



NATIONAL CENTER FOR  
THE MIDDLE MARKET



# Mastering Talent Planning

## A Framework for Success

A REPORT BY THE NATIONAL CENTER FOR THE MIDDLE MARKET WITH VISTAGE WORLDWIDE, INC.  
AND DR. LARRY INKS OF THE OHIO STATE UNIVERSITY FISHER COLLEGE OF BUSINESS

IN COLLABORATION WITH



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# About This Report

## THE U.S. MIDDLE MARKET

The U.S. middle market comprises nearly 200,000 companies that employ 44.5 million people and generate more than \$10 trillion in combined revenue annually. The middle market is defined by companies with annual revenues between \$10 million and \$1 billion. In addition to their geographic and industry diversity, these companies are both publicly and privately held and include family-owned businesses, sole proprietorships, and private equity companies. While the middle market represents approximately 3% of all U.S. companies, it accounts for a third of U.S. private-sector GDP and jobs. The U.S. middle market is the segment that drives U.S. growth and competitiveness.

## THE IMPORTANCE OF TALENT PLANNING

Talent is crucial to the success of any business. Talent planning plays an essential role in ensuring that companies have the highest quality people in critical roles and that they have a plan in place to fulfill their talent needs as the company grows and changes. Talent planning is a broad category that includes activities such as succession planning, talent review, human resource planning, bench strength analysis, staffing, development, and performance management. As our data demonstrate, companies with superior talent planning achieve superior overall business performance. By looking closely at how middle market businesses approach talent planning, and by assessing the strengths and challenges in this space, the National Center for the Middle Market can provide businesses with talent planning insights along with a practical talent planning framework. Using the framework, middle market companies can ensure that their talent planning is aligned with company strategy; evaluate the robustness of their processes and policies; see to it that top leadership is committed to the work; and develop a workforce that is engaged in, and recognizes the value of, talent planning.

## HOW THE SURVEY WAS CONDUCTED

The National Center for the Middle Market, in partnership with Vistage, surveyed 400 C-level middle market executives who are actively engaged in attracting and retaining talent for their organizations. The Center and Vistage designed the survey to identify the importance and prevalence of various talent planning activities among middle market firms, including the fastest growing and best performing businesses. The survey also assesses overall talent planning performance and identifies challenge areas for middle market companies. Respondents completed the 15-minute, self-administered survey online between October 6, 2016 and October 17, 2016. This report was jointly designed and prepared by the National Center for the Middle Market and Vistage in collaboration with Larry Inks, PhD, Clinical Associate Professor of Management and Human Resources at the Fisher College of Business at The Ohio State University, and Raymond Noe, PhD, Professor of Management and Human Resources and MHRM Program Director at the Fisher College of Business at The Ohio State University.

## THE NATIONAL CENTER FOR THE MIDDLE MARKET

The National Center for the Middle Market is a collaboration between The Ohio State University's Fisher College of Business, SunTrust Banks Inc., Grant Thornton LLP, and Cisco Systems. It exists for a single purpose: to ensure that the vitality and robustness of middle market companies are fully realized as fundamental to our nation's economic outlook and prosperity. The Center is the leading source of knowledge, leadership, and innovative research on the middle market economy, providing critical data analysis, insights, and perspectives for companies, policymakers, and other key stakeholders, to help accelerate growth, increase competitiveness and create jobs in this sector. To learn more visit: [www.middlemarketcenter.org](http://www.middlemarketcenter.org).

## VISTAGE WORLDWIDE, INC.

Vistage Worldwide assembles and facilitates peer advisory groups for CEOs and Key Executives. An exclusive community of more than 21,000 business leaders across a broad array of industries in 16 countries, Vistage helps business leaders refine their instincts, improve their judgment, expand their perspectives and optimize decision making. In fact, CEOs who joined Vistage grew their companies at three times the rate of average U.S. companies. Vistage groups are facilitated by successful leaders, who help guide CEOs and Key Executives to work together to improve themselves, their companies, and their communities. Learn more at [vistage.com](http://vistage.com).

# Executive Summary

Time and again, research by the National Center for the Middle Market has demonstrated the link between exceptional talent and strong company performance. It's no surprise that having the right people in the right positions is essential to helping an organization grow, prosper, and achieve its goals.

Yet quarter after quarter, the Center's Middle Market Indicator reveals that talent issues keep middle market executives up at night. One way in which an organization can address its talent challenges and assure it can count the best and brightest among its ranks is to strategically and successfully plan for its current and future talent needs. Talent planning is an overarching concept that encompasses identifying key positions and players, understanding skills gaps, and creating succession plans to keep crucial roles filled today and in the future. Talent planning should shape and motivate all of a company's talent endeavors, including staffing, performance management, and development.

The Center's current research demonstrates a strong correlation between superior talent planning and overall company growth and performance. Companies that do talent planning well—specifically those companies that have a formal talent planning process in place, engage in a comprehensive assortment of talent planning initiatives, and encourage involvement in the talent planning process by senior executives and top line executives—tend to be among the fastest growing and best performing companies in the middle market.

Most middle market firms understand that talent planning is an important strategic concern. Yet, overall, talent planning is not as prevalent as one might expect, with fewer than half of middle market firms currently implementing critical talent planning strategies. As mid-sized organizations, they face special challenges in the area, particularly as they grow. Family and private equity companies have unique sets of issues, too—the former as they plan for future generations of leadership, the latter as they prepare a company and its leadership for future sale. There is also clear room for improvement in the talent planning space with more than 40% of middle market organizations giving themselves a grade of “C” or lower for their talent planning efforts.

A talent planning framework, based on best practices identified by the Center's research, can help companies construct better talent planning processes and use them to accelerate business performance. The framework can be a strategic tool in helping businesses understand, organize, and implement the various activities and initiatives that lead to superior talent planning performance. As companies grow, this framework becomes even more important to ensuring a formal and robust talent planning process, and to keeping companies staffed with the quality talent they need to continue achieving their growth goals.

## Key Takeaways for Middle Market Firms



### **TALENT PLANNING IS A POWERFUL BUSINESS DRIVER**

The fastest growing, best performing middle market businesses place more importance on talent planning than their slower growing peers and are more likely to engage in a full suite of talent planning activities. Companies that enjoy annual revenue growth of 10% or more are significantly more likely than slower growing organizations to say they perform very or extremely well at talent planning initiatives such as identifying critical positions and can't-lose players within the organization and engaging senior and line management in the talent planning process.



### **THE SIZE AND STRUCTURE OF AN ORGANIZATION HAS A SIGNIFICANT IMPACT ON HOW TALENT PLANNING IS CONDUCTED**

As firms grow, they tend to put greater emphasis on talent planning and to adopt more formalized talent planning processes. Businesses with private equity investment are also more likely to follow guidelines for talent planning, while many family-owned businesses keep the process relatively informal. Challenges also vary by revenue segment. While large middle market firms are more concerned with aligning talent and business strategy, smaller middle market companies focus more on identifying and retaining their can't-lose players.



### **THERE IS ROOM FOR IMPROVEMENT IN THE TALENT PLANNING PROCESS**

Many middle market leaders give their company a less than optimal rating on their current talent planning program. Just 14% of firms give themselves an "A" grade when it comes to overall talent planning effectiveness, while more than four in 10 companies grade themselves a "C" or lower. Among the most common weaknesses: succession planning, identifying skills gaps, and having processes in place for identifying and developing high-potential employees.



### **THE SINGLE MOST IMPORTANT THING COMPANIES LACK IS A SYSTEMATIC FRAMEWORK FOR TALENT PLANNING**

There is a clear correlation between process formalization and how well companies perform at talent planning. There is also a well-defined link between the number of activities implemented and overall talent planning performance. Just 22% of all middle market firms have a formalized talent planning process in place. Among companies that consider themselves the best at talent planning, 39% rely on a formalized process. The fastest growing, best performing middle market firms are also much more likely to have a defined process and to perform multiple talent planning activities in a coordinated way.



### **SUCCESSFUL TALENT PLANNING INVOLVES FOUR CORE ELEMENTS**

An effective talent planning framework is carefully considered and comprehensive in the talent planning initiatives it includes. Those activities can be divided into four main categories: 1.) Aligning talent strategy with corporate strategy; 2.) Building sufficient processes to ensure systematic talent planning efforts; 3.) Involving leadership in the process as opposed to handing off to human resources; and 4.) Engaging employees in talent planning and ensuring they recognize the value of the process.



### **SUCCESSION PLANNING, PROGRAMS FOR HIGH-POTENTIAL EMPLOYEES, AND IDENTIFICATION OF SKILLS GAPS ARE CRITICAL AREAS NEEDING IMPROVEMENT**

While middle market companies view these activities as important to talent planning success, performance in these areas is lacking. Focusing on improving these critical aspects of a firm's talent planning strategy is likely to have the greatest overall impact on talent planning success.

# About Talent Planning

At its core, talent planning is an overarching strategy that encompasses how an organization plans for having the talent it needs in critical positions both today and in the future. Talent planning involves assessing the organization's current level of talent and evaluating that against the current and future talent needs of the organization necessary to achieve its strategic and tactical objectives.

A broad category, talent planning includes many initiatives such as succession planning, talent review, human resources planning, and bench strength analysis. Specific actions that organizations often undertake as part of this broad initiative include identifying their high-potential employees, annually rating employees on potential for future movement, identifying critical positions and bench strength for those positions, and determining skills gaps.

Talent planning is associated with faster revenue growth and greater company success. Companies that do talent planning well are more likely to count themselves among the best performing middle market firms.

While some organizations, and especially smaller middle market businesses, tend to think about talent planning in the same arena as talent acquisition, performance management, and talent management, it is actually a separate concept that warrants its own attention and effort. In fact, a proper talent planning framework is essential for effectively managing all other talent functions in the business. That framework becomes even more important as companies grow in size and complexity.

The results and learning that an organization gleans from productive talent planning have implications for other human capital management processes, such as talent acquisition (e.g., recruiting and staffing), performance management, and talent development. As an example, the ability to not only develop, but to know who within the organization can step up to larger roles, can minimize an organization's need to look externally for talent. As another example, assessment of common development needs of employees can also help with the effective creation and implementation of training and development initiatives. For these and other reasons, talent planning is an extremely important component of an organization's ability to effectively leverage human capital.



## A Talent Planning Framework Can Translate Into Better Overall Company Performance

**ORGANIZATIONS WILL BE MUCH MORE SUCCESSFUL AT HIRING, DEVELOPING, MANAGING, AND RETAINING THE BEST TALENT FOR THEIR BUSINESS IF THEY FIRST HAVE A CLEAR UNDERSTANDING OF:**

- + The types of talent they need and where they need it, both today and going forward.
- + Their existing talent situation, including open or soon-to-be open positions, internal talent that is ready for a move or promotion, and any development needs that can prepare staff to fill key positions.
- + The processes and policies to ensure that top talent is identified, developed, rewarded, and retained.

# The Current Talent Planning Landscape

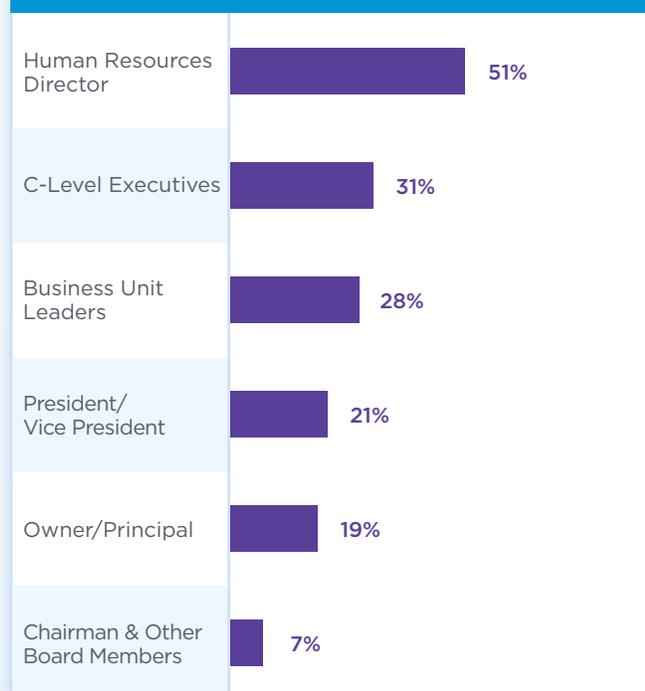
## Ownership & Structure

The ultimate responsibility for talent planning rests with the HR director in about half of middle market companies. However, executive management also plays a role in the process. In three out of 10 mid-sized companies, C-level executives take the reigns of the talent planning process. Regardless of who is ultimately in charge, the brass typically weighs in on the process. Across middle market businesses, the president, vice president, business unit leaders, and C-level executives are highly likely to be at least somewhat involved in talent planning decisions, both company-wide and within individual business units.

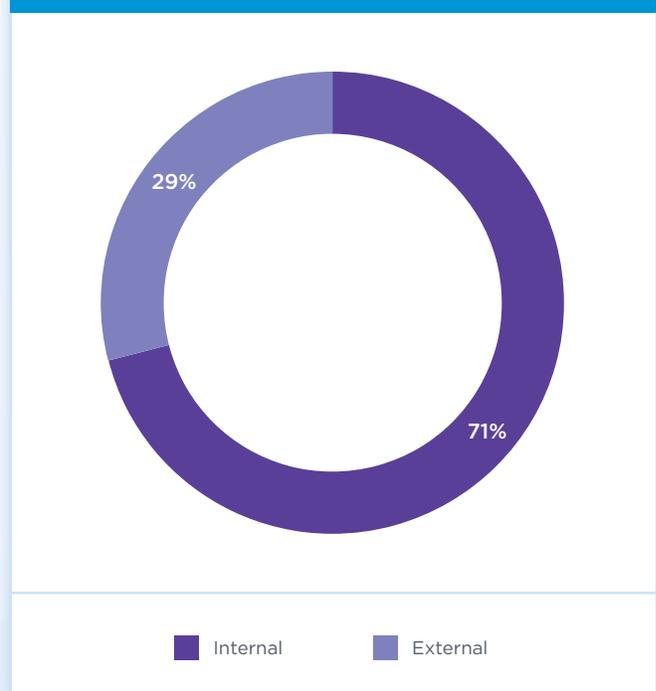
In general, middle market firms use internal resources for talent planning, and only 29% look to external consultants for help in this area.

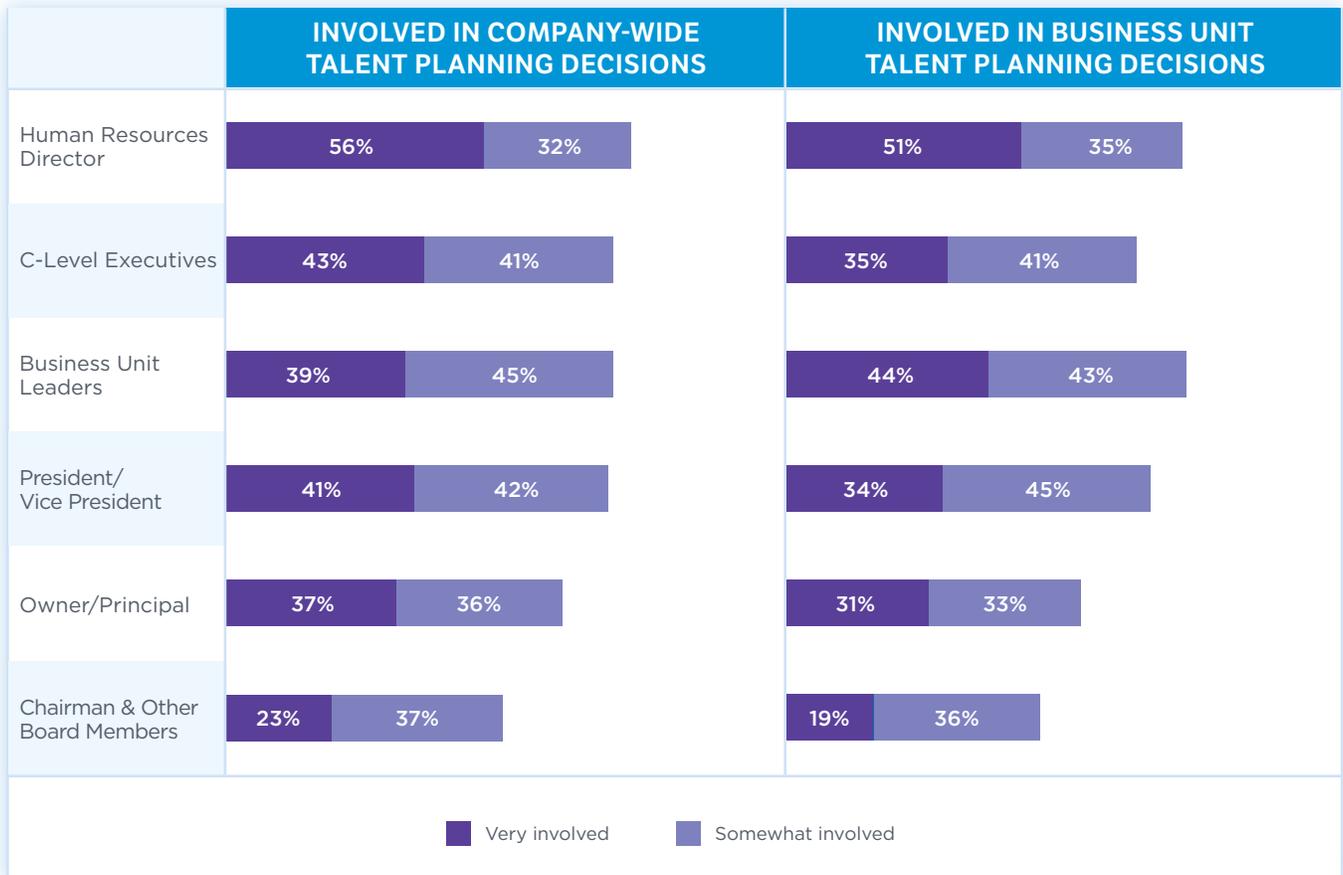
In the majority of middle market organizations, talent planning is at least somewhat formalized. However, only 22% of businesses have written rules and guidelines for talent planning. These companies are likely to be at the large end of the middle market revenue spectrum or to be high-performing, fast-growing businesses. While a slight majority of middle market firms employ a somewhat formalized talent planning processes, about a quarter of businesses do little, if any, documenting at all. Companies that keep talent planning the most informal tend to be the smallest middle market businesses. Family-owned companies are more likely to be ad hoc about talent planning, while private equity firms typically adopt a more formalized approach.

### PRIMARY RESPONSIBILITY FOR TALENT PLANNING



### RESOURCES USED FOR TALENT PLANNING





TALENT PLANNING PROCESS				
	TOTAL MIDDLE MARKET	\$10M-<\$50M	\$50M-<\$100M	\$100M-<\$1B
Highly formalized with written rules & guidelines	22%	17%	22%	27%
Somewhat formalized with some aspects of process documented	52%	52%	58%	48%
Mostly informal with few if any aspects documented	26%	31%	20%	25%

## Importance

The Center's recent research shows that most middle market businesses view talent planning as important. Talent planning is the number one priority for 11% of companies, and an additional 50% say that it is on par with other top priorities.

Within the overall talent planning arena, middle market leaders place the greatest importance on identifying critical positions, best performers, and internal talent pools. They also prioritize the need for processes to assess employee performance and to retain critical players.

Family-owned companies put extra emphasis on identifying and developing high-potential employees, perhaps because these companies are specifically interested in finding their next-generation leaders. Private equity firms also place greater importance on high-potentials, as well as current high performers and can't-lose players. Presumably, these businesses are invested in building up the best possible team in preparation for an eventual sale.

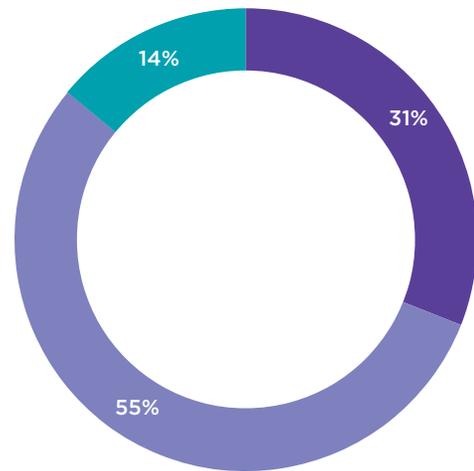
Despite the claim by most mid-sized companies that talent planning is essential, across the entire middle market, fewer than one-third of business leaders say their organizations are fully committed to talent planning policies and procedures. In most firms, the rank and file are compliant at best.

### IMPORTANCE OF TALENT PLANNING COMPARED TO OTHER BUSINESS PRIORITIES



- Talent planning is our top business priority
- Talent planning is important and on par with other top priorities
- There are a few business priorities that are more important than talent planning
- Talent planning is less important than most other business priorities

### EMPLOYEE ATTITUDE TOWARD TALENT PLANNING POLICIES AND PROCEDURES



- Committed
- Compliant
- Resistant

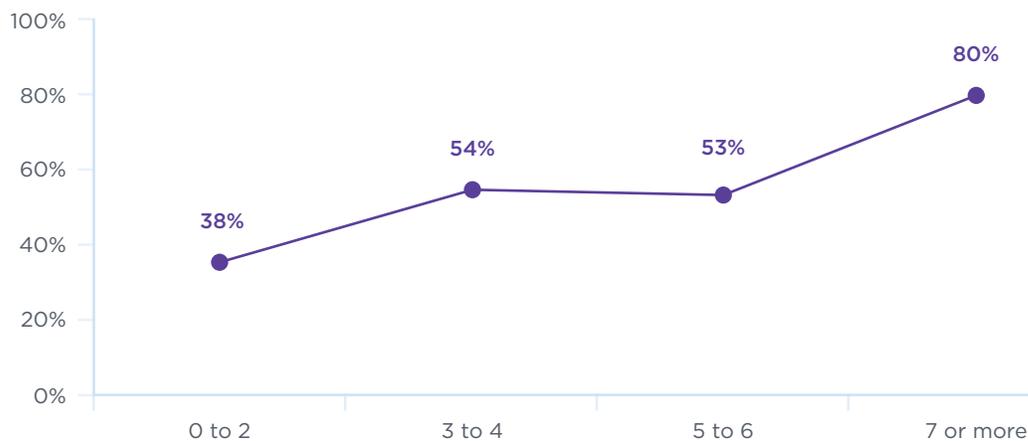
IMPORTANCE OF TALENT PLANNING ACTIVITIES			
	TOTAL	FAMILY-OWNED	PRIVATE EQUITY INVESTED
Identifying the key positions in the business	77%	75%	80%
Processes to regularly assess employees performance & potential	74%	74%	74%
Identifying best performers	73%	72%	80%
Tools & processes to retain critical players	73%	72%	75%
Identifying internal talent pools	73%	70%	73%
Identifying critical positions (i.e., that have to be filled by excellent players)	72%	72%	75%
Identifying current & future skills gaps	72%	70%	74%
Lining up successors for key players	71%	67%	75%
Engaging senior management in talent management	71%	67%	71%
Processes to identify & develop high-potentials	71%	77%	76%
Aligning talent strategy & business strategy	69%	71%	73%
Identifying critical, "can't-lose" players	69%	73%	75%
Lining up successors for critical, "can't-lose" players	69%	72%	73%
Engaging line management in talent management	65%	67%	69%
Identifying retention risks	65%	61%	69%
Identifying external talent pools	56%	50%	56%

## Prevalence of Talent Planning Activities

As stated, talent planning is a comprehensive and overarching strategy, encompassing a wide range of activities. While the vast majority (90%) of middle market firms do engage in at least one talent planning activity, the Center's research shows that the more activities a firm implements, the better it grades its overall talent planning effort. Specifically, 80% of middle market businesses engaging in seven or more talent planning activities grade themselves an "A" or a "B" on talent planning. Comparatively, among firms that engage in two or fewer talent planning activities, just 38% give their talent planning effort top marks.

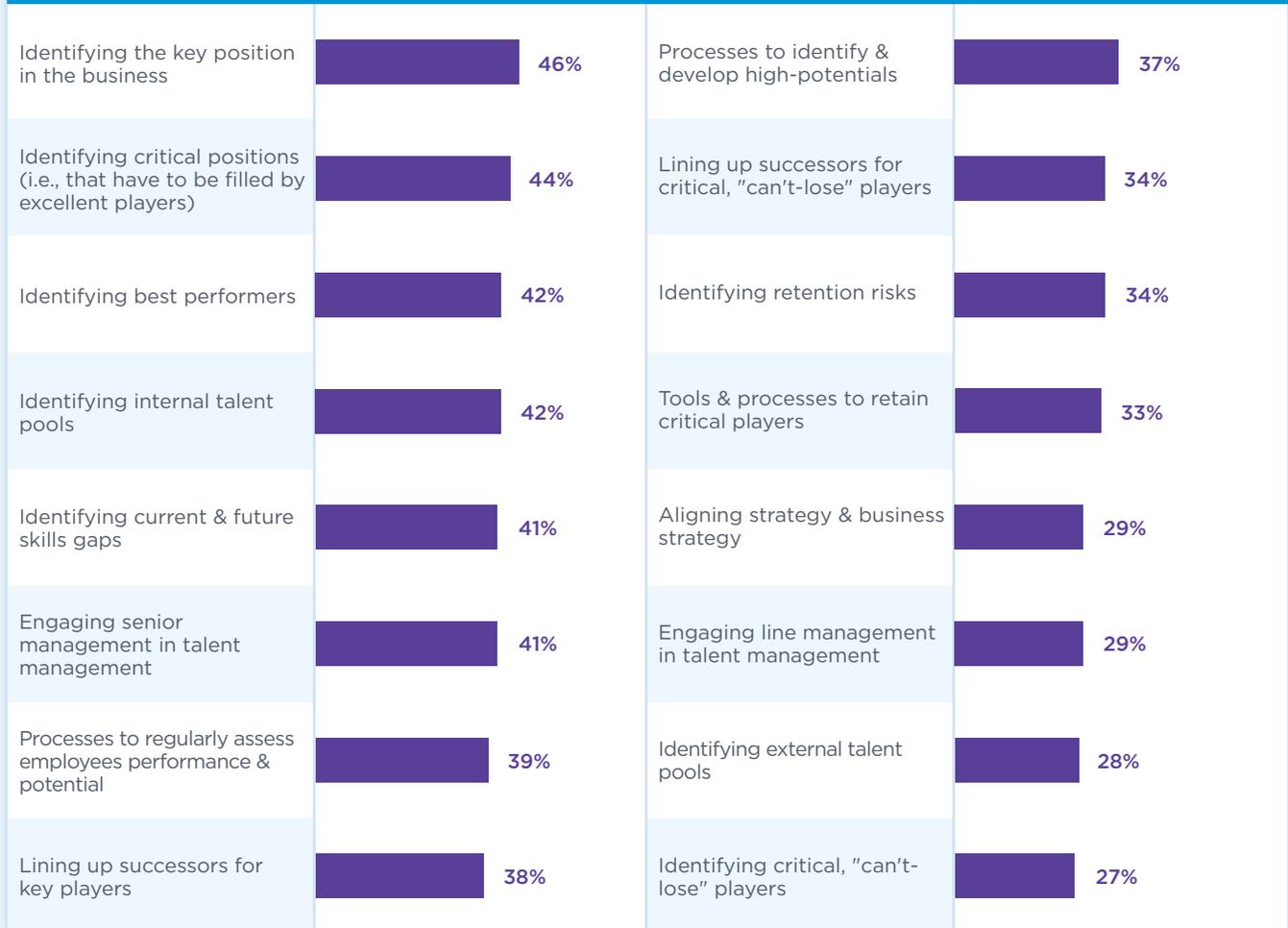
Overall, the prevalence of some of the most important talent planning processes is not as prevalent as one might expect. In fact, key activities are currently in place at fewer than half of middle market businesses. Even those activities deemed most important—such as identifying essential positions and best performers—are only implemented at about four out of 10 middle market business.

NUMBER OF TALENT PLANNING ACTIVITIES IMPLEMENTED



—● Give company 'A' or 'B' for Talent Planning

## TALENT PLANNING ACTIVITIES IMPLEMENTED



## Performance & Challenges

Just 14% of middle market leaders give their firms an “A” when asked to grade their talent planning performance overall. Some 46% grade themselves a “B”, while more than four in 10 leaders report a grade of “C” or lower. Those that do give themselves an “A” are likely to be the fastest growing and best performing companies.

Looking at specific talent planning activities, companies consider themselves best at identifying the most important positions within the business. They also do fairly well at identifying their best performers and can't-lose players. Companies are less likely to consider themselves adept at succession planning, identifying skills gaps, and identifying and developing high-potential employees. Not surprisingly, middle market leaders view these activities as some of the most challenging aspects of the talent planning process.

*Overall, 14% of middle market companies give themselves an "A" for talent planning. Among fast growers, that number is 22%. Similarly, 71% of the middle market says talent planning is very important vs. 81% of fast growers.*

### EXTREMELY/VERY CHALLENGING ASPECTS OF TALENT PLANNING

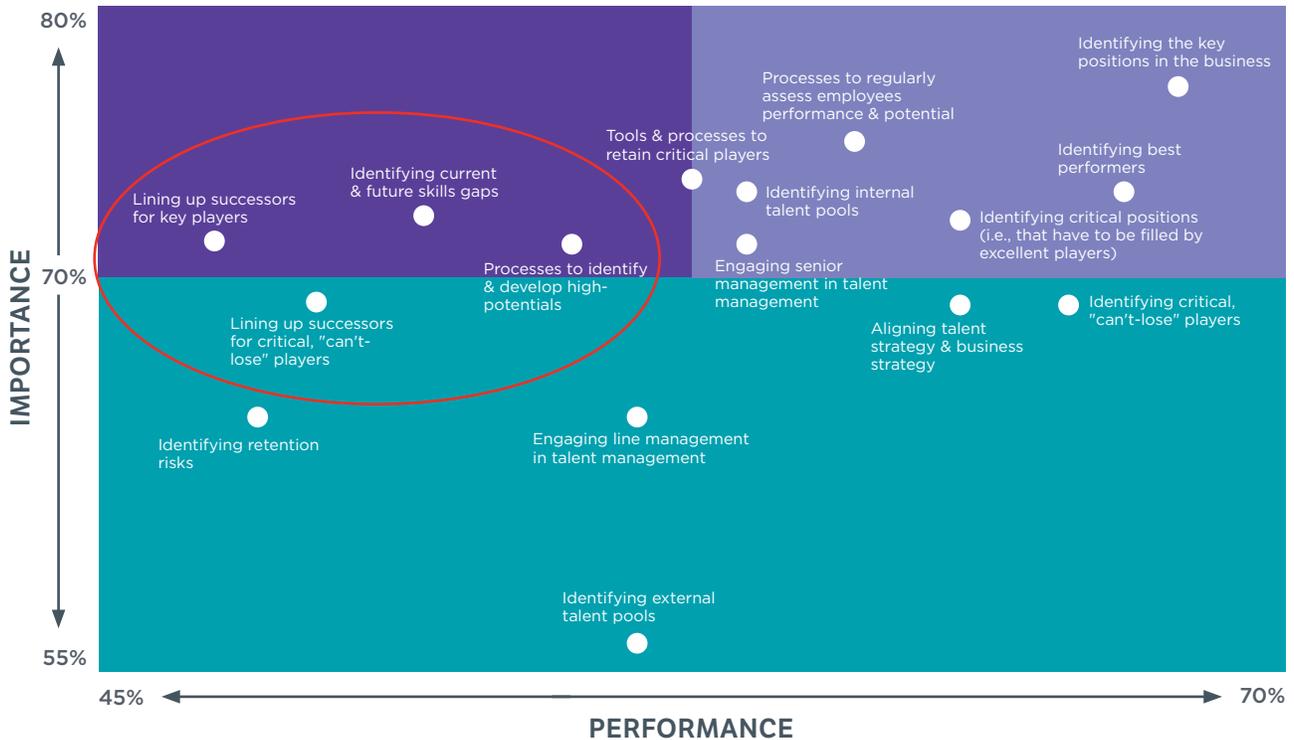
Identifying external talent pools	45%	Identifying current & future skills gaps	33%
Lining up successors for critical, "can't-lose" players	45%	Processes to regularly assess employees performance & potential	33%
Lining up successors for key players	43%	Processes to identify best performers	32%
Tools & processes to retain critical players	41%	Identifying critical, "can't-lose" players	32%
Processes to identify & develop high-potentials	41%	Engaging line management in talent management	31%
Identifying retention skills	39%	Identifying critical positions (i.e., that have to be filled by excellent players)	30%
Aligning talent strategy & business strategy	35%	Identifying internal talent pools	27%
Engaging senior management in talent management	35%	Identifying the key positions in the business	26%

### IMPORTANCE OF TALENT PLANNING & OVERALL EFFECTIVENESS OF TOTAL MIDDLE MARKET VS. FAST & SLOW GROWERS

IMPORTANCE OF TALENT PLANNING	TOTAL MIDDLE MARKET	10%+ GROWTH	LESS THAN 10% GROWTH
Extremely/Very Important	71%	81%	66%
Somewhat Important	21%	15%	24%
Not Very/At All Important	8%	4%	10%
GRADE OF OVERALL EFFECTIVENESS	TOTAL MIDDLE MARKET	10%+ GROWTH	LESS THAN 10% GROWTH
A	14%	22%	10%
B	46%	47%	45%
C	28%	23%	29%
D	11%	6%	13%
F	2%	2%	2%

Note: Numbers may not equal 100% due to rounding.

### IMPORTANCE VS. PERFORMANCE OF TALENT PLANNING ACTIVITIES



Important but not doing well
  Important and doing well
  Less important

Succession planning, skills gaps and HIPO identification represent the greatest opportunities for improvement of talent planning.

# Align, Build, Lead, Engage: A Framework For Talent Planning

When middle market firms have a formalized process in place for talent planning, and when they adopt a comprehensive and diverse approach to talent planning, they do better at talent planning overall. Additionally, the fastest growing, best performing middle market businesses are more likely to formalize the talent planning process and to implement the full spectrum of talent planning activities.

The Center has created the ABLE framework to assist middle market companies in implementing and coordinating more talent planning activities and to bring more structure and robustness to their talent planning process. By adhering to the framework, companies can also be sure that they are putting adequate focus on areas that are viewed as critical to talent planning, but where current performance may be lacking. By creating more formal processes for these specific areas—namely succession planning, identification of high-potential employees, and identification of skills gaps—companies are likely to realize the greatest improvements in their talent planning efforts.

## Align Build Lead Engage Framework

### ALIGN TALENT PLANNING WITH STRATEGY

- \_\_\_ Understand the human capital implications of your strategic and tactical objectives
- \_\_\_ Ensure that talent strategy and corporate strategy are aligned
- \_\_\_ Include talent planning in all strategy discussions (annual plan, M&A, etc.)
- \_\_\_ Discuss talent planning actions (e.g., promotions, manage outs, etc.) at quarterly business meetings
- \_\_\_ Identify critical (and/or otherwise important) positions
- \_\_\_ Identify current and future skills gaps

### BUILD PROCESSES TO ENABLE SUCCESSFUL TALENT PLANNING

- \_\_\_ Create succession plans for essential roles and individuals
- \_\_\_ Develop robust processes for performance reviews
- \_\_\_ Assess bench strength for critical/identified positions
- \_\_\_ Develop talent pools (internal and external) for critical/identified positions
- \_\_\_ Map career paths
- \_\_\_ Map expected retirement dates of key players
- \_\_\_ Identify “manage outs,” potential transfers, and other likely open positions
- \_\_\_ Analyze turnover rates to understand patterns and vulnerabilities
- \_\_\_ Conduct individual level development discussions between managers and each direct report
- \_\_\_ Conduct talent review/group level discussions of talent (to drive consensus and accountability)

### LEAD BY EXAMPLE

- \_\_\_ Walk the walk—ensure that executive and line management actively engage in talent planning and performance reviews (don’t delegate to HR)
- \_\_\_ Identify critical individuals and develop succession plans for those individuals
- \_\_\_ Help senior leaders get to know high-potentials and other critical talent
- \_\_\_ Hold people at all levels accountable for performance
- \_\_\_ Align incentives and bonuses to strategy
- \_\_\_ Support and ensure open, candid discussion in talent review meetings

### ENGAGE THE ORGANIZATION

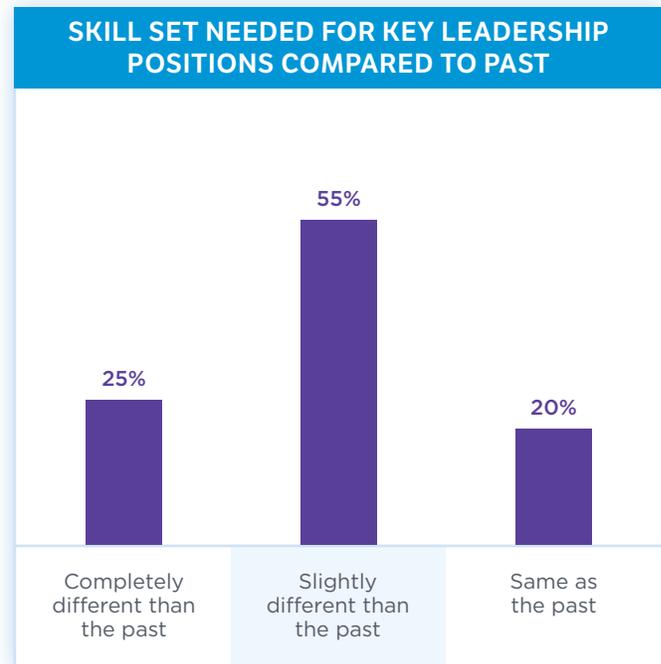
- \_\_\_ Implement a process to identify top performers
- \_\_\_ Ensure that top performers are rewarded appropriately
- \_\_\_ Develop a clear definition of “high-potential” and create a process to identify high-potentials
- \_\_\_ Ensure the organization understands the difference between performance and potential
- \_\_\_ Ensure the organization understands the difference between “high-potentials” and annual ratings of potential
- \_\_\_ Develop programs to help high-potentials achieve their potential
- \_\_\_ Develop a mentoring program for (at least) high-potential talent

## Element 1: Align Talent Planning with Strategy

While 69% of firms believe that aligning talent planning with business strategy is an important aspect of the overall talent planning process, fewer than one-third of firms (29%) are currently doing it. However, the fastest growing and best performing middle market companies are more often making sure their talent strategy and business strategy mesh up; 40% of these top performers say that they put thought and effort into aligning the two. Companies that rate themselves best at talent management are also more likely to align talent and corporate strategy.

Even if the majority of companies are not actively thinking about how talent planning relates to their overall business goals and objectives, many are taking steps in the right direction. More than four in 10 (44%) identify critical positions within the organization that must be filled by excellent players. Around the same percentage (41%) identify current and future skills gaps.

However, while companies believe that understanding skills gaps is critical to talent planning, only 53% of businesses say they are quite good in this area. Developing this capability is a must, as most middle market companies say that the skill sets needed for top leadership positions are changing. In fact, a quarter of companies say skill sets will be completely different in the future, and only 20% say skill sets will remain unchanged.



## Element 2: Build Processes to Enable Successful Talent Planning

Effective talent planning requires firms to have processes in place, appropriate to the size and growth of the business, to ensure systematic versus ad hoc planning. These processes include succession planning tools, procedures for identifying internal and external talent pools, and career mapping and performance review processes. Overall, about 40% of middle market companies engage in such activities, although middle market businesses are much less likely to identify and maintain external talent pools.

Among all the processes a company can build to improve its talent planning efforts, succession planning is one of the most important. Currently only about half of middle market companies believe they handle succession planning well. What's more, even though a solid majority of companies say

that the unexpected departure of a top leader—such as an owner, chairperson, C-level executive, or business unit leader—is likely to cause some disruption to the business, only 50% of companies say they are prepared for such an event.

High-performing firms are generally better at succession planning. Among the fastest growing middle market businesses, 61% plan for unexpected departures. Nearly three-quarters (74%) of business that give themselves an “A” at talent planning have succession plans for leaders in place. Among companies that do not have plans in place for the eventuality of an unexpected departure, leaders say that they believe it will be relatively easy to find replacements, or they feel that their top brass won't leave.

## Assessing Your Organization's Bench Strength

All organizations have bench strength, whether it's officially recognized or not. When an organization takes the time to map out its bench strength and depth of talent for key positions, by using a chart like the one below, it can be a powerful tool in talent planning. At a glance, organizations can see important information about the incumbents currently in critical roles, and which positions have backfills available in both the short- and long-term. Your organization can also use this chart to note retention risks for important players.

Organizations that have a “deep bench” are those that not only have candidates ready in the short term, but some in the longer term as well. Many organizations will identify external candidates in addition to internal

candidates, since the primary goal of bench strength planning is assessing an organization's strength of potential backfills. Ultimately, your bench strength chart can help guide staffing and recruiting decisions, as well as the development of training programs, to ensure your organization always has people ready to serve in essential leadership roles.

Keep in mind that bench strength charts are sensitive documents. They should be disseminated only to those with the need to know. At the highest level within an organization, the bench strength chart for the CEO/ president and senior leadership team would likely be of great interest, and have great value, for that company's board of directors.

### LEADERSHIP TEAM BENCH STRENGTH—SAMPLE

BUSINESS UNIT OR FUNCTION: XXXXXXXXXXXX

LOCATION/REGION: XXXXXXXXXXXX

DATE: XX/XX/XX

POSITION	INCUMBENT	POTENTIAL RATING*	DATE IN POSITION	READY NOW	READY 1-2 YEARS	READY 3-5 YEARS
(Leader)	Name	—	11/01	Name	Name	Name
VP, XXXXXX	Name	—	11/01	Name	Name	Name
VP, XXXXXX	Name	—	11/01	Name	Name	Name
VP, XXXXXX	Name	—	11/01	Name	Name	Name
Director, XXXXXX	Name	—	11/01	Name	Name	Name
Director, XXXXXX	Name	—	11/01	Name	Name	Name
Director, XXXXXX	Name	—	11/01	Name	Name	Name
Director, XXXXXX	Name	—	11/01	Name	Name	Name

**POTENTIAL RATING\***

IP = Immediately Promotable  
WP = Well Placed

E&P = Expandable & Promotable  
AR = Action Required

PRO = Professional in Place

## Element 3: Lead By Example

Currently, 41% of middle market companies engage their senior management team in talent processes, and just 29% engage line management teams.

In most middle market companies, the ultimate responsibility for talent planning rests with the HR director, and he/she also has the greatest say in talent planning decisions. However, in the fastest growing, best performing companies, C-level executives and the president and vice president are much more likely to be at the head of the process. C-level executives are also much more likely to be in charge in companies that consider themselves best at talent planning.

Walking the walk and getting top management more involved in talent planning can start with holding meetings to discuss talent issues. In about four in 10 of all middle market businesses, top management currently holds meetings to discuss talent. At high-performing firms, the brass is more likely to be involved in these types of meetings. Senior managers in these high-performing firms are also more apt to maintain lists of high-potential employees.

## How to Have a Candid Talent Planning Discussion

At the heart of effective talent planning is the ability of people within the organization to have candid conversations about talent. Holding annual group talent review meetings with the members of your organization's leadership team can create a shared understanding of the talent picture within your entire organization. But for the conversation to be meaningful and valuable, it needs to be open and honest.

Here are a few tips for having a candid conversation:

- + Set aside a half or a full day for a team of managers and their leader to discuss each manager's direct reports.
- + Be sure that this is more than a presentation; the value depends on getting feedback from each other.
- + Encourage all participants to be respectful, but to speak their minds.
- + Work toward creating consensus around the current top performers and high-potential employees at your organization.
- + Make sure that any feedback given to individual employees is provided solely by that employee's manager and without reference to who said what. For example, a manager could tell his report that, "You can be perceived as being difficult to work with at times." He should not say, "John Smith said you were difficult to work with at times."

## Element 4: Engage the Organization

When employees are committed to talent planning processes, companies perform better on talent planning overall. In organizations where employees are on board, nearly three-quarters of firms say they handle talent issues very or extremely well, compared to just 35% of companies where employees are compliant with talent planning practices, and only 25% of companies where employees resist the talent planning process. In general, employees in high-performing middle market businesses are typically more committed to talent planning than individuals who work for slower growing firms.

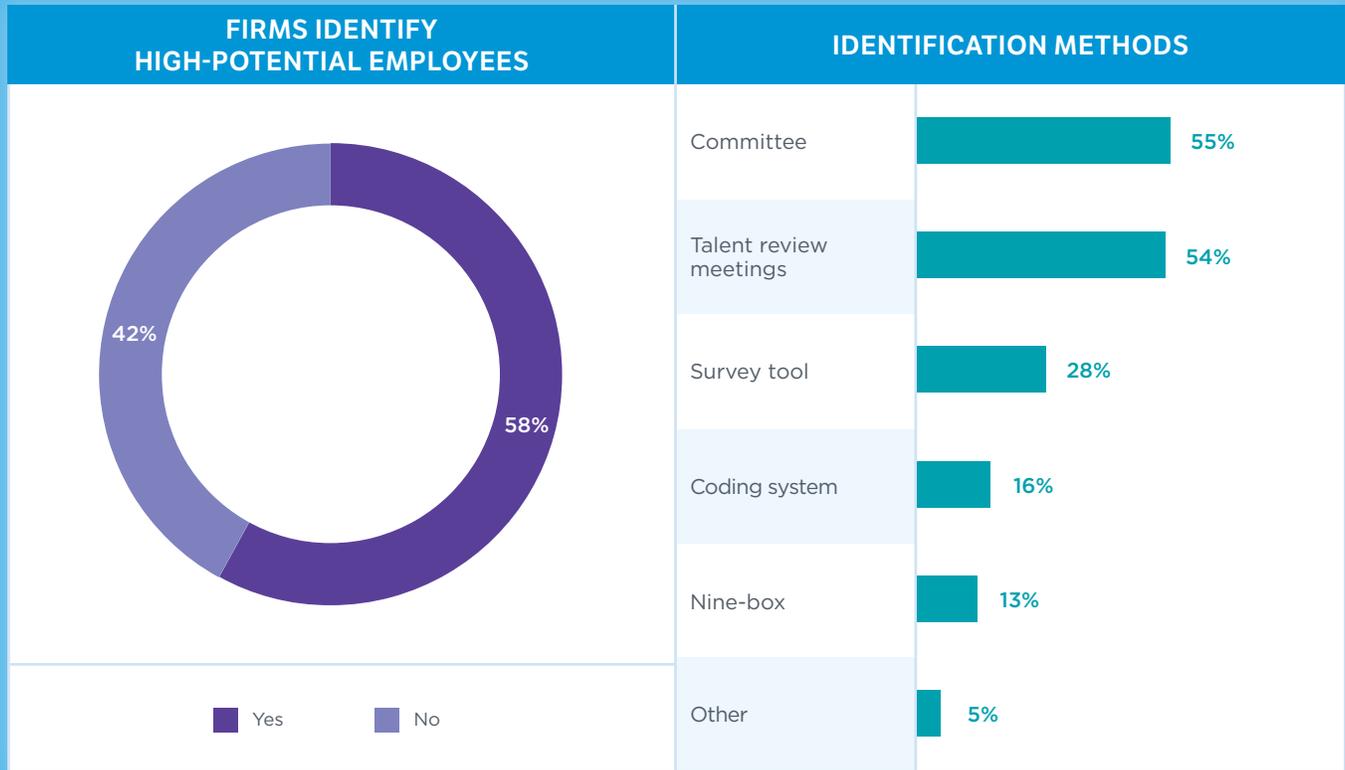
Having a process in place to identify top performers is one of the most commonly implemented talent planning activities in the middle market. Generally speaking, companies feel they do relatively well in this area. Still, only a slight majority (52%) of middle market businesses currently recognize top performers for their contributions. So about half of the middle market could do a better job at engaging employees simply by recognizing a job well done.

Middle market businesses do less well when it comes to having processes in place for identifying and developing high-potential (HIPO) employees. This activity is seen as important to overall talent planning, yet only 56% of companies say they do it very or extremely well, again indicating clear room for improvement in a significant proportion of middle market firms.

Right now, close to six in 10 companies do identify HIPOs, primarily through committee or talent review meetings. But just 37% of companies say they have specific processes in place for identifying and developing these employees.

Companies that say they do well when it comes to identifying and developing HIPOs typically have a more consistent process in place, and they are better about openly communicating with these employees. About half of firms structure incentives differently for HIPOs and give these employees job and career opportunities that may not be available to the general employee population. At the highest performing and fastest growing middle market companies, HIPOs are significantly more likely to be given greater access to current leaders, put on a fast track to a leadership position, and assigned a mentor.





## Defining High-Potential

Many organizations struggle to define “high-potential.” Commonly, companies confuse “potential” with “performance” when, in fact, they are two very different things. What’s more, different people within the same organization may have different ideas of what makes an employee high-potential.

To create consensus in your organization, it’s important to recognize that high potential is an indicator of likely future value to the organization; the person may or may not be performing at a high level at the present time. Of course, companies need to recognize and reward their existing best performers, but it’s important to identify future potential in addition to current contributions.

In other words, in an annual review process, an employee may not be rated as ready for promotion in the coming year, perhaps because she is new in her job and still needs to learn the position. But that same employee may be viewed as long-term high-potential. For talent planning purposes, he/she should be recognized as such.

## How to Identify High-Potential Employees

Once your organization recognizes the difference between future potential and current performance, leaders can use these criteria to help identify a list of high-potential employees.

1.) The employee must be with the organization for at least a year, since everyone is seen as having potential when they are first hired.

2.) The employee should be seen as having a two-level stretch within the next three-to-five years.

3.) There should be a specific target position identified that he or she can fill (i.e., VP of Human Resources). Identifying an actual position can help leaders better consider and assess the employee's potential for that specific role.

4.) There should be reasonable consensus from the second level manager, as well as from the manager's peers, regarding the employee's potential.

5.) Managers should feel at least 90% certain that the employee has the potential to fill the target position within the three-to-five year timeframe.

Using these guidelines, your leadership can create consensus around who has the greatest potential within your organization. And you can begin to craft a plan for grooming and developing that talent to fill key roles in the future.

## Conclusion

With the quality of a company's talent so closely aligned with its success, talent planning is clearly a critical strategy for middle market businesses. Yet, fewer than half of firms are actively implementing any number of talent planning activities. By adopting a framework based on the best talent practices of fast-growing, high-performing middle market organizations, companies can improve their talent planning performance and better position themselves for improved overall company performance.



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