

The Deloitte logo is positioned in the top left corner. It consists of the word "Deloitte" in a white, bold, sans-serif font, followed by a small yellow dot. The background of the entire page is a photograph of blue curtains with a spotlight illuminating a red carpet on the floor.

Deloitte.

It's 2008: Do You Know Where Your Talent Is?

Why Acquisition and Retention Strategies Don't Work

A Deloitte Research Study

Foreword

Globalization is a force for both collaboration and competition. It is also proving to be a contest for resources—both natural and human. In an age in which growth is largely a product of creative and technological advancements, companies that want to dominate their industries must be able to attract and retain talented employees. They must also engage people like never before if they want to innovate and grow. Only those companies that win the hearts and minds of their top talent will be able to deliver value over both the short and long terms.

The contest for human capital is evident everywhere, although the nature and significance of trends vary from country to country. Throughout the Western world, the retirement of the Baby Boom generation will create large vacancies across industries. In Europe, that trend will be particularly potent due to low birth and immigration rates. In China, the single child policy has led to a deficit of skilled workers, especially in urban areas. These massive shifts in the workplace population will be exacerbated by educational trends. In the United States, Germany, and Japan, for example, the percentage of students graduating with science and engineering degrees hovers in the single digits, far below the percentage figures for India and China. Such trends suggest a talent market unlike any that we have seen.

The game is changing in other ways as well. Jobs are no longer static. Companies must continually train and develop employees if they are to keep pace with the speed and complexity of technological innovation. Individuals need greater flexibility in their career paths, and organizations need greater flexibility from employees. People must connect across businesses, divisions, and regions in ways that promote high quality decisions and fast execution.

Responding to today's workplace demands means that firms must offer more than a good paycheck. Record-high numbers of disaffected workers already cost organizations millions of dollars in lost productivity. In the face of such challenges, traditional approaches to managing talent fall short.

In the 1990s, companies responded to shifting labor markets by launching a "war for talent." We challenge this thinking. Even the best recruitment tactics will not suffice in the struggle ahead. Rich compensation packages and "hot skills" bonuses are easily matched by competitors. Instead, a more thoughtful response is required—one that lures critical talent, but more importantly engages them in ways that promote the flexibility and productivity you need to compete. Talent-rich companies such as SAS and Southwest are not forced to engage in bidding wars. Instead, highly talented people vie for the limited spots these companies offer.

In a compelling fashion, this report frames the scope and range of the emerging talent crisis and provides an alternative model for addressing the issues—one that we believe gets to the heart of the matter.

We hope you find this Deloitte Research report useful as you create your own solution to this looming challenge.



A handwritten signature in black ink that reads "James H. Wall".

James H. Wall
Global Managing Director,
Human Resources
Global Office Managing Director
Deloitte Touche Tohmatsu



A handwritten signature in black ink that reads "A. Aijala".

Ainar Aijala
Vice Chairman & Deputy CEO
Global Managing Director,
Human Capital Practice
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About Deloitte Research

Deloitte Research, a part of Deloitte Services LP, identifies, analyzes, and explains the major issues driving today's business dynamics and shaping tomorrow's global marketplace. From provocative points of view about strategy and organizational change to straight talk about economics, regulation and technology, Deloitte Research delivers innovative, practical insights companies can use to improve their bottom line performance. Operating through a network of dedicated research professionals, senior consulting practitioners, and academic and technology partners, Deloitte Research exhibits deep industry knowledge, functional understanding, and commitment to thought leadership. In boardrooms and business journals, Deloitte Research is known for bringing new perspective to real-world concerns.

It's 2008: Do You Know Where Your Talent Is?

Why Acquisition and Retention Strategies Don't Work

Despite millions of unemployed workers, there is an acute shortage of talent: science educators to teach the next generation of chemists, health care professionals of all stripes, design engineers with deep technical *and* interpersonal skills, and seasoned marketers who understand the Chinese marketplace. Resumes abound, yet companies still feverishly search for the people who make the difference between 10 percent and 20 percent annual growth, or between profit and loss. Critical talent is scarce, and about to become much more scarce because of two looming trends: the retirement of the Baby Boom generation and a growing skills gap.

By "critical talent," we refer to the groups and individuals that drive a disproportionate share of their company's business performance and generate greater-than-average value for customers and shareholders. A company's critical talent possesses highly developed skills and deep knowledge—not just of the work itself but also of "how to make things happen" in the organization. Without these people, organizations could not achieve their strategies. (See sidebar, "Who Is Critical Talent?")

Who Is Critical Talent?

The nature of critical talent varies by industry or organization. In large pharmaceutical organizations, for example, "blockbuster drugs" are the engine to fuel growth. In 2004, Pfizer's top 10 products each generated more than \$1 billion in sales. Needless to say, Pfizer pays particular attention to the researchers and clinicians who drive this development.¹

At \$24 billion FedEx, one analysis suggested that the couriers who pick up and deliver packages might be more critical than the pilots who fly the packages through the night. The couriers have direct contact with the customer and must make continual decisions that impact the efficiency and effectiveness of the supply chain, such as how to reconfigure a route and how long to wait for a customer's packages.²

We are not necessarily referring to the “A players” or senior executives who command the highest salaries. More often we’re talking about employees who don’t end up in the annual report. They include the scientists and clinicians who discover and develop the blockbuster drugs that fuel pharmaceutical companies’ growth. In the oil industry, they include the geologists and petroleum engineers who find and extract oil. In manufacturing, they include the machinists who perform precision manufacturing to Six Sigma standards. And in retailing, they may be the inventory managers who get the right goods in the right stores at the right time.

Research suggests that a company’s “stars” are the first to be poached by competitors and are less likely to stay. Moreover, a study of investment banks found that when imported from elsewhere, stars rarely sustain their performance in the new organization.³

When the knowledge and skills of critical talent become scarce, recruiting wars erupt. Many leading companies fight these wars differently. They do not succumb to bidding wars, knowing that the “star” who chases high offers will be out the door as soon as the next higher one rolls in. Nor do they bribe talent to stay, knowing that monetary incentives do not foster long-term commitment; worse still, they can mask discontent that infects others. Rather than focus on acquiring and retaining talent, talent savvy organizations support their key people on the issues they care about most: doing work that engages them, learning how to do it even better, encountering fresh challenges, and interacting with people in positive ways.

Firms like Microsoft, Southwest Airlines, and SAS Institute are exemplary in the way they nurture and manage critical talent. They go to surprising lengths to help these employees tap into their core skills and passions. They expect continuous learning and growth and know that the most important lessons don’t take place in the classroom, but on the job. They also understand that positive relationships raise the performance of critical talent to new levels.

Crunch Time for Critical Talent

In just a few years, two emerging trends will force organizations to start paying unprecedented attention to their critical talent. The first is the retirement of Baby Boomers, the first crop of which will retire in 2008. Their impact will soon be felt. In automotive manufacturing, for example, up to 40 percent of managers will be eligible to retire within the next five years. In the public sector, countries such as Canada, Australia, and the United States could lose more than a third of their government employees by 2010. Retirees are also draining much of the working blood out of health care, with shortages of nurses and pharmacists particularly acute.

CEOs of successful companies are worried about the dwindling supply of talent. They are twice as likely as CEOs of less successful companies to cite the “availability of managers/executives” as a top concern.⁴

Meanwhile, many schools are having trouble meeting the demand for qualified candidates. They struggle with limited capacity, obsolete educational models, declining educational standards, and a general shift among students away from “hard skill” disciplines, such as science and engineering. In fact, the U.S. Department of Education estimates that 60 percent of all new jobs in the 21st century will require skills that are possessed by only 20 percent of the current workforce.⁵ (See sidebar, “The Sad Statistics of the Global Labor Pool.”)

The Rise of Talent Markets

CEOs rely heavily on finance and marketing. Yet these “decision sciences” are relatively new.⁶ Finance sprang forth from accounting with the rise of capital markets. Similarly, marketing evolved from sales with the increasing sophistication of customer and product markets.

Today, talent is the scarce resource, giving rise to talent markets. Yet there is no “decision science” to help leaders optimize their talent decisions. John Boudreau at the University of Southern California and his research partner Pete Ramstad argue that this is a critical step in the evolution of HR. HR executives often define their efforts in terms of policies and programs. Instead, they must provide analytical insights and support to help leaders *improve* their talent decisions, not just *implement* them.⁷ We agree.

The Sad Statistics of the Global Labor Pool

By 2008, a wealth of skills and experience will begin to disappear from the job market. The first members of the Baby Boom generation will turn 62, the average retirement age in the large, developed economies of North America, Europe and Asia. Over the next 15 years, 80 percent of their workforce growth will occur among people 50 years or older. By 2050, 40 percent of Europe's total population and 60 percent of its working age population will be people over 60.⁸ With mounting pension obligations and shrinking workforces, Germany, Italy, Spain, and Japan could face economic crises. As management guru Peter Drucker has suggested, the confluence of a bulging aged population and a shrinking supply of youth is unlike anything that has happened since the dying centuries of the Roman empire.⁹

"We are about to face a demographically driven shortfall in labor that will make the late 1990s seem like a minor irritation."

– Anthony Carnevale, Former Chairman of the National Commission for Employment Policy

Four industries in particular will suffer a mass exodus of employees: health care, manufacturing, energy, and the public sector. The Australian health care system, for example, expects 31,000 vacancies to go unfilled by 2006. The United States sees a shortage of more than 1 million nurses by the year 2012. More than 80 percent of U.S. manufacturers face a shortage of qualified machinists, craft workers, and technicians. The magnitude of the situation has prompted the National Association of Manufacturers to warn its members that they may soon face a serious labor crisis.¹⁰ As these and other industries compete for talent, they will constrain the available supply for others.

The shortage of workers is not just one of retiring Baby Boomers. A massive skills gap makes it worse. A staggering example is occurring in science and engineering. In the United States, colleges will graduate only 198,000 students to fill the shoes of 2



million Baby Boomers scheduled to retire between 1998 and 2008, according to NASA projections. Likewise, the Bureau of Labor Statistics projects that more than 300,000 of the 1.3 million new IT jobs to be created between 1996 and 2006 will go unfilled.

Why won't colleges fill the skills gap? The problem is one of waning student interest, institutional capacity, and the quality of education. Not enough students in large developed economies are pursuing science and engineering. While 42 percent of students in China earn undergraduate degrees in science and engineering, only 5 percent of U.S. students do so. In Germany, once celebrated for its streams of innovation and Nobel Prize winners, the number of engineering graduates has declined by almost a third since 1995, to about 36,000—one-tenth the number produced by Chinese universities. The waning interest among German students was one of the motives behind Siemens' recent decision to turn to Beijing to develop its new cell phones.¹¹ This trend will likely continue, fueling the rise of global talent markets.

SAS's CEO Jim Goodnight is passionate about educational reform. He remarks that in the United States, "All corporations should get involved in the school system. The future of our country is in producing highly educated people. Otherwise we'll lose our high-tech jobs to India and China."

So far, the action behind his words has resulted in SAS in School, Internet-based software for classroom use, and the establishment of a private school that he hopes will be modeled for its small classes and extensive use of technology.¹²

In other areas of specialized education, such as information technology and nursing, schools simply can't meet demand. Faculty shortages in computer science departments, for example, have reached crisis proportions, seriously curbing the supply of qualified job candidates.

Perhaps the most disturbing factor of all, though, is declining educational standards. Many schools are not keeping pace with the increasing complexity and rapid technological change facing organizations today. Others are simply not graduating enough students. In the United States, only 70 percent of high school students graduate, and only 32 percent leave high school qualified to attend

four-year colleges. For African-Americans and Latinos, the graduation rate is about 50 percent, and less than 20 percent have the qualifications necessary to continue their education at the college level.¹³

The result: fewer and lower-quality workers, especially in areas that require high levels of skill and education. Large organizations that wish to expand and strengthen their employment base at home may have to take it upon themselves to close the skills gap.

Figure 1. Projected Change in the Working-Age Population (15-64) 1970-2010 and 2010-2050



The workforce outlook in Europe and parts of Asia is worrisome. Economic growth may be significantly hampered by a shrinking workforce in the coming years. The situation in the Americas appears better. But consumer demand is projected to grow as the overall population ages. Organizations seeking a piece of that growth may feel pressured to achieve higher performance with fewer people.

Source: Deloitte Research/UN Population Division (<http://esa.un.org/unpp/>)

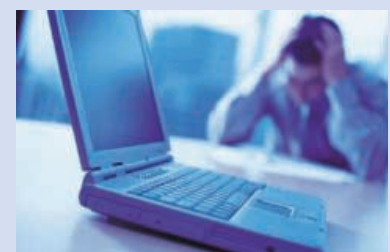
The Disengaged Employee

Waves of downsizing, employer demands, job disenchantment, and technologies that keep employees plugged into their jobs both day and night have taken their toll. If recent surveys are an indication, more than half the workforce is fed up. Pollster Gallup has found that 80 percent of British workers lack commitment to their jobs, with a quarter of those being “actively disengaged” from their workplaces. The situation is worse in France, where only 12 percent of workers are engaged in their work. In Singapore, 17 percent of the work force is actively disengaged, creating a corrosive force in organizations.¹⁴

Disenchanted workers pull down productivity, increase churn, and darken the morale of the people around them. The annual economic costs are huge: as much as 100 billion Euros in France, US\$64 billion in the UK, US\$6 billion in Singapore, and a whopping US\$350 billion in the United States.¹⁵

How can managers reduce the losses caused by an exhausted and demoralized workforce? Helping employees to effectively manage information overload is one important step. Providing them with the tools they need to get their job done in the most effective way possible is

another. Redesigning jobs and working conditions are other important interventions, along with ensuring that key people are effectively developed and well-deployed. But a crucial and often overlooked source of disengagement comes down to workplace relationships. Emerging research suggests that workplace toxicity may trump other factors when it comes to employee morale and performance. The first step in tackling workforce discontent may involve looking in the mirror. The number one reason people leave comes down to their relationship with their boss. Rather than dive headlong into technology-based solutions to ameliorate work overload and stress, organizations may want to kick off their talent strategies by first examining the deployment and development of the people tasked with leading others.



Shortcomings of Current Approaches to Managing Talent

When labor gets tight, most organizations hunt for external candidates to fill their most critical jobs (“acquisition”) and try to convince current employees to stay (“retention”). These companies offer money, perks, and new challenges. But this is more of a knee-jerk response than a clear strategy.

Sometimes it works. But more often it delays, or even fuels, the inevitable churn of good people. (See Figure 2, “The Traditional Talent Management Process.”)

In particular, companies place too much attention on “acquiring” talent, the front-end of the process. The typical U.S. company spends nearly 50 times more to recruit a \$100,000 professional than it will invest in his annual training after he comes aboard.¹⁶ In part, this is understandable. It is far easier to phone an executive search firm or post openings on a Web site than it is to “grow” someone into a position or to deal with the internal politics of redeploying people from within.

But such shortcuts are costly. The average cost to replace an employee is one and a half times her average salary. New candidates can take a year or more to master their jobs. Moreover, a company that focuses on external talent can erode the commitment of internal candidates who perceive a bias against them.

Common retention approaches are problematic, too. Often, they are driven by simple metrics such as employee turnover. But while churn at a company may fall from 10 percent to 5

percent from one year to another, it may hide the fact that critical employees are pouring out the door. Furthermore, the numbers say nothing about why people leave. In exit interviews, those leaving frequently resist giving the true reasons for their departures for fear of burning bridges. Finally, turnover does not measure people’s commitment to the company. When jobs are scarce, it is easy to retain a non-committed workforce.

As a result, by focusing on the end points of managing talent (acquisition and retention) rather than on the middle ones (deployment and development), organizations ignore the things that matter most to employees. When this happens, companies set themselves up for inevitable churn, which becomes especially hazardous in a tight labor market.

A Conference Board study asked employees what they expected from their employers. The top three responses were:

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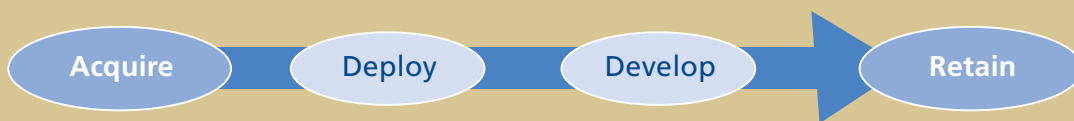
1. Interesting, challenging work

2. Open, two-way communication

3. Opportunities for growth and development

What about money? They found that it finished a distant eighth. This makes sense. Rewards and recognition must align with organizational and individual goals. But decades of research suggest that money becomes most important when it is inadequate.¹⁷

Figure 2. The Traditional Talent Management Process



Organizations focus their energy on “acquiring” and “retaining” critical talent—especially when talent is scarce. This focus on the end points is problematic for many reasons. To begin, the resulting process is linear because employees are often ignored once they are recruited into an organization or project. As such, they can become pigeonholed without the opportunity for redeployment. Instead, individuals need flexibility to try on new roles and organizations need flexibility to shift to marketplace demands.

Attraction and retention are important metrics, or outcomes. But to be effective, talent management strategies must be built around the things that generate the most value and matter most to employees—the “customers” of this process. That is, their development and deployment—and connection to others.

Source: Deloitte Research, 2004

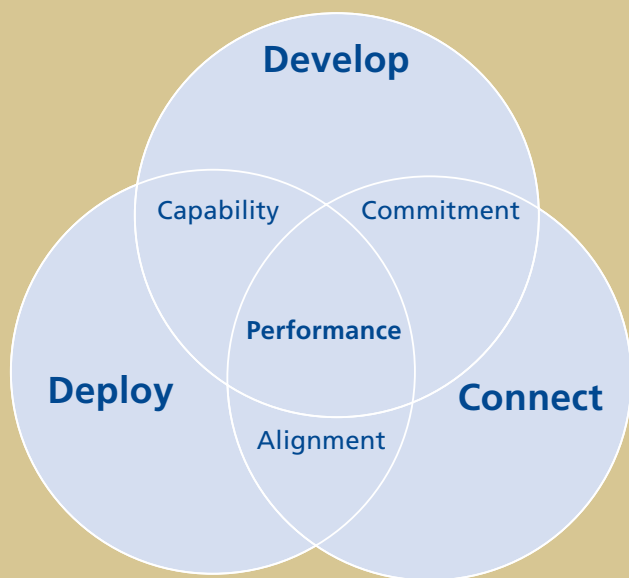
Building Talent: A Shift in Mindset

A growing number of successful companies, such as Microsoft, Southwest Airlines, and SAS, are taking more than their fair share of the talent marketplace and cultivating high performers in key positions through a very different method. Rather than starting with recruiters, they first look inside to match employee experience and aspirations to the company's evolving strategic needs. This doesn't mean that they ignore external talent. They take recruiting seriously, in large part to achieve ambitious growth targets. But their historically low turnover rates let them spend much less time battling churn—and a lot more time outmaneuvering the competition.

As the competition for critical talent heats up, organizations must rethink the ways they manage these people. To begin, they must identify the segments of the workforce that drive their current and future growth. Then, rather than focus on metrics and outcomes (“acquisition” and “retention”), they must concentrate on the things that employees care about most: *developing* in ways that stretch their capabilities, *deploying* onto work that engages their heads and hearts, and *connecting* to the people who will help them achieve their objectives. By focusing on these three things, attraction and retention largely take care of themselves.

In the next three sections, we will describe how this model of *develop*, *deploy*, and *connect* really works, and why it helps companies generate superior performance.

Figure 3. The Develop-Deploy-Connect Model



The Develop-Deploy-Connect model should be at the core of an organization's talent strategy. By focusing on these three elements, organizations can generate capability, commitment, and alignment in key workforce segments, which in turn improve business performance. When this happens, the attraction and retention of skilled talent largely take care of themselves.

Source: Deloitte Research, 2004

By “develop,” we mean providing the real-life learning employees need to master a job. We don't mean just traditional classroom or online education. As importantly, we mean the “trial-by-fire” experiences that stretch their capabilities and the lessons they learn from peers, mentors, and others.

By “deploy,” we mean working with key individuals to (a) identify their deep-rooted skills, interests, and knowledge, (b) find their best fit in the organization, and (c) craft the job design and conditions that help them to perform.

By “connect,” we mean providing critical employees with the tools and guidance they need to (a) build networks that enhance individual and organizational performance, and (b) improve the quality of their interactions with others.

Develop

The vanishing supply of talent will force many companies to take a hard look at how they develop key people. Gone are the days when companies were satisfied to find loyal, hardworking candidates. Instead, they need a mix of highly analytical people with technological savvy, creativity, global know-how, adaptability, and great communication skills to collaboratively solve complex and rapidly changing issues.

Developing such skills is rarely achieved by spending more on training. Formal training programs are important, especially when employees lack key skills or knowledge. But even online courses that provide access to coursework 24 hours a day, 7 days a week can fall short when it comes to resolving complicated, time-sensitive issues.

A well-known MIT study found that people are five times more likely to ask a co-worker for information than to consult an intranet, database, or company computer system.¹⁸

Other studies also suggest that “who” you know is increasingly more important than “what” you know.¹⁹

Rather than push more information onto employees through conventional training, it is more important that they “learn how to learn.” The sales executive who must know the customer's business backwards and forwards, as well as his own, and those of his alliance partners can no longer be a deep specialist in a single product or service. It is more important that he knows *where* to go for information and *whom* to ask.

When people need to solve a problem, they tend to turn to others—not to their computers. Solving complex problems requires that critical talent focus on their relationships with others. Research suggests that people who cultivate broad and diverse networks are more successful than those who rely strictly on their inner circles.²⁰

The best way to develop critical talent is through the collaborative resolution of real-life issues (“action learning”). A well-known study conducted over a decade by the highly respected Center for Creative Leadership finds that “stretch” assignments and daily interactions with others are far more important to the development of successful executives than the formal training they received.²¹ Not surprisingly, the hardships people endure provide the richest learning experiences of all. When asked to identify the key events that made a difference in how they manage today, only 3 percent of executives cited formal coursework. On the other hand, 12 percent pointed to business mistakes as their most potent learning experience. Another 12 percent cited a change in project scope as a key event in their development. Interactions with others also commanded high responses.²²

In which situations do people learn most?

67% *When working together with a colleague on a task*

22% *When doing own research*

10% *When a colleague explains something personally*

2% *Through a manual or textbook*

Source: Lexis-Nexis²³

People learn the most in situations that stretch them—the “trial by fire” experiences that put them slightly outside of their comfort zones. They learn not by pondering a hypothetical problem, but by directly tackling real issues. As a senior Microsoft human resources executive has noted: “We have very limited educational and training opportunities for our managers. But I think that we have absolutely developed leaders. You get people having to move from managing ten people to managing 200 overnight. That kind of stretch in the job will either create growth or death. Fortunately, we have such great people that most of them have just grown by leaps and bounds.”²⁴

People also learn from those they trust: bosses, subordinates, peers, and mentors, both internal and external. At its heart, learning is social in nature. SAIC, a \$6.7 billion employee-owned research and information systems development company, recognizes that people learn the most on-the-job and from each other. To ramp up learning before important

initiatives, SAIC has formal processes that connect individuals and teams so that the inexperienced can learn from the experienced. These “peer assist programs” have become a natural way to approach complex assignments. Similarly, project managers at British Petroleum are *required* to request the help of peers before initiating large projects, such as drilling wells.²⁵ Classrooms, books, and e-learning are helpful when people know little and have time to learn from scratch. But when experience is accessible and high costs and time are at stake, “peer assists” can be a much more effective way to expose people to the knowledge and experience they need—fast.

Mentoring and coaching are also important to learning—especially when expectations are made clear and tied to explicit goals. Deutsche Bank's Global Partnership Network for Women (GPNW) employs “mentoring circles” to promote the productivity and networking of its growing population of female talent. Each circle comprises one to two mentors and four to five “mentees.”²⁶ The approach gives employees greater diversity and exposure to the business than traditional one-on-one coaching. At Campbell Soup Co., CEO Douglas Conant measures managers on how well they coach and develop their staffs.²⁷ In this way, Conant acknowledges the crucial role that the *quality* of interactions has on the financial performance of the company.

Deploy

If people learn the most in jobs that stretch them, they perform best when they can actively discover and define the *role* that will tap their deepest passions and skills and the *conditions* required to succeed. For some, the key to feeling more committed is flexible work arrangements. Others love most aspects of their job but detest the 30 percent of it that causes them to look elsewhere. Still others are simply mismatched. That is, their performance is compromised because they haven't either the motivation or ability they need to succeed. Organizations cannot make everyone happy; in some situations, turnover is the price to be paid. However, voluntary turnover within critical segments of the workforce can put a company's strategies at risk.

At United Parcel Service (UPS), the people who drive the trucks and deliver packages are a critical talent segment. UPS pays great attention to selecting drivers, taking great pains to match their skills and interests to the job. Despite careful recruiting, though, UPS once suffered high turnover among drivers. The company found the reason was the tedious and exhausting task of loading trucks before delivering packages. When UPS shifted the task of loading to another group of workers, driver turnover dropped dramatically. Turnover in the loading jobs is 400 percent per year, but these positions have far less impact on the delivery process. They also require skills that are easy to fill with part-time students and temporary workers.²⁸

SAS: Trust and Respect—Rather than Command and Control

Jim Goodnight, the chief executive officer of SAS Institute Inc., has long proclaimed that treating people right is good business. Few would argue his point. With revenues of \$1.3 billion, the world's largest privately held software company boasts 3.5 million users, 90 percent market penetration of the *Fortune* 500, and 26 years of consistent revenue growth. In 2001 and 2002, when the economy forced many of its competitors to downsize, SAS increased its domestic workforce by 8.5 percent, enabling the Cary, N.C.–based company to post double-digit growth in 2003.²⁹

SAS is often heralded for taking care of its people. Among the amenities and benefits offered to all employees are a free onsite health clinic, onsite child care, flexible scheduling, extensive recreational facilities, cultural programs, a dining hall with live piano music, an eldercare referral service, unlimited sick days, and a masseuse to relieve strained necks and backs.

Such programs have long been held up as reasons that SAS's turnover is less than 5 percent in an industry where average churn exceeds 20 percent. Explains Goodnight, "You can pay headhunters to replace the overworked, overstressed employees that leave your company every year, or you can invest that money in keeping your employees happy and productive. To me, it's a no-brainer."³⁰ Jeff Pfeffer, a professor at Stanford University, agrees. He estimates that retention of high-quality talent saves SAS US\$60 million to \$80 million annually.³¹

A large part of SAS's success can also be attributed to its dedication to the development, deployment, and connection of its key people. The company's philosophy is to invest in people for the long term and give them the experiences they need to grow. It is not unusual, for example, for employees to redeploy to new countries to grow the business globally. Giving people license to work on innovative projects is another big stimulator. Rather than monitoring and controlling its employees, SAS places

a strong emphasis on intrinsic motivation—that is, helping people to find their niche and then coaching and mentoring them to perform to the best of their ability. Underlying this approach is a strong belief that trust and respect are the best motivators of all. Says Frank Leistner, SAS's chief knowledge officer for Europe, Middle East, and Africa: "Hot-skills bonuses and other monetary perks don't work as effectively as giving people a cool opportunity. The experience of working at SAS is not just about the daycare facilities, but that people can make things happen. People stay on because they feel integrated and accepted."³²

In a culture that encourages international travel and face-to-face meetings as a means to fuel connection, such comments aren't surprising. But true to SAS's roots, hard technology informs the soft stuff. For example, a key tool for project managers is a highly detailed skills database. The software helps SAS's managers analyze the gap between the skills they currently have in their departments for a business unit or project and the skills they will need in future. Dynamic models allow them to test different scenarios. By predicting their needs, they can set out to find and develop the best people to help them shift strategies. How do they find the best people? Not through software, but through connections. SAS employs dedicated "networkers" whose full-time job is to connect people and ideas. They are key players in the process, matching managers to the people and skills that they need, no matter where they reside in the firm.³³



Deployment is about matching the correct candidate to a critical job or project. But it doesn't stop when people are assigned. Companies must continuously focus on their critical talent to ensure that their skills, interests, and capabilities evolve in line with strategic objectives. At times, this may mean re-evaluating the design of the job, as UPS did with its delivery staff. At others, it may mean redefining the conditions of the job through virtual arrangements and flexible schedules.

A Call for Greater Workforce Mobility

The traditional "career ladder" is shrinking as organizations become flatter. Without vertical mobility, employees need lateral experiences that promise challenge and growth. To fulfill this need, firms must expand their definitions of advancement and offer diverse sets of career paths. This means providing opportunities across divisions, business units, geographies, and even professions—establishing a transparent and fluid internal job marketplace. By encouraging greater mobility, organizations inspire a more engaged workforce and promote greater strategic flexibility.

Deploying talent also means helping those who are mismatched in their jobs. By mismatched, we don't just mean lack of capability, although this is often the case. People are also mismatched when they have the skills, but not the burning interest. An example is the "quant jock"³⁴ at a large bank who excelled at crunching numbers, but whose heart was really in strategy. Such people unfortunately become typecast in their positions far too frequently, and it becomes difficult for them to break out of their roles without leaving the company. Similarly, people can be mismatched when they've accomplished their goals and wish to master something new.

It isn't surprising that most organizations hold people to the confines of their resumes. It is risky to hire or reassign people based on their potential, rather than their experience. But inviting talented people to explore their options is not as risky or costly as paying them when they're disengaged, or losing them altogether to the competition.

By and large, people are capable of doing many things. With the proper experiences, support, and connections, they are apt to gravitate to roles that unleash their passions. Indeed, some of the most successful business people were never educated or trained for the roles they mastered. The founder of the Lotus Development software company, Mitchell Kapor, had been a disk jockey and transcendental meditation teacher in his past careers. Ray Kroc sold milkshake machines to

restaurants before he started to build the McDonald's empire in 1954 at age 52.³⁵ His modest sales roots wouldn't have predicted his later success as one of America's greatest entrepreneurs and CEOs. Advertising legend David Ogilvy was a chef in Paris, a farmer in Pennsylvania, and a member of the British Intelligence agency before making a mint in advertising. At age 38, he jumped into advertising with no credentials and \$6,000 in the bank. Prior to running America Online, Steve Case was in charge of coming up with new pizza toppings for Pizza Hut.³⁶

It is not unusual for people to try on different roles before they find the one (or two, or three) for which they are best suited. For every airline pilot or doctor who knows his or her passion at nine years old, there are likely more who are still trying to figure it out at 30. Indeed, interests and goals may shift over time. But by and large, people don't find the right fit until they "taste, touch, and feel" it.

INSEAD Professor Herminia Ibarra explains that finding one's career niche involves a process of experimentation. In her years of research, she has discovered that people often need to try several roles before they find their best fit. Self-introspection is crucial, she argues, but cannot offer the insights provided to us by hands-on experience.³⁷

Firms such as SAS and Microsoft go to great lengths to help their talent find the right niche—redeploying people each year, if necessary. Organizations that help valued employees redeploy typically win their commitment. If a mutually satisfactory solution can be struck, then they win it immediately. If an arrangement can't be struck, then they may win it in the future—even if a valued employee chooses to leave. Successful talent management includes strategies to stay engaged with alumni. Individuals granted latitude by their employers to explore new territory often make their way back with renewed vigor and insights.

Connect

Few jobs are accomplished in isolation. Most require the backing, decision-making help, and knowledge of key individuals, both inside and outside an organization. As problems become more complex and collaboration more common, *who* you know is increasingly becoming more important than *what* you know. As a retail director at multinational ING Bank once remarked, "Our account managers have remarkable product expertise. But our clients' needs have changed. How do we cultivate generalists rather than specialists, and encourage our account managers to rely on access to experts, rather than *be* experts."³⁸ To increase performance in today's complex organizations, leaders must help key individuals build rich, diverse networks.

Southwest: The Power of Connection and Collaboration

Amidst industry turbulence and bankruptcies, Southwest Airlines continues to be heralded as “the most successful airline in history.”³⁹ While competitors struggle to make money or avoid bankruptcy, Southwest surges ahead. In 2003, the airline’s profits jumped 84 percent to \$442 million over the \$241 million of 2002. Since the new millennium began, Southwest has generated after-tax profits of nearly \$2 billion, a number greater than the collective net profits of the entire airline industry in that period. This remarkable increase is not a story of overnight success—but one of three decades of sustained growth. Since its beginnings, Southwest has achieved steady 10 percent to 15 percent annual growth. More remarkably, the company has been profitable for 32 of its 33 years in business, under the consistent leadership of Chairman Herb Kelleher.⁴⁰

Unlike other airlines, which bank on long-haul flights to fuel their margins, Southwest grew in dominance by mastering the less profitable short-haul market segment. The challenge of short-haul flights is that planes can spend more time on the ground than in the air, where they earn revenue. The only way to achieve profitability, then, is to turn around planes as fast as possible. No airline is as fast as Southwest. Its turnaround time averages 15-20 minutes. Sometimes it’s as fast as five minutes.⁴¹ As one flight attendant quipped, “Herb keeps telling us that we can’t make money with the planes sitting on the ground.”⁴²

Achieving this kind of turnaround requires near-perfect synchronization among ground crew, flight attendants, pilots, maintenance, and the eight other functions required to get a plane off the ground. The recipe behind this synchronicity lies in the connections among these people, ones unique in an industry marked by divisiveness. Southwest pilots chip in to help clean the planes. Flight attendants, gate attendants, cleanup crew, and other

personnel constantly communicate. The positive energy they generate is infectious. As one Southwest gate agent explained, “No one takes the job of another person for granted. The skycap is just as critical as the pilot. You can always count on the next guy standing there.”⁴³ To gain empathy for another person’s job, employees are encouraged to swap jobs through a “walk in your shoes” program.

This shared respect lies at the heart of Southwest’s success.⁴⁴ The respect comes, in part, from the knowledge Southwest employees have about each other’s jobs and is shaped by their shared goals to provide “outrageous” customer service (in the words of one employee) and to keep planes in the air.

Southwest’s brand identity is clear to employees, and it helps shape their behavior. If Microsoft seeks “the best and the brightest,” Southwest looks for people who take their jobs seriously, but put relationships ahead of their egos and know how to have fun.

As a magnet for talent, Southwest doesn’t depend on tactics to “acquire” good people. The company lures thousands of candidates per position. Comments such as “I love to come to work every day,” “We can be who we are,” and “We love our customers” are pervasive throughout the company. Southwest gains such commitment by shunning layoffs, promoting from within, and developing people in good and bad times. By taking care of critical talent and stoking a highly collaborative culture, the airline demonstrates the power and profits achievable by investing in people.



People have always relied on informal networks to get their work done. Decades of research led by the University of Chicago and Stanford University validate the link between the strength and diversity of social networks and one's influence, or social capital.⁴⁵ Social capital determines one's ability to gain access to information, solve problems collaboratively, and achieve goals.

Work largely happens "off the organizational chart" through our informal networks. The glue that binds people together in these networks is trust.

It is often suggested that we learn 70 percent of what we know about our jobs through our informal networks. A well-known study at Xerox found that the field technicians who fix copy machines learned the most when they gathered for coffee each morning – not when they consulted the manuals that had taken years to compile, but were largely ignored.⁴⁶ Research at MIT further confirms the importance of our social networks.⁴⁷ It found that engineers and researchers were five times more likely to turn to another person for information rather than to search an impersonal source such as a file or database. People with rich networks tend to solve problems faster, and with better results.

By rich networks, we don't mean that everyone needs to be connected with everyone else. People are likely to rebel against requests to attend more meetings or answer more e-mails. Instead, a targeted approach is required to connect people with the right people and knowledge. Rather than leave such connections to chance, organizations can do a lot to help individuals increase the quality of their interactions and knowledge flows. Encouraging "communities of practice," the self-organized groups that form around a common mission or interest, is one such means. Peer assist programs are another, as SAIC has found.

The *quality* of a person's informal networks also has a substantial impact on his performance. Rob Cross (University of Virginia) and Wayne Baker (University of Michigan) are making great strides to understand the characteristics of networks that lead to individual and organizational performance. In one study, they found that the "energy" we send to each other in our interactions is four times a greater predictor of performance as the information that we bring to the table.⁴⁸ We create positive energy when we listen carefully, respect others' needs and perspectives, and promptly answer questions. One only has to reflect on personal experience to know the impact of toxic interactions on our ability to perform.

Investments in social capital can bring richer returns than many technology investments.

This focus on networks and connections is one with which few organizations have deep experience. But emerging software is changing that picture. Social Network Analysis (SNA) tools are one of the hottest areas of investment for venture capitalists. We refer not to the software that drives dating Web sites, but to the technology that identifies the connections between people and their knowledge. By mapping such connections, leaders can gain important insights on how work really gets done in critical parts of the organization: who knows whom, who knows what, who trusts whom, who energizes others, and who creates bottlenecks. The tool is not meant to point fingers, but to create healthy flows of knowledge and relationships.

When properly used, Social Network Analysis can help leaders increase the success of an important merger, locate expertise for a crucial project, or strengthen executive team performance. It can reveal gaps in knowledge and highlight the differences in the personal networks of high and low performers. As such, it can be a powerful tool in the development and deployment of key individuals.

The Develop-Deploy-Connect model is interconnected and virtuous. An improvement in one area naturally leads to an improvement in another. Done right, a balanced strategy that integrates all three dimensions leads to increased capability, alignment, and commitment, which in turn drives business results and performance.

So What?

The Develop-Deploy-Connect model is interconnected and virtuous. An improvement in one area naturally leads to an improvement in another. For example, people develop better skills when they are deployed in stretch assignments and connected with others from whom they can learn and grow. Likewise, effective deployment occurs when people have the knowledge, skills, networks, and relationships they need to succeed. Finally, effective connection happens when people are deployed in work that engages their curiosity. In these circumstances, they are more likely to learn from and teach (i.e., develop) others.

Important benefits result from this virtuous circle. One is capability. When highly capable individuals work together, they build organizational capability. The second is the alignment that occurs when the right people are in the right jobs. A third result is commitment. People are more likely to master work that engages them, fosters their growth, and encourages productive relationships. When people feel the organization takes a keen interest in their interests, skills, and connections, they are far less tempted to look for challenges outside.

Going Forward: Taking the First Steps in Building Talent

So how can companies build this kind of cycle for generating top talent? The first step is defining exactly which jobs are critical. This is a central exercise, but it is not as straightforward as it might appear. It requires a clear vision of the range of current and future strategies that will drive organizational success. This doesn't mean banking on a single outlook, but may instead require alternative scenarios that acknowledge the uncertainty of business. It then requires a firm understanding of the talent supply and demand patterns outside and inside the organization. Energy suppliers such as ChevronTexaco and Shell are taking a hard look at their talent pipeline—especially in areas such as engineering, where the demand for qualified candidates will soon skyrocket due to retirement and a limited pool of graduates.

How Do You Identify Your Critical Talent?

Critical talent are the people who create the value an organization needs to succeed. Answering the following four questions can help leaders to isolate these groups and individuals.

- 1. Which strategies, skills, and capabilities are crucial to your current and future success?*
- 2. What emerging workforce trends (e.g., supply and demand of engineers) will impact your ability to deliver value?*
- 3. Who supports your critical segments of talent within their network? Are these supporting people difficult to replace?*
- 4. Within your critical workforce segments, who possesses the greatest current and future potential?*

Within core business units, identifying critical workforce segments requires determining which jobs make or break organizational performance. Disney found its park street sweepers were critical people because they were in touch with millions of customers every year.⁴⁹ The FedEx delivery person is another example.

Companies must also identify the skills that will drive future growth. SAS closely monitors turnover to precisely understand what skills are leaving. When combined with projections of skills needed for future projects, these data help the company plan the deployment and development of key individuals.

Once leaders identify their company's critical talent and skills, they must next match people, skills, and knowledge to company needs. Decisions to redeploy, develop, and stimulate connections evolve from this analysis. It is important that this not be a top-down process. People are likely to underperform if they are deployed against their will. The same is true of the professional who is forced into a mentoring relationship as part of his development. The role of the organization is to communicate needs and create the support mechanisms (e.g., electronic job boards, coaching, and strategic networking events) that people need to grow in line with organizational goals. SAS, for example, creates development plans in individual departments—not in HR or at the top of the company. The strategy is communicated, but decisions are made on an individual basis. It's the responsibility of the line leader to be sure that individual and organizational goals are aligned.

Decisions to develop, deploy, and connect cannot be mandated from the top. To work best, critical employees must initiate and drive their own paths to performance. The role of leaders is to communicate guidelines and strategies and to provide the tools that critical talent needs to succeed. Such an approach calls into question the efficacy of traditional, top-down driven succession planning.

As the competition for critical talent heats up, organizations must better understand the supply and demand of critical workforce segments. Energy companies that are highly dependent on geological and petroleum engineers must anticipate and model shortages into their talent forecasts. A pharmaceutical giant such as Pfizer must monitor (and try to influence) the availability of researchers and clinicians as part of its talent strategy. SAS taps its Human Capital Management (HCM) system to gain insights on employee factors like turnover or age within its critical workforce segments. Such analyses help organizations understand the supply and demand of talent at the *professional*, or *job* level.

Corporations are responding to the increasing demand for advanced training, an inadequate domestic talent pool, and the small representation of women and minorities among the upper ranks of education. For example, Pfizer has dedicated \$2 million toward the creation of a three-year program aimed at increasing the graduation rate of PhDs. Only three-quarters of doctoral students complete their degrees—a proportion that could be improved with interventions such as improved selection and mentoring.⁵⁰

A next layer of analysis involves determining the *skills* required to achieve important strategies. A complex software project, for example, may require a business unit to ramp up the quantity and quality of its programming skills. Many organizations are beginning to develop skills databases that provide an inventory of currently available skills. When properly designed, skills databases can be modeled to analyze the gap between what is currently available and what will be needed to execute shifts in strategy. Product managers at SAS, for example, employ skills databases to plan future projects. This helps them to plan the development and deployment of people—rather than wait to the last minute to arm people with the skills they will need to succeed. Such information can help fuel the growth of both individuals and business units. When used with internal demographic information, such as projected turnover and retirement, it can also help executives develop talent strategies at the enterprise level. As expected from a market leader, SAS is already on the way. (See SAS Case Study, page 8.)

When a company manages critical talent in this manner, it must guard against unwittingly creating a culture of “haves” and “have-nots.” A focus on critical talent and the people who support them doesn’t mean other employees should be blocked out of the development process or kept in unsatisfying jobs. Managers must keep their eyes out for employees in less critical roles who possess the talent to succeed in critical roles. There are countless stories like the one of Southwest’s chief operating officer, Colleen Barrett, who rose from being a legal secretary to a top position.

In the coming years, most companies will have no choice but to seriously rethink their approaches to talent strategies. But shifting demographics should not be the only reason. Improving the performance of critical employees directly improves organizational performance. Furthermore, focusing on critical talent is relatively new territory for most companies and, thus, offers a new way to compete. Compared to more popular investments in customer, technological, and financial strategies (which have been refined over decades), a well-designed talent strategy could truly differentiate an organization.

When a company’s talent management process evolves in the manner described in this article, companies will be reluctant to go back to the stop-gap measures of recruiting and retention. Managers may be amazed by how often the talent they need resides right under their noses—or the noses of colleagues a continent away.

Rather than fight a futile “war for talent,” leaders should look within for the critical skills and knowledge required to execute the company’s most important jobs. By developing, deploying, and connecting these people the right way, leaders can raise their performance—and the performance of the entire organization—to a whole new level.

Six Questions CEOs Need to Ask Their HR Leaders

1. Which segments of the workforce create the value for which we are most rewarded in the marketplace?
2. Which areas of our business will be most impacted by impending waves of retirement? What are we doing to prepare successors? What impact will anticipated retirement have on the skills and productivity necessary to meet future demand?
3. In what areas is the talent market heating up (i.e., demand will outpace supply)? Which segments of our workforce will be most impacted? What are the potential top-line and bottom-line implications?
4. What skills will we need over the next five years that we don’t currently possess? How will we create that capacity? What happens to our business if we don’t?
5. What is our turnover within critical areas? How much is it costing us? In customers? In productivity? In innovation? In quality? What are we doing to resolve the root cause?
6. Are we actively developing talent portfolios or workforce plans that will help us to understand and communicate the financial consequences of talent decisions on our business?

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