Talent Management
Raising the Bar

Assisting Organisations to Acquire & Retain the Best Talent through the Development & Integrated Delivery of Innovative People Management Systems and Solutions
TALENT MANAGEMENT

“Talent management is one of the top seven chief HR initiatives globally”
(IBM, 2005)

Talent management is one of the biggest challenges facing organisations this century. The demand for superior talent far outweighs supply, and more and more companies are feeling the impact as they compete in the global market.

Between 2000 and 2015, the demand for labour in the 35-44 age category will increase by 25% - at the same time the supply of it will fall by 15%. The result is a significant shortfall in the labour market (McKinsey, 2006).

Combined with the changing workplace expectations of a diverse employee group and the clear business impact of poor people practices, the issue of Talent Management has been elevated to the top of strategic human resources management challenges. Companies need to be proactive about their talent management and discard all traditional assumptions about the employment relationship – we have entered a new workforce era.

Only 20% of senior leaders have confidence in their organisation’s Talent Management processes
(Hay Group, 2006)
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WHAT IS TALENT MANAGEMENT?

Talent management can be defined as “a set of interrelated workforce-management activities concerned with identifying, attracting, integrating, developing, motivating and retaining key people. Talent management activities can include performance management, succession planning, talent reviews, development planning and support, career development, workforce planning and recruiting” (Heinen & O’Neill, 2004). Essentially, talent management refers to all the variables associated with the employment of human capital, and as with all other corporate assets, requires strategic and proactive management.

WHERE HAS IT BEEN UNTIL NOW?

By its definition above, the components of talent management are nothing new. Human Resources departments have been grappling with all of the above functions for many years. What is new, and as yet mastered by few organisations, is an integrated, strategic and proactive approach to managing talent.

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<th>STRATEGIC</th>
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<td>“To be successful, the talent strategy must be aligned with an organisation’s business strategy and human capital context” (Heinen &amp; O’Neill).</td>
<td>Talent management shifts the human resources philosophy and subsequent approaches from a disparate set of specialised functions to a coordinated and interdependent series of connected activities that provide leverage at each stage.</td>
<td>Troubleshooting, fire fighting and problem solving will always be an integral part of the HR job description. Talent management requires that, added to the reactive nature of many HR tasks, it adopts a highly proactive approach.</td>
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<td>Strategic talent management ensures that effective and timely people strategies are in place to reduce the business risk of being under human-capitalised.</td>
<td>A talent management framework, established on a robust model of both technical and behavioural capabilities underpins integrated interventions.</td>
<td>An eye to the future, with clear forward plans based on strategic business plans, subject to both qualitative and quantitative ROI measures, differentiates talent management.</td>
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<td>Business goals need to be translated into workforce needs in order to drive success (Farley, 2005).</td>
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3 REASONS WHY IT MATTERS

Talent management processes change over time in response to the impact of both internal and external factors on the workplace (Frank & Taylor, 2004). For instance, globalisation, workplace reform and changes in the demographic composition of the workforce have affected how talent needs to be managed (Nankervis, Compton & Baird, 2005). The growth potential of organisations worldwide depends on the ability of companies to have the right people, in the right place at the right time.

The First Reason: Skills Shortage

Globalisation has led to increased competition and pressure on organisations to use human capital as effectively and productively as possible. Although most senior executives say “people are our most important asset” these executives do not manage this asset in the same way that they manage other important assets. United States Fortune 500 companies spend an average of $3 billion dollars on employees annually – so why do most companies not demand a return-on-investment (ROI) from human capital expenditure? (Hiles & Bunnell, 2006).

The growing labour shortage, accompanied by an increase in dynamic and complex leadership capability requirements, has resulted in an increasingly tight labour market (Busine & Watt, 2005). In the next 15 years, McKinsey report that the demand for labour in the 35 to 45 age bracket will increase by 25%, while the supply of labour in that same age bracket will decline by 15%, leaving a shortfall of 40% if no action is taken.

Increasingly, the labour market is switching to an employee’s market with an abundance of jobs offering a range of attractive incentives (Herman, 2005). Employers are forced to compete to attract and retain a decreasing pool of talented individuals in order to achieve their objectives. Surplus labour is no longer available to camouflage problems that arise from not having effective human resource competencies and practices. It would be a mistake to believe that the persistent worker surpluses associated with the baby boom will be back any time soon (Cappelli, 2005).

Australian Organisations:
- 91% report difficulty in sourcing talent
- 88% report a shortage of qualified talent
- 68% report increasing competition for talent

DDI Survey, 2002
The Second Reason: Generational Changes

Changes in the demographic composition of the workforce have increased the need to manage talent effectively (Frank & Taylor, 2004). Australia has one of the world’s most rapidly ageing populations. Half of our population will be aged 65 and over in the next 50 years. Over the last four decades, the average Australian’s expectation of working life has shortened. However, in practice, older workers are now working longer than in the past as many neither want, nor are financially prepared, to retire at 55, 60 or even 65 (Nicholson & Nairn, 2006). The number of people aged between 35-45 years will decrease over the next 15 years increasing competition to attract workers from this category (Chambers et al., 1998).

The number of women and people from diverse backgrounds entering the workforce is also expected to increase over time. The 2001 Census found that 43% of the Australian population was born overseas and the number of women entering the workforce continues to increase. A recent CIPD survey found that 68% of organisations still view diversity as a legal compliance issue rather than a way to recruit and retain talent. This attitude will only serve to hinder effective talent management strategies as skills are boundaryless.

Changes in the generational trends are occurring worldwide. United States Census Board data shows population projections to the year 2025. The trends show enormous increases in the population aged 50+ by the year 2025, and this trend is consistent throughout Asia Pacific and Europe.

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<th>Year 2000</th>
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<td>Australia</td>
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![Graphs showing population projections](image)

Singapore
“The next fifteen years will see three very different generations side by side in the workforce” (Nicholson & Nairn, 2006). As a result, changing employee expectations are forcing leaders to constantly review their talent management strategies and practices (Busine & Watt, 2005).

Generation X is the first generation to move frequently between employers and markets in the interests of developing their careers. They are most often described as ‘materialistic and transactionally motivated’, which has contributed to the increasing number of long term departures from Australia for career advancement (Nicholson & Nairn, 2006).

Generation Y, numbering 1 in 5 Australians, are well educated: 77% complete Year 12, of whom 50% attend university. Their attitude to work is a direct product of our times of low job security and high competition. These “modern” employees differ from previous generations in a number of ways (Busine & Watt, 2005):

- increased mobility and adaptability to change facilitates “high churn” in this group. In fact, those aged between 20 and 24 are 3 times more likely to change jobs than other age groups
- greater need for challenging and meaningful work decreases tolerance for routine roles. They choose to leave their jobs, not to further their careers, but to take up voluntary work, ‘downshift’ their lifestyles, or continue their studies (Nicholson & Nairn, 2006)
- being less accommodating of traditional structures, managers need to lead rather than manage as positional power commands less respect from Generation Y
- having a greater concern for “work-life balance”, these employees are less likely to work long hours and make sacrifices for work
- increased loyalty to their profession versus loyalty to their organisation is a reflection of their fluid approach to career development

It would therefore be presumptuous to design blanket retention strategies for particular employee groups – retention initiatives need to be carefully designed to allow flexibility across their diverse needs and life stages. Organisations need to stay abreast of changes in employee expectations in order to attract and engage valued employees (Herman, 2005).

**The Third Reason: Business Success**

Effective talent management practices can create enduring competitive advantage where financial capital is broadly available and no longer serves as a barrier that separates competitors. It has also become evident that companies with effective talent management practices also deliver better results for shareholders (Huselid, 1995).

Senior Executives say:

“employees lack the skills needed by companies to achieve market leadership”

86% of global business executives believe that talent is the greatest contributor to their company’s profits (McKinsey, 2005) yet 54% of senior managers do not spend sufficient high quality time on talent management (McKinsey, 2006)
4 COMMON MISCONCEPTIONS

“It’s all in the Brand” (the loyalty factor)

Reactive approaches to Talent Management have been acceptable in the past, because they worked. Attracting talent on the strength of the corporate brand has proven effective if done well, (Hieronimus, Schaefer & Schroder, 2005) - but retaining that talent is another matter. The “loyalty factor” has been significantly eroded. Attitudes to work are changing, numerous options are available to quality talent, and attraction and retention relies somewhat on brand, but it is not enough. And when two strong and appealing brands are competing for the same talent, what becomes the differentiator? Organisations are employing ‘Brand Managers’ to focus on this aspect of their employment contract, however this is only the beginning of the “psychological contract”.

“I work for the Company” (the leadership factor)

“Employees will stay if they have a good relationship and open communication with their immediate boss” (HRI Institute, 2001). The key reason an employee leaves within 6 and 12 months of commencing in a new role is the relationship they have with their manager (Chaminade, 2006). This is the “leadership factor” which highlights the impact that leaders and managers can have on productivity and retention. People will put in discretionary effort for personal/social recognition received from their peers and immediate manager.

“Security is everything” (the happiness factor)

The “happiness factor” emphasises the value of work life balance in employment. This is particularly evident with Generation Y employees, who will not only gravitate towards organisations that appeal to their values, but also accept roles that offer them flexibility of hours and growth opportunities. The modern employee is not after security as much as previous generations. In fact, “star technical performers, once considered long organisational loyalists, are more likely to jump ship for competing job offers” (Perry, 2001).

“It’s an HR thing” (the silo factor)

The challenge of attracting, developing and retaining talent is no longer seen as the sole domain of the human resources function. Given that research has shown job satisfaction and organisational commitment to account for a 10% profitability and 23% productivity difference between companies, it is clearly a business issue as well (Patterson, West, Lawthom & Nickell, 1997). Human resources teams need to work closely with business and conversely, businesses need to recognise the value that can be added by paying serious attention to HR initiatives.
5 ELEMENTS OF TALENT MANAGEMENT

Talent management practices and techniques have developed and adapted over time in response to a changing workplace (Frank & Taylor, 2004). The most effective talent management practices are firm-specific and respond to an organisation’s unique business and human capital context. Talent management involves an array of interdependent policies and procedures that need to be well integrated - the organisation will not achieve the desired level of human capital performance if talent management processes do not operate as a cohesive whole (Heinen & O’Neill, 2004).

An integrated strategic framework for Talent Management should include the following major applications:

- accurate and objective talent selection
- rapid induction and core skills training
- leadership and management capability development
- performance management systems, and
- retention and succession planning frameworks

Selection

A recent study found that most senior executives surveyed believe their employees lack the skills needed by their companies to achieve market leadership, while only 14% felt that the overall skill level of their employees was industry leading (Accenture, 2006). Recruiting the right people is the first step in an effective talent management system.

Recruitment and selection has become an increasing challenge for organisations as a result of the continuing global skills shortage, the changing view of the world of work by Generation Y who are now entering the workforce, and the ever increasing evidence that poor recruitment decisions have a direct impact on the bottom line. Selection practices that are not merit-based and have poor reliability and validity are a liability to an organisation and can even expose the company to discrimination claims (Muchinsky, 2000). Poor selection decisions can result in further recruitment costs, training and orientation costs, burnout, lost opportunity, reduced profit, loss of competitive advantage, impaired image and reputation (Nankervis, Compton, & Baird, 2005).

It’s about having the right people in the right place (jobs) at the right time. Organisations need to refine their attraction, recruitment and selection approaches to ensure they have the right talent on board to enable them to remain competitive. A global perspective that embraces a diverse workforce is critical.

BEHAVIOURAL ASSESSMENT

- Skills and knowledge
- Observed competencies
- Applied behaviours and abilities

PSYCHOMETRIC ASSESSMENT

- Cognitive skills and abilities
- Personality styles and preferences
- Leadership and emotional intelligence
- Motivation and values
Talent Management

**Induction & Training**

“On average the time for new (external) hires to achieve full productivity ranged from eight weeks for clerical jobs to 20 weeks for professionals to more than 26 weeks for executives.” In the past, managers were often content to wait months (or even years) for their new arrivals to get up to speed. But in today’s fast-paced, competitive environment, many managers simply don’t have that luxury.” Rollag, Parise & Cross, 2005

Employers should not assume that new hires can fend for themselves, and will only need cursory introductions and a wad of corporate information to get them started. While lost productivity due to the learning curve of a new hire has been estimated at 1.0 - 2.5% of total revenue (Mellon Financial Corp; cited in Rollag, Parise & Cross, 2005), it is clear that this induction period is critical given that 6.3% of people leave within the first 6 months of starting in a new role, which is typically due to their induction experience (Australian Bureau of Statistics, 2004; cited in Chaminade, 2006). The right induction program can help to reduce employee anxiety, improve productivity and save money.

Following on from an effective, informative and timely induction experience should be the ongoing training and development opportunities that support the individual in the role, but also the organisation in achieving its broader objectives. Such training, where possible and practical, should be “just-in-time” rather than “just-in-case” to provide training environments and materials that change to meet individual or small group demands precisely at the time when new skills are needed (Ellison, 2003).

**Capability Development**

Progressive companies have set up talent markets where top employees can negotiate job transfers, obtain development opportunities more easily, build networks and develop intangible assets. However, according to McKinsey (2006), 52% of line managers are not sufficiently committed to people development and few companies use their talent to competitive advantage.

Tailored development opportunities for key talent are recognised as essential for motivation and retention of these people, and in a skills short market, developing current staff is a more cost effective and efficient means of maintaining internal talent pools. Career development opportunities also have a significant impact on job satisfaction and affective commitment, or engagement, to an organisation which both contribute directly to the retention of productive employees (Beames, 2001).

Internal talent development needs to offer both key talent (high potentials) as well as core contributors (effective/satisfactory performers) opportunities for growth in order to maintain operational efficiency and productivity. High potential and core contributors require different development experiences and these should be tailored accordingly for maximum return. Committed leaders are required to reinforce such a focus on both groups given their competing business priorities (Corporate Leadership Council, 2005).

The Talent Development framework adopted by an organisation needs to support the talent capabilities required for the future and needs to be able to flex with ongoing changes. Effective leadership ability in a global and increasingly diverse workplace is one competence that will always be in high demand, and this must be factored into any comprehensive development program. Other elements will be determined by the business strategy.
Performance

“Far too many organizations, and managers within those organizations, still regard the performance review as an annual event that somehow must be tolerated. They do not see the strategic links between this vital HRM process and the bottom line nor do they appreciate the powerful management tool they have at their disposal” (Nankervis, Compton & Baird, 2005)

A performance management system can improve productivity and morale if designed and implemented effectively. A key issue in performance management is that up to 34% of surveyed Australian organisations using appraisals had no formal performance management policy in place (Nankervis & Leece; cited in Compton, Nankervis & Baird, 2005).

The increasing number of Generation Y employees in the workforce adds impetus to the importance of a transparent, objective performance management process as they perform best in a culture that encourages feedback. Performance management systems should be clearly linked to training/development and recognition/reward systems within the organisation in order to maximize productivity and retention (Stone, 2002).

Companies can also protect themselves against litigation resulting from discrimination or wrongful dismissal claims through use of a valid and fair performance management system (Gliddon, 2004).

Retention & Succession

“When your top talent leaves, they take with them a lot of knowledge – and loss of the knowledge base is only the start: you also incur the expense of recruiting and training” (Sacco, Jr; cited in Perry, 2001).

Employee retention is a key issue for top executives in organisations around the world. With an abundance of jobs available, it is a candidate’s market and employers must compete to attract and hold the talent they need to fulfil their organisational objectives (Herman, 2005). Talent retention is essential to high levels of quality, customer service and operational efficiency (WRDI Institute, 2005).

On average, companies prefer to resource 85% of their leaders through internal placement (DDI, 1999). In fact, Hewitt’s Top 10 Companies in the Asia Pacific grow 76% of their leaders internally (Hewitt, 2003) while a global survey found a 30% failure rate when placing highly sought after external talent (Corporate Leadership Council, 2004).

It has been shown that organisations with high quality leadership development programs and formal succession management programs have superior business results (Berenthal & Wellins, 2006). In addition, increasingly tight labour markets make succession management a business imperative and put pressure on organisations to identify and accelerate the development of future leaders from within (Busine & Watt, 2005). Given this pressure, the enduring organisation needs to have an effective succession management policy in place, with a particular focus on the continuity of key specialists and leaders (Stone, 2002).

Prevalence of Succession Plans (Berenthal & Wellins, 2006).

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<th>Region</th>
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<td>Europe</td>
<td>64%</td>
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<tr>
<td>US &amp; Canada</td>
<td>50%</td>
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<tr>
<td>Asia</td>
<td>53%</td>
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<tr>
<td>Australia &amp; NZ</td>
<td>53%</td>
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6 CRITICAL SUCCESS FACTORS

So what are the characteristics of a best practice approach to Talent Management?

The relevance, timeliness and effectiveness of talent management firstly requires a strategic alignment to the business plan. Proactive, rather than reactive strategies are essential. The involvement and understanding of business leaders is therefore a critical success factor. The capability of the organisation’s Human Resources and management teams will determine to a great extent the success of applying these.

HR staff can only support the organisation’s talent management needs through high levels of technical expertise combined with business savvy, and a solutions, not process focus. This, combined with the right internal processes and methods, and best practice external specialists will be key. Finally, it is time for organisations to move beyond discussion, and take action now.

Business Alignment

Talent strategies need to be aligned to an organisation’s business strategy and human capital context in order to deliver desired outcomes (Heinen & O’Neill, 2004). Clearly defined business goals and objectives provide the building blocks for effective workplace planning and talent management, through the articulation of the programs and tactics required to achieve success through people (Farley, 2005). Talent management policies and processes should also be flexible enough to change in line with business strategy (Stone, 2002).

“Only 20% of senior leaders have confidence in their organisation’s Talent Management processes”

Hay Group, 2006

Figure 1. Linkage of Talent Strategy to Business Strategy

Adapted from Heinen, S., & O’Neill, C. (2004). Managing talent to maximise performance. Employment Relations Today, Summer, 31(2), 67-82. Best practice includes evaluation of all talent initiatives to ensure that there is a return on investment and a continual linkage back into business plans from both workforce capability planning and budgetary perspectives.
Educating Business Leaders

Talent Management is the proactive management of an organisation’s human capital for the purposes of achieving the organisation’s goals. Kaplan & Norton’s (1996) Balanced Scorecard approach to objective setting clearly includes People (or “talent”) as equally important as the other 3 aspects of the scorecard.

The Balanced Scorecard is frequently used by companies to communicate and translate a strategy into an actionable set of objectives and measures. It aims to ensure that the corporate level strategy is translated in a relevant and understandable manner across all levels of the organisation. The need for such a tool emerged out of the growing recognition that financial measures alone are insufficient to manage organisational performance, and that companies are more successful if they balance their focus on the following four aspects of performance.

The concept of the Balanced Scorecard has been well accepted in many organisations as it defines the organisation’s objectives, input and output measures. Within the Talent Management framework, a robust performance management system allows this strategic business tool to be translated into something meaningful for employees within that organization, providing clarity around what they are required to achieve (Potgeiter, 2002).

Quality of the HR Team

HR Practitioners need both the capability and focus to achieve business outcomes. Fundamental to this is sound HR expertise and the ability to connect with the business leaders who are the linchpin in the success of any HR initiative (Lawler, 2005). Their focus needs to be on business solutions, not just HR process.

The Right Tool Kit

An integrated strategic framework for Talent Management requires a solid foundation – a competency platform which clearly defines the technical and behavioural attributes key to success. This platform must be robust, transparent, flexible and easily understood in order to be effective.

From this platform, talent applications can be built, including accurate and objective talent selection, rapid on-boarding and core skills training, management and leadership capability development, effective performance management, retention and succession planning. By applying a systematic framework to evaluate employee attributes at any stage in their career, an organisation can build a real time snapshot of the overall capability of its workforce and tailor business and HR strategies accordingly (Gangani, McLean & Braden, 2006).

Having well designed talent management applications, and supporting policies and processes, are only as effective as their application across the organisation, to levels deemed to be appropriate, or right practice, for each unique organisation.
The Right External Partners

Which aspects of Talent Management should you seek external support for? Firstly, consider internal capabilities – who has what skills, knowledge and experience in the area, what is the nature of assistance required? Also consider the need for externally benchmarked best practice to enable your organisation to maintain its competitive edge.

Once a decision has been made to seek external assistance, locate the experts in this particular field, assess their capability, accessibility, flexibility. Conduct reference checks – ask about their experience in the field of specialisation you are seeking assistance in, both depth and industry related.

Take Action

It is clear that talent management is a business imperative for any organisation wishing to maintain a competitive position in today’s market. The first step to building an effective talent management platform is to diagnose existing talent management policies, processes and their application across the organisation through a comprehensive audit and review. This should be followed by the development of a strategy to elevate these talent management policies, processes and their application to levels deemed to be appropriate, or “right practice”, for that organisation. Human resources need to work in partnership with the business to move the organisation from its current talent state to its desired future talent state, in support of the organisation’s vision.
REFERENCES


Potgeiter, L. (Dec 2002). The relationship between the Balanced Scorecard and performance management. iXP3 Pty Ltd.

