive expansion programme

“If I had an hour to solve a problem I'd spend 55 minutes thinking about the problem and 5 minutes thinking about solutions.”

Albert Einstein



Overview



The talent management industry is a “blooming, buzzing confusion” of competing points of view and a clamour of conflicting solutions. For many practitioners the design and implementation of talent management processes has become a frustrating experience¹.

We can either attempt to turn the handle of established “best practice” faster in the hope that greater effort will accelerate effective execution, or we can stand back, and ask:

what are the fundamental principles of successful talent management?

Successful talent management doesn't have to be complicated. In fact the rules of enduring success may be very simple. Mirroring a recent piece of research that identified the three rules of exceptional corporate performance, we outline our version of the three rules of talent management - simple, accurate and generalisable principles - to guide the positioning and implementation of a coherent game plan.

- **Rule 1: situation beats solution**
- **Rule 2: shift the dynamics of talent supply and demand**
- **Rule 3: what doesn't change out-trumps what does change**

In search of the dynamics of organisational success

Since the popularity of “In Search of Excellence” in the 1980s to the more recent wave of business success publications² we look to the exemplars of exceptional corporate performance to identify the practices that drive success. These have become our role models of progressive practice.

As it turns out, often we’ve been looking in the wrong places. Rather than locate the habits of superior and sustained performers we’ve largely been reviewing the conclusions from a snapshot in time of the lucky random³. Unsurprisingly the future success of many of the acclaimed corporate super stars has been disappointing, and the attempt to adopt their “success habits”, an unsatisfactory experience.

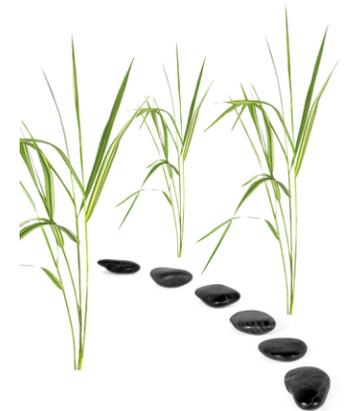
In an ambitious attempt to address the limitations of the standard success programme, Michael Raynor’s research team embarked on a detailed and comprehensive review⁴. This was not the typical data grab of a highly selected or narrowly defined grouping of organisations over a short time scale. It drew on a database of 25,000 organisations from 1966 to 2010 to highlight 344 exceptional firms which met the criteria of genuinely superior and sustained business performance over the long run.

The next challenge was to work out what this remarkable group of corporate achievers had done to differentiate themselves from their competitors? What were the organisational dynamics that helped them pull away from their business rivals to attain and maintain enduring and exceptional success?

The research team examined every possible permutation of factors that might explain this level of success. On first analysis, there was no consistent pattern.

“Every hunch led to a blind alley, and every hypothesis to a dead end.” Nothing; until the researchers instead of working out what the exceptional performers did, **looked at how they thought.**

From an array of very different business strategies and organisational tactics from the exceptional firms, a picture emerged. The pattern was remarkably simple. **Sustained and exceptional corporate performance hinged on the mind set of the executive team, and a recognition of three principles.**



Three rules for exceptional performance

The Three Rules is a summary of the **principles of business success** that apply to any firm, regardless of the circumstances.

Rule 1: Better Before Cheaper. Superior and sustained performers compete on benefits rather than price. This isn't the argument that organisations should ignore competitive pricing. It is the principle that exceptional success is more likely to result from competing on quality rather than from a race to the bottom of the market. Faced with a strategic choice, value is always prioritised over lower pricing.

Rule 2: Revenue Before Cost. If Rule 1 identifies the dynamic that creates value for customers, Rule 2 indicates how exceptional firms achieve profitability for themselves vis a vis their competitors. Exceptional firms choose an improvement on sales over another round of cost cutting. Again this rule is easily misunderstood. It is not the suggestion that successful organisations are complacent about their cost base, but that the path to achieving and maintaining exceptional levels of performance lies more in sales improvement than a regime of cost cutting.

Rule 3: There are no other rules. In case there was any danger of thinking there must be something else, Rule 3 is a reminder that no other factor emerged as a consistent determinant of exceptional performance. This is the rule that outlines what organisations should not do. Any initiative or programme that might undermine the application of the first two rules is to be avoided.

“No matter the topic, no matter the conventional wisdom, we could not find a single would-be rule that remained intact. Regardless of circumstances, regardless of the constraints, the top performers were doggedly persistent only in the adherence to the first two rules.”

Michael Raynor



The three rules of a good rule

It's tempting to ask: "is that it?"

What about the breakthrough ideas that business gurus like Tom Peters and Jim Collins outlined as the stuff that organisations should adopt? What happened to Stick to the Knitting, BHAGS and the Cannonball and Bullets concept?

The tough answer is not much. These were the conclusions drawn from a skewed sampling of firms that were "cool" at the time but haven't cut the mustard when their long-term performance was evaluated. They don't represent what Jim Collins in his formula suggested were the "timeless and enduring principles" of business success.

The Three Rules is a bracing alternative to the colourful anecdotes of high performing, but carefully cherry-picked firms associated with the business success genre. Given the evidence base, The Three Rules however are a stark reality of the fundamentals of sustained business performance⁵.

There are many different routes to enduring success (e.g. innovation, smart tactics in mergers and acquisitions, an obsession with the customer). Ultimately exceptional performance hinges on a mind-set that puts **Better before Cheaper** and **Revenue before Cost**, and ensures that this operating model is maintained, and that any organisational initiative is scrutinised to check if it supports this business stance.

Like any good rule, The Three Rules follow the principles of:

- **simple.** Organisational life is complicated. Many variables interconnect in complex ways. A good rule identifies a fundamental truth that makes sense of fuzzy ambiguity.
- **accurate.** A good rule works. It doesn't of course explain or predict anything and everything. But it has an actionable insight that improves the odds of getting it right, or at least "right enough, enough of the time".
- **generalisable.** Some rules are very specific and bounded within a particular context and set of circumstances. A powerful rule incorporates high generalisability and provides validity across a range of situations.



Talent management and three rules

In the spirit of applying The Three Rules of exceptional corporate performance to talent management, we asked:

What are The Three Rules that provide a simple, accurate and generalisable blue print to guide practical action for talent management professionals?

Are there any generic principles that can be applied, regardless of organisational context and circumstance to identify an agenda for talent management that succeeds?

- **Rule 1: Situation beats solution.** This is the principle that there is no best practice that represents a talent management answer. Talent management, and its positioning, philosophy and priorities must be aligned to the distinctive dynamics of organisational context.
- **Rule 2: Shift the dynamics of talent supply and demand.** Much talent management assumes there is a limited supply, and we are engaged in a war to locate this talent before our competitors. This second rule is a reminder of the flexibility of both demand and supply, and how imaginative thinking about the interplay of demand and supply opens up new options.
- **Rule 3: What doesn't change out-trumps what does change.** We can find ourselves caught up in the pursuit of the next new and shiny thing to transform our talent management fortunes. Rule 3 recognises the reality of established and known fundamentals that remain constants within organisational life.



Rule 1: Situation beats solution

There is a range of techniques, tools and tactics available from the talent management industry. In a noisy market place each vendor shouts loudly that their offering is the answer to the question our organisation is asking.

No doubt some of these solutions are useful in principle. And some are better than others. But the efficacy of any talent management solution depends on context. When we review our priorities in talent management, should we, for example:

- introduce personality testing within selection to improve recruitment success
- invest in an organisational-wide strengths-based development programme to support induction
- implement creativity training to embed innovation within our culture
- incorporate 360 feedback processes within the performance management system
- establish a cross functional talent review to build broad based leadership capability
- formalise succession planning processes within a systematic software system
- design a dash board of talent analytics to shape top team discussion about corporate performance

And the answer is it depends. Not on the noise of the marketing of the solution, but on our organisation's dynamics; its past and the legacy of what it has and hasn't done; its present and the challenges it now faces; and its aspirations and intentions for the future.

Talent management has found itself in an awkward position in which the agenda is largely being shaped - not by an informed analysis of the specifics of the distinctive challenges facing our organisation - but by the marketing hype of the talent management suppliers.

Rule 1 suggests that we postpone the adoption of any solution until we have clarified the key issues facing our organisation. This is to begin the hard work of thinking strategically about the positioning of talent management before the relatively easy part of implementing specific processes or practices. This is talent management as identifying:

- the ambition and clarity of our strategic aspirations
- our organisational structure and the design template which coordinates collective effort
- the dynamics of our culture and the kind of operating style that represents our way of doing business

to determine the “philosophy” and focus of our talent management efforts.

It is also talent management that is shrewd in evaluating our organisational maturity to assess the art of the possible given current levels of commitment and capability.

This isn't a complicated or convoluted or time consuming process, although it does ask some tough questions. This is talent management as a craft⁶.

Rule 1: Situation beats solution



The application of Rule I helps our thinking about talent management.

Firstly it asks: **what is distinctive** about our organisation given the interplay of its strategy, structure and culture, and what role should talent management play in its business success?

Secondly, it helps us **prioritise**. From the spectrum of talent management practices - from initial recruitment to senior team succession - which activities are absolutely critical to our plans?

Thirdly, it is an important reminder that **“stuff only works in context”**. We save ourselves organisational time and trouble if we avoid the good in theory but terrible in practice solution. Is our talent management strategy implementable to shape an agenda of tactical excellence?

Rule 2: shift the dynamics of talent supply and demand

Rule 2 highlights how a rethink of the fundamentals of talent demand and supply opens up new possibilities.

Much thinking in talent management has operated around the assumption that there is a limited supply of talent. “The War For Talent” for example exhorted us to direct and focus our efforts through an aggressive programme of talent acquisition to buy in or build “the best”.

Implicit in this model is the sense that there is a relatively small number of individuals in possession of the right stuff, and our competitive future will only be secured through the speed and size of our corporate pockets to identify and attract these individuals quicker than our business rivals.

When:

- **demand** is tightly defined by the organisational hierarchy requiring a pipeline of talent to progress through increasing levels of responsibility and organisational success hinges on the few at the top
- and **supply** is accessed by the attraction and acquisition of the “bright, beautiful and best” whose credentials are established by the formal educational system and whose subsequent status as organisational high flyers is defined by career experience within established blue chip firms

it is unsurprising that our resourcing options became restricted, and that a “war for talent” would commence.

When very different organisations decided to scramble for the same supply of “rare” talent using remarkably similar methods, an artificial scarcity of talent was bound to emerge. This market place of artificial scarcity was reinforced by some in the talent management industry who had a clear interest in highlighting the difficulty and cost of accessing and rewarding this limited supply of talent.

Unsurprisingly this era of talent management witnessed a massive increase in compensation for the New Few, but with damaging consequences for corporate performance⁷.

Rule 2: shift the dynamics of talent supply and demand

Rule 2 states that there is nothing fixed about demand or supply. If we are willing to rethink:

- how work gets done
- who can do this work

we open up a new talent management agenda.

Rule 2 does not forget that the operating model of some businesses does require access to genuinely rare expertise and skill-sets. But it is an important reminder that demand and supply are not fixed. Talent demand and supply can be redefined, and an imaginative rethink will access, develop and retain talent quicker and more cost effectively than our competitors who remain stuck in an outdated model of talent management.

Rule 2 helps us explore opportunities to be smarter in the selection of a talent management strategy and the specific tactics we deploy to ask:



- **is our operating model sustainable over time?** Are we realistic in the demand we require? Do we need to shift our assumptions about the talent - how much, where and when - we need?
- **what changes in our organisational structure would make it easier to acquire and deploy talent?** Would a shift towards more or less decentralisation for example make it easier to locate talent? Do we need to be more or less prescriptive in how we define work level requirements?
- **what infrastructure of process, technology and knowledge management will enhance overall productivity and innovation?**
- how is our **organisational culture**, and the balance between individual and team effort, for example, helping or hindering talent acquisition?
- **which talent do we need to “own”** vis a vis talent that can be accessed through any permutation of partnerships and networks?
- how does a rethink of our requirements **shift the type of talent we need in which functions and at which level?**
- what assumptions have we been making about where best to look for talent; which **unusual or new sources** of talent will provide a greater supply of talent?

Rule 2: shift the dynamics of talent supply and demand

Warren Buffett famously said:

"I try to buy stock in businesses that are so wonderful that an idiot can run them. Because sooner or later, one will."

If our operating model is dependent on a relatively small number of individuals or on our ability to access rare talent, our business may be fragile. It will certainly be vulnerable to the competitor who is more fleet footed in shifting their talent requirements.

Alternatively if we have unrealistic expectations of the talent we need or keep looking for talent in expensive places we may be out-manoeuvred by those rivals who are more insightful and imaginative in identifying new sources of talent.

Rule 2 is not an appeal to minimise the potential business impact of individual talent or, increasingly, talent in collaboration within teams. For most organisations their competitive success continues to hinge on the productivity and innovation of the talent they can access.

But it suggests that if we are caught up in an expensive war for talent, we should shift the rules of engagement of demand and supply to fight a different battle.



Rule 3: what doesn't change out trumps what does change

The talent management industry maintains its momentum through the refrain that “change is the only constant”.

This is talent management as a flurry of activity from the business schools, consultancies and specialist providers predicting pending disaster based on wildly extrapolated bio-demographic patterns or a revolution in workplace design. It is also the marketing blizzard of constant announcements of the next big thing in assessment, a transformational concept in leadership development, and a breakthrough software programme for talent technology.

This is Chicken Little forecasting that the sky will fall on our business heads unless we change our ways and sign up to the latest shiny talent management proposition. Typically this message is accompanied by the profiles of companies currently perceived as cool and successful who have adopted leading edge practices. The implication is that we are falling behind the curve and must move quickly to adopt these new winning processes.

“There's a question that comes up very commonly: what's going to change in the next five to ten years?”

But I very rarely get asked, What's not going to change in the next five to ten years?

Jeff Bezos, Amazon



Rule 3: what doesn't change out trumps what does change

Rule 3 outlines the fundamentals that don't change all that much. These are important realities that reflect human nature, social interaction, organisational politics and corporate change and represent the constants we must accommodate in the design of a sustainable talent management game plan.

And explain, for example, why:

“Our approach is very much profiting from a lack of change rather than from change.”

Warren Buffett



- an investment in recruitment to make the right appointment decision will out perform training to fix selection mistakes
- robustness in how we manage today's performance is preferable to any system that claims high levels of accuracy in predicting tomorrow's performance, and why the validity of objective assessment is stalling, and possibly falling
- simple solutions that help us make progress today should be implemented, and complex projects that make extravagant promises of “massive impact” for tomorrow should be abandoned
- talent management activity that runs any risk of undermining organisational trust is best avoided
- we need to rethink who is rewarded for what
- trial and error based on experimentation, piloting and rapid feedback and incremental improvement will beat any attempt at big bang perfection, and why organisations waste huge amounts of money on over-engineered talent technology solutions
- organisations that are willing to experience the short-term pain of diversity will see significant longer-term gains
- we have to consolidate succession plans, but shouldn't be too surprised when our efforts then collect dust

Rule 3: what doesn't change out trumps what does change

Rule 3 isn't an appeal to the kind of conservative scepticism that suggests "there is nothing new under the sun". Quite the opposite. There is much innovation if we look in the right places.

Rule 3 argues that an attention to key fundamentals will yield bigger dividends than the adoption of the latest whiz bang tactic from the talent management industry. And if we forget these fundamentals we might implement measures that, far from optimising business impact may, turn out to be counter-productive to our organisation's well being.

Rather than be too impressed by the latest innovation from what we are told are "best practice" companies, we ask:

- **does this practice "work" anywhere?** The issue here is not that the practice is being used, or being applied by any number of progressive firms, but is there a connection between the practice and sustained business performance?
- **if it works, will this practice work within this organisation?** The practice may have validity elsewhere, but will it work for us, given our strategy, structure and culture, and organisational maturity?
- **if it will work for us, is there any potential downside over time?** Rarely does a talent management practice have no downside. Apart from considerations of cost and time, do we know the specific downside? Is this a downside we can manage to avoid any negative consequences? Do the benefits of the upside exceed the risks of the downside?



What happens when we break the rules?

These three rules represent a decent start to outline the working principles of effective talent management practice.

And there is a well known talent management experiment that looks at what happens when we break these rules.

The War For Talent in 2001 was not modest in its claims of the business impact of its five talent management imperatives.

Based on research that was “fortified by five years of in-depth research on how companies manage leadership talent, including surveys of 13,000 executives at more than 120 companies and case studies of 27 leading companies” it found:

“the companies that scored in the top quintile of our talent management index earned on average, 22% higher return to share holders than their industry peers”

And that those that adopted this talent management could:

“expect huge impact in a year”, and if you don’t “you are not being sufficiently aggressive.”



What happens when we break the rules

The War For Talent, despite its popularity and impact on talent management, broke the rules of talent management.

Rule 1: situation beats solution.

The prescriptions of The War For Talent claimed universal application. A few organisations who adopted this formula have succeeded. But for the most part this success formula has been a dismal disappointment, and for some firms an unmitigated business disaster.

Rule 2: shift the dynamics of talent supply and demand

The War For Talent was predicated on organisational speed to access, reward and retain a limited supply of talent. And here the demand for talent was outlined simply as: *“talent is the sum of a person’s abilities - his/her intrinsic gifts, skills, knowledge, experience, intelligence, judgement, attitude, character and drive. It also includes his/her ability to learn.”* And if anyone doubted their ability to access this talent, we were informed that: *“you simply know it when you see it.”* Here there was no sense of the context shaped by the shifting dynamics of demand and supply. Instead this was a recommendation for organisations to rush to the talent hills in search of what we now know was “fool’s gold”.

Rule 3: what doesn’t change out-trumps what does change

The War For Talent was urgent in its appeal that organisations should rethink their talent mind set and implement measures to acquire and reward the “best” people through an aggressive programme to differentiate the A, B and C players. It forgot a fundamental: the complex interplay of human nature, social interaction and organisational politics. In embarking for example on this kind of differentiation through forced ranking, firms also saw a decline in organisational trust and innovation⁸.

What happens when we break the rules

We have now had around 15 years to track the business performance of the showcase firms profiled as exemplars of the imperatives. What was the impact of The War For Talent formula?

Organisations who adopted this talent management success solution, have for the most part ranged from disappointments to disasters⁹.

As Jeffrey Pfeffer observed:

"It's bad enough that fighting the "war for talent" has companies fighting the wrong war, often using the wrong methods. But there is an even worse problem, namely the consequences that are unleashed by even waging the talent war in the first place."



The three rules of talent management

Rule 1 highlights the value of critical analysis to assess the specifics of our organisational situation. Here we postpone the evaluation of any talent management solution until we have identified the distinctive issues facing our organisation, and specifically understood the interplay of our strategy, structure and culture. **Rule 1 helps us work out the overall strategic investment of our talent management effort.**

Rule 2 is a reminder of the importance of imaginative thinking in how we define the demand and supply of talent. Rather than limit our talent management responses to “buy in or build” the “best” people within our existing organisational hierarchy, it encourages us to think about alternative definitions of demand and supply. Rule 2 helps us spot how a shift in structure or new collaborations with partners can locate a new supply of talent for our business. **Rule 2 informs how we should direct our strategic investment in talent management.**

Rule 3 is an appeal to common sense and wise judgement in the review of our talent management tactics. This is a mind set that draws on evidence based practice to ask: will this have a positive impact on my business? **Rule 3 identifies the tactics that should be deployed for most organisational impact.**

“Who would cross the Bridge of Talent Management must answer these questions three!”

With apologies to Monty Python and The Holy Grail

<http://www.youtube.com/watch?v=pWS8Mg-JWSg>



Notes

1. Today's Biggest Talent-Management Challenges;
<http://blogs.hbr.org/2010/03/todays-biggest-talent-manageme>
2. There have been over 20 high profile success studies that attempt to link organisational practices to measures of corporate performance. The methodological problems are summarised in:
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4. The Three Rules, Michael Raynor, 2013;
<http://www.iveybusinessjournal.com/topics/strategy/three-rules-for-exceptional-performance>
5. The major criticism of The Three Rules is that they are better suited to the “what” of business success than identifying the “how” that achieves this strategic position;
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7. The New Few. When a conservative writer suggests that the market for “top talent” is rigged, it is clear that the laws of demand and supply are not working well;
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