

‘Talent’

Making it work for you in the downturn

The Q5 Talent Roundtable Report

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This document represents the Q5 perspective on the future direction of talent management. It results from our recent research that led to the Q5 Talent Roundtable, held on Thursday 16th July 2009.

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Executive Summary

During difficult times there is always pressure to retrench, reduce doing the ‘good stuff’ and focus only on that which you **must** do. There is absolutely no problem with this, however, the challenge comes when deciding what you must do. Talent management is a subject that will divide opinion, especially in times of economic downturn. Is it a business essential or just a ‘nice to have’?

Over the last few weeks we at Q5 have been doing a piece of research to try to answer this and understand ‘what is the state of talent in a downturn’. Our research has taken in interviews with a number of professionals in a range of organisations, a relevant data search, anecdotal evidence gathered from people we know working in the area of talent management and the results of the **Q5 Talent Roundtable** that we held on Thursday 16th July.

What we found was a mixed picture – whilst there was a broad range of challenges effecting everyone there were markedly different responses. Some organisations have definitely scaled back their aspirations and activity around their talent, others have ensured that they persisted. Those in the former group have complained about short-term decisions being made without looking at the longer term risks that this might lead to. The latter camp believe that talent and the focused management of it is a real tool for business leaders to lead their organisations out of the current situation. In fact, utilising the talents at their disposal was seen as being a real value adding activity at this time. Your internal talent, managed and retained effectively, can be a much more cost effective option for delivering performance improvements than always looking out at the external market.

Our research and the discussions at the Q5 Talent Roundtable lead us to conclude that talent is a crucial tool for organisations in a downturn to maximise the contribution of their ‘best’ people today and build the future pipeline that will enable it to deliver growth.

In this report we set out:

- ***What we are seeing:*** from our research what are we seeing organisations do out there – PAGES 3 - 5
- ***Some key questions:*** as a result what are the questions that organisations need answering and some guiding answers gathered from our research – PAGES 6 - 8
- ***Our recommendations:*** given the current situation just what should you be doing now – PAGES 9 - 10

We hope that this paper provides some timely ‘food for thought’ and we would be very happy to discuss our results in detail with you.

What we are seeing

Ever since the McKinsey 'War for Talent' report in the 90's, there has been an active debate around 'Talent Management'; its approaches, its processes and above all its value to the business. Given the economic challenges that we are living through there is a renewed questioning of whether it is a 'nice to have' or a 'must do'.

Two points of view have been expressed to us recently that caused us to want to research the state of play for 'talent'; one was the view that *"you don't need to do talent management now as everyone is just grateful for a job"*, the second being that *"talent always rises to the top no matter what you do so why bother doing talent management"*.

Given this background, we wanted to find out just what is happening in the real world, in the organisations that we know and what is being reported in the press?

From the views that we have canvassed what we are seeing is a mixed picture; one where despite the challenges there are positive examples of organisations continuing to focus on talent. Whilst at the same time there are also alarming stories of organisations that are not.

- **Getting the balance right:**

Overall, it is clear that many companies are really struggling to balance the need to cut costs and reduce staff levels, with the need to continue to attract, retain and motivate key talent. A recent Deloitte report, *"Talent management in the downturn: between a rock and a hard place"*, said that 52% of the 326 senior global company executives they surveyed said that they were planning to restructure to lower costs and increase efficiency this year. At the same time, 43% expressed a high or very high concern about losing top talent.

There are real challenges in this respect as some organisations are seeing it as an 'either/ or' rather than believing that the management of talent is a tool to increase efficiency and performance, and retain your best people.

- **Losing the people you don't want to lose:**

We have heard, anecdotally, about organisations that have lost key talent through their cost reduction activities, more specifically, through using voluntary redundancy processes. Although they may have attempted to control who gets accepted for VR, the problem seems to have been that once someone offers themselves up for it, it becomes very difficult to not let them have it. In the most extreme cases we have heard people who have accepted VR only to be asked to act in a freelance capacity back in the organisation almost immediately after leaving...might be good for the individual but not for the organisation.

- ***Cutting back on graduates:***

Graduate recruitment is being hit hard; some organisations are reducing their intake by as much as 40% this year. We saw this in the early 90's where cutting back on graduate recruitment caused real problems later on when there were big gaps at certain levels of the organisation that could only really be filled with more expensive external hires. There are some financial services firms, Barcap for example, who are looking to maintain and indeed modify their graduate intake to better match their future needs. They naturally hope that this puts them in the right place when the upturn happens.

- ***Cutting heads not activity:***

We know that many organisations are cutting headcount – we see the 10% figure often quoted – but doing so in a blanket, across the board way rather than a worked through strategic reshaping of their operating model. Whilst this might be understandable, trying to do things quickly they make the mistake of cutting heads without cutting activities. The pressure this is heaping on the remaining resources is becoming a big problem. There is the issue of 'talent burnout' as your best people step up to the mark to take on extra. This can only go on for so long until your talent either has enough and leaves or cannot do anymore.

- ***Rush to the Public Sector:***

There is a renewed enthusiasm for Public Sector jobs in part because of the perceived job security it offers. In addition, the work done to professionalise the functional areas of the Civil Service has offered people some of the most challenging, most impactful opportunities around at the moment. One driver for this enthusiasm has been the work done over the last few years to diversify its talent pipeline. The work done by Gus O'Donnell and Gill Rider to improve the HR service there by bringing in professionals from the private sector means that out of the top 150 HRDs approximately 50 are external experienced hires with the remainder being the traditional Oxbridge civil service lifers. In addition, they are doing a great deal to engage talent at all levels and develop deeper internal capability as well.

- ***Creative retention:***

Organisations are looking at more creative ways to retain talent, for example increased sabbaticals, reduced working times, etc. However, we are not sure whether this is actually targeted at key talent or rather the broader staff group. Recently we have seen KPMG introducing a 4 day a week at reduced salaries and BT offering a 1 year sabbatical at 25% pay. These seem to be creative responses to reducing wage bills without reducing headcount. Our challenge to this is that we are not sure whether this is merely masking the fact that you have too many resources or the wrong type of capability. Unless it is retaining the people you really want to retain, these approaches can sometimes be blunt instruments.

- **Talent management as discretionary spend:**

Development programmes and talent initiatives are still seen as discretionary in many organisations and, therefore, are seen as easy to cut in tough times. There are many examples where programmes have been stopped, put on hold or deferred to 2010. Who knows what impact this has on those people who are considered 'talent' but are then ignored when times are tough. Overall this shows that we haven't done a good enough job at making the management and development of 'talent' central to the organisation's ways of working and how it drives performance. If leaders understood its value for them and for the organisation itself, they would keep investing because the value in the medium to long term outweighs the outlay now.

- **Strategic and opportunistic recruitment:**

There are well reported recruitment freezes all over the place but some companies are still hiring. Some financial services firms are recruiting but doing so at a strategic level; poaching key teams and individuals to take advantage of market conditions and structural changes. This is not wholesale or profligate recruitment but targeted and selected recruitment aimed to get the talent they need for their future direction.

- **Talent refresh:**

Some more enlightened organisations are actually using this period of turmoil as an opportunity to 'churn' its talent; create headroom and bring in the talent that they need from other places that might not have been available at appropriate cost levels when the labour market was tighter.

This approach to us is interesting and valuable to explore. Organisations changing their shape and size need to review what are their talent needs going forward – in effect, what talent do they need to get them through survival and into growth. If they can, this means 'weeding' out the capability they don't need going forward and bringing in the capability they do need. Certainly we have seen many examples in the financial services industry where key talent was picked up outside of prestigious investment banks on the day they went bust. They were hunted by rivals taking advantage of the situation to get the talent they wanted at better prices.

So what is clear is that there is no single direction that everyone is travelling in and a great deal of confusion is present as a result. Whilst good intentions are evident, the reality of the situation on the ground has meant that people are caught between an ultra-defensive approach and edging forward with their plans.

The best organisations are seeing talent management as part of their weaponry during the downturn and something that will aid their navigation of the economic challenges. They are using their organisation's talent and their understanding of it to make key decisions about resourcing, workforce management and where it should focus its investment. *To them 'talent' is not a nice to have but a critical tool for managing effective organisations.*

Some key questions

From our conversations, there are some key questions that leaders, HR Directors and Talent specialists are asking themselves at the moment. Given our research and the discussions we enjoyed at the Talent Round Table, we have outlined those questions and attempted to provide some guiding answers to each of them based on what we heard.

Q. Can we trust our talent processes to deliver the capability we now need?

- A. The organisations that we spoke to are sophisticated and many have had talent processes for a long period of time. The issue they face is that they have not always seen the benefit of doing so. More than one organisation claimed that whilst the processes they have are used, it is sometimes little more than a ‘box-ticking’ exercise. With some others the challenge is more basic; they have the processes in place but they are seen as bureaucratic, non-value adding and “HR”.

Others such as the DWP do have processes that are used with a high rate of completion and are able then to use the information to generate informed dialogue around talent at senior levels. With guidance and management at the top level, the process does create the right results. The key, however, is in being clear about what you want to come out of the process and using the right parts of that process to drive decisions. If the process does not enable or lead to more effective decisions being made regarding talent then they are missing the point.

Q. How can we get the business to ‘own’ talent?

- A. This is a real challenge and one that goes to the heart of your talent processes. Can we get the business to ‘own’ the talent agenda and to see that by using the talent processes that you have in place, they can improve performance, etc?

Unfortunately, there are no easy answers to this. This is about using talent as part of an ongoing dialogue with the business, especially at the senior leader levels. At the BBC within its Finance function, talent is seen as being ‘owned’ by the senior leaders. This had been achieved through strong leadership and broad participation of the leadership team in the process. Each of the leadership team clearly sees that talent in all its forms is their collective responsibility. They feel accountable for the talent within the whole function, not just within their own section of it and as a result each month time is given up to talk about talent and create talent plans. The key, they believe, is making the dialogue meaningful and encouraging people to do it.

At the DWP they use People Development Forums, a one and half hour session each month with the senior team to review the shape of their talent pool, the future talent requirements and how high-potentials should be developed. Does this mean that talent really is ‘owned’ by the senior leaders? Well, at the moment the DWP are recruiting around 1,400 people a month into Job Centre Plus. This is a massive undertaking but it is being done with an eye to what are the talent needs to deliver effectively now and in the future. This is not a take on anyone approach but a talent focused approach, one driven by the senior leaders.

Q. Should we be doing more to drive value from our talent processes?

- A. The overriding view is ‘yes’ – and this means looking to use the talent information that you have to help make better decisions. This might be focused on succession, targeted development, work placements, staffing new areas with those who are your most talented, etc.

We also have to develop our senior leaders to understand *how* to use the processes. Many HR and talent specialists are working to encourage their senior leaders to see how giving feedback can be used to aid development, obtain a greater level of understanding of their talent and ultimately help improve business performance.

Q. Are we doing enough to ‘future proof’ our talent; not just to survive the downturn, but be ready to take advantage when the upturn happens?

- A. We are seeing some retrenchment happening in some organisations with budgets being cut and development programmes being put on ice. The recent CIPD report, “The War on Talent? – Talent management under threat in uncertain times”, reports that 26% of its respondents had been forced by the downturn to change their talent focus, with 24% having already cut their budgets. One respondent to their survey even claimed,

“We do not have the funds to recruit new or train existing staff. It means that sometimes employers are in jobs by default but the company has neither the money nor resources to support them, all in all a lethal combination.”

Similarly, as mentioned earlier, we have seen organisations cutting their resource levels across the board, rather than targeting their cost cutting on non-strategic talent areas. Taking the former approach will not ‘future proof’ your talent and we urge everyone who is about to cut their resource levels to identify their future talent needs first before making the decision on who or where to cut.

Q. How do we manage talent in a downturn?

- A. A key point here is that the answer must lie in focusing more time rather than less on engaging, motivating and retaining the skills of the most talented in your organisation. This may seem counter-intuitive but without the funds to bring in outside talent, the focus may need to rest on developing your internal talent. For private sector organisations the focus is on cost effective ways to secure the talent they need to drive their business forward. Again looking at the results of the CIPD survey, 55% are looking to develop in-house more and 35% are focusing more effort on retention of their top talent. Retention may be through focused pay increases, targeted bonuses to top talent performers and introducing performance related reward mechanisms.

Another interesting idea is the move to providing coaches to managers of your most talented individuals so that they can better manage and support their reports going forward.

Q. How can we manage talent in a shrinking business (i.e., how to keep people engaged when opportunities for progression are slim)?

A. For all organisations public and private the inevitable reduction in headcount going forward, as a result of the downturn, will pose a challenge as to just how they can manage talent effectively at the same time as reducing the numbers of people in the organisation.

For the BBC, the real focus is on developing talent in the areas of partnership. Strategically this is a key tenet of their plans and different skills and behaviours are required to make it happen. You only have to look at the issue of how to manage the potential joint venture between Channel 4 and BBC Worldwide to see just how important 'partnering' skills will be. Whilst the opportunities for career progression upwards may not be the same as before (as less people are leaving and there are not the same amount of new growth areas to explore), there is the possibility to learn and apply new skills, such as 'partnering' which will be beneficial to the individual in terms of their development but also to the organisation itself.

At the DWP, there is a current upsurge of recruitment in talent for Job Centre Plus but the organisation overall also knows that the changing political landscape, driven in part by the economic downturn, will mean inevitable reductions in headcount in the future. The talent challenge as they see it is to ensure that the current focus is on bringing 'great' people in and making sure that the best do not go when the headcount reductions do come in. In effect they are strategically managing their talent throughout the process.

At this moment in time there seems to be a concerted effort in the best organisations to ensure that they get the balance right and keep their talent despite the challenges. The CIPD report referred to earlier, points to the fact that of those that have downsized, 25% have taken steps to consciously preserve key talent and only 3% have had to let them go.

From our evidence, there are some interesting things happening to better manage talent in a downturn:

- *Targeted development being much more on-the-job in preparation for taking on new roles or new projects*
- *Institute better and more accurate mechanisms for identifying 'potential', meaning that we define talent as being future focused rather than just historical performance*
- *Look for cross-team projects and put some of your top talent in charge of them – driving opportunities for engagement and profile raising*
- *New targeted reward processes (as discussed above).*

An interesting side point to the efforts being made to manage talent in a shrinking business, is that the development that will be offered to 'talent', will be that which benefits the organisation first and foremost not explicitly the individual. If spend is going to be incurred it appears that the benefits must be seen to be applicable at the organisation level first.

Our recommendations

So given all this what does it mean? Focusing on 'talent' is, we believe, as critical in a downturn if not more so. It is a **'must have'** not a **'nice to have'**. Talent is crucial to helping an organisation ride out the tough times and take advantage of the good times. However, it can only do this if it is embedded in the heart of the business, if it is part of the normal flow of operating and is owned by its leaders. Treat it like a tap and you will have talent gaps all over the organisation; manage it effectively and you will be in a good place.

We have 6 recommendations:

1. **Think strategically, act strategically:** you will be under pressure to make cost savings/ staff reductions but do so with an eye on what is the future capability you need to thrive and to have a competitive advantage. Ensure you identify, attract, develop and retain the talent that matches your future capability needs
2. **Talk 'talent' with your leaders:** 'talent' can be a really valuable tool for your leaders if they use it. All the processes that you have put in place will count for nothing if the people discussions that you are having are not driven by them. Talent maps, talent grids, succession plans they are all as important now as they have ever been. The key is making this a dialogue not a process.
3. **Keep investing in your talent or someone else will:** there is nothing worse than talent programmes that start and stop. It gives a message to your talent that you do not really believe that the efforts you put in are worthwhile. For everyone cutting investment in talent, there will be someone looking for an opportunity to take your talent away from you. Don't forget to reward your talent for great performance!
4. **Retention now, pays:** focusing on retaining your best people now will pay off in the future. You need to look at creative ways reward top performance, provide opportunities for raising profile, and set a clear future career path that inspires your top talent to stay. Doing this now is your best bet for securing their commitment and, more importantly, contribution now and into the future
5. **Look as hard for 'new' talent now as you have always done:** there is a lot of great talent out there and if you believe in an active, ongoing churn of talent you should continue this process now. You could look upon the downturn as an opportunity to really refresh your talent. Remember what you have now got you to where you are today...could different 'talent' get you to a better place in the future
6. **Make 'talent' more than a process:** help your leaders to see that managing talent, their talent, will offer the potential to improve productivity and performance. Moving talent to where it can most add value, bringing together 'talent teams' to work on key business issues/ opportunities, etc. All of this will demonstrate the need to use your talent processes but as a means to an end, rather than as the end itself.

Something that came out clearly from the Talent Roundtable was that if you focus on talent properly then it can have a real cultural impact on an organisation. It can change the way that senior leaders manage and the way that the organisation looks beyond their current talent needs and onto attracting, developing, motivating and retaining their strategic, future talent needs.

Getting to that point requires the organisation to think holistically about its talent needs and manage to it. We like to think of this as '**managing the talent cycle**'; an end-to-end view of talent as a flow. This starts with truly understanding your talent needs for the future and what you have currently, and ends with a constant 'refresh' of your talent base; making sure you have room for those you need to develop and nurture. This process is continual and must be realigned, reviewed and rebooted whenever required.

In summary

Throughout this research and across all the inputs that we took on board, we know that organisations today are facing some real challenges around what to do about 'talent'. They know in their hearts that they need to give it focus and make their investment really count. However, they experience real difficulties in adjusting their practices to account for the realities of the market we are in today.

The challenges are clear; how best to identify and retain key talent both at this time and beyond into a future upturn. The key is making talent management an essential business tool for driving strategic decisions around your people resource.

I read a quote recently, attributed to Warren Buffett, which said "*Only when the tide goes out do you know who has been swimming naked.*" What he meant is that you need to know your strengths and weaknesses and ensure that you invest in your strengths and manage out your weaknesses even when times are bad. When times are good it is easier to gloss over weaknesses that are only exposed when the 'tide goes out'. You will need to have managed your 'talent' weaknesses successfully to ensure that your strengths sustain you when times are bad.

In terms of talent you need to focus on building your strengths, the ones that will ensure your future survival. Anything less may leave you more than a little embarrassed!

Chris Parsons and Sharon Rice-Oxley are founding partners at Q5, the organisation development consultancy.

The Q5 Talent Roundtable was run on Thursday 16th July 2009 – for further information about subsequent Q5 Roundtables and to ensure that you are invited to them, please email alex.noone@q5partners.co.uk.

References:

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