

# Managing Talent in Tough Times: An Australian Perspective

## A Tipping Point for Talent Management ?

Despite increasing awareness of the importance of talent management amongst Australian organisations, alignment between talent management and overall strategic goals remains more aspiration than reality.

### Executive Summary

As the global economy moves toward recovery, companies face some tough challenges about how best to retool for growth. Since the financial markets collapsed most organisations have streamlined, downsized and restructured to varying degrees, trying to stay on an even keel until the economy stabilised. Now, however, a different set of questions is emerging. Have organisations cut too far too fast? 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”?

- Australian companies are inching toward a tipping point in how they deal with talent. Organisations have awakened to the importance of having skilled and engaged people at all levels in 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.
- Efforts have been made over the last decade to bring science to the art of talent management, introducing more structured processes, better metrics and enhanced technology. Still, progress to date has been incremental rather than transformational. Two points stand out:

- Integrated talent management remains more aspiration than reality. Only about a quarter of respondents report their current talent management systems are mostly or fully integrated, meaning there are explicit connections both to business needs and across key processes.
- Current talent management practices are insufficiently forward-looking. For the most part, 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 24%, for instance, have a formal governance structure and process for their talent management activities. A mere 10% are using metrics to analyse and track internal talent supply and demand and connect those data with performance data.
- Balancing this picture, however, are some signs of positive change. One promising indicator 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 just over a 38% have given business leaders greater ownership and accountability for building the talent pipeline — a key success factor going forward, in our view — an equal proportion are in the midst of making that move, and another 20% are considering it. A similar pattern takes shape around integrating talent management more directly into strategy and operations, with 28% already there, 46% in the process of implementing and 18% considering it, leaving only 8% out of the action altogether.

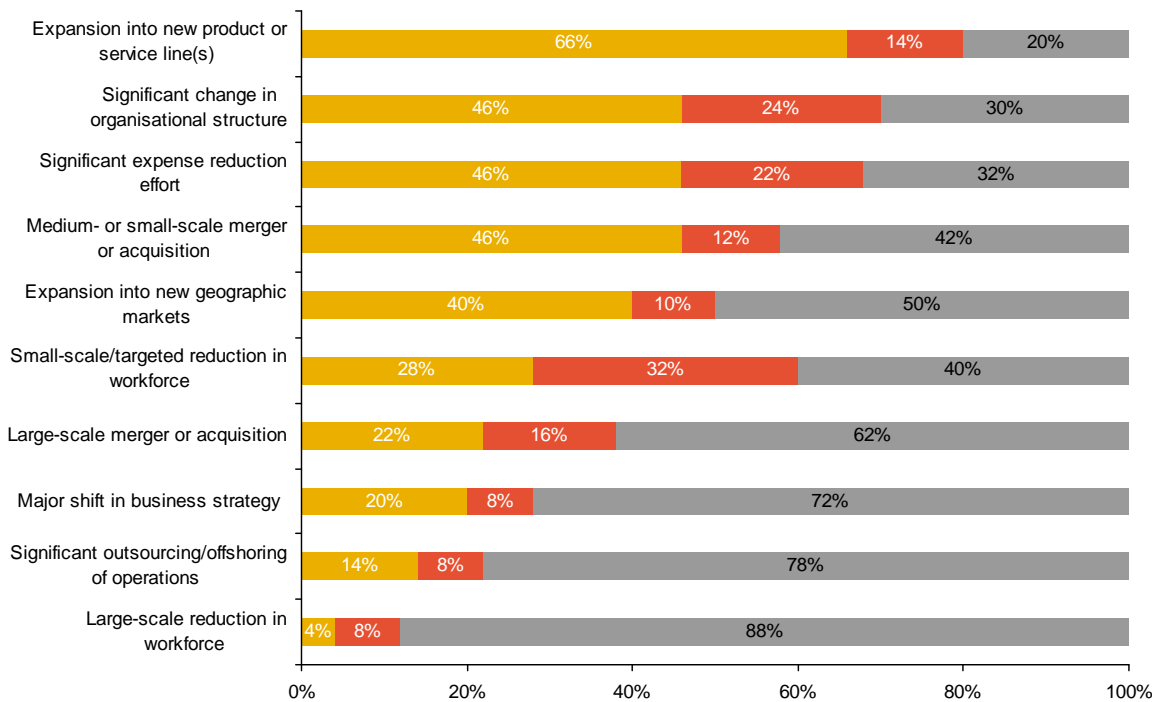
If movement toward next-generation talent management has been slow, change is definitely underway. Economic recovery may be the fulcrum that tips the talent management balance. How quickly they can prepare — and the steps required to do that effectively — appear to be the next battleground on the talent management front.

### **The Business Context: A rising tide?**

There is optimism about the future. Almost two thirds of respondents believed that economic recovery would occur in the second half of 2010, with 23% believing recovery would come even earlier in the first half of the year. 40% of respondents believed their revenues would increase in 2010, with 43% believing them to at least remain the same.

The optimism may account for the proactive initiatives apparent in the respondents' planned strategic actions over the next 15 months. As Figure 1 shows, while cost reduction remains critical, a majority of companies anticipate growth-focused actions, ranging from expanding into new products, service lines or markets to undertaking small to mid sized mergers, acquisitions or other transactions. In addition to this, for most of the respondents, large-scale workforce reductions are not on the horizon, nor are many planning to move operations outside or offshore.

**Figure 1. Planned Strategic Actions over the next 15 months.** Two thirds of the companies surveyed expected to expand into new product or service lines in the next year.



## 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 is now widespread recognition that driving better performance depends on the deployment, development and engagement of a range of people across the organisation. As Figure 2 shows, mid-level employees with leadership potential and high performers at all levels of the organisation continue to be viewed within the top tiers of what organisations perceive as their most important talent segments.

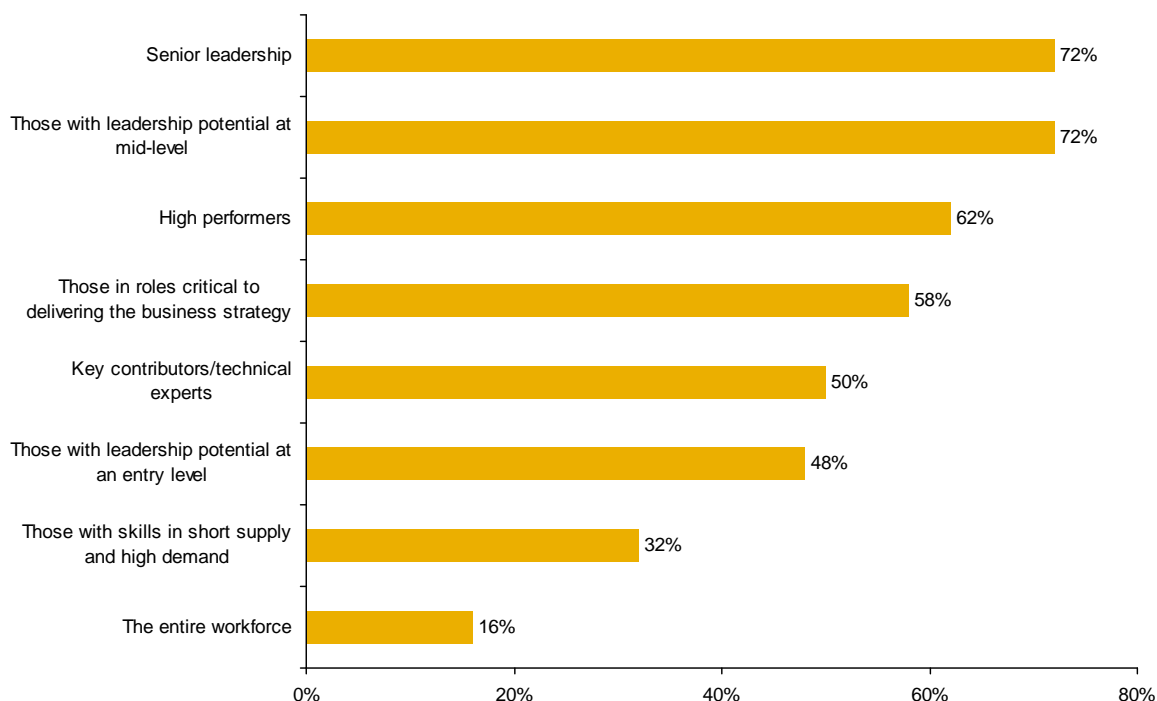
Interestingly, beyond this tier of the traditional key talent segment is a second level of technical experts and those in 'pivotal roles' (ie. Critical to delivering business strategy). This is a particularly heartening finding since it indicates that organisations are putting more emphasis on defining the roles and skills required by their strategy and identifying individuals for those roles with more precision than in the past.

Most of our respondents are not unduly worried about losing their talent, especially at the most senior levels, where voluntary turnover is typically low (Figure 3). Oddly, though, the segment they do see as most at risk – employees with so-called hot skills – is also the segment that fewer than a third of respondents defined as 'talent'.

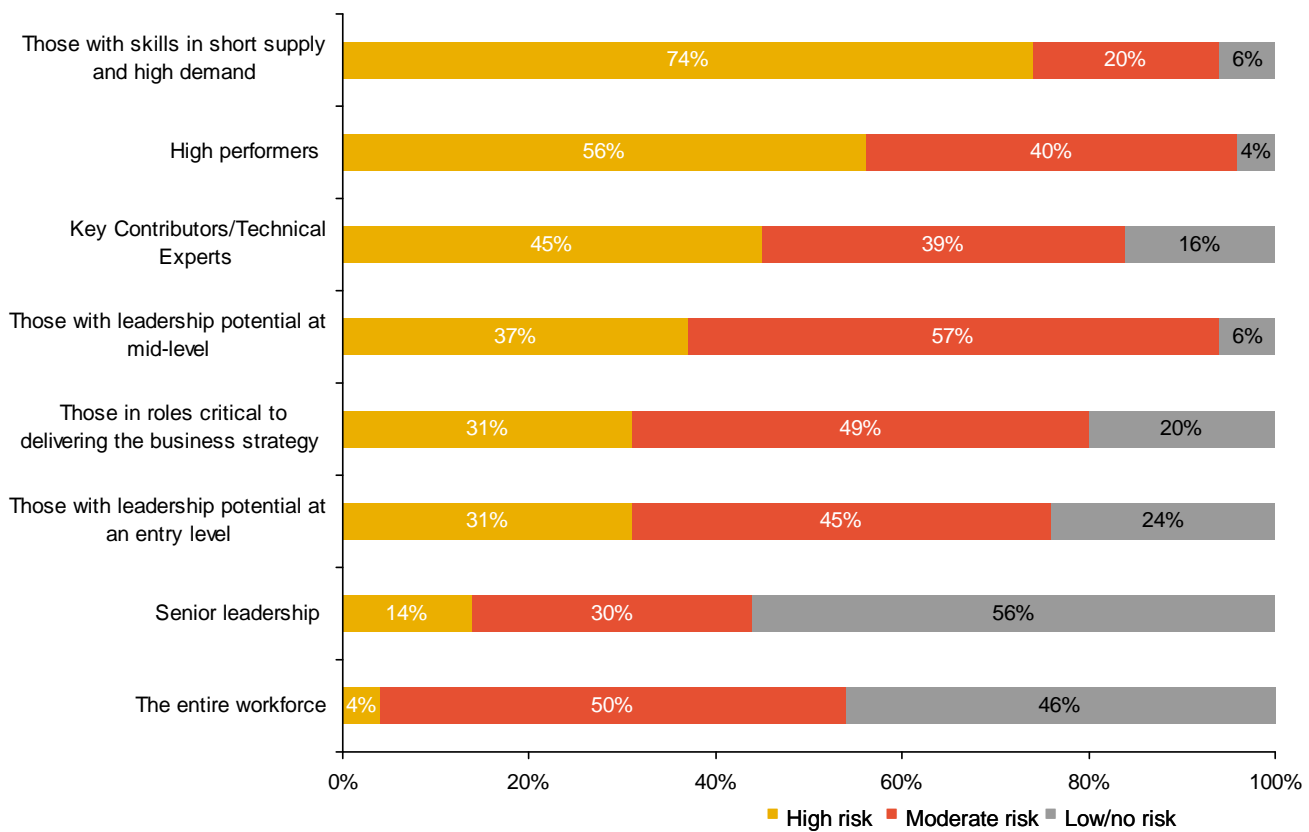
One reason may be practical. High demand for these employees may be turning them into "market nomads" — people that a company buys versus builds (perhaps even rents vs. builds), given the ease with which they can and do move to other jobs. And because employers may

not feel they have the luxury of developing and nurturing these hot-skills 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 short-sighted strategy since it doesn't allow for means other than pay to bind such workers to the organisation. While it will always be more difficult to retain people with lots of choice in the labour 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 non-monetary aspects of the deal which our employee research consistently shows has a direct impact on retention and engagement.

**Figure 2. Who is considered Talent?** Almost three quarters of the companies surveyed considered both senior leadership and those with leadership potential at mid-level as 'talent'.



**Figure 3. Turnover Risk for Employee Segments.** Three quarters of companies surveyed believed that those with skills in short supply and high demand were a turnover risk.



### 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 Figure 4 shows, the traditional top talent group – leadership, high potentials and high performers – can expect more assessment, development opportunities and mentoring than other groups.

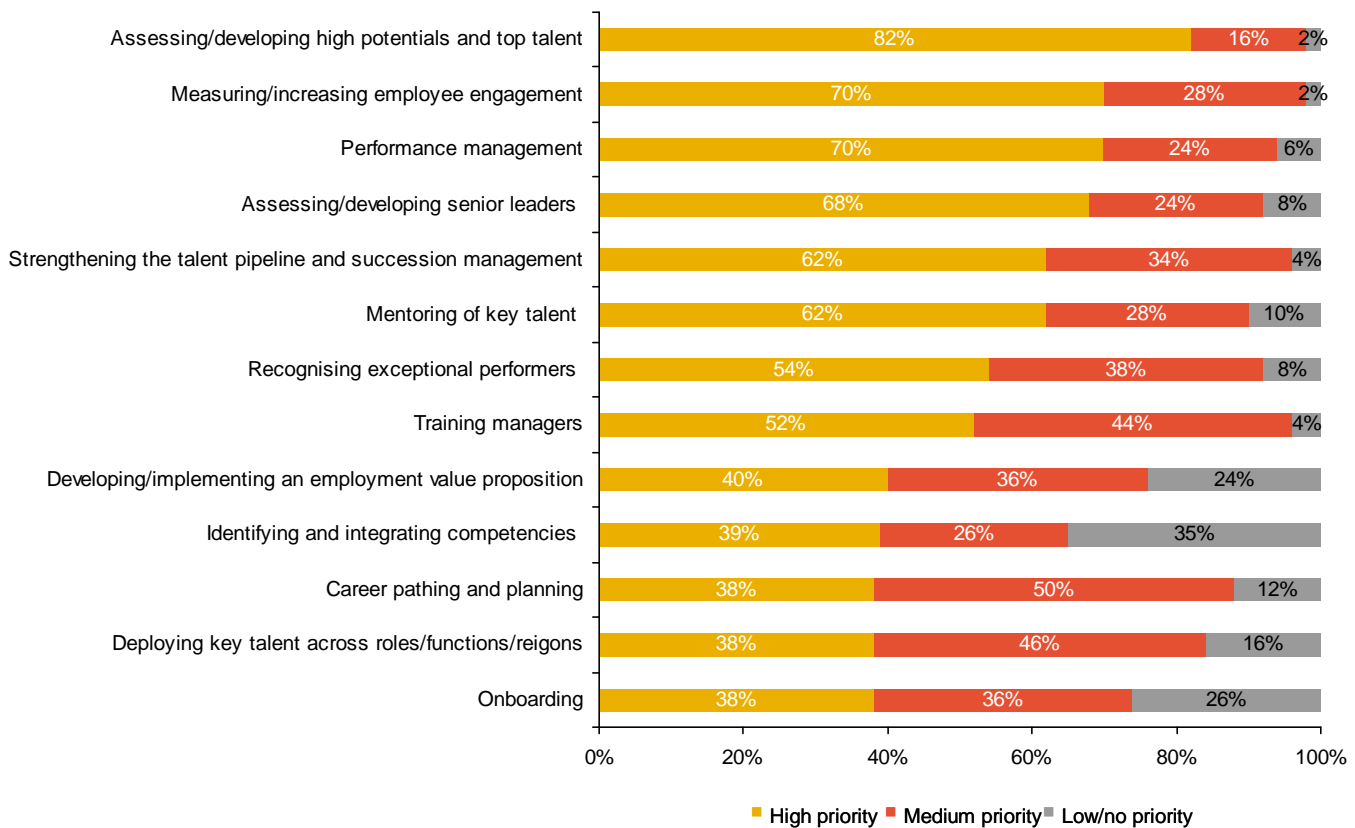
Companies are also prioritising measuring and increasing employee engagement, which will have wide-reaching benefits for the general workforce, as well as improving retention amongst talent groups. Almost two thirds of respondents put a high priority on strengthening their talent pipeline and succession management practices, both areas that have traditionally received short shrift, especially below the very top tier.

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 and on-the-job learning to 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.

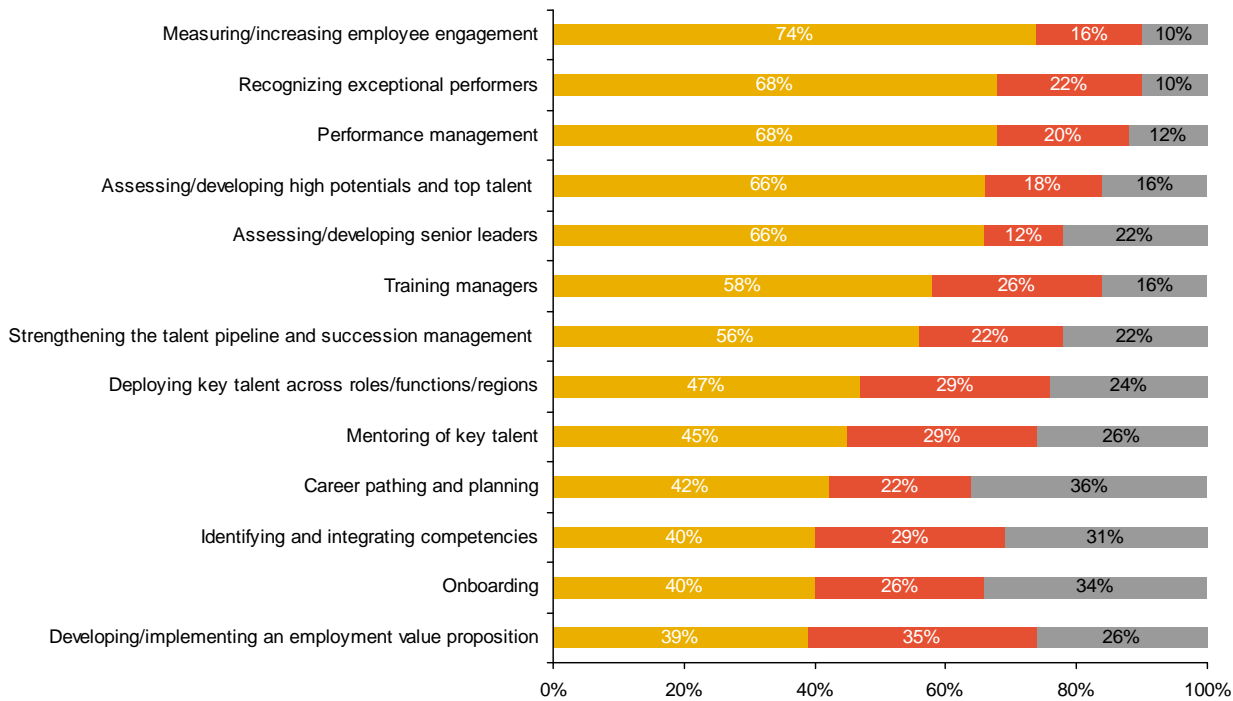
Most telling, perhaps, is the strong alignment between what the respondent companies are doing now and how effective they think they are at doing them (Figure 5). On the one hand, it's encouraging that companies believe they're doing a good job in the areas they deem most critical. On the other hand, 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 globalisation 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 organisations don't or can't identify new skills or candidates for new roles, or determine how individuals will move within and across the organisation, 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 organisations where sheer size may prevent stars from "shining" through.

**Figure 4. Talent Management Priorities.** For companies over the next 12 to 15 months, the priorities will be around assisting and developing high potentials and top talent, measuring and increasing employee engagement, and performance management.



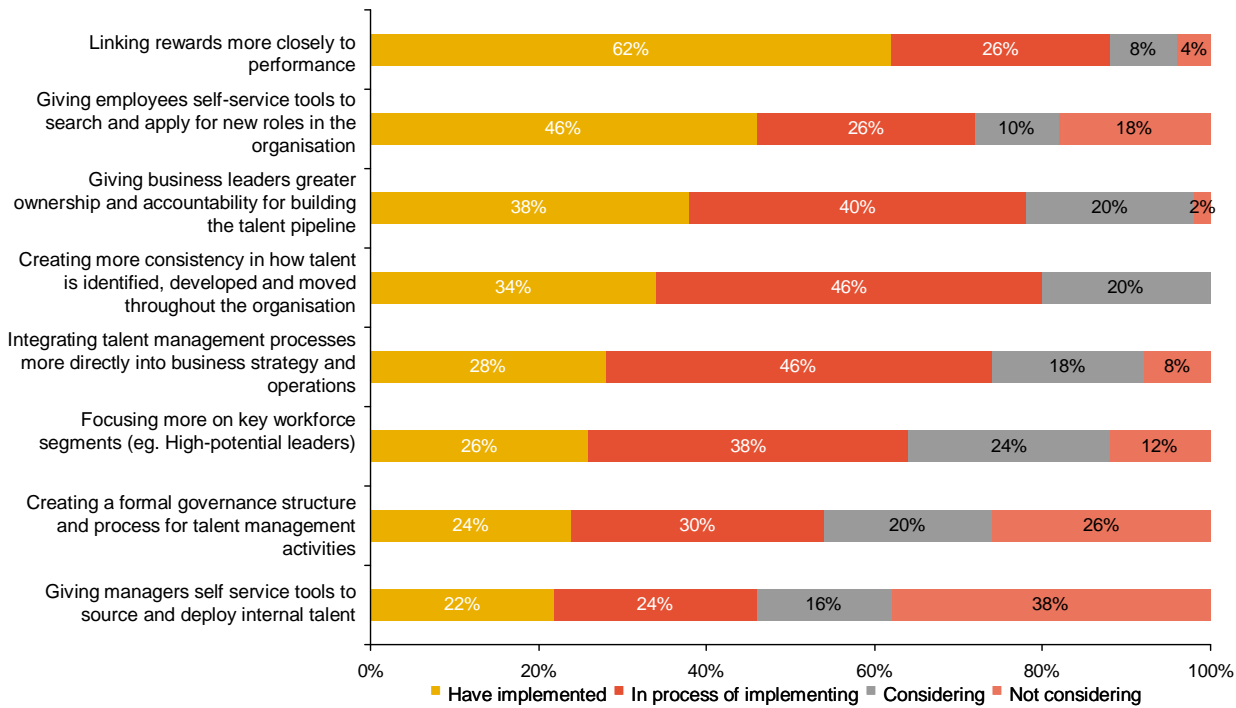
**Figure 5. Effectiveness of Current Talent Management Practices.** Measuring and increasing employee engagement, recognizing exceptional performers, performance management and assessing and developing high potentials and top talent were deemed the most effective current talent management practices.



A similar dynamic appears to be at work in terms of what companies are currently doing, or planning, on the talent management front (*Figure 6*). With only three exceptions, only about a third 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 6% of respondents saying their company has already implemented these tools (although, significantly, 46% 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 almost half 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 12-18 months.

## Figure 6. Implementation of Talent Management Processes: The Leading Responses.

Two thirds of companies have already implemented the talent management process of linking rewards to performance. Almost half have given employees self service tools to search and apply for new roles in the organisation.

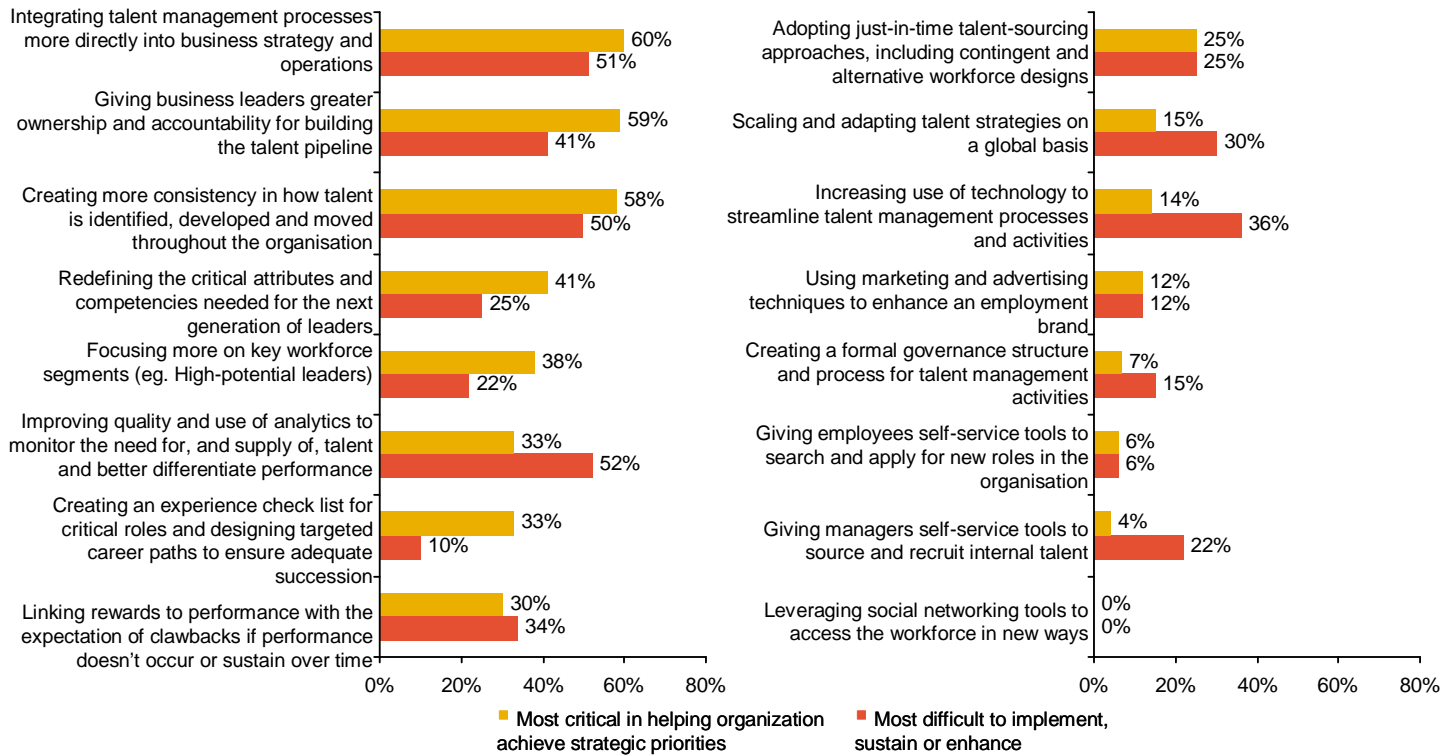


## Integrated Talent Management: The Final Frontier

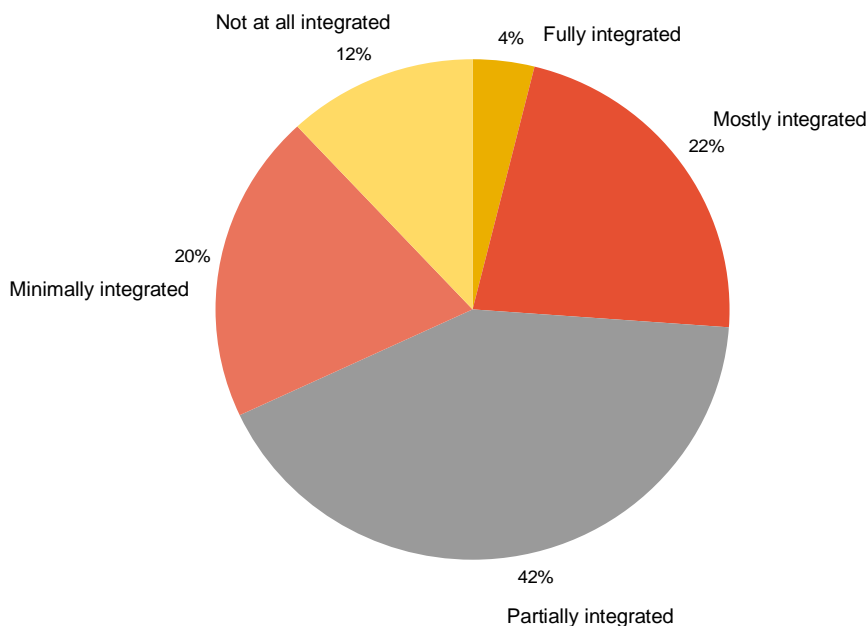
The value of an integrated talent management model — one that directly links to business strategy and operations — is not lost on survey respondents. In fact, almost two thirds of respondents cited it as the *most critical element* required to help deliver on their strategy.

But a majority (51%) also noted that an integrated system was one of the most difficult of all talent management activities to implement, sustain and enhance (*Figure 7*). Undoubtedly, this is one of the reasons why only a quarter of the survey group report having such a system in place (*Figure 8*).

**Figure 7. Talent Management Processes Most Critical to Achieving Results – Toughest to Implement and Sustain.** Integrating talent management processes into business strategy and operations is considered to be the most important, and one of the most difficult, talent management processes.



**Figure 8. Integration of Talent Management.** The majority of companies surveyed had a partially integrated talent management system. Only four percent reported being fully integrated.



## 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, identifying and integrating competencies, deploying key talent across roles, and career pathing and planning.

We know from our research among employees that a successful talent management strategy requires managers to be able to identify skills needed for roles, and to be able to determine how employees move within an organisation. We also know that career advancement (which rests on a well thought out career path structure) is a key driver of engagement, impacting 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.

A complete talent management system incorporates an organisation'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 organisations 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 customise career development all along the talent pipeline far more accurately and efficiently.

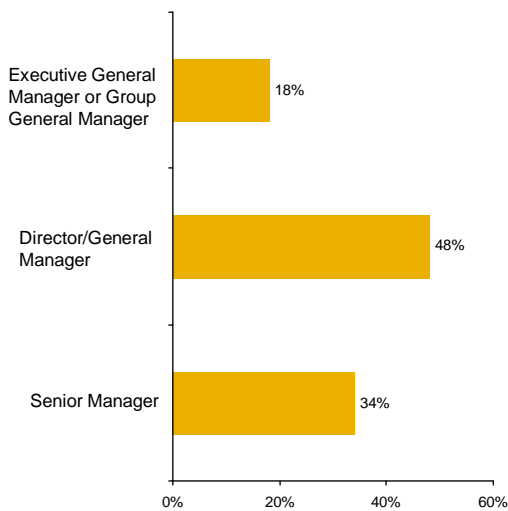
## About the Survey

In November 2009, Towers Watson (previously Towers Perrin) surveyed 50 HR and business executives within Australia as to how they defined talent and talent management, on which activities they were focused and how effective they found these processes. They were also surveyed on their emerging talent management priorities and strategies and the degree of alignment between their talent management approach and overall strategic goals.

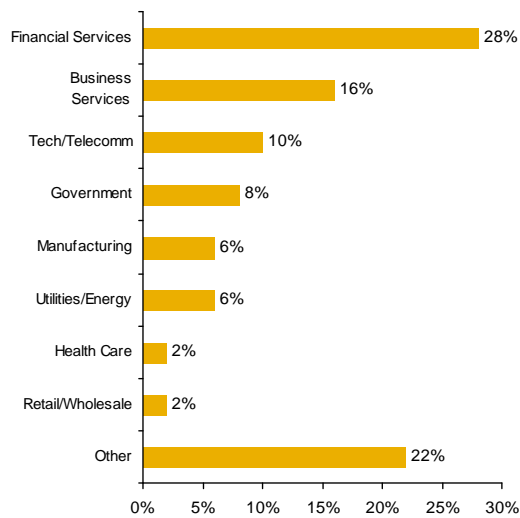
Respondents represented a broad cross section of industries, within both mid-size and large companies. Their responses provide new insights into how Australian organisations have been managing talent throughout the downturn.

## About the Survey Group: Demographic information on the respondents

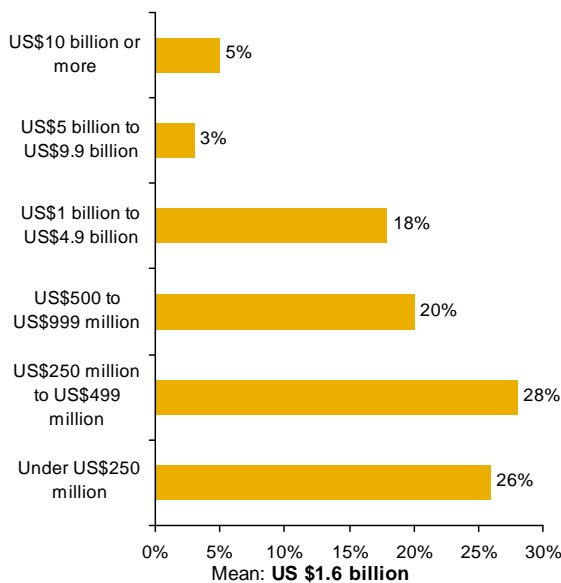
### Job level



### Industry category



## Total revenues in 2009



## Contact Information

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