MANAGING TALENT

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MANAGING TALENT

Recruiting, retaining and getting the most from talented people

Marion Devine and Michel Syrett

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To our partners Stephen and Suzy

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Preface

IN APPROACHING THE RESEARCH and development of this book, the authors were aware that there is already a large body of material on talent management on the market.

Yet in conducting the research to assess this material, a number of factors stood out. First, in the grand scheme of things, talent management is a relatively new concept. It has been around for only about a decade and as a study by Heidrick & Struggles, a global executive search firm, discovered, the creation of specifically focused talent development functions and managers is still in its early stage (see Chapter 1).

One consequence is that there is still no consensus about what talent management involves. As Angela Baron, formerly of the UK Chartered Institute of Personnel and Development, commented, it might or might not encompass a mixture of previously independent functions like graduate recruitment, performance management, career management and succession planning. Few of the new breed of talent managers are accountable directly to the chief executive or the senior executive team, and the level of integration between business and talent strategies is still patchy.

The other factor that stands out from interviewing people who are viewed as talented and/or have a track record of success in their chosen occupation is that there is a stark discontinuity between the agendas of the individual and that of the organisation. It can no longer be taken for granted by organisations that the individuals they mark out for systematic promotion and development are going to be willing pawns in the talent game created for them – not least because that often involves a high degree of mobility and a long-term commitment to extended career plans.

Furthermore, narrowly defined demarcations about who is inside or outside the talent pool often exclude the very people organisations need to attract and retain at a time of volatility and uncertainty: aspiring entrepreneurs, mavericks, outsiders and specialists who do not seek or want a career ladder to a top corporate position, and who desire independence and autonomy.

All this poses considerable challenges to the senior managers who seek to recruit, retain and benefit from the skills and insights of talented people. This book seeks to highlight the dilemmas they face and, through reference to organisations with a proven track record of success, define and outline some of the emerging solutions. It also includes a chapter aimed at "talented" people themselves and how they can best approach the talent game at a time when the rules are significantly in flux.

Marion Devine and Michel Syrett
January 2014

1 The war for talent

> *All of us know that the calibre of talent distinguishes great from good, winners from losers and adaptation from extinction. Having the right team playing on the field is the fundamental difference between victory and defeat.*
>
> Indra Nooyi, chairman and chief executive, PepsiCo

SOME 15 YEARS AGO, McKinsey & Company, a global management consulting firm, produced a now famous report called *The War for Talent*. It made the case that international companies needed to pay as much attention to how they managed their brightest employees as they did any other corporate resource. McKinsey declared that "better talent is worth fighting for" and predicted a world where the supply of talent would decrease while demand would rise. Companies would be locked in a constant and costly battle for the best people for the foreseeable future.

McKinsey's definition of talent went far beyond managerial or leadership skills:

> *[Talent is] the sum of a person's abilities ... his or her intrinsic gifts, skills, knowledge, experience, intelligence, judgment, attitude, character and drive. It also includes his or her ability to learn.*

In response to economic boom times between 1998 and 2001, many firms expanded rapidly and the battle to recruit and keep the best people well and truly began. The talent management function, as well as a burgeoning talent management industry, sprang up to identify, retain and develop high-flying individuals into a small, exclusive top tier of managers and leaders.

Despite several cycles of economic boom and bust, as well as the world's most severe economic crisis, the battle for talent continues. The competition for the best staff has broadened beyond senior leadership talent. Employers are struggling to recruit sufficient numbers of highly skilled people for a wide variety of managerial and specialist positions.

At the international level, talent shortages are more severe. During the past decade, an internationally mobile group of employees, who can pick and choose where they work, has emerged. As firms in emerging markets also begin competing in the global economy, these people are in ever-greater demand.

Singapore, for example, has embarked on an intensive recruitment programme for skilled foreign workers, with more liberal criteria for eligibility to work in the country. Some 90,000 now work in the city-state, the majority from the United States, the UK, France, Australia, Japan and South Korea.

The World Economic Forum predicts good times ahead for this internationally mobile group. In its 2012 report, *Stimulating Economies Through Fostering Talent Mobility*, which analyses the demand and supply of skilled workers in 22 countries and 12 industries, it comments:

> *The coming decades will present golden opportunities for well-educated people with critical expertise. So deep and widespread will be the talent gap that individuals willing to migrate will have unprecedented options.*

Annual surveys of employers worldwide between 2009 and 2013 by ManpowerGroup, a multinational human resources consulting firm, have shown steady rises in the number experiencing difficulties in recruiting skilled workers. The 2013 survey revealed that more than a third (35%) of nearly 40,000 employers worldwide are experiencing difficulties in filling vacancies. One in three employers in the United States is experiencing skills shortages; European employers are reporting similar shortages. Despite continued high unemployment in many European countries, especially those in the euro zone, more than one in four employers (26%) struggle to fill jobs because of talent shortages. Around three-quarters (73%) of responding firms say the main obstacle is a lack of people with the right level of experience, skills or knowledge to fill these positions.

Firms in the survey report the highest shortages since 2008, and over half (54%) believe that this will have a “high or medium impact” on their competitiveness. This is an increase from 42% in 2012. The jobs that are most difficult to fill include engineers, sales representatives, technicians, accounting and finance staff, managers and executives and information technology staff.

Jeffrey A. Joerres, ManpowerGroup’s chairman and CEO comments:

> *There is a collective awakening among the surveyed firms about the impact of talent shortages on their businesses. Globally, employers are reporting the highest talent shortages in five years. Although many companies recognise the impact these shortages will have on their bottom line, more than one in five is struggling to address the issue.*

The Chartered Institute of Professional Development (CIPD)/ Hays 2013 Resourcing and Talent Planning survey in the UK shows a threefold increase in the number of employers reporting difficulties in recruiting well-qualified people, from 20% in 2009 to 62% in 2013 (based on the responses of 462 UK-based HR workers). Managerial and professional vacancies are the hardest to fill (52% of responding employers said this) followed by technical specialists (46%), particularly in the manufacturing and production sector.

However, the CIPD/Hays survey revealed that some of the difficulty in recruiting is because skilled workers are reluctant to move jobs during a time of economic uncertainty. It shows that the rate of labour turnover has declined steadily since the start of the financial crisis in 2008. One in six organisations reported that a shortage of skilled job applicants has contributed to recruitment difficulties.

A phoney war?

Employers certainly think they are experiencing talent shortages, but is this really the case? Is the current difficulty in recruiting skilled workers more to do with their reluctance to move jobs than any real decrease in their numbers?

There is an argument that genuine talent shortages would lead to rising wages and lower rates of unemployment for skilled workers such as university graduates. Yet few developed countries are seeing any rise in wages and unemployment rates have risen in many of them.

Mark Price, a labour economist at the US-based Keystone Research Center, points to the number of manufacturers complaining about the shortage of skilled workers in the United States. In 2011, there were reportedly 60,000 vacancies in qualified skilled posts within the US manufacturing sector. "If there's a skill shortage, there have to be rises in wages," Price says. "It's basic economics." Yet the evidence from organisations such as the US Bureau of Labour Statistics is that wages have either stalled or are even falling in the manufacturing sector.

Business leaders, policymakers and economists in the United States have had a vigorous debate about the possibility of a phoney war for talent. A notable figurehead for those who doubt the claims of serious skills shortages is Peter Cappelli, professor of management at the Wharton School, University of Pennsylvania. In his 2012 book *Why Good People Cannot Get Jobs*, he argues that there is no real shortage of skilled workers. He believes that the problem is a result of poor recruitment practices and "picky" employers who make unrealistic demands on workers and offer too low pay. He asserts:

> *The skills gap story is their [employers'] diagnosis. It's basically saying there's nobody out there, when in fact, it turns out it's typically the case that employers' requirements are crazy, they're not paying enough or their applicant screening is so rigid that nobody gets through.*
>
> *Searching forever for somebody – that purple squirrel, as they say in IT, that somebody who is so unique and so unusual, so perfect that you never [find] them – that's not a good idea.*

Cappelli points to other practices that help suggest skills shortages. American employers, he argues, are placing too great an emphasis on work experience and are turning away qualified and trained candidates. They are unwilling to provide these candidates with the training or skills that would help alleviate apparent talent shortages. Unrealistic “wish lists” are configured into applicant tracking software, again leading to the rejection of qualified candidates.

He also argues that employers are often leaving positions vacant, parcelling out the work to other employees. This is because most internal accounting systems do not help organisations calculate the true cost of unfilled positions, and there is an impression that there is an economic benefit from not filling jobs.

Research by Randstad, a multinational human resources consulting firm based in the Netherlands, confirms that external recruitment processes are taking longer and that employers are choosier. In the UK, for example, successful candidates for senior roles undergo an average of 3.4 interviews, compared with 2.6 in 2008, and for junior roles an average of 2.4 interviews, compared with 1.6.

Psychometric testing is one major reason for lengthening appointments processes. Randstad’s survey finds 29% of UK roles now involve some form of psychometric, technical or aptitude testing, compared with 14% in 2008. Vetting candidates, such as checking references and qualifications, delays the hiring process by 15.2 days on average.

Mark Bull, Randstad’s UK chief executive, says that employers have become increasingly selective when it comes to interviewing:

> *Prospective employees have to jump through many more hiring hoops today than they did before the recession. Employers are often looking for more bang for their buck. A skill set that was satisfactory five years ago might not be now, as employers look towards the long-term potential of new hires. It’s not enough to demonstrate you can do the job being advertised – you need to show you can develop in the role and bring something valuable to that organisation in the future.*

ManpowerGroup has also noted this trend but nonetheless believes there are real talent shortages. Its 2013 survey suggests that “sluggish demand is actually exacerbating talent shortages”. Companies are being more selective about potential hires, seeking an exact match instead of taking the time to develop the skills of less-qualified applicants. Weak demand is effectively clogging up the system. The survey concludes:

> *If demand for their products and services was more robust, [employers] would not have the same luxury of time – hence the apparent head-scratcher of listless jobs growth and greater skills shortages.*

Is it possible to reconcile static wages and large numbers of unemployed people, including university graduates in many European countries, with the complaint from business that they cannot find sufficient numbers of skilled workers? The answer, provided by Hays, a UK recruitment company, and Oxford Economics, a global forecasting and analysis company, is that wage pressure and unemployment rates are not accurate indications of skills shortages. Several factors need to be taken into account to understand the market for skilled labour. Hays and Oxford Economics pooled their data to identify seven "components" that together give a better picture of skill shortages:

- **Labour-market participation.** The degree to which a country's talent pool is fully utilised; for example whether women and older workers have access to jobs.
- **Labour-market flexibility.** The legal and regulatory environment faced by business, especially how easily immigrants can fill talent gaps.
- **Wage pressure overall.** Whether real wages are keeping pace with inflation.
- **Wage pressure in high-skill industries.** The pace at which wages in high-skill industries outpace those in low-skill industries.
- **Wage pressure in high-skill occupations.** Rises in wages for highly skilled workers are a short-term indication of skills shortages.
- **Talent mismatches.** The mismatch between the skills needed by businesses and those available, indicated by the number of long-term unemployed and job vacancies.

- **Educational flexibility.** Whether the education system can adapt to meet the future needs of organisations for talent, especially in the fields of mathematics and science.

With these seven measurements Hays and Oxford Economics created a "global skills index", which they used to analyse the market for skilled labour in 27 key economies across all five regions of the world during 2012.

The result was a clear picture of skills shortages in 16 of the 27 countries. The study concluded that despite rises in unemployment around the world, particularly in North America and Europe, there is "little evidence that this has led to an easing in skill shortages. Indeed, evidence seems to point to a worsening of the situation". Even though wage pressure is weak in the United States, the UK and Ireland, these countries are experiencing the greatest degree of "talent mismatch", where companies are struggling to recruit the skills they need, despite a large pool of available labour.

The index reveals that skill shortages occur for varied reasons within countries. For example:

- Germany has the highest overall score for skill shortages and is experiencing wage pressures for high-skill industries and occupations; the engineering, IT, utilities and construction sectors have been particularly hard hit. There is an estimated shortage of 76,400 engineers and 38,000 IT professionals.
- France is experiencing skill shortages for different reasons. Labour-market inflexibility is stopping firms recruiting foreign talent, and there is a "talent mismatch", where skilled workers are opting for jobs in the financial and commercial sectors instead of sectors such as engineering where there are skill shortages.
- The UK is experiencing skill shortages in sectors such as energy, banking and finance. It has one of the highest scores for talent mismatches, suggesting there is a serious gap between the skills that employers need and those available in the labour market. However, this is not leading to a rise in wages, as the UK's relative openness to migrant labour is enabling employers

to attract staff from overseas (although recent changes in employment laws suggest the country is becoming less welcoming).

- The United States has the highest overall score for skill shortages. There is a strong demand for skilled people in the oil and gas industries, life sciences and information technology. A big problem is a shortage of experienced and skilled workers but an oversupply of people at entry level. Large numbers of people are either unemployed or underemployed in semi-skilled and part-time jobs because of a lack of skills.

Overall, the index provides evidence of both genuine skill shortages and "talent mismatches". Hays and Oxford Economics conclude:

> *It is clear from our report that while many graduates are out of work, particularly in Europe, at the same time the world is chronically short of particular skills ... Some of the most important skills for driving growth are in shortage on a global basis ...There is a serious disconnect between higher educational bodies, employers and graduates about the skills now needed in the workplace.*

Demand for more advanced skills

Part of the problem for organisations and employees is that new and increased skills are required in the workplace. As economies move from being product-based to being knowledge-based, the number of specialist jobs increases. It is hard for employers and educational providers to anticipate these changes. By 2020, the European Centre for Vocational Training predicts that 81% of all jobs in the EU will require "medium and high level qualifications" because of the continuing shift towards knowledge-intensive activities.

Firms operating in knowledge-intensive industries depend on their most capable staff to help create value through intangible assets such as patents, licences and technical know-how. This is asking a lot. To operate at this level, many people need not just specialist knowledge or technical skills, but also higher cognitive skills to equip them to handle the intricacies of decision-making and change.

The twin forces of globalisation and technology have also led economies across the world to become more entwined, adding to the complexity of many jobs and occupations. Firms are now looking for individuals with a range of abilities that might include specialised skills, broader functional skills, industry expertise and knowledge of specific geographical markets.

Four broad areas of skills will be in greatest demand over the next ten years, according to Oxford Economics and Towers Watson, a global professional services firm. Based on a worldwide survey of 352 human resources managers in the first quarter of 2012 and a modelling exercise involving 46 countries and 21 industry sectors, employers will place a premium on the following:

- **Digital skills.** The fast-growing digital economy is increasing the demand for highly skilled technical workers. Companies are looking for staff with social-media-based skills, especially in "digital expression" and marketing literacy. Digital business skills are rated as crucial, particularly in Asia-Pacific, where e-commerce is expanding rapidly as the result of a "new digital technology war" among firms.
- **Agile thinking.** In a period of sustained uncertainty, where economic, political and market conditions can change suddenly, agile thinking and scenario planning are vital. Those respondents from industries with high levels of regulatory and environmental uncertainty, such as life sciences and energy and mining, highlighted the importance of agile thinking. Respondents said that the ability to prepare for multiple scenarios is especially important. HR managers also put a high premium on innovative thinking, dealing with complexity and managing paradox.
- **Interpersonal and communication skills.** Overall, HR managers predict that co-creativity (collaborating with others) and brainstorming skills will be greatly in demand, as will relationship building and teamwork skills. Oxford Economics points out that this reflects the continued corporate shift from a "command-and-control organisation to a more fluid and collaborative style". As companies move to a "networked" corporate world, relationships with suppliers, outsourcing

partners and even customers will become more dispersed and more complex. It will take skill to manage these networks and build consensus and collaboration with network partners.

- **Global operating skills.** The ability to manage diverse employees is seen as the most important global operating skill over the next 5–10 years. In the United States, the top global operating skill was understanding international business. According to Jeff Immelt, chairman and CEO of General Electric, employees need skills in both "glocalisation" (where home-market products and services are tailored to the tastes of overseas customers) and reverse innovation (where staff in emerging markets lead innovation and then the company applies these new ideas to mature markets).

McKinsey's research suggests that this "skill inflation" is occurring in many jobs. There has been a significant increase in the number of jobs involving "interaction work" in developed economies – that is, non-routine jobs involving intensive human interactions, complex decision-making and an understanding of context. In the United States, for instance, some 4.1m new jobs involving interaction work were created between 2001 and 2009, compared with a loss of 2.7m "transaction"-based jobs, where work exchanges are routine, automated and often scripted.

The quantity and quality of graduates

Countries are not producing sufficient numbers of highly educated people to keep pace with the needs of employers and to sustain economic development. This is the case in both emerging markets and developed economies, as an analysis of the global labour force by the McKinsey Global Institute in 2012 shows. The research, covering 70 countries which account for 96% of global GDP, suggests a global shortfall of 38m–40m college-educated workers by 2020.

Although the rate of "tertiary educational attainment" has doubled since 1980, advanced economies (some 25 countries with the highest GDP per head in 2010) will have 16m–18m too few graduates by 2020. Demand is likely to outstrip supply because of the expected expansion of knowledge-intensive sectors in advanced economies.

In the United States, the gap could reach 1.5m graduates by the end of this decade. Even China, which has rapidly expanded tertiary education, is forecast to have a shortfall of 23m graduates by 2020.

There is as much a problem with the quality of graduates as their quantity. Work by the World Economic Forum (WEF) shows a growing problem of employability among graduates in many countries. Employability is defined as the skills graduates need to gain employment and work effectively in a company. These include technical skills, industry-based skills and more generic soft skills such as adaptability, time management and the ability to communicate well.

Employers in a number of countries (including China, Russia, Brazil, Italy, Spain and Turkey) expressed concerns about the level of employability of graduates. In China, for example, although 6.4m students graduated in 2009, 2m were still looking for a job one year later. The Chinese Academy of Social Sciences reported that many of these students lacked the skills required by employers.

Only a small number of graduate schools in India comply with international standards. According to the International Institute for Labour Studies, only 25% of Indian graduates and 20% of Russian graduates are considered employable by multinationals. The WEF says there is an urgent need for governments, educational institutions and employers to collaborate to provide graduates with more relevant education and training. But if graduates are to keep pace with changes in the workplace, employers need to help them keep learning and developing throughout their careers.

Demographic trends

Changing demographics are likely to cause substantial shifts in the size and age of workforces around the world. Employers will need to take account of these shifts when they draw up their plans for "sourcing" talented workers, as well as how they manage their existing pool of talented employees.

The war for talent will intensify, given that the global workforce is predicted to decrease over the next two decades at a time when the demand for advanced skills is expected to increase substantially as a result of globalisation and advances in technology. The WEF warns that "the global economy is approaching a demographic shock of a scale not seen since the Middle Ages". It predicts that by 2020, for every five workers who retire, only four young workers will enter the workforce in the majority of OECD countries.

For the first time ever, the EU's working-age population (aged 20–64) is decreasing from a peak of 308.2m in 2012. The number of workers is likely to drop to 265m by 2060. These demographic shifts, which may be tempered by people working longer, would be even bigger but for an assumed net inflow of over 1m (mostly young) migrants a year.

Ageing populations, especially in North America and Europe, will lead to large numbers of experienced workers retiring, with a corresponding loss of skills and experience. According to the US Census Bureau, 10,000 Americans will retire every day between 2010 and 2030. And according to the European Commission, on average, Germany, France and Italy have the oldest population. Germany's declining birth rate, which now stands at 1.38 children per women, has led to predictions of an economic decline in the next two decades.

An ageing population could offer new possibilities for employers and skilled workers, but it could also create a new set of problems. There could be a new willingness to retain the skills of older workers. In the United States, Germany and Italy, there is active consideration of how skilled older workers can be encouraged and supported to continue working. For example, Germany's Cologne Institute for Economic Research recently urged employers to build more attractive working environments to retain employers aged 55 and over. This might require redesigning roles and taking into account health-care benefits as much as pay.

Conversely, employers might find that retaining older workers blocks the career development of younger employees. There is also the possibility that lower-paid employees (who are likely to be less skilled), rather than their more skilled and better-paid peers, will want to take up any offers of continuing employment. The Pew Research Center, an American think-tank, suggests that six in ten of American workers aged between 50 and 61 may have to postpone retirement because they cannot afford to stop work, but just how their wishes can or will be accommodated by employers remains to be seen.

Employers may still have some way to go before they think about older workers as a valuable source of talent. Research from both sides of the Atlantic suggests that employers are reluctant to recruit unemployed older workers, even qualified and experienced ones. Age discrimination is cited as one likely reason that, in the first quarter of 2012, 40% of older unemployed workers (aged between 50 and 59) in the United States had been out of work for a least one year.

In the UK, a 2013 study by the Age and Employment Network covering 729 unemployed workers explored the reasons why they could not obtain full-time work. It concluded that "age discrimination" is rife among employers. Many of the respondents were highly skilled: 47% were managers or senior officials; 43% had a degree or an equivalent qualification; and 57% had some kind of professional qualification. Despite their experience, 18% of the respondents had been unemployed for 6–12 months, 19% for more than one year and 31% for more than two years.

Insufficient skills did not appear to be a problem; three out of four respondents said they had the right skills for their occupation and industry, with managers and officials being most confident. However, the most significant factor affecting their ability to get work was the attitudes (or prejudices) of employers – 83% said recruiters viewed them as too old, and 72% said they saw them as "too experienced or overqualified".

Working populations are also becoming more ethnically diverse, and this may also require employers to confront assumptions or prejudices that might stop them tapping into this growing pool of talent. In the United States, if current trends continue, the demographic profile of the workforce will change dramatically by the middle of this century, according to new population projections developed by the Pew Research Center. It predicts that the population will rise from 296m in 2005 to 438m in 2050, and that new immigrants and their descendants will account for 82% of the growth. Of the 117m people added to the population through new immigration, 67m will be the immigrants themselves, 47m will be their children and 3m will be their grandchildren.

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