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***Global talent
innovation***

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**Strategies for
breakthrough
performance**



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Executive summary



Managing talent well creates value for companies — that’s the bottom line. The global recession has compelled CEOs to move beyond “business as usual,” yet talent management paradigms remain trapped in the 20th century. Most leaders today recognize that competitive advantage in the knowledge economy is determined and driven by human capital. People are the only asset that innovates, and innovation is the only path to sustained breakthrough performance. So, how do companies rev up their innovation engine?

A strategic approach to talent management

Corporate leaders have traditionally relinquished talent strategy to market forces or left it to their human resources departments to oversee. But any company that aspires to compete on the global stage must implement a strategic approach to talent management that is built on a deeper understanding of the complexity and diversity of today's global talent pool and marketplace. Only by embracing this reality will they unlock a huge reserve of latent productivity in their workforces and dramatically improve their organization's ability to succeed.

The current downturn has accentuated the need for talent innovation while simultaneously prompting many companies to cut back on their investment in people. In addition to implementing large-scale layoffs and other immediate cost reduction efforts, companies are questioning everything they have used in the past to attract high-quality people, including incentive structures and career development programs. To be sure, cost cutting is critical, but a recession also provides companies with the opportunity to build a much more effective long-term strategy that can attract highly skilled potential employees, retain the best people on the current payroll, and address the complexities of managing a workforce that is increasingly multigenerational, multicultural, and dispersed across the globe.

This report summarizes the sweeping changes — demographic, cultural, and economic — that are transforming the global labor market and upsetting the assumptions underlying prevailing talent models. It also introduces four fundamental building blocks of talent innovation:

- Differentiated capabilities
- Performance acceleration
- Leadership development
- Talent culture

These four elements represent the core components of Strategy&'s Global Talent Innovation™ platform. With this platform, a CEO can build a distinct talent model that delivers sustainable competitive advantage and breakthrough performance.

Global workforce trends

Dramatic shifts in regional demographics and age-related worker expectations, coupled with a profound and widespread economic downturn, have created a perfect storm of pressures on company workforces around the world. That is why innovation in practices involving global talent management has become an ever more urgent priority for forward-thinking CEOs and C-suite executives.

Demographic and generational shifts

White males now make up less than 20 percent of the global educated workforce (defined as those with a college degree); the vast majority of educated workers are women and/or people of color (*see Exhibit 1, next page*).

Two powerful and ongoing trends have contributed to this outcome: (1) the growing impact of Chinese and Indian talent in the global marketplace — only 22 percent of college graduates in the global workforce come from North America and western Europe; and (2) the expanding achievement gap between women and men, as more women than men graduate from colleges and universities in many countries across the world. Women, barely present on corporate payrolls 30 years ago, now make up more than half the global educated workforce, although they and employees of color are still underrepresented in the management ranks.

Massive shifts in generational structure are also transforming labor markets in countries around the globe. These changes are far from uniform among regions and sectors, however, which makes global talent management all the more complex and challenging.

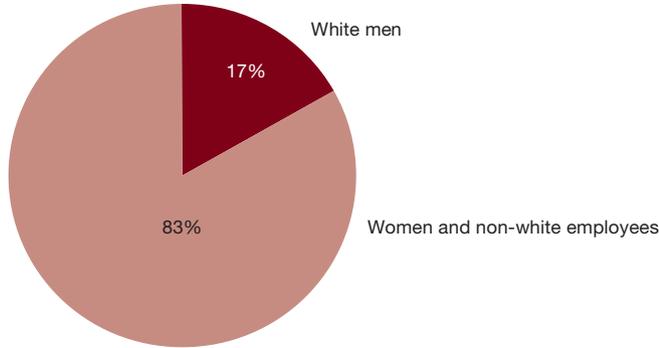
In mature economies, populations are aging out of the workforce. In fact, in certain key economies (Germany, Japan, and the U.S., among others), the swelling ranks of retirees are combining with low birth rates — particularly among the college educated — and caps on immigration to fuel a reduction in the working-age population of between 20 and 40 percent over the next few decades (*see Exhibit 2, page 8*).

Exhibit 1

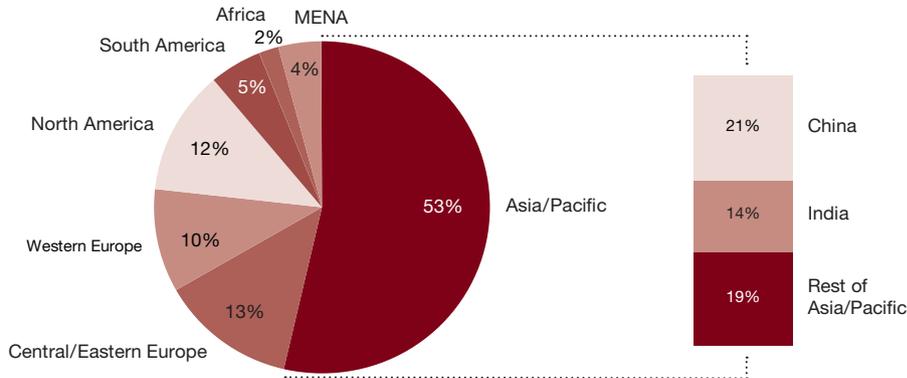
Women and non-white employees constitute 83 percent of global talent

Global distribution of the talent pool¹
Individuals with college/university education

By demographics



By region



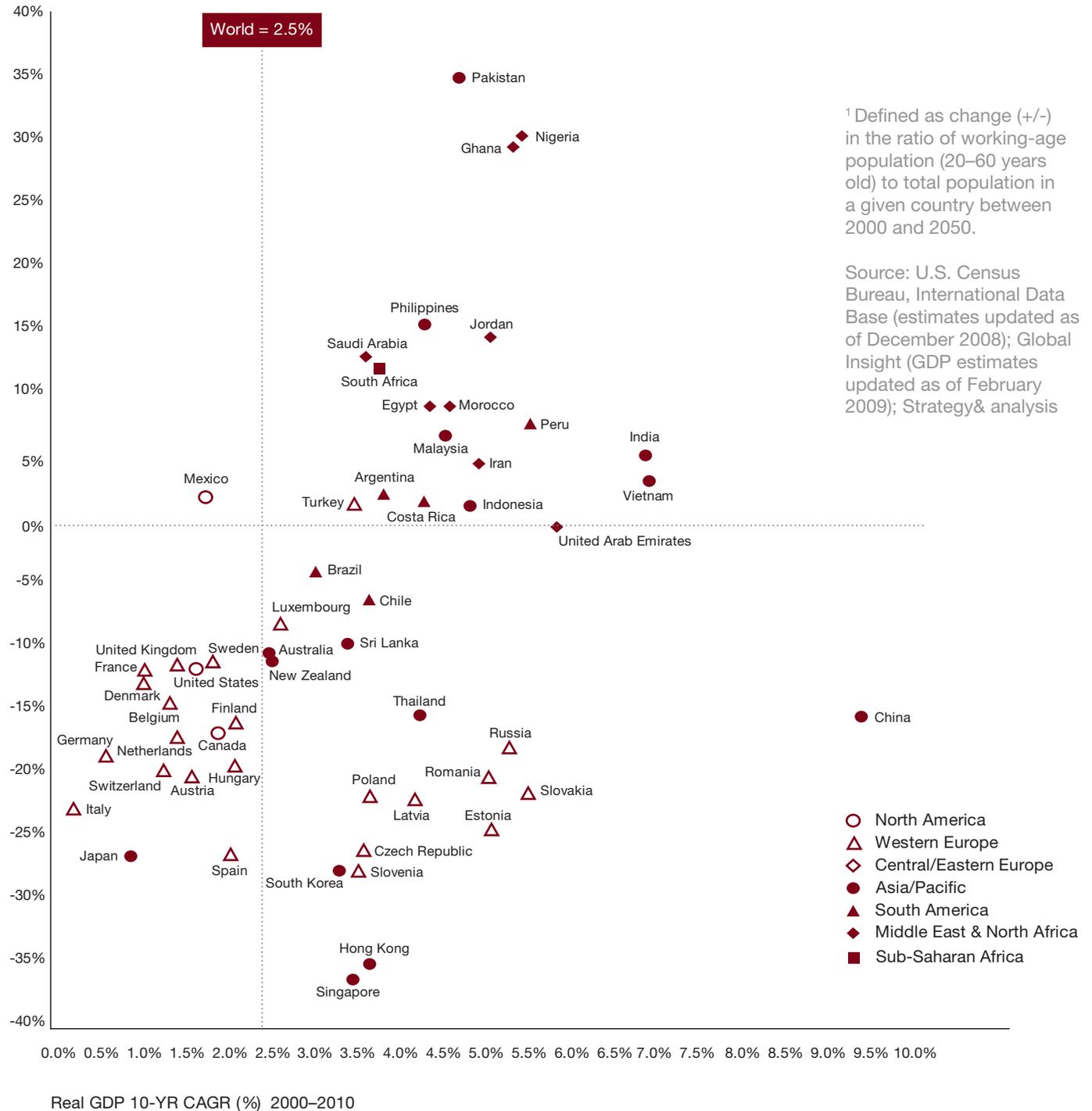
¹ Global talent pool is defined as all individuals around the world who have at least tertiary education (college/university level).

Source: The Athena Factor, Sylvia Ann Hewlett Associates; Strategy& analysis; OECD & UNESCO 2000–2006 (based on availability) Education Database, Tertiary Completion Levels; India, Pakistan, and Peru, 2002 UNESCO Education Database, Tertiary Enrollment reduced, assuming 33% completion rate

Exhibit 2

Critical gaps in working-age population become clear country by country

Working age coefficient change (%) 2000–2050¹



Success story: Siemens

On March 19, 2009, Siemens AG unveiled the Global Leadership Organization for Women (GLOW), a network dedicated to developing the careers of the company's high-potential women. The launch drew the 100 most senior women from across the company and marked the first step in the rollout of an ambitious change agenda, including the appointment of diversity ambassadors — those charged with fostering a sense of connection among the company's diverse employees around the world.

Because 80 percent of Siemens's revenues are generated outside its home country, Germany, increasing the diversity of the company's leadership ranks is an astute business move. When asked why Siemens was launching a groundbreaking initiative in a year when most companies are hunkering down, CEO Peter Loescher replied, "This is an excellent time for us to surge ahead of competitors and actively attract and engage highly qualified women around the world."

Meanwhile, in transitional economies — such as China, India, Brazil, and Russia — labor markets vary widely. India benefits from both high GDP growth and a young, highly skilled working-age population, whereas China and Russia both confront a shrinking pipeline of young workers. Where will these countries get the entry-level talent they need to sustain strong growth?

In addition to age-related challenges, business leaders need to consider the generational composition of their employee population. They are managing a workforce that includes three distinct generations; the traditional one-size-fits-all approach to talent management is no longer effective. Members of the huge baby boom generation in the United States and their cohorts elsewhere are now in their mid-40s through mid-60s. Although the previous generation may have been preparing for retirement at such an age, boomers expect to work much longer, thanks to increased life expectancies and decreased retirement savings. One result of the global recession is that boomers are delaying retirement by, on average, another four years.¹

The millennial generation, also known as Generation Y, is the next huge population swell entering the system. Generation Y, ages 15 through 30, is even bigger than the baby boom generation; in fact, by 2025 this generation will make up 60 to 75 percent of the global workforce.² Sandwiched between Generation Y and the boomers is Generation X, a much smaller group. Generation Xers (ages 31 through 44) — the corporate bench strength for leadership — are short in supply and increasingly frustrated because the shoes they were planning to step into remain filled by those lingering baby boomers.

Success story: Pfizer

In late 2008, pharmaceutical giant Pfizer Inc. launched the Global Access initiative, a program intended to improve healthcare for the working poor in a manner that would be commercially viable, socially responsible, and sustainable over the long term. In a pilot phase, Pfizer is partnering with Grameen Health (an affiliate of Grameen Bank) to improve access to healthcare services through rural Grameen clinics in Bangladesh, one of the world's most populous and poorest nations.

As soon as the initiative was announced, project leader Ponni Subbiah was swamped with expressions of interest. "Employees wrote to me from all functional divisions within Pfizer — research, marketing, manufacturing, operations, the auditing group — telling me how happy they were to see Pfizer involved in this area and how it made them proud to be part of this company." Employees were so eager to contribute that many offered to volunteer after work or on weekends.

The three generations coexist in the workforce today, and each has a distinct profile and preferences. However, all three cohorts have made clear their desire for greater flexibility during the various stages of their career; all eschew the "organization man" model of lifetime employment and rigid hierarchies in favor of work arrangements that accommodate their unique needs or interests.

Baby boomers, for example, seek new employment relationships that offer "modularized" work such as seasonal flex arrangements. These older workers want to shift the nature and intensity of their connection with their employer, while continuing to be part of high-impact teams that generate meaningful and valued results — within their companies and, if possible, in the world at large.

According to a study conducted by the Center for Work-Life Policy (CWLP) in January 2009, members of Generation Y are as attracted to flexible work arrangements and meaningful work as they are to pay increases. They look for opportunities to give back to their communities, and are drawn to companies that demonstrate corporate social responsibility and offer service-oriented sabbaticals and eco-friendly workplaces.

Talent innovation implications: Generational and demographic shifts have transformed the global workforce, creating an unprecedented — and urgent — set of challenges for CEOs and talent managers. Employers need to create tailored value propositions that appeal to the complex needs and preferences of a diverse talent pool. These might include projects that deliberately engage the vast passion and potential of Gen Y or "off-ramp and on-ramp" career paths that allow highly

qualified women to take time off for family obligations without sidelining their opportunities for promotion and greater responsibility. Companies also need to update incentive systems, benefits packages, succession planning, and career models to enable all their diverse talent streams to perform at their best.

Economic downturn

The current economic downturn has only amplified the waves of demographic changes overtaking markets around the globe. Spreading recessionary pressures have compelled companies worldwide to downsize their workforce. In the U.S. alone, 5.1 million people lost their jobs between December 2007 and February 2009; estimates of job losses worldwide were 10 times that number.³ These head-count reductions have had a massive impact on employee morale and performance.

CWLP survey data indicates that between June 2007 and December 2008, employee loyalty plunged from 95 to 39 percent.⁴ Employee trust fell just as dramatically, from 79 to 22 percent over the same time period. Data from 2009 shows that this collapse in employer brand values has continued.

Success story: Time Warner

In any turbulent period, employees at all levels, even top performers, feel increasing pressure and uncertainty. When leaders don't provide accurate and timely information, people start to assume the worst. Time Warner Inc. broke this pattern. Just after announcing a restructuring that involved streamlining its operations, the company organized a series of "skip-level" lunches where CEO Jeff Bewkes hosted groups of high-potential employees several layers

down in the organization. The targeted employees were high performers, "connectors," and "influencers" who did not have regular access to the top leadership of the company. Feedback from both sides underscored the importance of the lunches. Employees felt more confident in the company, and the CEO was impressed by the extent to which people cared about Time Warner. The company is continuing the skip-level lunches in 2009 across divisions.

Effective responses to these challenges have been undermined by the economic crisis itself. Senior executives tend to dismiss proactive talent strategies as unnecessary in the current environment. People are so grateful to have a job, the thinking goes, they can be relied on to deliver 100 percent. But the evidence suggests just the opposite. A recent study in the *Academy of Management Journal*⁵ demonstrates that in the wake of a layoff, voluntary attrition spikes by as much as 31 percent, and precisely the wrong people — those who have the strongest track records and bright employment prospects even in a recession — are the ones who leave.

Talent innovation implications: In this climate, a senior management focus on talent management strategies is not just a “nice to have.” It’s a necessity. The immediate challenge for companies is threefold. First, leaders must stem talent leakage during downsizings. Second, they must sustain top talent performance by reinspiring employees and reinvigorating morale. Third, they must take the opportunity presented by this recession to realign talent management strategy with the newly focused business priorities of the company (see “*Retaining Top Talent in a Recession*,” page 25).

Transforming your talent model

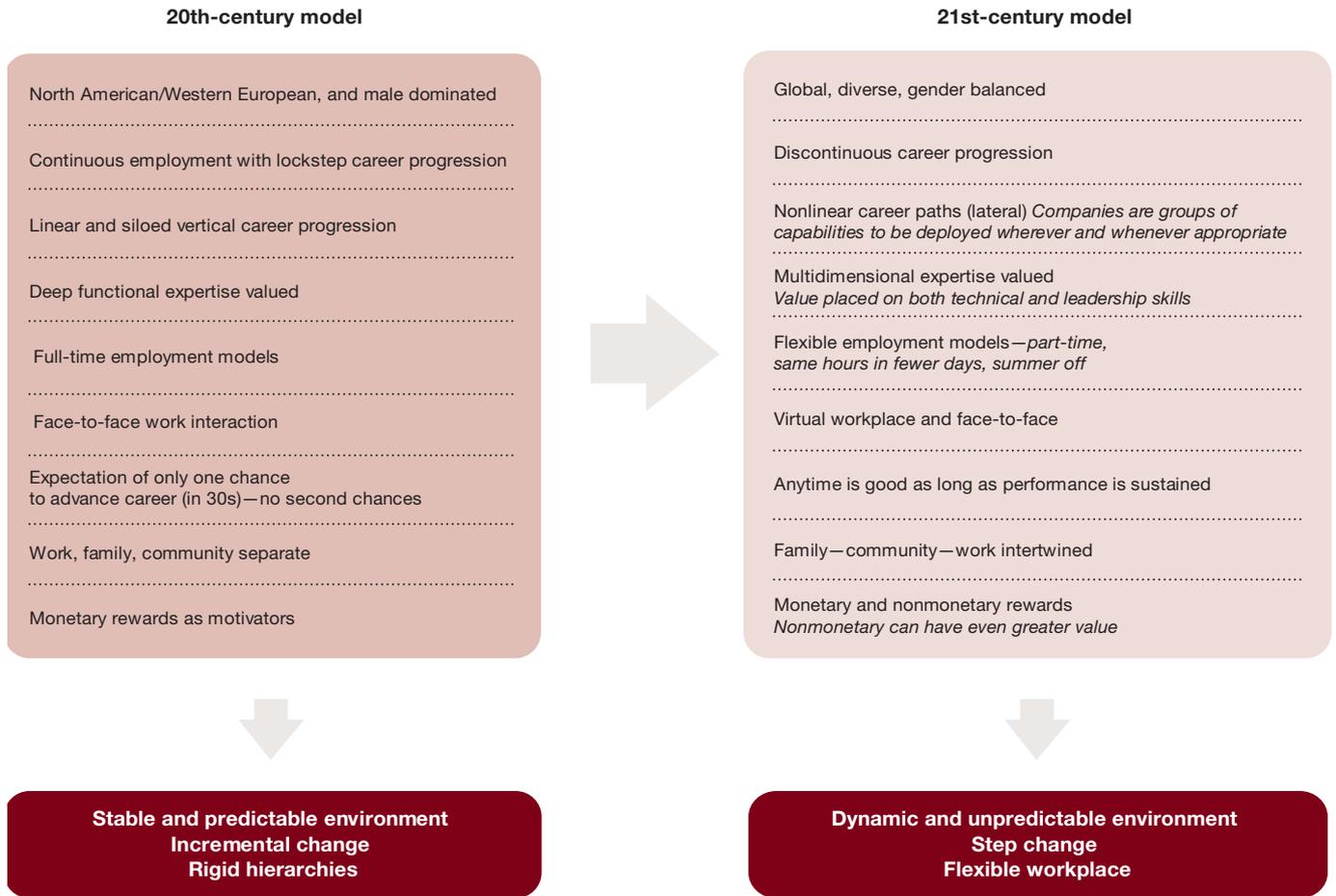
Given these global workforce trends, which have only been accelerated in the economic downturn, companies no longer have the luxury of adhering to status quo talent strategies. In fact, to attract, engage, develop, and retain the right talent, companies need to rethink their talent models. Too many remain mired in ineffective practices that reflect 20th-century assumptions about how, where, and by whom work gets done (see *Exhibit 3, next page*).

The old model no longer works for many high performers, nor does it meet the needs of a large majority of the current global workforce. Companies are wasting resources — both human and financial — by perpetuating HR programs that are out of step with the way work is conducted. Jobs continue to be structured around a 9 A.M. to 5 P.M., Monday through Friday workweek that is inconvenient and counterproductive for significant portions of the workforce. Training is narrowly focused on skill building, not on aligning talent capabilities with the strategic objectives of the business. Career development does not reflect the need to redefine advancement opportunities in the context of flatter, more flexible organizations. Companies cling to value propositions that no longer resonate with the talent they are trying to recruit and retain. Leadership development is not arming organizations with the decisive, experienced, globally minded visionaries that they sorely need. And compensation systems do not adequately link to performance nor do they hold managers accountable for developing their talent.

Many HR departments lack the capability and organizational clout to orchestrate the changes required to overcome these barriers. Chief executives need to declare global talent innovation a priority, and to lead the change.

Exhibit 3
The talent model paradigm shift

Transitioning from the 20th-century to the 21st-century model



Source: Strategy& analysis

The building blocks of global talent innovation

An effective global talent management model drives innovation, growth, and breakthrough performance by balancing and integrating both business and individual needs. This shift in perspective and careful alignment of employer and employee needs are what enable top management to optimize talent expenditures, maximize the productivity and performance of the workforce, and gain competitive advantage.

Strategy&'s Global Talent Innovation™ model rests on four basic building blocks:

- *Differentiated capabilities*: Do we have the skills, knowledge, and abilities required for competitive advantage?
- *Performance acceleration*: Do our talent processes and programs improve workforce performance and drive meritocratic decision making?
- *Leadership development*: Do we have the right leaders, and are we effectively building leadership capability?
- *Talent culture*: Does our cultural environment enable us to maximize the contribution of a diverse workforce?

These building blocks are all interrelated and must be addressed holistically if an organization wants to release its full innovative and productive potential (see Exhibit 4, next page).

Building a platform for a sustainable talent advantage

The four building blocks of Global Talent Innovation™ serve as a platform upon which organizations can construct a relevant and robust talent model.

1. Differentiated capabilities

Business success, as measured in nearly all forms (for example, share or margin advantage), relies heavily on establishing a “right to win” through advantaged assets and capabilities. In a service-based, technology-enabled economy, where scale no longer confers automatic advantage, capabilities are supplanting assets as the main way companies create and sustain value.

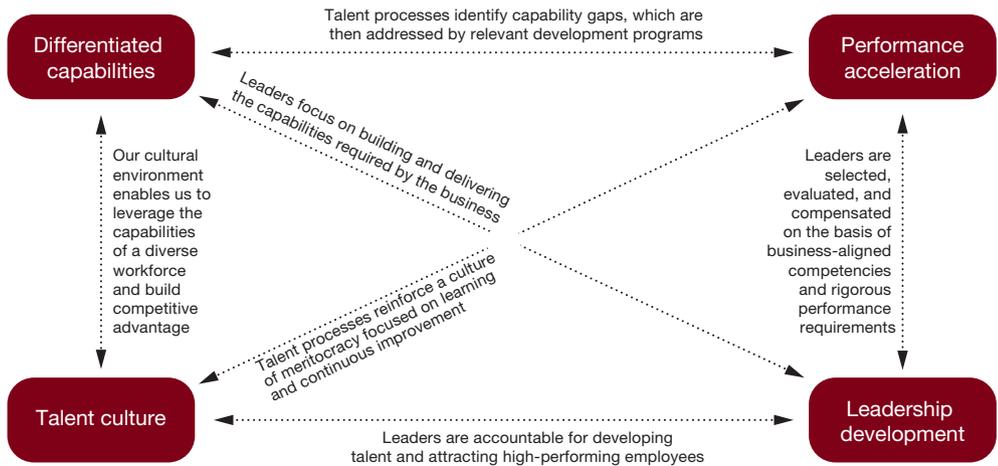
Differentiated capabilities are the collective skills, abilities, and expertise that enable a company to consistently out-execute the competition and capture share. A capability is not the same as a functional capacity, such

An effective global talent management model drives innovation, growth, and breakthrough performance.

Exhibit 4

Global Talent Innovation™ building blocks are integrally linked

Holistically address interconnected building blocks



Source: Strategy& analysis

as forecasting, inventory planning, or R&D. Rather, it's a cross-functional body of knowledge, processes, and tools that distinguish a company in its competitive space. Thus, for example, the differentiated capabilities of a fashion retailer might include the ability to dramatically shorten time-to-market for cutting-edge designs, whereas those for a high-tech company might include best-in-class product customization.

People are the key to developing truly differentiated capabilities. The capabilities that distinguish a particular organization will vary widely by business specifics, such as a company's operating model, geographic focus, competition, and the like, but the universal requirement for creating and sustaining world-class capabilities is a flexible and focused talent model that addresses the following imperatives:

- *Understand and prioritize the critical capabilities required for competitive advantage.* A strategic approach to talent begins with a comprehensive understanding of the company's business strategy and how that translates into capability requirements. Once this understanding is achieved, the organization can determine the talent implications — identifying the high-priority capability gaps and developing talent strategies to close them. We recommend that

Success story: Johnson & Johnson

A few years ago, Johnson & Johnson identified high-performing women of color as a pivotal talent segment and successfully piloted an initiative aimed at accelerating their career development. Called Crossing the Finish Line, this program for director-level women of color and their direct supervisors is made up of four consecutive days of knowledge building, strategy development, and practical takeaways — two and a half days for the high-potential women, and one and a half days for the (mostly male) supervisors. The two groups overlap for half a day in the middle, during which the women share what they have learned, their supervisors react, and

together they create action plans for career acceleration — which are rolled out upon completion of the program.

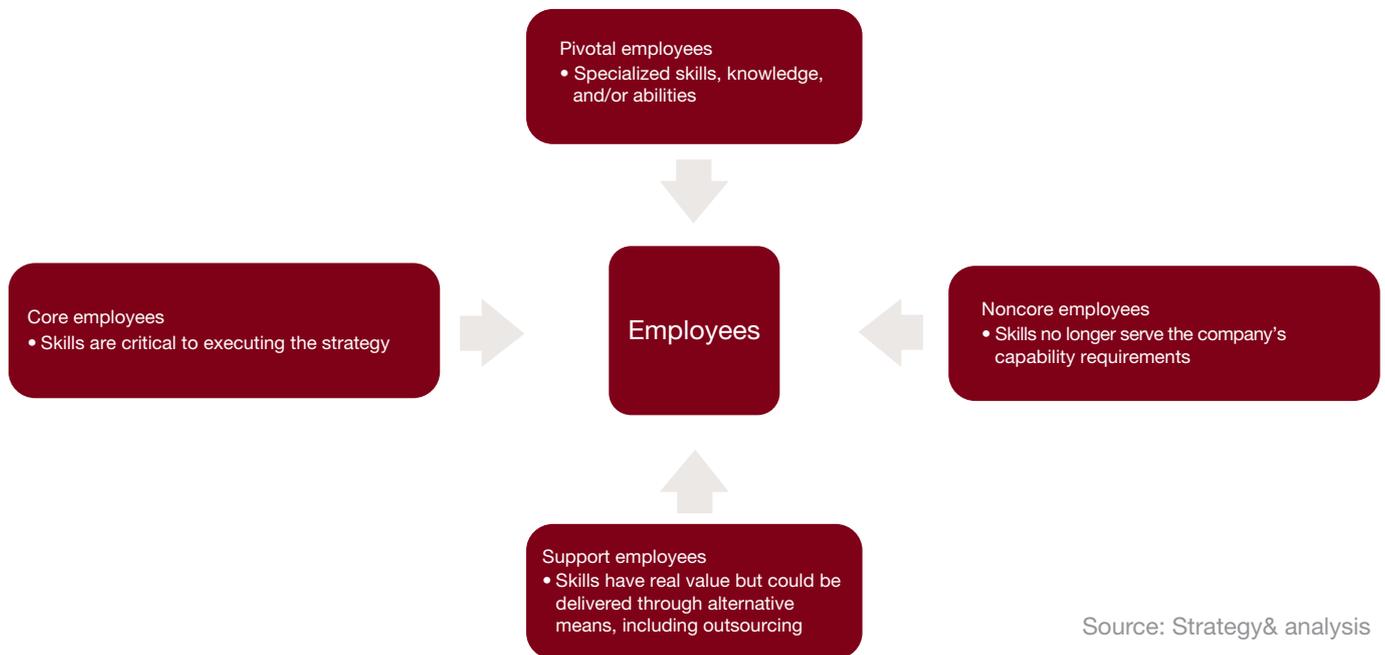
“This program helps us capitalize on talent that is reflective of the global environment and different from the traditional mold,” says JoAnn Heffernan Heisen, chief diversity officer of J&J.

Crossing the Finish Line has been hugely successful; the data shows that women who participate in the program are more likely to get promoted than those who do not. It has recently been expanded to include men of color.

companies start with an “enterprise view” of the current talent base, using workforce analytics to inventory their current skills, profiles, performance, and potential. This quick audit enables the organization to make better decisions on whether to build or buy key talent, how to align learning and development strategies to deliver the required capability outcomes, and how to establish clear accountabilities and measure results.

- *Identify key talent segments.* As part of the process of prioritizing critical capabilities, senior management should identify their key talent groups (see *Exhibit 5, next page*). Most important are the “pivotal” employees (those with specialized skills, knowledge, and/or abilities). These are the groups of employees who drive competitive advantage and contribute disproportionate value to the fulfillment of the company’s strategic objectives. The pivotal workforce segment for a consumer products company, for example, might be product development managers or marketing directors. Other key workforce segments include “core” employees (people critical to executing the strategy) and “support” employees (whose value is real but could be delivered through alternative means, including outsourcing). Finally, there are the “noncore” segments (featuring skills that no longer serve the company’s capability requirements). Segmenting the workforce in this way helps organizations tailor talent strategies and allocate talent investments more effectively across both local and global labor markets.

Exhibit 5
Segmenting the talent pool



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- *Develop tailored value propositions.* Having determined the pivotal and core segments in their workforce, organizations can tailor value propositions to their unique needs and requirements to ensure that they have a compelling offering for those employees. A company's employee value proposition encompasses a broad range of motivating elements, including compensation, benefits, job design, flexibility in work schedule, career development opportunities, leadership effectiveness, culture, and work environment. For a company's value proposition to resonate with desired talent — both existing employees and potential recruits — management must have a very clear understanding of key attraction and retention drivers. The “one-size-fits-all” value proposition that characterized the paternalistic, seniority-based corporate cultures of the 20th century doesn't appeal to new, diverse workforce segments. Also, the factors that motivate a pivotal employee in, say, the pharmaceutical industry might be very different from those that are relevant to his or her counterpart in high tech. Updating value propositions to reflect the motivators and values most relevant to today's high-performing global employee optimizes a company's spending and increases the productivity, engagement, and retention of its workforce in tangible, measurable ways.

Success story: Novartis

Healthcare products company Novartis AG tracks 14,000 high-potential individuals through its outcomes optimization system, Organization and Talent Review (OTR), which rates each person's future potential, learning agility, people skills, and ability to drive results and change. OTR not only enables business leaders to assess individuals on a level playing field, but also illuminates gaps in skills and experience that the company (and the people themselves) can then work

to bridge. Its OTR system has given Novartis a list of qualified candidates for every critical position in the company. Where bench strength is lacking, the company identifies individuals from the outside who might be recruited. In certain cases in which specialized scientific expertise is required, as few as 20 people in the world may be qualified to assume the position; this rigorous and forward-looking process thus helps Novartis maintain a distinct competitive edge.

2. Performance acceleration

Performance acceleration refers to the processes and behaviors applied to managing performance, the rigor with which these are designed and conceived, and the degree to which they, in turn, drive compensation, development, and promotion decisions. Highly effective processes and practices for managing and enhancing employee performance are a critical building block in global talent innovation. Although every executive intuitively understands the importance of aligning employee performance with business strategy, most struggle with how to make it happen. Organizational success hinges on the collective daily decisions and actions of hundreds, perhaps thousands, of individual employees. The ability to engage and motivate people so that they make the right decisions and take the right actions is the essence of performance acceleration, and it is shaped primarily by the company's assessment and feedback processes, compensation and incentive structures, and development and advancement models. Does your company's performance management system actually improve performance, build differentiating capabilities, and meet the needs and expectations of your most critical talent pools? If not, consider taking the following steps:

- *Ensure leadership engagement and ownership.* The highest-performing organizations don't leave talent performance acceleration to HR alone; senior leadership is visibly involved in ensuring that the processes, systems, and tools are rigorous and consistent. In particular, top-performing companies train their leaders to improve the capability and performance of their people, and hold those leaders accountable for doing so. HR provides the necessary tools and

Highly effective processes and practices for managing and enhancing employee performance are a critical building block in global talent innovation.

program support, but leaders must be responsible for the process and outcomes if dramatic workforce performance gains are to be realized.

- *Reinforce meritocratic pay and promotion decisions.* Companies that distinguish themselves as talent innovators rigorously reinforce the relationship between pay and performance through compensation systems and clearly defined accountabilities that recognize and reward merit at the expense of mediocrity. At such companies, individuals who excel when measured against well-defined competencies and standards are consistently developed, promoted, and paid, while those who do not excel are not. High-performing people know that they will be recognized for their contributions and that poor performance will likewise be addressed promptly and effectively by managers. It is also important that the performance acceleration process be integrated with career planning and learning and development, so that employee capabilities and outcomes are continuously improved.
- *Measure outcomes.* You can't accelerate what you don't measure. High-performing organizations track performance and talent outcomes through well-targeted metrics. They continually measure the impact of their development programs on the basis of outcomes delivered (e.g., percentage of "ready now" successors) rather than on activities (e.g., percentage of people trained) or employee satisfaction. Other useful measures might include promotion rates, retention statistics for top performers versus average performers, and performance rating distributions by gender or ethnicity. Such measures, if developed and used the right way, provide deep insight into a company's underlying talent dynamic, and they are a powerful lever for innovation and continuous improvement. However, there are important caveats. The outcomes measured need to be aligned with strategic business goals, and senior leaders and decision makers should be held accountable for performance.

3. Leadership development

The qualities and requirements that define a world-class leader have evolved significantly over the last 10 years. In addition to having traditional leadership characteristics such as a strong sense of vision and the ability to inspire others, leaders today must be able to mentally process enormous complexity. They must appreciate and accommodate different perspectives and interpersonal dynamics, integrate multiple disciplines, work across cultures, and interpret diverse and multiple streams of information. In addition, they have to be able to work effectively in highly ambiguous and rapidly changing contexts.

Companies report that they have too few leaders with the right combination of skills and experiences. Organizations remain particularly weak at deepening their leadership bench by building differentiated capabilities, and they fail to take full advantage of the highly qualified diverse talent that is available to them. Consider the lack of diversity in either gender or ethnicity among the Fortune 500 CEOs: Less than 3 percent are women or ethnic minorities, and the number has barely moved in the last decade.

Leadership development practices would be one natural way to approach broadening the mix of people in senior executive positions. Yet such practices remain static and homogeneous themselves. Indeed, too few companies have made a commitment to rethinking their leadership models or reshaping the development processes, even if they yield people with similar limitations year after year. According to “The Performance Paradox,” the 2008 Strategy& study of 2007’s CEO succession patterns, “some companies have simply not created the managerial infrastructure needed for evaluating and nurturing talent, and even well-managed companies often face a CEO succession event without having a viable candidate prepared to take over.”⁶ Companies need to broaden their perspective on leadership development and commit to building a leadership bench that is both more reflective of a diverse global talent pool and more prepared to tackle the complexity of today’s business environment.

- *Evolve the leadership model.* How does an organization cultivate the sorts of senior executives who can both navigate fast-breaking crises and serve the longer-term best interests of shareholders, boards, and employees? Most leadership development models today focus on building a narrow set of functional competencies and a fairly generic and non-differentiating set of aptitudes for executive behavior. Talent innovators adopt a more holistic perspective; they combine leadership competencies (targeted to the individual) with differentiated capabilities that spell success for that particular enterprise (such as capabilities in enhancing the customer experience, or acquiring and integrating new businesses). Leadership development in these companies is not viewed as an HR program alone; rather, it is seen as an essential enabler of the business strategy and reflects the diversity of the company’s customer and employee base. Such a leadership model becomes a sustainable organizational capability, not simply a way to grow a few individual leaders.
- *Highlight talent management competencies.* Leaders develop leaders. The ability to inspire, motivate, and develop the next generation of leadership talent is crucial to any leader’s success. Yet companies continue to select leaders based almost solely on technical and

The ability to inspire, motivate, and develop the next generation of leadership talent is crucial to any leader’s success.

Success story: HSBC

At the global bank HSBC Holdings, business unit leaders collaborate with local human resources coordinators to identify and assess regional and business unit talent pools, which are tracked through a company-wide system. High performers in these pools are given new assignments in their region or line of business; they then cross boundaries to take on new positions. Pool managers single out people to recommend for the group pool, which includes the most senior general managers and is overseen centrally. These individuals are expected to work in at least two very different cultural environments

before ascending to the highest levels of management, and this expectation is clearly communicated. HSBC CEO Michael Geoghegan holds his group management board accountable for the leadership development of the company's talent pools. Each member is responsible for a region, a customer group, or a product, and for selecting outstanding managers to join the group pool. Talent management, succession planning, international rotations, and senior executive development are standing agenda items at meetings of business executive committees and the group's board. Leaders develop leaders at HSBC.

professional competence. All too often, individuals advance to the senior ranks of an organization because they hit revenue or other financial performance targets; the performance of the people who report to them does not even figure into the assessment. If the best leaders are those who can foster teams that deliver, innovate, and create value in ways above and beyond the average, then leadership development and advancement models need to explicitly recognize and cultivate talent management competencies.

- *Build the leadership bench.* Best-in-class leadership programs are characterized by significant executive accountability. Senior management, including the CEO, needs to help conceptualize, craft, and deliver leadership programs. These should be carefully integrated with the business strategy. They should always be grounded in a business case for why an enhanced leadership capability is required. Senior management should understand what outcomes will result from leadership development and what it will take to deliver them. The development program should be reasonably broad-based, encompassing not just potential CEO successors, but the highest tiers of leadership at the business unit and functional level. High-potential leaders should receive a variety of developmental experiences: general management experience, cross-functional opportunities, global assignments, and opportunities to manage change and develop other talent themselves.

4. Talent culture

A talent culture is made up of the values, beliefs, behaviors, and environment required to attract, engage, and retain committed and competent employees. Companies that embrace a talent culture and feature it as a key element of their corporate brand consistently outperform companies that do not.

A talent culture must be led from the top and can be achieved and sustained only if it is hardwired into a company's processes. Much of the employee turnover in organizations today results from frustration with poor managerial skills, a perceived lack of advancement opportunities, and the overall culture of the workplace. The Strategy& Global Talent Innovation™ model provides a template for building a culture that affirms and rewards critical talent. Great cultures are not created by accident; they are the result of specific and deliberate practices and strategies, beginning with the following:

- *Build engagement.* More than 100 studies have demonstrated the correlation between employee engagement and business performance. Engaged employees are far more productive, committed, and aligned with company goals. That's the good news. The bad news is that only one in four employees, on average, is "engaged." Although the drivers of engagement vary by organization, geography, and employee group, four factors predominate: (1) whether employees feel respected, valued, and recognized; (2) whether they perceive their job to be important to the success of the enterprise; (3) how much pride they feel about the company and what it stands for; and (4) how much trust and confidence they have in company leadership. Improving these low levels of engagement can represent a substantial opportunity for forward-looking companies, one that will be cost-effective to exploit. Helping people feel more respected, important, and confident is an investment in building a culture of authenticity, accountability, meritocracy, learning, and agility where employees can progress and achieve their own and the company's full potential.
- *Rethink your organizational and career designs.* Most organizational designs, career paths, and job descriptions are still based on the rigid hierarchical pyramids of 20th-century companies. A small group of senior, typically male executives preside at the top. A layer of midcareer managers occupy the middle, and a large group of younger, entry-level employees labor at the bottom. Career paths are largely vertical, with advancement in pay and responsibility defined incrementally. Talent innovators will rethink the jobs they offer to incorporate greater flexibility, shorter tenures, more efficient training, and more flexible career advancement models.

- *Enhance your talent brand.* Critical to attracting and retaining pivotal talent is a company's ability to build (and protect) a differentiated employer brand to present to prospective employees (and recruiters, customers, and others). A market assessment of the distinctive qualities of an organization as an employer can help identify both the strength of the brand and areas for improvement. This brand should reflect and embrace the values of the company, emphasize its focus on talent, and differentiate it from its competitors. It should appeal to pivotal and core talent segments and reinforce the particular capabilities that drive competitive advantage.
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Success story: Cisco

To reinforce Cisco Systems Inc.'s culture of innovation through collaboration, Vice President for Development Annmarie Neal and Senior Vice President of Emerging Technologies Marthin De Beer created a series of high-profile action learning forums designed to concentrate the company's top talent on next-generation technology and organizational breakthroughs. In the forums, 10-person teams cross every conceivable line — rank, function, generation, geography, and gender — and work together for three months with the assistance of a psychologically savvy coach to further one of the company's top strategic priorities. Venture capital prize money is awarded to winning teams, guaranteeing that the best

business plans are funded and will get off the ground.

Billions of dollars' worth of new value creation have been generated by these Action Learning Forums. Just one idea — Smart Grid, which revamps energy grids to make them faster and more cost effective — is projected to deliver US\$10 billion of revenue over the next five years. Perhaps more important from a talent perspective, 20 percent of those who participated in these teams have been promoted, and only 2 percent of these high-potential employees have left the company. The forums have been a powerful and defining element of Cisco's talent culture.

Retaining top talent in a recession

In times marked by plummeting growth and rising unemployment, companies often make the fundamental error of considering their talent strategy to be a low priority. With so many people available to fill positions and current employees anxious to hold on to their jobs, these organizations assume that they can focus on other pressing priorities and curtail investment in the programs and practices that motivate talent.

Our research suggests precisely the opposite. After a massive layoff, many of the surviving employees voluntarily resign, and employee loyalty plummets, resulting in a sharp drop-off in productivity and performance. If anything, a recession is an invitation to redouble talent investments. Here are seven emergency interventions to retain top talent in a recession.

1. *Create a no-spin zone:* In times of stress, people need to trust their leaders, and trust is best earned and maintained through transparency. Conduct an audit of company communications to ensure that they are candid and credible.
2. *Think locally and focus on team leaders:* Team leaders are the glue that can hold a workforce together in tough times. Their on-the-ground people skills can be more critical to the company's rebound from recession than cost-cutting initiatives or even product innovation. Invest in improving local managers' effectiveness and reward those managers for people-related outcomes.
3. *Give employees meaningful nonmonetary rewards:* Managers can no longer rely on financial incentives to keep their "A" players performing at their full potential. Companies need to develop imaginative ways to boost performance — such as using time off as currency or providing a green workplace as a motivator. These nonmonetary rewards will lay a strong foundation for growth and renewal. It is time to rethink rewards to ensure that they are not only aligned with your business strategy, but also relevant and effective from the employees' perspective.
4. *Develop a fair restructuring process:* Mass layoffs can be a huge source of ongoing stress for survivors — who may well head for the door. On the other hand, layoffs that are perceived as fair and respectful can have a positive effect on employee morale. Review your restructuring processes and integrate best practices, including a robust strategy for energizing and reengaging the survivors.
5. *Hold on to your diverse talent:* Losing high-performing talent is regrettable. Losing high-performing diverse talent is not only regrettable but expensive, in terms of both financial and reputational capital. Companies that lose their carefully cultivated pipeline of diverse managers are at a considerable competitive disadvantage. Identify the root causes of turnover and lack of progression among women and

employees of color and implement the programmatic and cultural changes necessary to maximize such employees' contribution and performance.

6. *Show that top leadership cares:* Leaders who listen and treat employees with consideration and respect inspire surprising levels of loyalty, trust, and engagement. Particularly in challenging economic cycles, leaders should be visibly engaged and communicating regularly to their teams.

7. *Re-create pride, purpose, and direction:* As simple and self-evident as it may sound, it bears repeating: Employees want to feel good about where they work and what they do. They value being consulted and included in important company decisions and want to feel they are part of the mission. Leaders should regularly communicate what the company stands for, what it values, where it is going, and what role employees play in that journey and the enterprise's ultimate success.

The road ahead

Crafting an effective approach to talent management is as challenging and complex as any other C-suite mandate. The global talent innovation model described here moves companies beyond cookie-cutter best practices and standard tool kits and provides a road map for business leaders striving to understand and tackle their global talent challenges. Each building block — differentiated capabilities, performance acceleration, leadership development, and talent culture — is essential. All work in concert within the context of an organization's business strategy. Following this systematic approach, companies can conduct a talent diagnostic, identify gaps in their talent strategy, and shape a tailored approach to maximize the potential of their talent pipeline. In doing so, they can move beyond best practices to best-in-class innovation and performance.

Recognizing that many companies are in crisis mode and are looking to address and alleviate immediate pain points, Strategy&'s Global Talent Innovation™ approach can be tailored to any time frame and a wide variety of short- and long-term talent challenges and scenarios. For example, organizations can implement short-term tactical interventions locally while building a platform for sustained talent advantage on a global basis.

Endnotes

¹ Center for Work-Life Policy research. See Sylvia Ann Hewlett et al., “How Gen Y and Boomers Are Reshaping Your Agenda,” *Harvard Business Review*, forthcoming July 2009.

² Strategy& analysis, U.S. Census Bureau International Data Base. For purposes of this analysis, Generation Y was born between 1979 and 1994, Generation X between 1965 and 1978, and baby boomers between 1946 and 1964.

³ U.S. Bureau of Labor Statistics, “The Employment Situation: March 2009,” April 3, 2009. Tony Avirgan, “Economies of Major Developed Countries Will Shrink in 2009.” From the Economic Policy Institute, February 18, 2009, available at www.epi.org/economic_snapshots/entry/snapshots_20090218/.

⁴ Center for Work-Life Policy research. See Sylvia Ann Hewlett, *Top Talent: Keeping Performance Up When Business Is Down* (Boston: Harvard Business Press, forthcoming October 2009).

⁵ *American Management Journal*, “Keeping Your Headcount When All About You Are Losing Theirs: Downsizing, Voluntary Turnover Rates, and the Moderating Role of HR Practices,” April/May 2008.

⁶ Per-Ola Karlsson, Gary L. Neilson, and Juan Carlos Webster, “The Performance Paradox,” *strategy+business*, Summer 2008, www.strategy-business.com.

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