Making a Market in Talent

A 21st-century company should put as much effort into developing its talented employees as it puts into recruiting them.

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Savvy companies understand the competitive value of talented people and spend considerable time identifying and recruiting high-caliber individuals wherever they can be found. The trouble is that too many companies pay too little attention to allocating their internal talent resources effectively. Few companies use talented people in a competitively advantageous way—by maximizing their visibility and mobility and creating work experiences that help them feed and develop their expertise. Many a frustrated manager has searched in vain for the right person for a particular job, knowing that he or she works somewhere in the company. And many talented people have had the experience of getting stuck in a dead-end corner of a company, never finding the right experiences and challenges to grow, and, finally, bailing out.[1]

In a modern, networked, and knowledge-based business environment, intangible assets (such as skills, reputations, and relationships) generate the highest value. Effective resource allocation means unleashing the value of talent by mobilizing talented people for the best opportunities—including, in particular, opportunities to become even more developed by finding work that creates distinctive new skills and knowledge.

As global markets become more dynamic and competitive, companies will need to deploy talent even more flexibly across broader swaths of the organization. Since management must develop and execute value-creating initiatives so quickly, talent is becoming more critical to corporate performance, specific needs for talent are more unpredictable, and companies must develop talent more rapidly than ever.

Research demonstrates that companies with enlightened talent-management policies have higher returns on sales, investments, assets, and equity.[2] But most large companies aren't set up to allocate talent easily across the traditional organizational silos that stand as their most prominent structural feature. By offering and transacting job rotations and arranging development opportunities for talented workers, managers may foster talent management within particular corporate silos. But this approach fails when, as now happens more and more often, a company seeks to achieve talent synergies across the breadth of its operations.

Fortunately, some of the largest and most talent-driven companies are beginning to shatter the old orthodoxies. By developing internal talent market-places, these companies are giving managers the best opportunity to mobilize the talent they need for success while giving the most talented people better opportunities to utilize and develop that talent. Like knowledge markets,[3] talent markets become strong by leveraging individual self-interest to drive enterprise-wide collaboration rather than by relying on top-down mandates to rotate jobs. The goal isn't simply to clear the market but to help a company get its work done more effectively and to increase the value and allegiance of talented workers by expanding their company-specific knowledge. Many of these companies also find that allocating talent effectively can make an enormous difference to important outcomes, such as profit per employee.[4]

Stuck in silos

Most companies typically allocate roles through personal connections and transactions between individual bosses and individual employees or within small groups. Managers find it difficult to know who among a company's talented workers would be the best person for an available position; ditto for talented people who want to know what opportunities exist around the company and whom they might like to work with.

Some people thrive in such settings. But for many talented workers seeking personal-development opportunities, this approach resembles trying to fit square pegs in round holes. They might develop more appropriately in opportunities outside the silo they work in, but companies aren't set up to allocate talent easily across broader segments. Managers, for their part, may be forced to choose among a small talent pool of people whose skills and experiences aren't right for the job.

This predicament is a common one because most companies have traditionally spent most of their energy improving the quantity and quality of their line-management talent as opposed to other types of professional employees. Companies focus the greater part of their efforts on helping managers move up the line-management hierarchy and become better general managers. They usually spend less time developing the people who have the talent required to cultivate distinctive client relationships, to tailor products for distribution channels, or to negotiate superior contracts with suppliers. The rewards of line management motivate talented people to seek line opportunities over professional ones.

Using this approach—one built from a paternalistic, hierarchical mind-set—senior managers or human-resources (HR) departments are expected to create opportunities for the most talented people through formal job rotations and career-development policies. It may foster talent management within a particular silo, but when resources and synergies across silos are required, the conventional company is hamstrung. Some of its people may have specific knowledge but lack breadth. Others may have the requisite knowledge but lack project-management skills (or vice versa). Since the company's employees were hired for conventional work, they may not have sufficient intrinsic skills—personal leadership, creativity, or even raw intellect—to do the job. Frustration runs high, since employees who don't want an assignment may get it, while those who might want it are either unaware of the opportunity or not invited to apply.

Some companies have tried to use the corporate HR office to hire, train, and promote talent as "corporate property." Such efforts not only are generally restricted to a few hundred people (even in large companies) but also usually develop people for specific functions, not broad roles. Employees with diverse skills (for example, project management), knowledge (such as familiarity with China), or entrepreneurial, self-directed instincts are often neglected. Anyone handpicked for such a program must usually relocate frequently, which discourages many talented people.

The fact is that such traditional hierarchical models, which "push" resources to where companies deem them to be needed most, are proving much less efficient in deploying and developing talent and should be replaced by approaches that instead "pull" knowledge and talent.[5] A marketplace—a talent marketplace—is one such effective device for managing talent in today's increasingly fluid business environment.

Talent marketplaces

Law firms and other professional-services groups, academia, and R&D units often have informal talent marketplaces where senior people try to find the best junior employees and the best junior employees can choose the most attractive assignments. These marketplaces generally follow informal rules of conduct and work best when the market members are fewer than 100 and know one another.

In the complex corporate world, which involves thousands of professionals and managers, the best approach is formalizing the talent marketplace—that is, a managed marketplace created to bind the interests of individuals to the interests of the company. A formal talent marketplace doesn't come into existence naturally; a company must invest in it to ensure that it makes a fair exchange of value to both parties in a transaction—otherwise, it will fail. Formal talent marketplaces can develop around functional areas or managerial roles. Large companies with a formal talent marketplace include American Express and IBM.

Conditions for success

Talent markets are most appropriate for large (and growing), complex, and **talent-driven** companies

A talent marketplace isn't for all types of employees. The majority of those at most companies are workers in the traditional sense: individuals who have skills that are largely interchangeable and can be managed adequately through line supervision. These employees might operate a large bank's call center, work in a big-box retailer, or drive a truck for a logistics provider—jobs where the work is tightly managed to specified processes. For such employees, the traditional line-driven approaches still work. Talent marketplaces also may not be necessary for smaller companies and for companies that are less global and have fewer organizational silos, because these types of organizations find it easier to allocate talent effectively.

Talent markets are most appropriate for large (and growing), complex, and talent-driven companies—companies with a significant proportion of their employees engaged in the complex, judgment-based work that economists call "tacit" interactions (see "Competitive advantage from better interactions," in the current issue). Even in these companies, talent market-places may be most appropriate in limited arenas (for example, functional groups such as product design or software engineering). And they are most appropriate for junior and midlevel talent, not for a company's most senior leadership, where a highly intermediated process is more appropriate for matching talent to roles.

Talent markets in action

How might talent market transactions work? First of all, any marketplace must define what is being traded, how it is priced, and the operating protocols and standards. To facilitate exchanges, a formal talent marketplace also needs "market makers": usually central human-resources staff in the case of managers, or staff assigned to help a formal network executive (who might head, say, a center for software design) in the case of specialized professional talent.

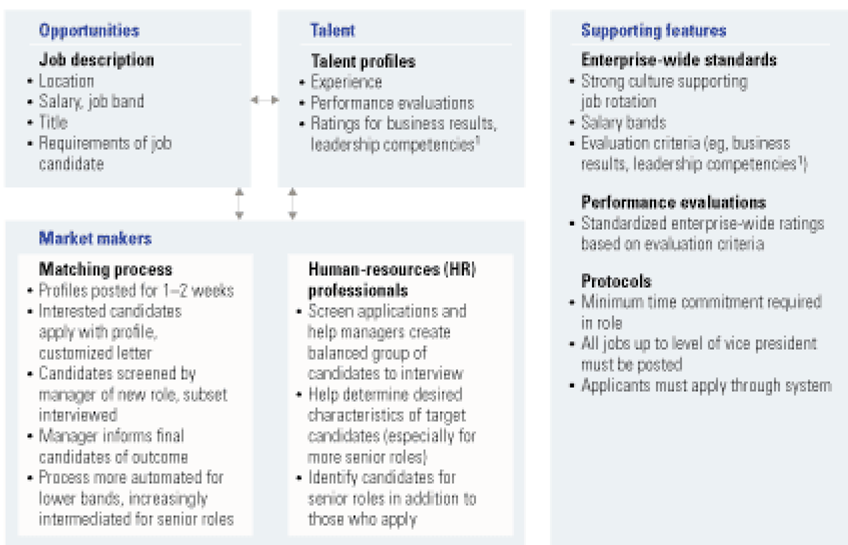
Market makers must be allowed to show each party confidential information (such as performance reviews) related to an assignment. This requirement protects the interests of both job seeker and would-be employer, facilitates "contracting" for assignments by the parties involved, and ensures that the terms of the "contracts" are honored after the fact.

A certain global corporation has such a company-wide talent marketplace, which focuses on employees from lower management to vice president (Exhibit 1). The process begins when all open opportunities are posted on an internal Web site for a minimum of one or two weeks. The description summarizes the assignment and notes whether it is a full- or part-time one. It also specifies its duration, location, salary and job band, and title; important characteristics of the person who will fill the role; its educational and experience requirements; and other factors.

EXHIBIT 1

Key elements of a talent market

Disguised example of global company



[1] For example, entrepreneurial orientation, people development.

Employees who have fulfilled the time commitment in their current job contracts can apply for a new job by using the online system to submit an application that responds to the requirements in the job description. The manager of the employment opportunity can also search an electronic database for candidates who haven't applied.

The manager of the new position screens applications and chooses a subset of the group to interview. An HR professional helps with the screening and ensures that the manager has a balanced group of candidates. In the end, the manager informs all of them of the decision. The winner, of course, receives a contract, which specifies the minimum time he or she is required to hold the assignment before applying for a new position. This matching process is more automated for lower job bands and more intermediated for senior roles (Exhibit 2).

EXHIBIT 2

Fitting the process to the role

Disguised example of global company

Type of talent market	Open	Partly intermediated	Fully intermediated
Job level	Below vice president	Vice president	Senior vice president and higher
Job band	Band X	Band Y	Band Z
Minimum time in role	1–2 years	2–3 years	3+ years
Job postings	All jobs posted on Web site enterprise-wide for 1–2 weeks	All jobs posted on Web site enterprise-wide for 1–2 weeks	Jobs, roles identified in review meetings
Identification, application of candidates	Unsolicited applications submitted online through automated system	Unsolicited applications submitted online through automated system; Human resources (HR) helps identify additional candidates and invites them to apply	Candidates identified by senior executives in review meetings—based on interests, talent, needs of company
HR role	Screens applications, ensures interviewing manager has balanced group of candidates to interview, facilitates process	Screens applications, helps identify additional candidates, facilitates process	Works with senior executives to identify desired characteristics of applicants (eg, specific leadership competencies[1]) and candidates who are good fit for role; facilitates process

[1] For example, entrepreneurial orientation, people development.

Three important design features further support this talent marketplace. First, performance evaluations, which are conducted across the company, have several standardized components that promote comparisons among candidates. To help the market function smoothly, jobs have minimum time commitments (usually one year for lower-level managers and three for vice presidents) to ensure that managers don't have to scramble to fill positions before the people who hold them have finished the job. Finally, enterprise-wide standards (such as salary bands) are defined for all levels, from entry through senior leadership, thus facilitating comparisons across the company.

Breaking with tradition

The differences between such a formal talent marketplace and more traditional approaches to talent management are considerable (Exhibit 3). A formal talent marketplace makes employees (rather than line managers or HR professionals) responsible for managing the greater part of their careers. Second, it explodes the idea that senior managers "own" talent. In a talent marketplace, employees are "restricted free agents" (the restrictions define, for example, pay grades and terms of service). They are expected to find the best opportunities for themselves, and the market opens up a nonprice-based competition across a range of candidates and job alternatives.

EXHIBIT 3

Formalizing the marketplace

Elements of talent-assignment system	From	To
Relationship between employer and job seeker	Employee is 'owned'; loyalty is expected	Employee manages and directs career; loyalty is earned
Market definition	Silo-based (ie, within 1 organizational structure)	Enterprise-wide market
Competition	Job seekers have limited choices; job 'owners' have limited number of candidates to consider for roles	Open competition among wide range of candidates for wide range of alternative jobs
Terms of employment	Largely implicit contract between employer and employee, with limited definition of terms of employment and limited documentation of agreement	Explicit definition of terms of employment (ie, role, duration, place of work, trigger points for negotiation); 3rd-party enforcement of terms
Protocols	Implicit (or dependent upon negotiation)	Explicit definition of protocols for contracting process, terms of contract, and process of ending assignment
Exchange mechanism	None other than individual trust	Human-resources (HR) 'broker' to protect confidences and interests of both employer and employee
Pricing	Onetime negotiation	Standard compensation per protocols; transfer of assigned person per standard terms

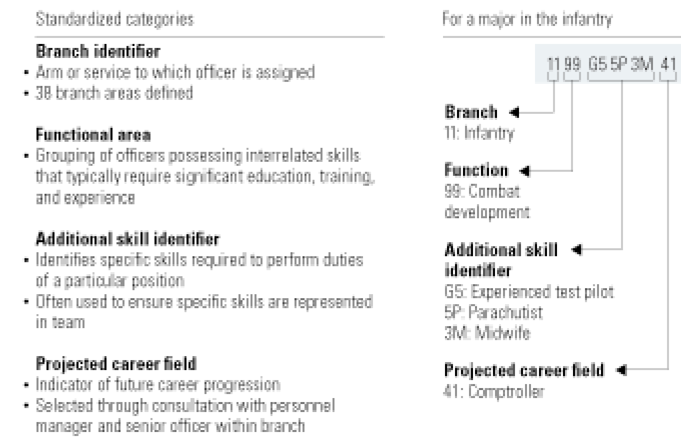
Furthermore, a talent marketplace formalizes the terms of employment—that is, the role, its duration, the place of work, travel, job options available upon successful completion, and so forth. It does so by making the terms more formal than a mere handshake and by making the protocols around the contract formal and explicit. Finally, it dispenses with two-party contract negotiations and instead uses the HR "broker" to protect confidences, promote the interests of both parties, and ensure compliance with the terms of the contract.

To make the market work, both parties must understand what they are trading. The skills and performance of employees should therefore be rated over time through standardized performance evaluations and job brackets. Consistent definitions of roles and qualifications are also an essential requirement for making a talent marketplace work. Such definitions, long used by the US military and other such organizations, make it possible to form units rapidly, consisting of individuals drawn from various parts of the country with exactly the right mix of skills and job grades (Exhibit 4). Unlike military personnel, of course, employees in a talent marketplace can reject assignments. What is similar, though, is the fact that it requires a central database that provides for the categorization of each employee's qualifications, skills, and performance ratings, all of which can be divulged only if parties begin serious negotiations.

EXHIBIT 4

Consistency facilitates deployment

US Army example



Source: US Military Academy

Pricing

As in any market, demand ebbs and flows in a talent marketplace. The task of putting a price on talent, however, needs to be quite different from what it is in normal markets. Talent is a resource that has alternative uses and, unlike knowledge, must be allocated, since a talented person's time is finite, while knowledge can be shared by everyone simultaneously.

A marketplace usually employs prices to determine where resources are best allocated. The objective of a business, however, is to maximize profits per worker rather than wages per worker. It therefore makes no sense for a company to let talented employees sell their services to the highest bidder. In fact, a talent market shouldn't provide for explicit internal price competition. Rather, pay must be established through enterprise-wide pay-for-performance standards, such as job or salary bands set by a central HR function. This approach bases internal competition for talent on the nature of assignments, the opportunities they provide for growth, their duration, and the personal contacts they offer, not on the money involved. It also gives senior managers who have a reputation as mentors and as good people to work with an advantage in attracting talent.

An additional alternative for pricing talent is common among professional firms—particularly for jobs where assignments are temporary: per diems set at the estimated opportunity cost of deploying the talent elsewhere. If, for example, you pay someone $500 a day, that person's per diem could be $2,000 a day, with the difference covering days unemployed, the cost of supporting the professional, overhead, and profits. Executives who negotiate work with clients that can cover the per diems receive the talent needed to undertake it; executives who can't recover the per diem have to forgo serving the client.

The advantage of an opportunity-based way of pricing talent is to recognize its value (or the opportunity to profit from deploying it) more than the wages paid to employees.

Benefits and challenges

Companies need to do a better job of identifying, developing, and retaining their top employees; new technologies and software can help. See "Matching people and jobs."

Self-directed, talented people benefit considerably from such a market: the more talented they are, the greater the demand for their services and the better their opportunities will be. Highly talented people are less likely to be blocked by less talented bosses taking credit for their work. Better opportunities also ensure that job experiences challenge these employees, who in the process develop more quickly. Broadening their exposure to the organization also helps them to develop a more extensive network of contacts to share reputations and information. Such self-directed and talented people are the very ones an enterprise is most at risk of losing, since they are the most likely to be actively testing external talent markets to find more attractive opportunities.

At the same time, senior people who are pursuing important opportunities will have a greater pool of talent to draw upon, with a more diverse range of skills to tap. People who acquire reputations for developing talent will have a greater likelihood of attracting more and better job applicants, while "people eaters" will have trouble. But the real beneficiary is the company, which wins by getting far better matches between its job opportunities and its most talented people and by gaining far greater transparency into shortages and excess supplies of talent.

Of course, talent marketplaces also present challenges. In companies with well-established organizational silos, the cultural changes will be enormous. Here, a talent marketplace may be only part of an effort to integrate more broadly. Some companies may need separate marketplaces for different skill sets (for instance, one for project managers and one for industrial engineers). Other companies, particularly those that already view talent as corporate rather than business unit property, will find the transition to talent marketplaces much more natural for all. Making sure that the right infrastructure of brokers, standardized performance reviews, and protocols exists is no small task. But for the right companies, the benefits can easily outweigh the costs. Given an opportunity to develop and hone skills, top talent will be more likely to stay in the company. Talented people who have a broad base of experience specific to it can grow into its future leaders.

A talent marketplace can't be built easily on the foundations of traditional, siloed organizational structures. But for large, growing, and complex companies that know talented individuals may be their most powerful competitive asset, talent markets represent the cutting edge of resource allocation.

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