

October 2009

Managing Talent in Tough Times

A Tipping Point for Talent Management?

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Pulse Survey Report

Executive Summary

As the global economy moves toward recovery, companies face some tough challenges and complex choices about how best to retool for growth. In the year since the financial markets collapsed, most organizations have streamlined, downsized and restructured to varying degrees, trying to stay on an even keel until the economy stabilized. The well-worn phrase “lean and mean” took on particular resonance — a badge of honor for many in reacting swiftly to market conditions.

Now, however, a different set of questions are emerging. Have organizations cut too far too fast — beyond “fat” and into “muscle”? If so, have they inadvertently slowed a fast return to growth? How easily can they correct course and close emerging gaps in capacity and capability? Are we on the brink of a new round of “talent wars”?

To begin exploring these issues, we recently surveyed over 200 HR and business executives across a broad range of midsize and large U.S. companies on emerging talent management priorities and strategies. We wanted to understand how organizations are defining talent and talent management, what activities they’re focusing on, how effective they think their processes are, and the degree of alignment between their talent management approach and their overall strategic goals. (See page 13 for more details about this study.)

We found U.S. companies inching toward a tipping point in how they deal with talent. Both our data and our experience confirm that organizations have awakened to the importance of having skilled and engaged people at all levels delivering results. Companies know that high performers, high potentials and pivotal talent are a critical resource (and source of competitive advantage) to which both business and HR leaders need to pay special attention. And they’ve made efforts over the last decade to bring science to the art of talent management, introducing more structured processes, better metrics and enhanced technology.

Still, our findings suggest that progress to date has been incremental rather than transformational — at a time when there have been sweeping changes in the global economy, in industry sectors and in individual organizations. Two points stand out:

- **Integrated talent management remains more aspiration than reality.** Only about a quarter of respondents report their current talent management models are mostly or fully integrated, meaning there are explicit connections both to business needs and across key processes, from sourcing, onboarding and development to deployment, performance management and measurement. Yet our data also confirm that integration makes a measurable difference in all facets of effective talent management.

Across our survey sample, those organizations with integrated models put more time and attention into a wider array of practices, were more advanced in having implemented more programs, and believed they did a better job of executing on those practices and programs than their less integrated brethren (often by a substantial margin).

- **Current talent management practices are insufficiently forward-looking.** For the most part, our respondents appear to be staying in their comfort zone, putting their energies into what they know and believe they’re good at, but not venturing too far outside those boundaries. Only a quarter or fewer of our respondents have implemented a number of processes arguably essential in a competitive global environment. Just 23%, for instance, have a formal governance structure and process for their talent management activities. And only 14% are using metrics to analyze and track internal talent supply and demand, and connect those data with performance data.

Balancing this picture, however, are some clear signs of positive change. One is increased alignment between business strategies and talent management priorities and practices. When we categorized our respondent companies by their primary strategic direction, we found notable differences in where each of the groups was placing its focus relative to talent management (see page 11).

Another sign is a rise in the numbers of companies in the process of implementing a more sophisticated array of talent management processes or at least in the consideration phase. To offer two examples, while over a fifth (22%) have given business leaders greater ownership and accountability for building the talent pipeline — a key success factor going forward — fully a third are in the midst of making that move, and another 28% are considering it. A similar pattern

takes shape around integrating talent management more directly into strategy and operations, with 23% already there, 40% in the process of implementing and 27% considering it, leaving only 10% out of the action altogether.

If movement toward next-generation talent management has been slow, we believe that's about to change. Economic recovery will be the fulcrum that tips the talent management balance. And if our respondents' increasing optimism about recovery is any indication, they will face that tipping point sooner than they think. How quickly they can prepare — and the steps required to do that effectively — appear to be the next battleground on the talent management front.

Our detailed results follow.

“Economic recovery will be the fulcrum that tips the talent management balance.”

Defining the Future Talent Agenda

- What leadership competencies/attributes are required to drive our business strategy and lead the evolution of the culture?
 - How robust is our existing leadership pipeline, and where are there risks?
- What are the pivotal job families/roles most critical to executing our business strategy?
 - How will we differentiate talent strategies/investments accordingly?
- What are the implications for skill development, given our business strategy?
- What are our existing/emerging talent requirements in the various markets we serve, and how will we attract/deploy the right talent to these markets?
- How can we optimize investments in talent and reward programs to achieve the right performance outcomes and evolve the culture?
- Does the talent function have the right structure, capabilities and people to deliver value to the organization at the right cost?

The Business Context: A Rising Tide?

Our respondents are, for the most part, cautiously optimistic about the future. Roughly three-quarters believe 2010 will bring a full economic turnaround, with the group split fairly evenly between the first and second halves of the year. Only 13% believe recovery will come in 2011 or later.

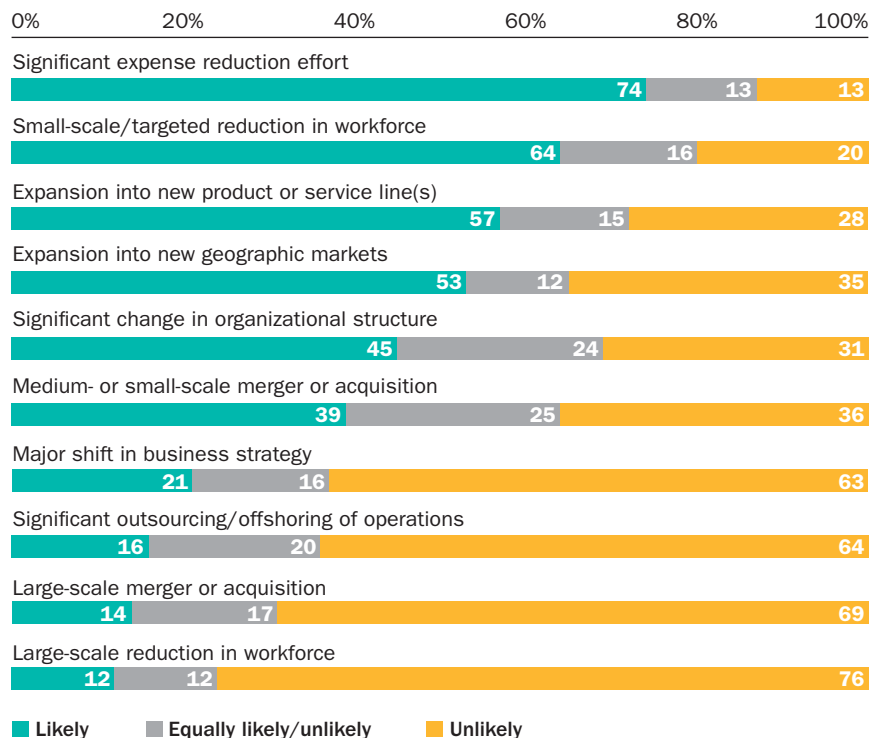
This optimism may account for the “green shoots,” to borrow from current parlance, apparent in respondents’ planned strategic actions over the next 18 months. As *Exhibit 1* shows, while cost reduction remains paramount, a majority anticipate growth-focused actions, ranging from expanding into new products, service lines or markets to undertaking small to midsize mergers, acquisitions or other transactions. Note, too, that for most of the respondents, large-scale workforce reductions are not on the horizon, nor are many planning to move operations outside or offshore.

“While cost reduction remains paramount, a majority anticipate growth-focused actions.”

Who Is “Talent”?

As the workplace becomes more diverse and the workforce more mobile, the definition of talent is broadening well beyond the traditional focus on top management. While senior leaders certainly constitute talent, there’s now widespread recognition that driving better performance depends on the optimal deployment, development and engagement of a range of people across the organization. Indeed, as *Exhibit 2* on page 5 shows, mid-level employees with leadership potential and high performers at all levels of the organization continue to be viewed as organizations’ most important talent segments.

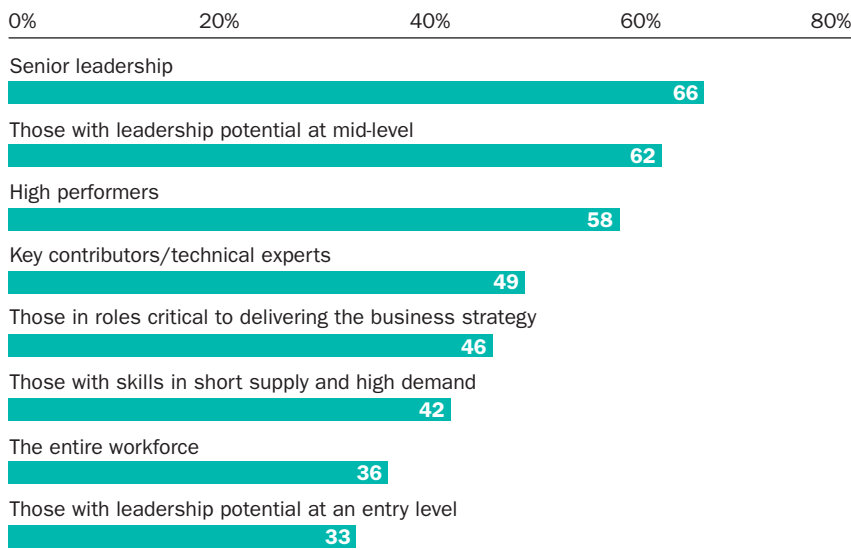
Exhibit 01. Planned Strategic Actions Over the Next 18 Months



More interestingly, beyond this traditional top talent segment is a second tier of technical experts and those in “pivotal roles” (i.e., critical to delivering business strategy). This is a particularly heartening finding since it indicates that organizations are putting more emphasis on defining the roles and skills required by their strategy, and identifying individuals for those roles with more precision than in the past.

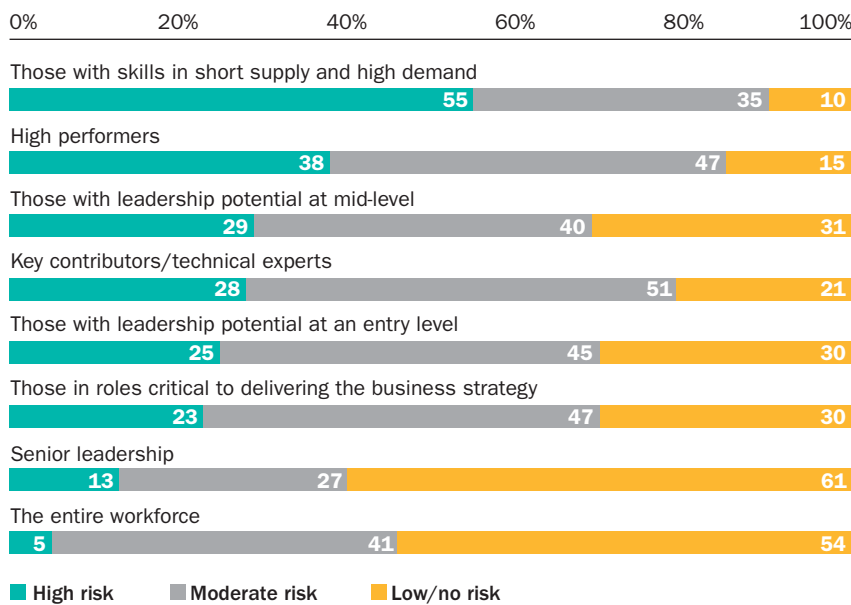
Not surprisingly, given continuing high unemployment, most of our respondents are not unduly worried about losing their talent, especially at the most senior levels, where voluntary turnover is typically low (*Exhibit 3*). Oddly, though, the one segment they do see at risk — employees with so-called hot skills — is also the segment that fewer than half of respondents defined as “talent.”

Exhibit 02. Employee Segments Considered “Talent”



“Below the top tier of traditional talent — those with leadership potential and high performers — are technical experts and those in pivotal roles critical to delivering business strategy.”

Exhibit 03. “Turnover Risk” for Employee Segments



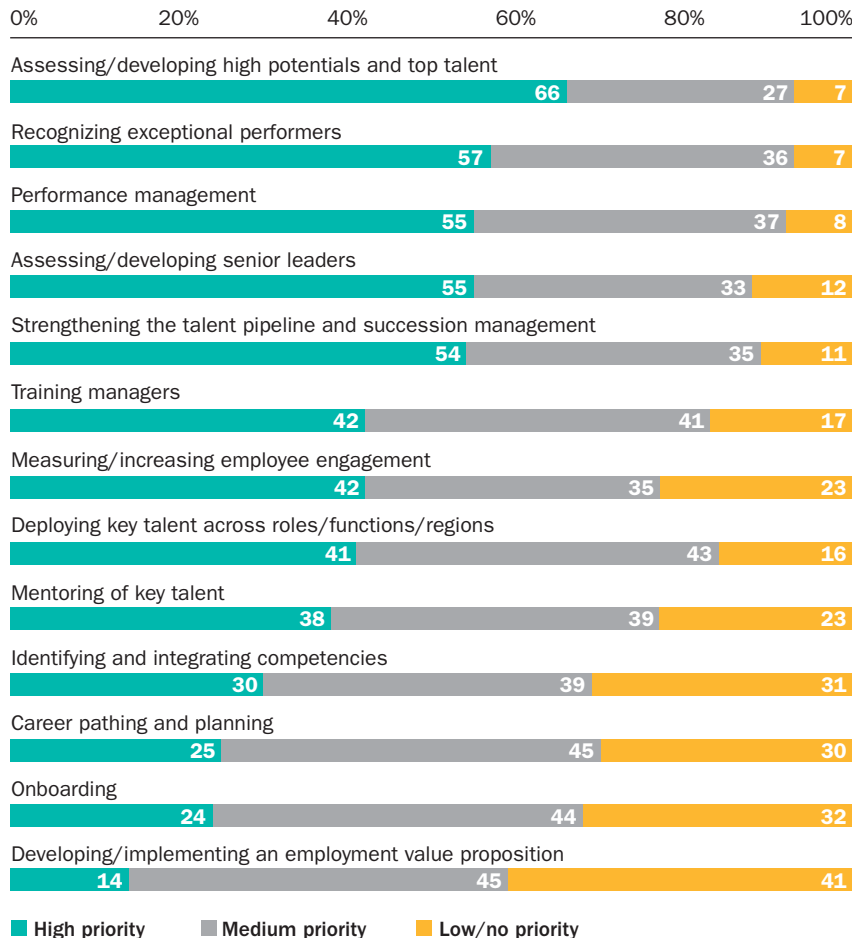
One reason may be practical. High demand for these employees may be turning them into “market nomads” — people that a company buys versus builds (perhaps even “rents” versus builds), given the ease with which they can and do move to other jobs. And because employers may not feel they have the luxury of developing and nurturing these hot-skill workers over the long term, they don’t equate them with other “talent.” Of course, at a time when compensation dollars are tight, this is a misguided strategy since it doesn’t allow for means other than pay to bind such workers to the organization. While it will always be more difficult to retain people with many choices in the labor market, companies that don’t even view these individuals as talent may be missing an opportunity to engage this segment for the longer term — especially via the nonmonetary aspects of the deal that our employee research consistently shows have a direct impact on retention and engagement.

“Companies are devoting their energies to the workforce segments that matter most to them.”

Talent Practices: Too Far Inside the Comfort Zone?

However companies ultimately define talent, our results do confirm that they are, for the most part, devoting their energies to the workforce segments that matter most to them. As *Exhibit 4* shows, the traditional top talent group — leadership, high potentials and high performers — can expect more assessment, development opportunities and recognition than other groups. And more than half of the respondents put a high priority on strengthening their talent pipeline and succession management practices, both areas that have traditionally received short shrift, especially below the very top tier.

Exhibit 04. Talent Management Priorities Over the Next 18 Months



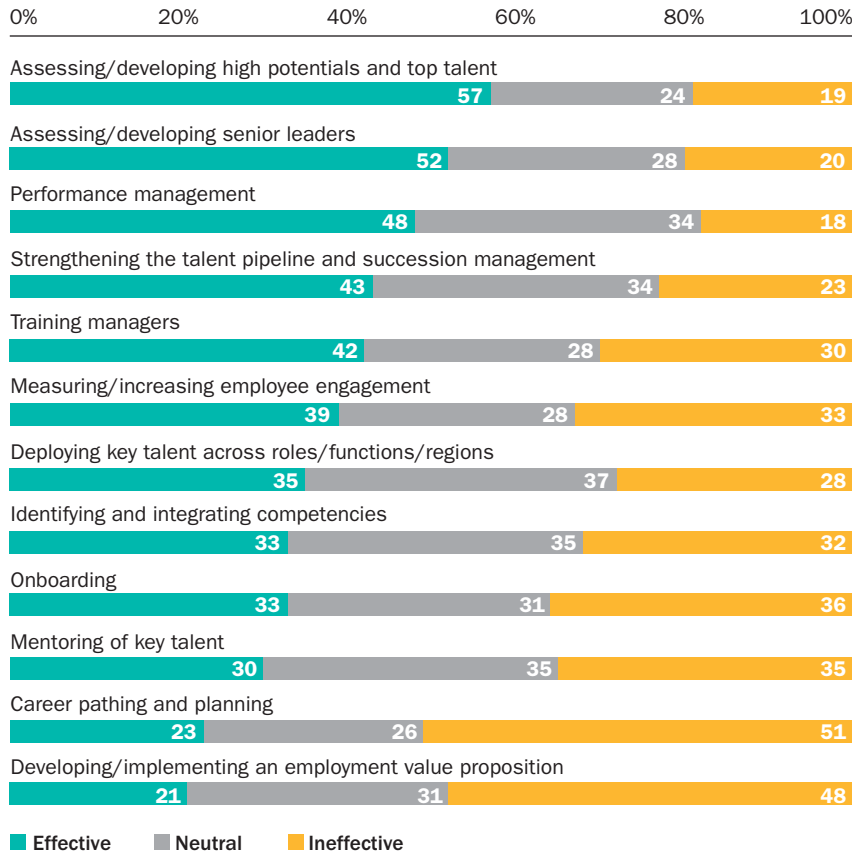
Still, a look at what the respondents deem their lower priorities may ultimately be more telling, since they underscore the thread we see throughout the data in continuing to do what's familiar and comfortable. It's curious, for instance, that a stated focus on developing high potentials does not go hand in hand with an equally strong focus on deploying those high potentials across roles, functions and regions. Far fewer respondents cited the latter as a top priority, despite the importance of giving people a rich array of experiences to promote real learning and ensure their effectiveness over time — not to mention being able to move people fluidly in and out of different countries as companies expand operations across borders.

Most telling, perhaps, is the strong alignment between what practices the respondent companies are implementing now and how effective they think they are at doing them (*Exhibit 5*). On the one hand, it's encouraging that companies believe they're doing a good job in the areas they deem most critical. On the other hand, continuing to devote significant time

to areas of great strength could limit a company's ability to build out newer and, as yet, untested areas that could prove essential over time. Needs will change as globalization and demographics continue to redefine the terms of competition and remake the labor force, and practices that are valuable today may miss the mark in just a few years.

To take just two examples, consider competency design and career planning. Both of these showed up as medium or low priorities — and, more disturbing, were judged only marginally effective in their current form. But if organizations don't or can't identify skills or candidates for new roles, or determine how individuals will move within and across the organization, they may not only find it difficult to retain their key talent, but may also hamper their ability to bring existing talent and knowledge to new situations and challenges, especially in large organizations where sheer size may prevent stars from "shining" through.

Exhibit 05. Effectiveness of Current Talent Management Practices



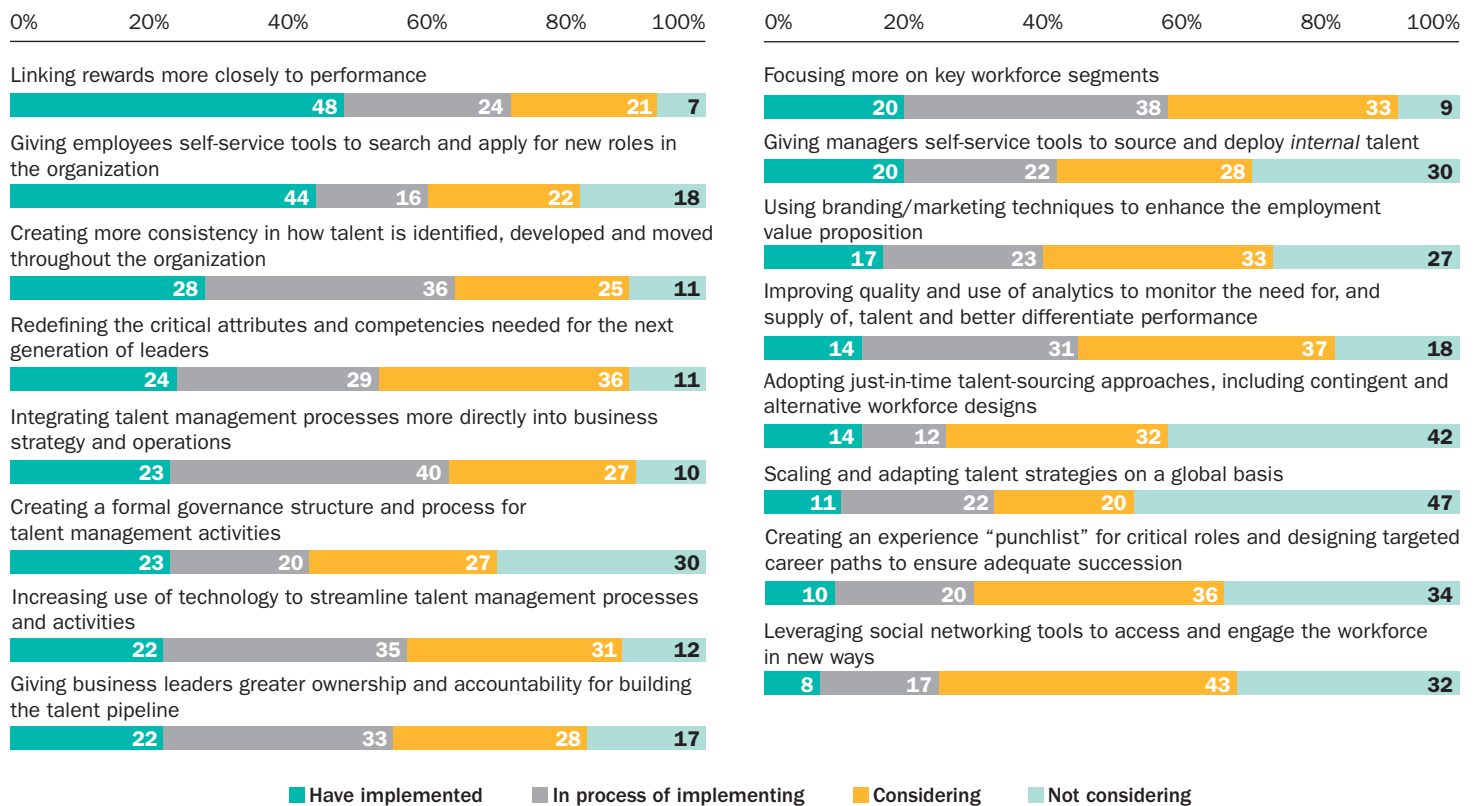
“Continuing to put significant time into areas of current strength could limit companies’ ability to build out newer areas of talent management that could prove essential over time.”

“Companies are making strides linking talent more closely to business operations and strategy.”

A similar dynamic appears to be at work in terms of what companies are currently doing, or planning, on the talent management front (*Exhibit 6*). With just two exceptions, only about a quarter or fewer of the respondents indicated their company had already implemented a wide array of programs. Social networking, for instance, although widely hyped in the media, has not yet broken through the corporate barrier, with only 8% of respondents saying their company has already implemented these tools (although, significantly, 43% are considering it).

At the same time, as noted earlier, there are encouraging signs of change. Across virtually all of the programs, anywhere from about a fifth to more than a third said their companies were in the midst of implementation, and relatively equivalent numbers indicated they were in the consideration phase. That suggests we would see a very different implementation picture if we were to run this survey again in another 12 to 18 months.

Exhibit 06. Implementation of Talent Management Processes



Integrated Talent Management: The Final Frontier?

The value of an integrated talent management model — one that directly links to business strategy and operations — is not lost on survey respondents. In fact, almost three-quarters of respondents cited it as the *most critical element* required to help

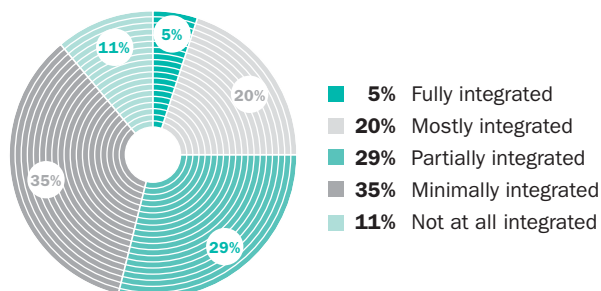
deliver on their strategy. But a majority (57%) also noted that an integrated approach was one of the most difficult of all talent management activities to implement, sustain and enhance (*Exhibit 7*). Undoubtedly, this is one of the reasons why only a quarter of the survey group report having such an approach in place (*Exhibit 8*).

Exhibit 07. Talent Management Processes Most Critical to Achieving Results — and Toughest to Implement and Sustain



“An integrated talent management approach is seen as the most critical element in helping deliver on business strategy, but also one of the most difficult activities to implement, sustain and enhance.”

Exhibit 08. Integration of Talent Management



The select group that has integrated their talent management models, however, distinguish themselves from the rest of the survey sample in several areas (Exhibit 9):

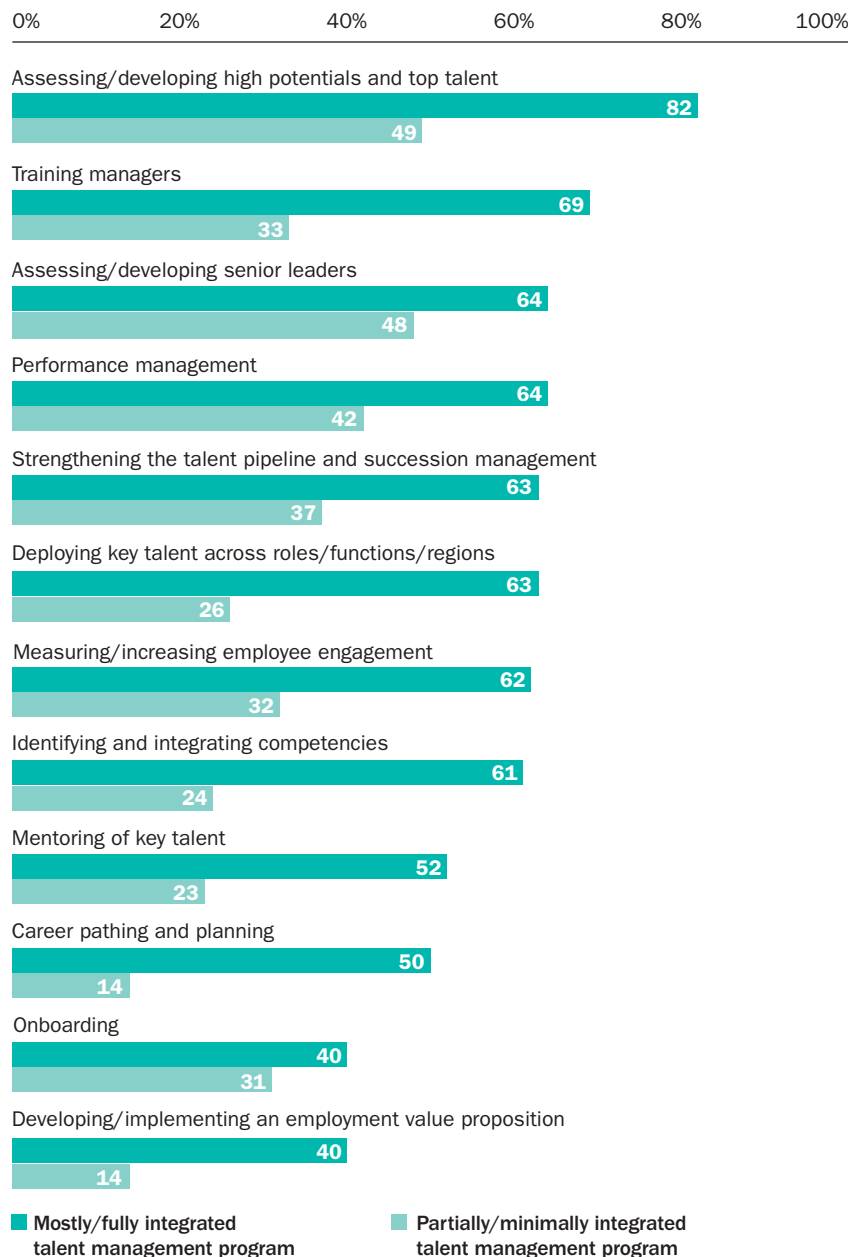
- First, they believe they are far more effective at executing across the entire spectrum of talent management practices.
- Second, they are significantly further along in implementing a range of processes and programs, from giving business leaders more direct accountability for building their talent pipeline,

to providing internal self-service job sourcing for employees, to developing employment brand campaigns, to using just-in-time talent sourcing models in the external labor market.

- Third, they are also further along in pushing past traditional areas and adopting some of the newer approaches likely to be more critical in the future. This includes building a formal governance structure for talent, segmenting the workforce to a greater degree in designing development or reward programs, and rethinking some of the competencies and roles needed for their future leaders.

Exhibit 09. How Integration Impacts Program Effectiveness

% saying program is effective



“Those with integrated talent management approaches are further along in adopting some newer approaches likely to be more critical in the future.”

In another positive sign of change — and increased integration — we found significant variations in companies' talent management priorities and programs depending on their strategic business focus. In other words, it appears that business needs are increasingly influencing talent decisions.

To conduct this analysis, we grouped all respondent companies into three categories based on how they responded to a question about their top strategic focus over the next 18 months.

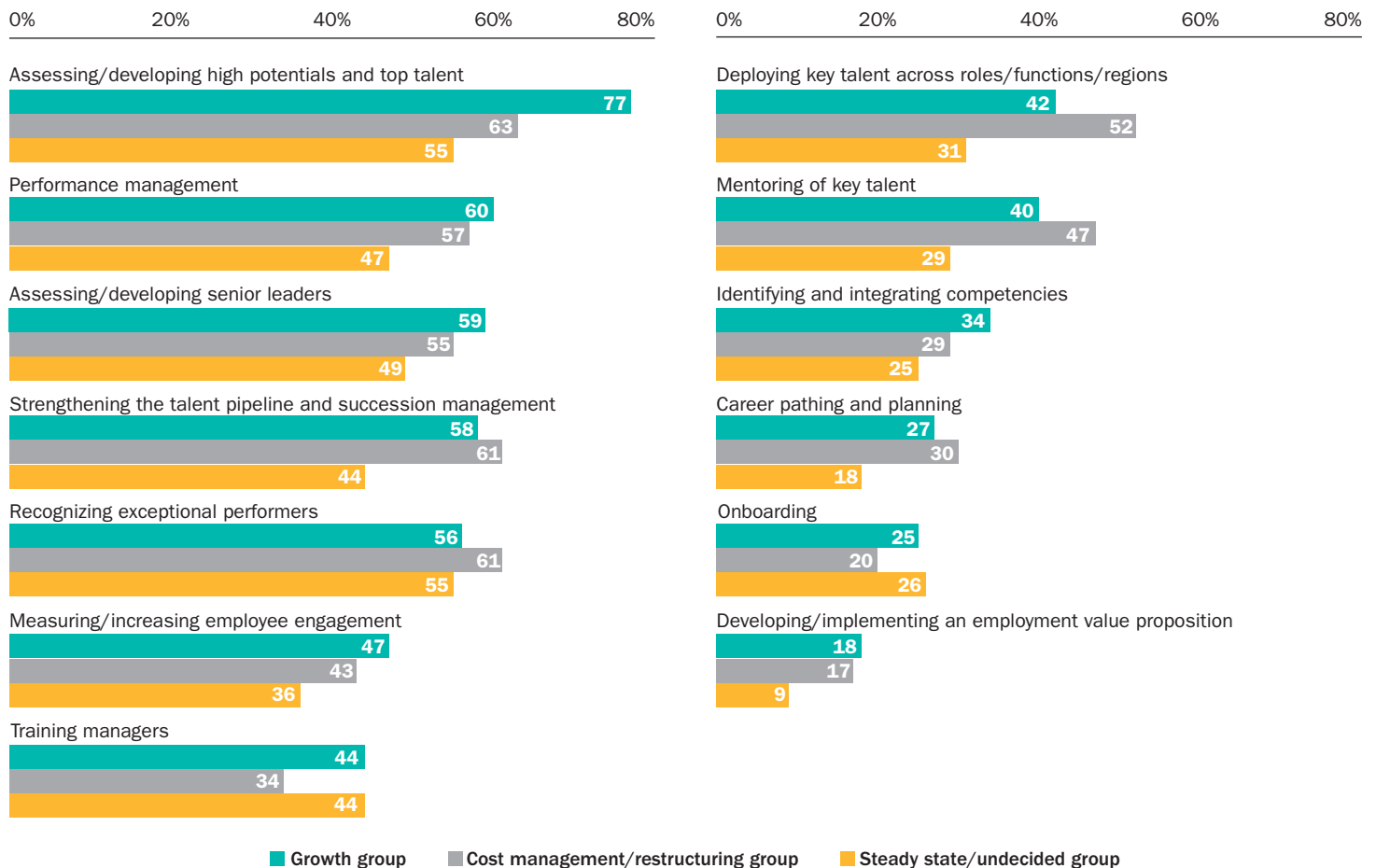
- Our *growth group* includes those citing expansion into new products, services or markets, and/or considering mergers/acquisitions.
- Our *cost management/restructuring group* includes those focusing on expense and staff reductions, and/or planning changes in structure or strategy.
- Our *steady state/undecided group* includes those unlikely to undertake any new strategic actions.

Exhibit 10 tells the story. Note, for instance, that the growth group sets its sights first and foremost on assessing and developing high potentials and top talent — key elements in a business expansion, by any measure. The cost group, by contrast, puts its emphasis on succession, deployment, recognition of top performers and mentoring. While these are certainly critical to talent management in all companies, they may be particularly so in organizations where cost constraints have mandated job freezes and slowed internal promotions, putting more pressure on nurturing and retaining existing talent. Notable differences also come through in the importance these groups place on assessing senior leaders, measuring and increasing employee engagement, and managing performance. Encouragingly, though, all three groups are closely aligned in recognizing exceptional performers as key to their talent management practices.

“Business needs are increasingly influencing talent decisions.”

Exhibit 10. How Strategic Focus Affects Talent Management Priorities

% citing as talent management priority



“Respondents are closely aligned in recognizing exceptional performers as key to their talent management practices.”

Similarly, actual talent management practices (those already implemented) also varied by strategic focus. In this case, notable differences emerged most strongly from the cost management group, which place significantly more attention on identifying, developing and moving talent through the organization — most likely to “optimize” the current talent population — and which are also somewhat more likely to have already integrated talent management processes more directly into their business strategy and operations.

Future of Talent Management

In the final analysis, our data paint a vivid picture of talent management as a work still very much in progress. On the one hand, companies are definitely making strides linking talent more closely to business operations and strategy, and putting their time, money and energies where they will count the most from a business perspective. On the other hand, we’ve observed a reluctance to move beyond familiar terrain, especially toward what could be described as leading-edge areas, along with what may be some myopia about what the future will bring and how quickly it will come.

Pushing into the future requires two things: a clear understanding of talent needs in the context of business goals, and the capacity to design and

implement practical, long-term plans to source, develop and retain talent when and where it’s needed.

Encouragingly, to the first point, our respondents’ views of talent have become more expansive, extending far beyond leadership and the upper ranks of management. But it’s less clear that this broadened focus is being applied to talent development. Many respondents remain committed to core activities, such as assessing and managing next-generation (high-potential) leaders and top performers, where they generally feel they’re doing a good job. Some of this attention, however, may come at the expense of other valuable strategies, including, notably, manager training, career planning and increasing employee engagement.

We know from our research among employees that effective supervision is a key element in employee retention and performance. We also know that career advancement (which rests on a well-thought-out career path structure) is a key driver of engagement. And, most important of all, we know that engagement itself has a direct impact on how employees perform and contribute to bottom-line results. Yet these are all areas that the survey respondents identified as points of weakness in their current talent management practices.

Towers Watson’s *Workplace Watch*: A View From the Front Lines

Towers Watson’s *Workplace Watch* is a quarterly look at employee opinions across geographies and industries to identify changes in employee attitudes that could affect engagement and performance.

Our second quarter results suggest that employees are handling the stresses of the current work environment fairly well, particularly in their ability to balance work and other responsibilities during an economically challenging period. While a number of factors account for this, two are notable. One is a clear pattern of increased communication from leadership and clarity about immediate goals and priorities. Employees have heard a very consistent message for the last year — increase revenues and minimize spending — and they have a good understanding of what their organizations have had to do in the short term to weather the downturn. That, in turn, has not only helped them focus their own activities, but has sparked greater willingness to do what’s needed to help their employer succeed, in part to ensure their own continued employment.

The second factor is that companies appear more willing to offer employees greater flexibility in deciding the hours and location in which they work. With compensation budgets tight and certain benefits under examination, flexing some of the nonmonetary aspects of the deal can help shape a more appealing day-to-day work experience.

Beneath this current calm, however, lie some questions about the future. While turnover remains low, largely because of high unemployment rates, how fast and to what extent will that change as the recovery picks up speed? And as companies’ singular focus on efficiency and cost management gives way to a more complex array of business priorities, will employee stress levels increase? Will the heightened focus on communication give way to prior patterns, with predictable impact on people’s sense of connection to their organization?

A complete talent management strategy incorporates an organization's values, its recruitment strategy, employee training and development, performance management, rewards and human capital metrics to actively support the business. But only a quarter of the organizations surveyed have done more than partially integrate their talent management strategies.

The potential for improvement is vast. As measurement in this area becomes more sophisticated, both business and HR leaders will start to have a more quantitative understanding of

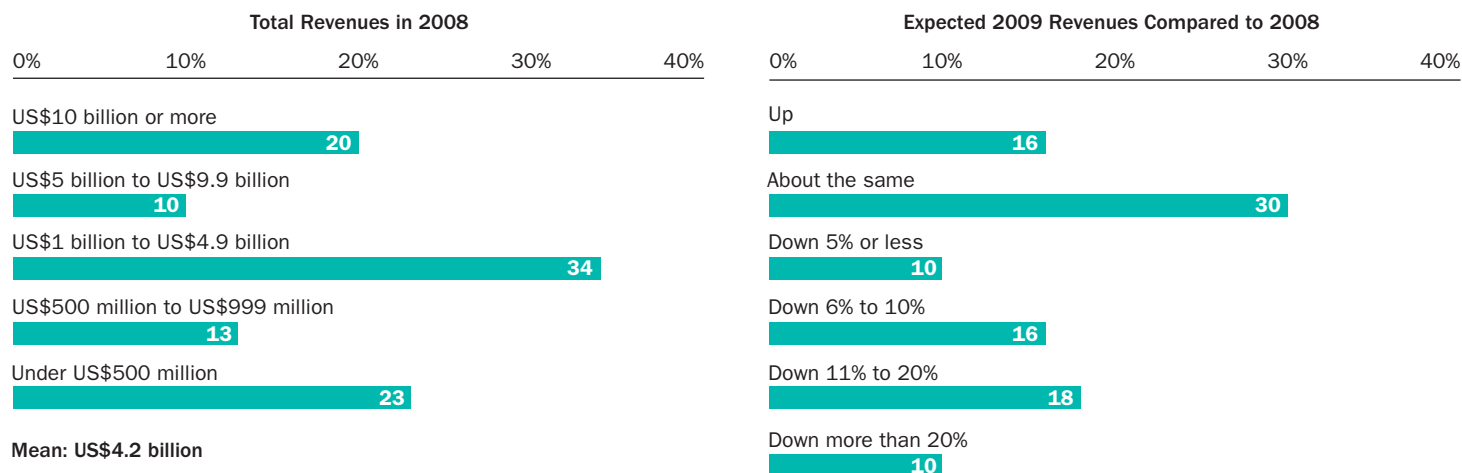
their current and future talent needs (and costs), and be able to identify, recruit and customize career development all along the talent pipeline far more accurately and efficiently.

About This Study

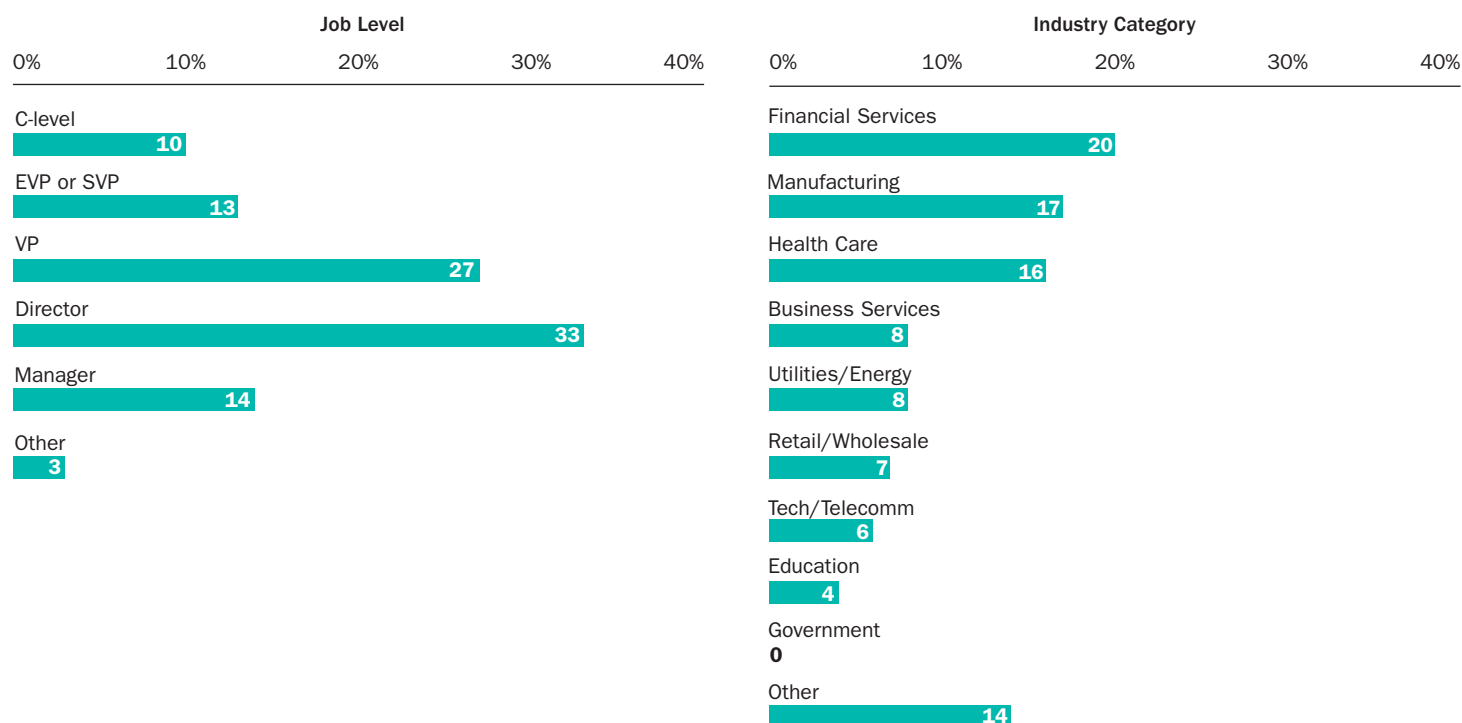
This survey was conducted online in July 2009. A total of 227 HR and business executives responded, representing a cross section of midsize and large U.S. organizations. Demographic information on the respondents appears below.

“Effective supervision, career advancement and employee engagement — all critical to performance — are also all areas identified as weaknesses in current talent management practices.”

About the Survey Group: Company Revenues and Revenue Outlook for 2009



About the Survey Group: Job Level and Industry



About Towers Watson

Towers Watson is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. With 14,000 associates around the world, we offer solutions in the areas of employee benefits, talent management, rewards, and risk and capital management.

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