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Growth reimagined. The talent race is back on

14th Annual Global CEO Survey

pwc

The talent race is back on

CEOs are once again citing a lack of key skills as the hottest issue on their agenda.

After a period of cost cutting, hiring freezes and budget constraints, HR leaders are being challenged to mobilise talent to help businesses grow. But apparent shortages of the right people with the right skills in the right places remains a major concern, causing many CEOs to demand a rethink of their entire people strategy.

A lot of investment in talent over the past few decades has been made in economies that are now slower growing. CEOs need to work out how to focus their absolute top talent on their biggest single opportunity – that of growing in the emerging markets. One thing seems clear, the talent race never finished and competition remains as intense as ever.

90% of CEOs expect their key operations to grow in Asia.

"As we shift eastward, we have to make sure that our corporate culture and operating model reflect the markets there. Trying to get that right is where I spend most of my time."

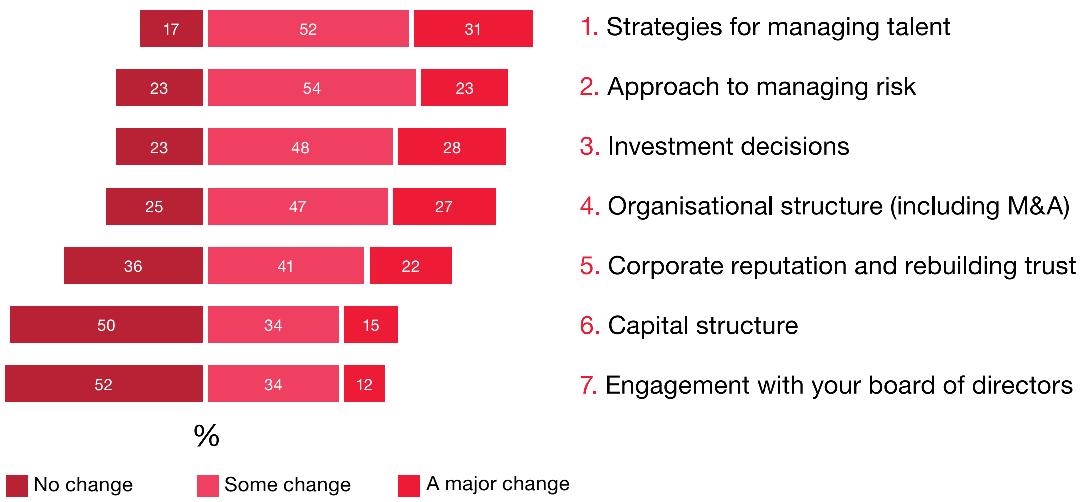
Paul Polman, CEO of Unilever

PwC's view

- The talent crisis is no longer a problem of the future. It is here and now and is threatening business growth and economic prosperity.
- We believe many organisations are failing to understand what talent management really means and are unclear about how they can create a sustainable talent pipeline for the long term. Organisations need to manage their talent supply chain with the same rigour they would with other parts of the organisation. They must focus on making their organisations the most attractive to the best local talent.
- The reality is that many companies do not understand who their key talent is – never mind how engaged they are, whether they have the right incentive/reward models to keep them and the impact on the business of losing that talent. This means that key talent will be lost while 'non talent' may be over-incentivised.
- Whilst a large majority of CEOs say they are changing their strategies around managing talent, only the most forward looking are taking the actions most likely to deliver real competitive advantage. Many businesses are simply using the same tactics they've always used – which will deliver the same results. In this post-crisis world it just won't be good enough.
- CEOs need to consider the future of the HR function – many HR teams are failing to deliver the strategic thinking needed to drive growth. We believe a rethink of this function is overdue in many businesses. How HR responds will determine whether the organisation thrives (and even survives) in the next phase of global economic development and shift.

Talent is now on top of the CEO agenda

Q: In response to changes in the global business environment, to what extent do you anticipate changes to any of the following areas of your company's organisation model over the next 12 months



Base: All respondents (1,201)
Note: Anticipated changes in the companies' organisation or operating model over the next 12 months
Source: PwC 14th Annual Global CEO Survey

Finding and winning talent

At a time of high unemployment in parts of the world, and large numbers of recent graduates in others, businesses are reporting worrisome skills mismatches. The workforce in many developed economies is ageing fast, and the available pool of talent is shrinking accordingly. A new generation of individuals, the Millennials (the generation who entered the workforce during the 21st century), are emerging that have different aspirations and expectations from the organisations that they want to work for. CEOs fear they won't have the right talent to compete effectively as recoveries take hold. A majority of CEOs (66%) fear talent shortages will constrain their company's growth.

Companies need to refocus efforts and investments on those employees who will be most valuable to their businesses in light of their growth ambitions. This push into newer markets brings with it a need for a more global mindset across the whole business – HQs are moving east, hierarchies are becoming flatter meaning employees are more empowered. Technology and collaborative platforms support innovation and global working but bring their own challenges. The world of tomorrow needs employees who can work in virtual global teams and leadership who are up to the task.

66% of CEOs say that a lack of the right skills is their biggest talent challenge.

"The current business environment has exposed weakness in our workforce strategy and limitations in our ability to compete on an international scale. Building an experienced and knowledgeable workforce is the most critical challenge we now face."

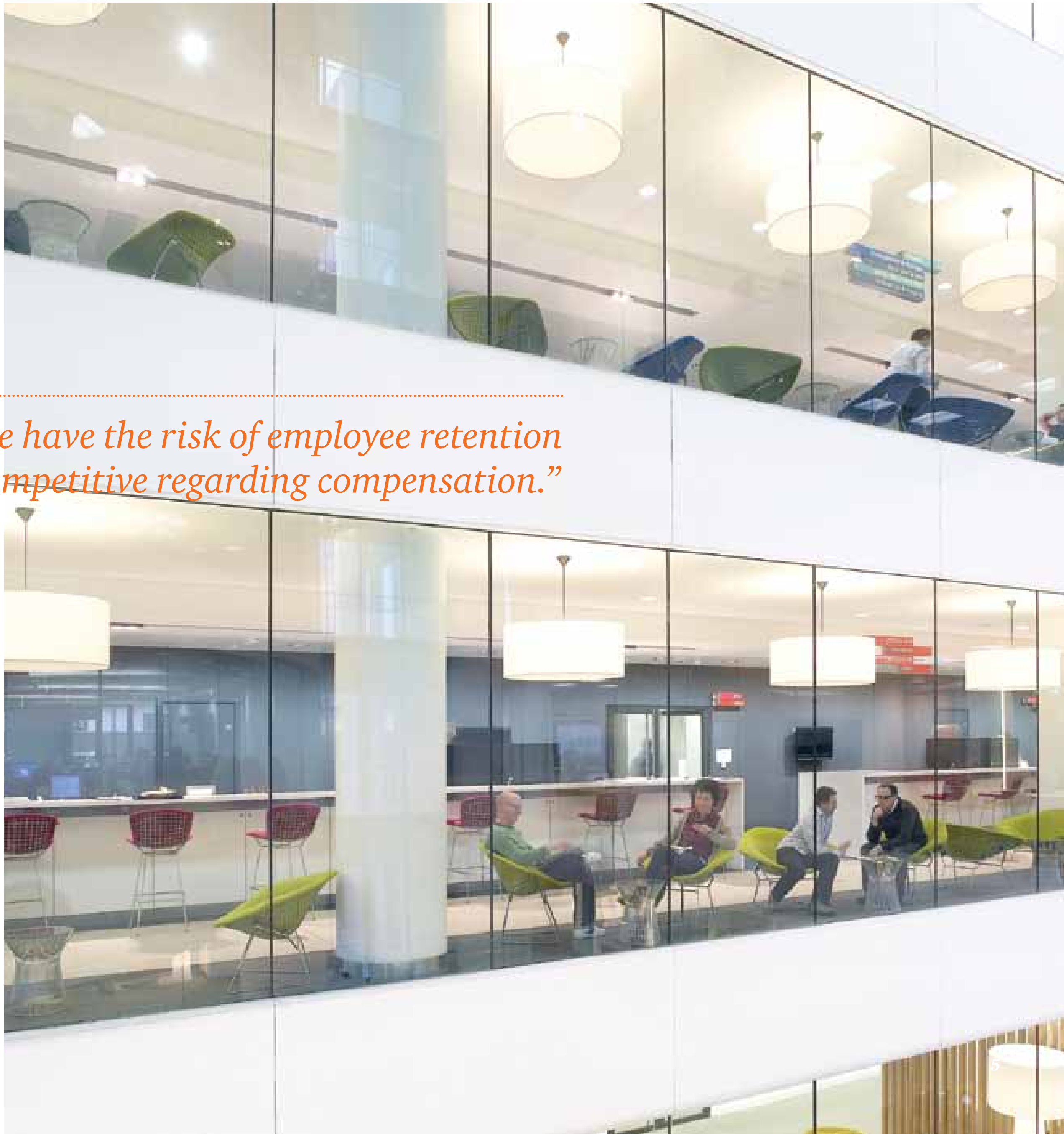
Dr Zhang Xiaogang
President, Anshan Iron and Steel Group Corporation, China

In emerging markets where demand is outstripping supply and with young people feeling little loyalty to corporations, firms find it more expedient to poach talent from competitors. This has the effect of driving up salaries to the point where an investment banker is more expensive in Shanghai than New York. The story is the same across many emerging markets. This situation drives up costs but also means companies have to spend a lot of time and effort to establish teams and the competencies they need to compete.

Refocusing efforts and investment on pivotal roles could provide a major competitive advantage over the next 12-18 months. Businesses need to identify the key capabilities, competencies and positions before looking at the mix of talent required – the mix of local talent versus expats and permanent versus contingent employees.

"As a reputable international manufacturer, we have the risk of employee retention amplified by a market that is becoming very competitive regarding compensation."

Timothy M Manganello
Chairman and CEO, BorgWarner Inc, US

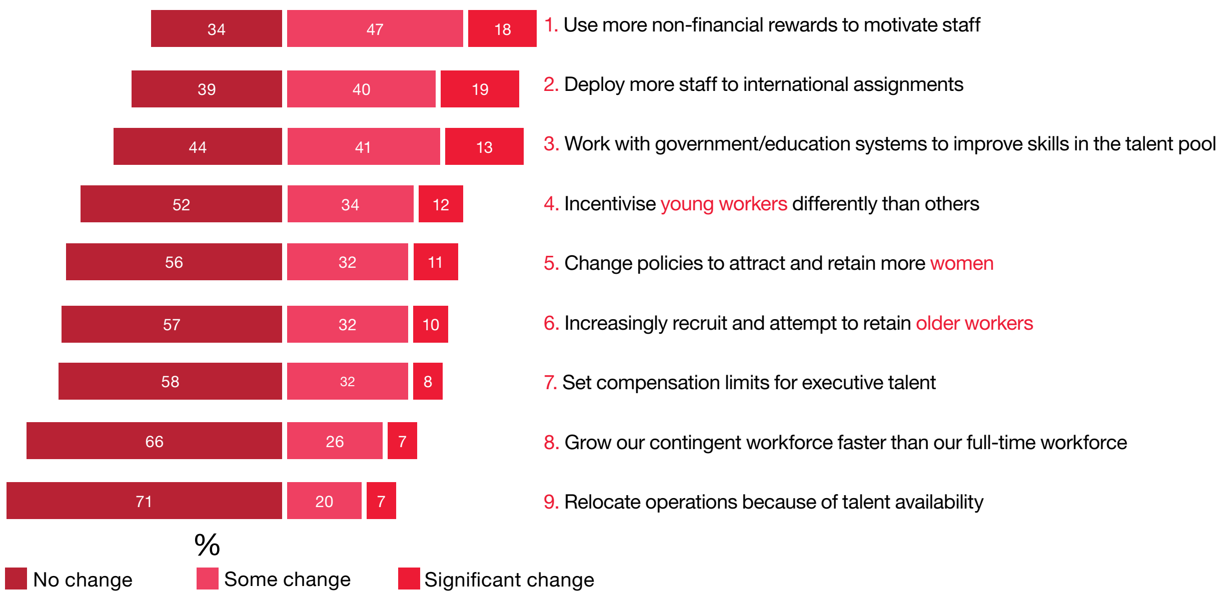


CEOs exploiting talent pools?

Our survey shows that talent strategies are likely to focus on motivating and deploying staff. But, CEOs are failing to exploit key talent pools – only a minority of CEOs see themselves changing their strategy on women, older people and younger workers.

Retention and deployment figure highly in CEO talent strategies

Q: To what extent do you plan to change your people strategy in the following ways over the next 12 months?



Base: All respondents (1,201)

Note: Plan to change people strategy in the following 12 months. Source: PwC 14th Annual Global CEO Survey

Younger workers

The expectations of the Millennial generation differ from those of its predecessors. Most CEOs and senior management belong to a very different generation to the one entering the workforce today. This generation has grown up with technology and social media as part of their everyday life. They have also grown up knowing that their relationship with a company is unlikely to be a life-long one. They are seeking more to life than "just a job": more money and climbing the ladder are not what drives them.

The old way to keep talent engaged was to give them more face time. Companies are going to have to innovate to attract and retain the talent they need now. Employers will have to offer greater autonomy, more flexible career options and more opportunities for peer recognition, basically a mix of face time and Facebook time, to get the best talent from the next generations.

"With Generation Y coming into the business, hierarchies have to disappear. Generation Y expects to work in communities of mutual interest and passion – not structured hierarchies. Consequently, people management strategies will have to change so that they look more like Facebook and less like the pyramid structures we are used to."

Vineet Nayar
Vice Chairman and CEO, HCL Technologies, India

Women

In virtually all markets many fewer women than men are active in the labour market. Some companies have already taken note. But there is a lot further to go: only 12% of CEOs say they see poor retention of female talents as a key business challenge over the next three years and 56% of businesses say they have no plans to change their policies. Only 11% of CEOs globally are planning significant change to policies aimed at attracting and retaining more of female employees today.

"As we look at growing globally, we recognise we're going to need a more diverse workforce, including more women and different geographic leaders"

Stephen A Roell
Chairman and CEO, Johnson Controls Inc, US

Older workers

With the population in many developed economies getting older, people are being encouraged to delay retirement and work longer. It presents yet another range of challenges. Older workers bring with them issues around occupational health and wellness. Managing three or even four generations in the workforce ranged on different sides of the digital divide also causes challenges. However, older workers bring with them a wealth of knowledge, valuable skills, ideas and experiences.

Many businesses seem underprepared for the impact aging populations will have on their businesses, let alone how to capitalise on the opportunities, however, some do seem to be getting it right.

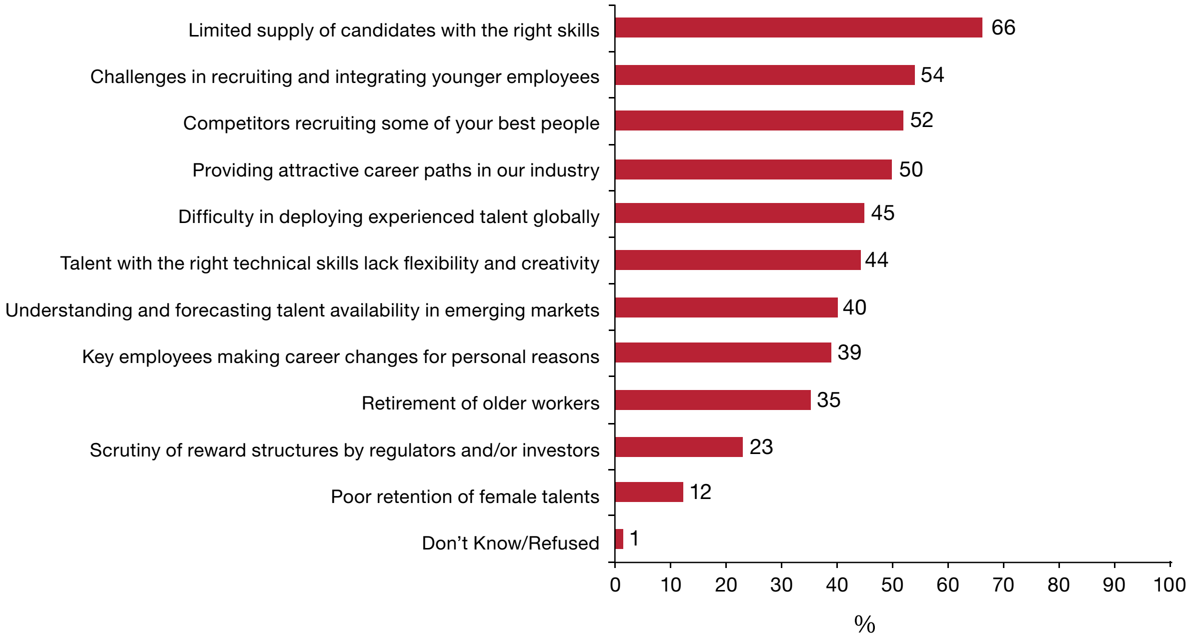
CEOs demanding a change

Many CEOs are demanding a rethink of their entire people strategy. Not only are the strategies which saw them successfully through the downturn no longer fit for purpose – but their pre-crisis people strategies won't work either. Forward looking companies are:

- targeting key talent pools such as the Millennial generation, older workers, and other sources of talent
- rethinking and restructuring the HR function to deliver the organisation's growth ambitions
- changing their reward strategy to improve employee engagement whilst responding to new demands from shareholders and regulators, and
- deploying more staff overseas to plug skills gaps and transfer knowledge.

A limited supply of candidates with the right skills is the biggest challenge

Ref: Q14. Considering the talent required for the success of your business over the next three years, what are the key challenges you expect to face?



Base: All respondents

83% of CEOs intend to make "some" or a "major" change to their strategies for managing people.

Rethinking reward

Whether as a result of regulatory or public pressures, reward models are not seen as fit for purpose in many parts of the world. This is not just confined to financial services; we see criticism of reward models across many sectors.

Many companies believe their reward strategy drives a high performance culture, yet they may not be tracking the key talent they are losing and analysing how, why and at what level? We believe that often incentive models are not focused on what motivates key talent – Millennials for example, who may be driven by different needs and expectations than previous generations. Likewise, there could be a case for arguing that some organisations are rewarding the 'non talent' too much.

CEOs are looking for ways to improve employee engagement and retention. Most CEOs say they plan to use more non-financial rewards. These approaches can take many forms, but often involve training and mentoring programs, with a closer focus on career trajectories. Instilling a deeper sense of ownership by spreading employee stock ownership more widely is another important retention tool for CEOs.

65% *of CEOs say they will make more use of non-financial rewards.*

"Our capacity to attract, retain and manage executive talent does not depend on the compensation package, but rather on our ability to create a sense of belonging to an organisation that offers a long-term relationship and a professional development opportunity, and that has a clear conception of itself, of what it wants to be, and of how to achieve it."

Armando Garza Sada
Chairman of the Board of Directors, Alfa SAB de CV, Mexico

Engagement

In 2007 approximately 10% of employees were defined as highly disengaged, by 2008, this figure had grown to 20% and by 2009, figures had reached an alarming 33%.[1]

Over the same period, retention remained at the same levels and employees reported no greater inclination to leave their employer. Instead, as the disengaged have dug in the reported level of discretionary effort has dropped by 53% since its peak in 2005.[1]

More alarming still, one in four high potential employees intended to leave their employer during the next 12 months.[1]

For Millennials training and development is the most highly valued employee benefit. The number choosing training and development as their first choice of benefit is three times higher than those who chose cash bonuses. 98% believe working with strong coaches and mentors is an important part of their development.[2]

57% of HR Directors said that they were using Non financial rewards to retain talent – ahead of long term incentive plans (49%) and pay rises (34%).[3]

1. Managing people in a changing world - Key Trends in Human Capital 2010: A global perspective. PwC Saratoga research
2. Managing tomorrow's people: Millennials at Work. PwC survey 2009
3. Lighthouse Global HR Monitor 2010 - PwC survey of HR Directors

Global talent mobility

Over half of CEOs are planning to send more staff on international assignments in the next 12 months. This mobile talent has an important role in developing local employees. Looking forward, we will see a significant shift in mobility patterns, as skilled employees from emerging markets increasingly operate across their home continent and beyond – an outlook that will change the way organisations approach overseas opportunities.

We believe the mobility of talent is a force for good and governments, business and regulators need to work together to remove many of the barriers and negative connotations of worker mobility.

PwC data reveals that assignment levels have increased by 25% over the last decade; with a further 50% growth expected by 2020. There will be more expats, more business travel, more virtual tools, and especially more quick, short-term and commuter assignments. Technology will play an increasingly key role in global working arrangements and help to support compliance obligations.

However, sending key managers on international assignment is not an easy or cheap fix – it comes with significant costs and needs to form part of a wider talent strategy. It also comes with challenges – not all countries with a high growth potential for business make the most attractive postings, however, the Millennial generation is more open to overseas assignments and see international working as a rite of passage.

59% of CEOs are planning to send more staff on international assignments.

"Ultimately, you can't rely solely on expatriates to run a local business forever. They certainly have an important role to bring our affiliates in given countries up to certain standards, but they also have the critical role of transferring knowledge and expertise so that those businesses can stand on their own. The goal is that those affiliates are eventually run by country nationals."

Louis Camilleri
Chairman and CEO, Philip Morris International, Switzerland/US

Talent mobility – looking ahead

Key locations can become **talent hubs** – e.g. Singapore and its ambition to double its population with workers from all over the world.

Business can collaborate with educational bodies – new **universities** in the Middle East are producing highly educated business-ready talent.

Borders will begin to come down – localised curbs on immigration may be populist policies in the short term but constrain growth over the long term and talent will simply go elsewhere leaving significant gaps in those markets. Breaking down borders will be the only way to source scarce talent.

More than any previous generation, the **Millennials have a strong desire for overseas working** opportunities, seeing these as an important development opportunity. Smart organisations are finding ways to tap into the Millennial mindset to foster greater mobility.

Technological advances are already transforming mobility and will help to bring down barriers. We are already seeing companies use GPS mobility tracking, virtual assignments and many other revolutionary tools to meet global skills gaps.

Is HR ready?

HR functions have changed significantly over the past decade; however, there are still serious questions about HR's ability to drive the change needed to deliver growth.

To become a true strategic business partner means understanding the company's business, industry and strategy. HR needs to be actively involved in investment and business decisions and looking to financial measures to gauge results. A strategic HR function should act as a consultant to the company on all people issues; providing insights that can help business leaders make the right decisions and helping to craft the right business strategy including those around new market entry.

If HR is not focused on the strategic business issues that have a direct impact on overall value then their future may be bleak. With CFOs taking a much wider role around growth and business transformation HR leaders need to become more strategic or face becoming purely functional.

What does talent management mean to you?

Whatever the size or shape of your business and whatever your talent management issues we believe there are four fundamentals to talent Management:

Align your business plan and talent strategy – make sure every aspect of your talent strategy directly contributes to your overall business plan and to creating value. Change anything that doesn't.

Face the future – look at where your business is heading not where you've been. Keep questioning whether your talent management pipeline will give you what you need when you need it.

Pay attention to pivotal roles – get the right talent into the roles which have a disproportionate ability to create (or destroy) business value.

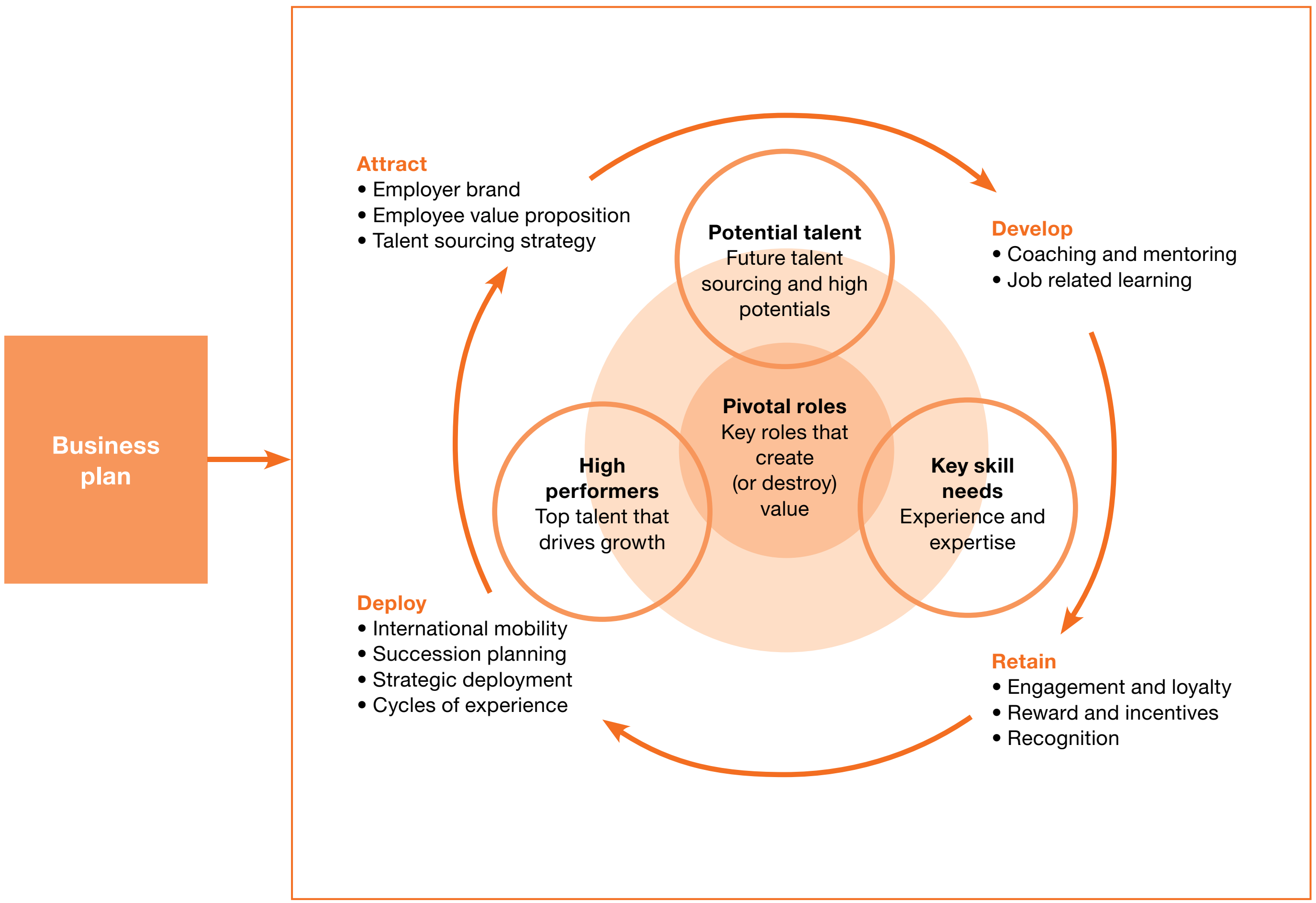
Focus on the financials – make measurement, benchmarking and analytics part of your plan. Look to your people ROI.

Ask yourself:

- Do you understand your current and future talent needs?
- Where are your skills gaps? What is your plan to fill them?
- What are the financial implications of your decisions around talent? e.g. what will be the cost of failing to retain top talent?
- Is your employer brand helping or hindering your strategy?
- Is your HR function up to the job?

Managing talent to deliver the business strategy

Talent Strategy



Five steps

1. Consider whether your talent strategy fully supports your business plan. Are they 100% aligned?

2. Know the pivotal roles in your organisation - identify and target the roles that make the biggest difference to the business.

3. Identify and classify the talent you have and the talent you need.

   – Look at your potential talent – think about talent pools and key sources of high potential employees including graduates

   – Plan how you will source or develop the key skills you need now and in the future – specialist skills can be hard to find

   – Think about how you incentivise your top performers to increase retention

4. Manage your talent throughout the employee lifecyle: attract, develop, retain and deploy

5. Underpin all of this with robust measurment, benchmarking and analytics

Nearing the finish line?

The world of work in 2020 and beyond will be very different to today with globalisation, demographics and technology driving change. The downturn has been weathered but as businesses look towards growth in this rapidly changing environment, they're finding skills gaps bigger than ever and increased by some of the very measures they took to survive.

CEOs say they will change their strategies for managing people – but will they be the innovative and competitive strategies needed for the next decade? For instance most CEOs (71%) do not intend to relocate operations to take account of talent availability, nor will they (66%) grow their contingent workforce faster than full time employees. More than half will do nothing to incentivise younger workers differently, change policies to attract and retain more women or recruit or attempt to retain older workers.

Does that sound like enough? We're not so sure.

The race still has a long way to run.

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