

Five Rules for Talent Management

in the New Economy

At a Glance

- Rule 1:** There's never enough money. Invest differently to optimize results.
- Rule 2:** If it doesn't measure business impact, it's just a distraction.
- Rule 3:** Let the numbers drive talent decisions.
- Rule 4:** Build adaptable skills. Prepare future leadership for any situation.
- Rule 5:** Simplify performance management, and measure impact instead of goals.

“Our employees are second to none.”

“People are our biggest competitive advantage.”

For decades, companies have used phrases like these to describe their greatest asset — talent. Far less frequently, however, have companies had comprehensive, integrated talent management programs that inform business strategy or measure the impact of their talent on business outcomes.

The recession of 2008/2009 has forced many organizations to reexamine their talent management approach, and the most forward-looking companies have not limited their changes to a knee-jerk reaction to the financial crisis. Leading companies have begun to account for all the different dynamics of talent that are affecting them now and that are anticipated to influence them in the future. They have systematically changed their approaches to reflect the coming reality of the next five years.

The New Economy

Companies are beginning to think in terms of post-recession, and they are worried about what they see. A recent Towers Watson survey, *Effect of the Economic Crisis on HR Programs*, polled 175 U.S.-based companies and found that a majority of employers are more concerned about retaining their top performers and critical-skill employees than they were before the economic crisis hit in September 2008. Looking farther ahead, about half of the respondents expect this difficulty to increase in the next three to five years.

To counter this trend and to keep employees engaged, a large majority of employers (83%) are beefing up their communication programs. This is in line with our 2008/2009 *WorkUSA* study, which found that employees are 20 times as likely to be highly engaged

and 50% more likely to be top performers when they feel the organization consistently communicates and delivers on an employment deal that is attractive and aligned with customer-facing messages.

Another change companies reported in the HR programs survey is decreasing benefits — lowering the 401(k) match and increasing health care premiums, copays and deductibles — while increasing employee job responsibilities. This mirrors the 2001 recession, when employees also were paid less but were responsible for more. Employers were surprised when the recovery began and people jumped ship. Most business leaders thought their flight was the result of pay freezes alone, but this was not the case. During the 2001 recession, we found that employees left organizations as soon as opportunities presented themselves, mainly because of the way their employers handled everything from layoffs and pay, to employee communication during the downturn. Unfortunately for employers, high-performing employees were often the first to leave. They had opportunities and were focused on finding the right environment where they felt their skills and performance would be most utilized and appreciated.

Recent data from our 2009/2010 U.S. *Strategic Rewards Report* show a similar situation brewing in the United States. Employee engagement has dropped almost 10% since 2008 for all employees and nearly 25% for top-performing employees. This is a significant decrease from pre-recession engagement rates and poses a considerable risk to employers as more job opportunities become available in the recovering economy.

One big difference between the 2001 recession and today is a scarcity of certain skills and people. In previous recessions, companies could — and did — implement blanket layoffs without affecting their productivity or earnings potential coming out of the recession. Employers were able to restaff with less difficulty. During this recession, some companies simultaneously conducted layoffs for certain positions, while continuing to recruit key talent in some technical and high-skill areas. This is a very different dynamic from that of previous downturns and has challenged some traditional HR responses to recessions.

Talent Management: The New “Must Have”

Employee engagement and talent management have frequently been viewed as “nice to have” options rather than as strategic business requirements. But as companies see how their business response to the economy affects employee engagement, they want to avoid repeating the mistakes they made in 2001.

Towers Watson’s WorkAttitudes data indicate that it can take 10 times as much money to lure an engaged employee away from a company as it would a disengaged employee. But keeping high-performing employees engaged in down times is challenging. Decreased benefits and increased responsibilities can weaken employee loyalty. Demographic shifts and retirement issues have not disappeared because of the recession. And younger workers’ expectations for advancement opportunities and pay are perennial talent issues.

But yesterday’s talent management techniques are not a panacea for today’s ailments. Instead, organizations need to discard piecemeal solutions for an integrated approach that looks at how these programs influence one another and inform business strategy. At the same time, they must shift talent management away from being an HR program toward a data-driven, line-owned core business process. This type of approach yields tangible benefits, as shown in the figure below.

The impact of an integrated approach to talent management



New Rules for Effective Talent Management

Rule 1: There’s never enough money. Invest differently to optimize results.

There’s never enough money — in good times and bad. Instead of spreading the wealth evenly, employers need to segment their talent pools and invest differently in each segment.

Segmentation requires a much finer view of talent. Just as one would never begin a sales campaign without first considering market segmentation, so must a company examine the different ways it can analyze and group its talent. Only then can the right program be implemented for that segment, ultimately resulting in stronger employee engagement, talent retention and corporate profitability.

There are many ways to approach talent segmentation. You can segment along traditional lines with significantly differentiated rewards for high, low and average performers. In Towers Watson's 2008/2009 Global Strategic Rewards Report, high-performing firms indicated that their top-performing employees received merit increases twice as large as those that "met expectations." The segmentation and rewards differential at lower-performing firms was not as rigorous.

But segmentation based purely on performance is a simplistic approach. Employers must consider a host of factors when determining how to segment their talent and what to invest in each segment. Considerations include the effect on the business (both when the position is filled and when it is vacant), scarcity of skills in the marketplace (including cost and time to acquire), rate of salary increases in the market, time to proficiency once a position is filled and its impact on productivity.

Segmentation makes it easier to concentrate your money where it makes the most difference. For example, there might be a number of average performers within a critical skill that you need to retain. These could be employees you cannot afford to lose, even if they are not high-potential employees. Your money might be best spent in creating programs — communication, recognition, rewards or training — to help engage and retain them.

On the flip side, perhaps there is a segment where talent is relatively available. If those employees are easier to come by, if recruits can be trained quickly or if high turnover is not particularly disruptive, it is likely more efficient to let workers in that segment turn over than to create a program to engage and retain them.

For years, a U.S.-based telecommunications firm had spread development money and compensation evenly over its 8,000 employees for fear of losing staff if it differentiated rewards. But when the recession came and money got tight, company leaders knew they had to make a change. They began by segmenting their talent into four buckets: business impact, high performers, high potentials and critical skills. Then they shifted their dollars away from low performers and those not making an impact. While the company lost some low performers, the high performers and high potentials felt like they finally received recognition for their performance and contribution, and remained on the job.

There is no one right answer for how organizations should segment their talent. Different businesses and approaches to the market will dictate different

segmentation and investment strategies. Most important is ensuring that your segmentation drives the appropriate long- and short-term investments and results.

Rule 2: If it doesn't measure business impact, it's just a distraction.

Companies need to measure outcomes — whether in production, sales or talent management — that affect business success.

What should you measure most? Productivity increases. Cost decreases. Gains in sales that can be tied to a new compensation program. Retention increases in an important talent segment due to a redesigned recognition program. Everything is measurable, and every worker affects results in one way or another. Even your mail team and administrative assistants can align their goals with business measures. Perhaps an administrative assistant is very good at managing someone's schedule, gets the right deals on travel and keeps distractions away from key producers. By considering the inverse of that, it's easy to see how poor performance in those areas can directly affect business performance.

Despite its importance, performance management is often poorly measured. Companies invest a great deal of energy in goal setting, but not enough in making sure individual goals align with company goals. Many organizations focus on achieving this alignment, but struggle to make it a reality. Others concentrate on how many goals are achieved, rather than whether they are the right goals for the company. Cascading goals — first setting business unit goals, then executive goals, then middle management goals, on down the line — allow managers and employees to see how their individual efforts directly affect business performance. By inverting the traditional goal-setting process, employees understand what the desired outcomes are before they write their goals and how achieving these goals can have direct business results.

A large, global pharmaceutical company recently analyzed its talent management program for measurable impact. The firm assigned a group of mid- and low-senior-level managers to review all 14 of its talent management processes and the different data elements collected. If the managers could not tie a process to its tangible impact on business performance, they eliminated the program. Those programs that could be tied to business performance were then massively simplified. Across the organization, the company went from having 14 separate programs to just three simpler processes.

Human resources is often hesitant to sign up for these types of measures, rightly pointing out that many factors affect whether or not these metrics are achieved — and that line managers have a significant impact on these metrics. While this is true, it is no different in any other part of the business. Sales does not control every aspect that influences whether a sale is made or not, yet that function is accountable for sales results. HR must be a key driver of effective management and effective managers within the organization. Shifting to this measurement-driven approach is fundamental to ensuring that talent management makes a real difference in the organization.

Rule 3: Let the numbers drive talent decisions.

Most talent decisions are made on gut instinct. Not only are there few systems out there with good data on recruitment, promotion and job performance, but also the management culture in many organizations permits an intuitive approach to hiring. While we praise those with a “good eye for talent,” industry data show that many firms often make poor choices. Statistics about washouts among new recruits, failure of newly promoted executives and other human capital challenges abound, but many firms still lack systematically embedded, empirically based selection and promotion practices.

Now the trend is toward a more disciplined analysis of people in organizations. By looking at who is hired, what skills they possess and who is successful, companies can create talent profiles that can determine the right people for the organization. With the appropriate data in hand, HR has the power to drive back empirical answers to everything from the number of staff needed for an operation to succession planning. This is not as simple as making the data accessible. Companies need to understand (and managers need to be taught) what data make a difference in terms of selection, promotion, rewards and more. And they need to provide good processes and tools to managers so they can embed these data in their day-to-day management decisions.

Nowhere is this shift to data-driven decisions more evident than in the area of workforce planning. For many organizations, workforce planning has undergone a transformation over the past two years. Formerly, HR simply asked business unit leaders how many people they needed in the next year, and the answer was crafted purely on instinct. But now workforce planning has become a process with mounds of data, deep statistical analysis, and even simulation and optimization normally found in the operations area. Organizations that are taking this approach are

finding significant gains in cost reduction, revenue improvement and customer satisfaction.

For example, a global manufacturing company recently wanted to determine how best to redeploy its people and production assets based on changes in the economy and shifts in global demand. HR initially took the traditional approach of talking to line leaders about how people should be redeployed and then came up with a plan. But the head of operations felt they could do better. The company launched a much more extensive data analysis to understand past demand patterns, conduct deeper skills analysis, and analyze economic indicators and a host of other elements. Based on these data, a new redeployment plan was created that cost the company less, saved more jobs, accomplished the redeployment faster and built the needed capacity in growing markets.

Where can a company begin? First, understand what is important to your business and what metrics make a difference. Customer satisfaction, productivity, expense lines, sales? Start by determining what decisions you want to make with the data, and then drive the process back from there. For example, if you ask CEOs what they want in a performance management process, they will likely struggle with the answer. But if you ask them what they need to make decisions about promotions, they tend to come up with simpler, more effective responses. Use their answers to decide how your processes should work and what data you need to collect, as well as what technology might be required.

Collecting talent data and creating profiles is not an overnight process. Leading companies have been collecting this information for four or five years now, and they are just starting to get data that are good enough to base decisions on. But the results are worth the wait. These companies are beginning to see much better hiring and retention results. High washout rates are declining, and transfer and promotion decisions have teeth to them now that data show how successful an employee might be in a new position.

Rule 4: Build adaptable skills. Prepare future leadership for any situation.

The trend to build adaptable skills has been in the works for some time, but the reasons behind the trend have been greatly solidified by the current financial crisis. For decades, talent searches focused on generic leadership skills: driving results, overcoming adversity and demonstrating superior communication abilities. During the recession, companies quickly learned that almost everyone could communicate, but not everyone handled ambiguity well, nor were they

adept at managing rapid change. More important, while communication skills might help employees be more effective in their job, other competencies and skills have a more direct effect on business results.

Leading organizations have adopted a new set of competencies and skills that go beyond a person's current position: strategic thinking and planning, crisis management, judgment and decision making, tolerance of ambiguity, and agility to effect rapid change. This focus on adaptable skills requires a significant shift in learning and development, but also in other processes such as recruitment, selection, promotion and succession. In many cases, it requires rethinking the definition of success for many positions in the organization. All of these new competencies are measurable, adaptable skills that can serve entry-level employees as well as senior management and are transferable as employees move up within an organization.

Recent Bersin and Associates research reinforces this concept. Bersin found that companies that handle talent management well dealt with the recession more successfully. Specifically, their leaders exhibited these new, adaptable competencies. As a result, they were better able to see the recession coming and to quickly respond by adjusting their organizations.

A Towers Watson global research study focused on these competencies. Among the *Fortune* 500 companies surveyed, remarkably consistent themes emerged. Many companies have come to realize that their traditional leadership competency models do not reflect what is needed to successfully address the rapid changes in the economy. Because of this, companies are shifting from a reliance on traditional skills and competencies to more flexible and adaptable skills.

Rule 5: Simplify performance management, and measure impact instead of goals.

Many companies ask where to begin when redeveloping talent management. Hands down, the answer is performance management. There is an obvious connection between getting day-to-day performance right and driving better company results — critically important in today's economic environment. What's more, goal setting and performance management are the two most direct ways for management to communicate with employees about objectives. Performance management also helps clarify an employee's role, while focusing employee development on competencies that determine the organization's success. Finally, by linking reward

outcomes to individual performance, effective performance management allows employers to realize their philosophy surrounding pay for performance.

But as important as performance management is, the process must be simplified. If an average manager needs 30 minutes to conduct a performance review, and has 20 or 30 reviews to do, that amounts to 10 or 15 hours. Given the typical feedback about most performance management processes, this level of organizational effort is most likely not worthwhile.

As touched on in Rule 2, employees should be taught how to cascade their goals from business objectives. Following that, every aspect of performance management needs to ask:

- What is the real business effect?
- How will we use it in some other process or way within the organization?

One global business services firm simplified the process by eliminating annual appraisal forms altogether for its 15,000 employees. Instead, every month following their business performance review, members of the management team spend an hour discussing how people contributed. The managers then spend 10 minutes with each of their employees, telling them how the company did last month, how the employee performed and what the employee needs to do differently. The employees prefer the new system because they better understand how their work ties to business performance, have regular access to their manager and receive timely feedback. Managers prefer the simplified system because they are seeing better results from their employees.

When companies get performance management right, it can provide the foundation for other talent management processes. For instance, if employees align their goals with business goals, they will make better day-to-day decisions, which have an immediate impact on business performance. In addition, the data gathered during the performance management process can inform other processes. For example, performance over time becomes a deciding factor in succession planning. Experiences that stimulate success can be fed back into the recruiting processes. Or if a company can measure performance, it can look at the characteristics of its high performers and make a data-driven decision about future hires. Data about productivity and revenue achievement also drive back into workforce planning.

A New Approach to Overcoming Talent Shortages

This new economy is forcing companies to take a different approach to managing talent. In order to anticipate future staffing needs, organizations must streamline their talent management and move toward a data-driven, line-owned process that demonstrates measurable business results.

These rules are just a start. As companies pull out of the recession, they are confronting new issues — there is universally less money — and familiar ones — critical talent is just as important as before. Employers that ignore the necessity of having the right people in place do so at their own peril, and their post-recession recovery plans may be the victims.

But this is not a doomsday warning. Talent challenges in the past have led to a number of innovations that are helping companies today show the impact of effective talent management on the bottom line. Companies that can transform the current challenges into an opportunity will be the leaders coming out of this recession.

For more tips about approaching talent management in the new economy, contact your Towers Watson consultant or call +1 800 388 9868.

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.