

10 Minutes on Rethinking Pivotal Talent*

What you need to know about emerging topics essential to your business. Brought to you by PricewaterhouseCoopers.

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Do you have the talent to thrive through the downturn?

Highlights

- Refocusing efforts on pivotal talent—those employees positioned to add the most value and determine the success of a company—can provide a major competitive advantage over the next 18–24 months.
- Companies are recalibrating objectives to weather the current financial storm and exploit emerging opportunities.
- An approach to talent management based on rigorous research and measurement can help a company quickly adapt and meet new business objectives.
- Three out of four CEOs say that a lack of key skills is one of the biggest threats to their business.

The global financial crisis has created a fast-emerging set of challenges and opportunities in the talent market.

Before reflexively introducing traditional strategies like across-the-board headcount reductions, companies should first re-evaluate their approach to “pivotal talent”—those game-changing employees whose performance can make or break the bottom line.

Why? Because as market conditions continue to evolve and companies quickly change business objectives—rethinking everything from growth projections to whether a merger or divestiture is necessary—organizations need the right blend of critical skills.

A first step: rejecting four common talent myths that can hold companies back—especially when the going gets rough.

Letting go of four talent myths

- 1. In a downturn, my pivotal talent will stay.** Many companies lose skilled employees during a slow economy, either by cutting too close to the bone or being outbid by opportunistic competitors.
- 2. If we treat employees well, they’ll be loyal to our organization.** Corporate loyalty is as scarce these days as typewriters and carbon paper. Today’s employees believe in a mutually beneficial relationship with employers, and anticipate several different opportunities—at least—in their careers.
- 3. We can always rely on the flow of foreign-born technical talent to the US.** Not only is the world’s working-age population growth slowing, but the talent pipeline is drying up due to home-country opportunities and US immigration policy.
- 4. Talent ROI metrics are famously hard to produce.** Tools exist to measure the impact of talent on business objectives, the ROI on talent solutions, and solution delivery effectiveness.

At a glance

Overcoming downturn-related talent challenges...

- Reassessing business objectives in light of changing market conditions
- Implementing changes to existing organization models—and then finding people with the right knowledge and skills
- Recalibrating headcount while focusing on the pivotal talent needed to achieve business objectives
- Understanding how the external talent market has and will continue to change
- Positioning for growth through a fact-based, focused set of talent priorities

...means asking the right questions

- Have we aligned our talent priorities to our business objectives?
- Have we validated our talent priorities? For example, do we have consensus on the five most pivotal positions in each critical area of our business?
- Do we possess an accurate perspective about the competence of our current workforce against business objectives?
- How much do we really know about the fast-changing external talent marketplace?
- Are our talent solutions tailored to the values and expectations of our pivotal talent?
- How effective are we at delivering talent solutions, and knowing what return we are getting on our investment?

Mind the gap(s)

For many companies, there exists a wide gap between business objectives and talent priorities.

More often than not, companies rely on old-school approaches to talent management. For example, many companies aren't agile enough to "fast-track" pivotal talent. First, they can't reliably identify these professionals; second, they lack a performance mechanism to treat them any differently than other employees.

CEOs are not blind to this misalignment. According to PwC's *11th Annual Global CEO Survey*, 62% of CEOs "agree" or "strongly agree" that their company needs to change the way that talent is recruited, motivated, and developed. Only 43% endorse their organizations' ability to compete for critical talent.

A second gap rooted in demographics

The current economic downturn may slow the pace of hiring in the next year or so, but the talent gap faced by the US and other countries will still be with us—and

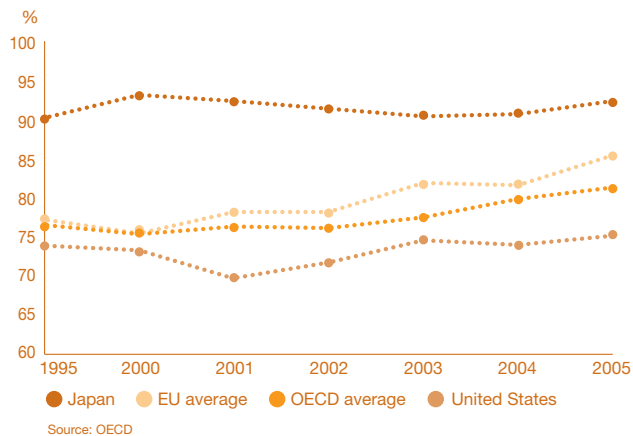
likely be even more daunting—when the economy starts growing again.

Indeed, much has been written and debated about future labor shortages. But the overall availability of labor is less relevant than the current and projected availability of people with the critical skills required to meet business objectives. It's a fact that the supply of professionals with advanced technological, analytical, interpersonal, and cross-cultural skills is not keeping up with demand.¹

Educational woes contributing

US companies are being handicapped by an educational system that isn't keeping pace. The US lags many developed nations in graduation rates for science and technology students. Indeed, the number of science and engineering graduates in the US has remained relatively constant over the past two decades, even while data from the US Bureau of Labor Statistics predicts a need for 1.25 million of these graduates in these fields—a 26% increase—by 2012.

The US lags in high school graduation rates among developed nations



¹ PricewaterhouseCoopers, "Caught in the Quagmire," *American Perspectives* (November 2008)

The crucial question that transforms the talent issue

To recast the talent issue from administrative to strategic, corporate managers need to ask one question: How should scarce resources be used to enable our pivotal talent to achieve our objectives?

This approach to talent management contains four elements:

- **Business objectives.** Identifying business objectives sounds easy, but it's particularly difficult in times of great volatility. A good example is the financial services industry, where—almost overnight—major players have had to refocus short-term priorities and long-term business goals.
- **Talent priorities.** Once objectives are set, pivotal positions should be identified and the related jobs designed to the right level of detail. One key issue will be how many of these positions can be filled by current employees versus external candidates.

Particularly in turbulent times such as these, companies must be quick to recalibrate talent priorities based on

business conditions and the external talent market. Accurately gauging the external talent market requires gathering supply and demand data, as well as information on specific characteristics of viable candidates, such as their education, values, and job expectations.

- **Integrated, energizing workplace solutions.** Workplace solutions should reflect the fact that job design, recruitment, performance management, and rewards need to be better aligned with pivotal talent expectations. Leading companies are breaking new ground with solutions that energize employees, like increasing their global mobility, accelerating job promotion, emphasizing employee development, and implementing virtual work technologies.
- **Effectiveness.** Central to motivating pivotal talent are effective underlying processes and technologies. For example, a manager whose employer promised workplace flexibility needs the technological tools and management support to make this promise a reality.

Just the facts, please

Talent-related issues in the workplace have long been approached through informal consensus and instinct. Considering that most organizations spend 40%–60% of operating expenses on people, a more effective, fact-based approach to talent decision-making is long overdue—particularly in today’s economy.

A more fact-based approach

A fact-based approach demands that companies embrace business intelligence born of both industry research and rigorous self-evaluation.

For example, many companies fail to assess some of the talent-related costs that affect financial results, missing a huge opportunity to be more specific in their cost-saving strategies around talent. Armed with the facts, companies can use a scalpel, rather than a scythe, when it comes time to recalibrate the workforce.

The bedrock of a fact-based approach is developing metrics around a core set of talent data. For example:

- **Quantifying impact on objectives versus labor costs.** Tracking revenue per employee is a crucial measure

of productivity. According to PwC Saratoga’s 2008 *US Human Capital Effectiveness Report*, labor costs in the US, on average, have fallen to 28% of revenues, while revenue per employee has increased by 8%.

- **Tracking key talent indicators.** It will be increasingly important to develop and follow metrics in areas like talent supply versus demand, workforce characteristics, and employee values and expectations. A company needs to know, for example, whether its turnover rate is highly variable across different pivotal positions, or how its cost of hiring, per person, compares to the \$2,600 nationwide average.
- **Improving employee engagement surveys.** Companies use engagement surveys, yet don’t effectively use the data due to ineffective practices, such as failing to focus on pivotal positions or making overly broad recommendations.
- **Measuring effectiveness.** Many companies spend an average of more than \$1,600 per employee on HR expenses, such as labor and overhead costs, and need to better quantify the return on investment.

Initial strategies for managing pivotal talent during the downturn

The initial phase of the financial crisis left many companies just trying to survive. By following these fact-based strategies, organizations can be in a position of strength 18 to 24 months from now.

Approach compensation as just one piece of the puzzle

Compensation—while important—is just the first step in attracting and retaining pivotal talent during tough times. For example, in a recent PwC survey,² “compensation” lagged behind “lack of career development” as the main cause of turnover for pivotal employees.

Reassess pivotal positions and external talent

In today’s market, companies should be regularly re-assessing which pivotal positions are open and what talent is available in the marketplace. A competitor’s headcount reduction or poor performance could lead to many high-quality candidates entering the job market.

Connect the dots between risk management and talent issues

The financial crisis has demonstrated anew how important it is to place the right professional in the right job. That will be especially true as companies scramble to hire new leaders, divest of non-core businesses, recast products and services, and adapt to potential new regulation.

Challenge valued employees

In order to retain pivotal talent, companies should strategically expose them to different areas of the organization, promote when ready, and provide cross-cultural and foreign assignment opportunities.

Develop stronger talent leadership

A new breed of HR leader has emerged, one that can upgrade basic employee programs and technologies, even while articulating the goal of aligning talent priorities with business objectives. An economic downturn could be an ideal time for companies to redefine what they want out of their talent leadership.

² PricewaterhouseCoopers, *Barometer Survey* (October 2008)

Upcoming 10Minutes topics:

More successful divestitures

In a slowing economy, poor results and stakeholder pressures drive more companies to divest non-core assets. At the same time, volatile stock markets and tighter lending restrictions lead to fewer buyers making more carefully considered decisions. In this environment, a seller may see a deal fall through, come up short of its asking price, or get stuck in the deal pipeline. 10Minutes explores how sellers can re-orient themselves to today's changing marketplace.

Making cost reduction efforts more sustainable

Today's economy is putting pressure on companies to reduce costs like never before. But cost reduction is often done in an arbitrary, "one-off" way that does not result in long-term savings. 10Minutes discusses why many commonly used approaches don't work, and the foundational elements that lead to making cost reduction a successful, ongoing, and core company process.

Top concerns for boardroom directors

As a year of unprecedented challenge and change draws to an end, directors are revisiting their oversight of risk management and corporate culture. 10Minutes looks at how the ongoing financial crisis affects these and other corporate governance issues, sizing up the potential impact on your business.

Why climate change matters today

Concerns over energy security and costs are heating to uncomfortable levels. Meanwhile, consumers, employees, and communities are increasingly expecting action from businesses. Climate change has become a matter of managing risks, costs, and reputation. 10Minutes explores how you can link your response to climate change more strongly to your business strategy and your corporate performance.

How PwC can help

To have a deeper discussion about managing your pivotal talent, please contact:

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