It’s tough to get talent management right, particularly when market conditions and strategy are in constant flux. But take a ‘whole systems’ approach to talent management that’s tightly linked to your business strategy, and improved people performance can feed straight through to the bottom line >>
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Executive summary

With the world economy emerging from the gloom of the global downturn, many companies have had to adjust their strategy to cope with a disrupted marketplace.

However strategic change alone is not enough. If organizations don’t also take into account how it will affect their talent management strategy, they will get left behind by those who understand this critical connection.

Success depends on a holistic approach to talent management which involves the following:

- Understanding strategy and the effect it will have on demand for talent. The best companies are already doing this. For example, 82 per cent of the top 20 Best Companies for Leadership say they are focused on positioning for the future, while 94 per cent say their organization actively manages a pool of talent for mission-critical roles.

- Creating a structured approach to talent management that links together business strategy, operating model, roles, development and reward. Taking this approach is why 87 per cent of the top 20 companies for leadership report they have enough quality internal candidates for current leadership positions, compared to just 54 per cent of their peers.

- Understanding the right criteria for candidate selection and identifying how new roles will be filled – whether by internal or external talent. Focusing on employee potential is the most effective strategy when building a reserve of high quality leaders.

- Putting in place systems to develop talent and measure the impact of leaders on the organization. Better leaders mean more engaged employees, and research shows that highly engaged employees can improve business performance by up to 30 per cent.

- Making sure talent is deployed effectively and that reward strategy keeps employees focused on the company’s goals. This step has helped nearly 70 per cent of the World’s Most Admired Companies report greater levels of engagement post-downturn compared to just under 50 per cent of their peer group.

Only by linking talent to strategy will organizations fully realize their investment in talent management.
Part 1: why talent is more important than ever

The rewards for getting talent management right are significant. It produces better leaders and more engaged employees. This in turn can have a huge impact on a company’s bottom line.

Tough economic conditions have prompted many organizations to take a fresh look at talent management – but hardship is not the only motivation.

Firms in countries still emerging from the financial crisis have had to re-evaluate strategies that were developed for the pre-crisis world. But there are also organizations operating in markets such as China, where the recession hasn’t had the same bite. Here, companies have found that their talent management programs simply couldn’t keep pace with growth.

No ‘one size fits all’ talent solution
Whatever the situation, one thing is certain. Getting talent management right is not easy. Our research shows that while 87 per cent of the top 20 Best Companies for Leadership say they have enough quality internal candidates to fill current leadership positions, outside of this elite group just 54 per cent of companies can say the same thing. What’s more, many of these companies don’t seem to be focused on the future. Just 69 per cent of those outside of the top 20 say they “actively manage a pool of successors for mission-critical roles” versus 94 per cent for those within the top group.

Of course, one of the key reasons why getting talent management right is so difficult is that there’s no ‘one size fits all’ solution. Each program needs to be tailored to the needs of the individual organization. Finding the right place to start is the key to success.

“Good talent management produces better leaders and more engaged employees”
Part 2: linking talent to strategy

The best talent management programs always start with strategy. Knowing where the business is headed – and how it’s organized – is the only way to understand the future demands on employees and leaders. This should inform your talent management strategy.

If a company doesn’t link talent management to strategy it cannot know what skills it will need in the future. This is how many companies have ended up with generic pools of high-potential leaders who lack the right skills for the roles the firm now needs to fill. This failure to grasp future talent requirements affects an organization’s ability to react to changing market conditions. Left unchecked it can even threaten its long-term survival.

New strategies demand new skills

When a global financial services company moved to a more matrixed structure, its leaders needed new skill sets. Before, the firm’s individual units had worked as separate businesses, totally focused on achieving results at the operating company level. Most jobs focused on execution. The leaders, who competed with each other for capital, talent and other resources, excelled at this.

However the firm’s change in strategy called for leaders who could work as general managers, not just operating heads. They needed to be able to shape strategy, not just execute someone else’s. And they had to be able to link it to the broader strategy of the whole organization. This brief illustration shows the profound effect that strategic shifts can have on the skills demanded of leaders.
What roles are needed?

Once the strategy and operating model is understood, the organization can start to scope out the type and number of roles that will be needed to deliver its strategy efficiently. At this point, as well as considering any new roles that may be required, it is also appropriate to review existing roles and see whether or not they can be redesigned to maximize efficiency. For example, if there are 200 executive positions and 40 per cent of them are due to retire in the next five years a key question to ask is: by changing organization and job design, could we run the organization just as effectively with only 120 executives?

This work involves understanding what roles are needed and assessing whether the company already has the right people with the right skills to handle them.

When carrying out this assessment, it’s critical to be clear and objective not only about people’s current abilities, but also the skills and competencies that will be needed to make for success in future roles.

Understanding future role requirements may also dictate whether the organization seeks to grow talent internally, bring in external hires, or partner with other organizations in order to get the right people onboard.

Not every industry has the same need for talent management

It’s also important to understand that talent management means different things to different companies. In some industries it provides a key competitive advantage; in others it’s purely the cost of doing business. For example, it may simply be too expensive for a retail company operating on tight margins to develop talent internally, while growing internal talent may be a prerequisite in an R&D-focused pharmaceutical company.

“\nIt pays dividends to break the mould and take a more radical approach\n"
Part 3: a more holistic approach to talent

The key to effective talent management doesn’t reside within one function or process. What’s needed is a ‘whole systems’ perspective.

The six components of holistic talent management

Drawing on our research and experience of working with the world’s largest companies, we have identified six key activities that have to be aligned in order to deliver effective talent management. These are: define, attract, select, develop, engage and deploy. We’ve used these activities to develop a process that offers a holistic approach to defining talent strategy.

1 Define what talent is needed

The first step is to define the type of talent required if the company is to deliver on its business strategy – this means the roles and skills needed now and in the future.

For example, if a company needs a marketing director for an emerging market, it must be able to clearly identify what’s needed to carry out this kind of role successfully.

Here, job evaluation can be extremely helpful, benchmarking the role against similar positions in other firms to understand the characteristics and competencies needed for success.

2 How to attract the best people?

It’s also crucial for any organization to be able to attract the best talent to meet its needs. This calls for the company to review its employee value proposition. Here, it often pays dividends to break the mould and take a more radical approach. For example, rather than simply relying on salary levels to attract talent, a company might call on its marketing department to boost its brand image as an employer by developing a compelling story about why the organization is a great place to work.

““ What’s needed for effective talent management is a ‘whole systems’ perspective ””
3 Selecting the best
Attracting talent is one thing. Knowing how to select the right talent is another. Will this involve growing talent internally, sourcing it externally, or partnering with other organizations in order to find the right people? It’s also crucial that companies avoid the trap of basing their hiring decision for candidates purely on skills and knowledge. These are not the best predictors of future success. Instead, the organization needs to take a serious look at what success will look like in the future, so it can identify selection criteria that will help it distinguish between candidates. Robust assessment methodologies can help here. They can predict with a high degree of accuracy – as high as 83 per cent in some cases – whether or not someone is going to be successful in a role. As a result, the organization can reduce the risks and costs associated with making the wrong hire. This is crucially important when the price of replacing an employee equals, on average, 1.5x annual salary.

Companies should also consider carrying out broader reviews of talent to identify whether or not they already have the in-house capability to deliver on the business strategy. If it finds gaps, the organization can then decide how to fill them: through internal development, external hires or a combination of both.

4 Developing future leaders
How organizations develop staff is a crucial component of talent management. It’s particularly important to develop career paths for high-potential candidates in order to develop the skills necessary for future leadership roles. Benchmarking people’s potential for growth, as well as the skills and competencies needed for success, helps ensure that the development budget is spent wisely.

And when it comes to designing development programs, there is extra value to be extracted by identifying the underlying motivators and drivers for someone’s behavior, not just focusing on what the behaviors are. Give leaders insight into what motivates and energizes them and they can better understand their behavior – then see what’s needed to sustain behavioral change over time. The result is lasting change that leads to a better return on development investment.
5 Engagement – and enablement – bring results

Once an organization has chosen the right people and identified how best to develop them, how does it engage and enable their talent? Hay Group's research shows that engagement is key to getting the best results from people. Couple this high motivation with ‘enablement’ – removing the barriers to getting the job done – and the performance dividend is higher still. If line managers provide good feedback, clear direction and delegate well, employees know where they stand, believe they’re getting the right development opportunities and feel empowered.

Reward has an important role to play in this stage of the talent management process. It has a more powerful effect on engagement if it doesn’t just concentrate on cash incentives, but instead creates an overall employee value proposition, incorporating intangible rewards such as quality of work, non-financial recognition and work climate.

Organizations also need to design flexibility into their reward solutions so they appeal to different types of talent. For example, one part of the firm may contain people who are looking for a career for life, while another part may be filled with creative talent who are only likely to stick around for two or three years before moving on. The reward strategy must be flexible enough to work for both groups.
6 Effective deployment makes best use of skills

The final part of the model concerns how to deploy talent so people are used to the best of their abilities. Line managers are often the key here: they are the ones on the front line when it comes to deploying, re-deploying or managing the exit of talent. To help these people be more effective, it’s important for organizations to understand the moves it is likely to ask its high potentials to make. That way it can identify whether they’re reasonable transitions or whether they’re likely to stretch people too far.

‘Talent maps’ can help reach this understanding. By creating maps based on the job size and competencies required for the roles, firms can predict when and how they can successfully deploy people into more senior roles. Can a high-potential candidate jump from being a sales professional to a sales manager, or a CFO straight to CEO? Or do they need help with development – or to be rotated through other positions to gain the skills they’ll need?

Hay Group research suggests it is essential that companies consider their talent strategy in relation to all six of these activities. Our findings show that organizations get the best results when they use this approach to make serious, structured investments in talent management.

Organizations also need to design flexibility into their reward solutions so they appeal to different types of talent.

“Deciding ‘what success will look like’ in the future helps select the right candidates.”
Part 4: demand more from your talent investment

Good talent management has a huge influence. It helps organizations achieve sustainability and longevity. Those with the right talent find it easier to renew and re-energize themselves when they need to adapt to changing market conditions.

Hay Group’s research shows that employees who are highly engaged and enabled perform 50 per cent above expectations. This can improve business performance by as much as 30 per cent. With a recent study of 3,000 international organizations suggesting that only 26 per cent of leaders create high-performance climates, there is great potential for improvement.

But it’s not always easy to reap the talent dividend. Many fail to realize a good return on their investment in talent management. One of the key problems is that organizations don’t peg talent management to business strategy, so they fail to grasp what success should look like for their organization.
When firms know what roles require, find the right people to fill them, engage employees well and manage their development, people perform better.
Conclusion

Talent management is not easy. Indeed our research shows that many companies are struggling to make their talent programs work. Perhaps the key reason why talent is so difficult to get right is that every organization must fit its approach to both changing conditions and long-term strategy.

Hay Group’s insights reveal that the best talent management strategies take a ‘whole systems’ approach that links talent management to the business strategy, organizing principles and function of the organization. This ensures the key activities are aligned in a way that delivers real-world results.

Put differently, when firms know what roles require, find the right people to fill them, engage employees well and manage their development, people perform better. And this performance feeds straight through to the bottom line.

A supplement for success

A large US producer of vitamin-based products was growing fast, but had reached a strategic crossroads. It was about to move into new markets and launch new products – two changes that it knew would significantly affect its business. It needed a talent management program that would help it cope with this intense period of change and set the company up for future success.

By closely examining the existing and future business strategy, Hay Group was able to build up a picture of the functions and processes that would be critical to delivering on its new strategy. It quickly became clear that one of the future barriers to growth was going to be new talent. But as the company was growing fast, it simply didn't have time to develop this internally, so it was going to have to rely on outside hires.

Our strategy emphasized current and future leadership, especially the top 20 ‘must-win’ positions that the company had identified. Based on the types of roles needed to deliver the new strategy, we outlined the criteria necessary for finding the right talent. We helped the company enhance its onboarding process to help new recruits get up to speed quickly. And we demonstrated the programs needed to develop our client’s existing high potentials so their skills would keep pace with the company’s growth.
Hay Group is a global management consulting firm that works with leaders to transform strategy into reality. We develop talent, organize people to be more effective and motivate them to perform at their best. Our focus is on making change happen and helping people and organizations realize their potential.

We have over 2600 employees working in 85 offices in 49 countries. For more information please contact your local office through www.haygroup.com