



**TOWERS
PERRIN**

HR SERVICES

Talent Management: The State of the Art

***A TP Track* Research Report**

Executive summary

The subject of “talent” is much in the news today. Demographic projections point to a coming shortage of skills in many industries, and some companies are already feeling the pinch. Others recognize that a significant portion of their workforce, especially at senior leader levels, may be within 10 years of retirement age, prompting concerns about where they will find and develop the next generations of managers and key contributors needed to lead their companies.

Compounding these issues is the inescapable reality that almost all companies today have to deal with the impact of a global business environment — whether or not they operate outside their home country. They face intense cost pressures from competitors that source products or services in lower-cost regions or have far less infrastructure to support. They face brand-new competitors in both current and new markets, as well as more demanding and far more diverse customers in the global marketplace.

Viewed together, these developments give new meaning and urgency to the notion of talent management. Companies’ ability to compete effectively — in terms of cost, quality, service or innovation — depends on having enough of the right people, with the right skills, deployed in the appropriate locations at appropriate points in time. To do that, companies have to understand and define their talent needs in the context of their business goals and build practical, long-term plans to source, develop and retain that talent when and where it’s needed.

Earlier, more informal approaches to finding and managing talent are not likely to work in this complex environment. The changing nature of the workplace and workforce — characterized by continual movements of jobs and people around the world — calls for a highly planned and rigorous approach to identifying, developing, deploying and rewarding talent.

To evaluate the current state of the art in this area, we focused on talent management in our most recent *TP Track* survey, conducted at the end of 2005. Just over 250 executives responded to this survey, all of whom have decision-making responsibilities for talent or the workforce overall, or are involved in the day-to-day operation of talent management programs.

Executive summary (cont.)

Broadly, our data show that companies have a shared sense of urgency about the importance of talent today and tend to define talent in very precise and consistent ways. But that's where any consistency in views ends. When it comes to how respondents are addressing talent management — from development through deployment — the success they've had with current programs and their plans for the future, significant differences appeared. Clearly, this is an emerging discipline, with a significant amount of trial and error going on to determine the most effective ways to institutionalize a talent management capability.

Below is a summary of what we found:

- Talent management has moved to center stage — deemed a very to somewhat critical issue for three-fourths of the respondents (*Exhibit 1*, page 6).
- Talent is not a euphemism for the workforce in general. Companies have a very precise definition of talent focused on leadership and key professional and technical contributors, and the size of the talent pool averages about 15% of the total workforce (*Exhibit 2*, page 6).
- Companies' emphasis on talent management stems from a realistic view of the complexity and scope of changes in the business environment. Successfully competing against more agile traditional and nontraditional competitors requires new skills, knowledge and behaviors. And a more empowered and informed marketplace raises the bar on what it takes to satisfy and retain customers. A well-planned and well-executed talent strategy and process are critical elements in meeting these needs (*Exhibit 3*, page 7).
- Most companies (73%) do not have a formal position to manage talent programs and do not intend to create one. But 16% have taken this step and another 11% will do so within the next year. Such positions are almost three times as common in large organizations (those with more than 10,000 employees) than in smaller ones, and more than twice as common in organizations that view talent management as a critical issue. More significantly, companies that have created a distinct position around talent management appear to gain an edge in building more effective processes more rapidly and in adopting best practices. In other words, as one might expect, dedicated and accountable management of the talent function breeds more dedicated focus and positive action.
- Companies say their most pressing challenges today are developing existing talent and forecasting talent needs (*Exhibit 4*, page 8). The picture shifts slightly over a longer time horizon, although the focus on developing and retaining current talent holds. In fact, the biggest longer-term challenge is retaining the right leadership talent. This likely reflects concerns about replacing a shrinking group of more senior leaders and key contributors that is getting progressively closer to retirement age, especially given the forecast decrease in new job entrants and resulting increased competition for talent.

Executive summary (cont.)

- Companies are using a wide array of talent management processes, but most are still handled informally. Managing performance via a consistent process and tools was the only formal talent management approach used by a majority of our respondent companies. However, roughly a fifth plan to implement a number of formal talent management processes over the next 12 to 18 months, so this picture should change considerably (*Exhibit 5*, page 9).
- Companies gave themselves a mixed report card on the extent to which they use what we consider to be best practices in talent management, including senior leadership involvement, technology and training. Companies that cited talent management as a critical issue were significantly more likely to use these practices than were the other companies in the survey. Most of the respondent companies, however, intend to increase their focus on these practices in the near future, suggesting there is growing accord about their value in successfully managing talent (*Exhibits 6 and 7*, pages 10 and 11).
- Respondents have fairly divergent views about the effectiveness of a range of processes in the areas of workforce planning, talent development and support for managers. Most are using a variety of approaches in all of these areas, but just half the group — and often far fewer — rated their activities as highly effective (*Exhibits 8 and 9*, pages 12 and 13). In some cases, this may be a function of insufficient time and experience to truly assess value or “get it right.” In other cases, especially with traditional activities companies have been doing for some time, it may indicate enduring problems with implementation or a focus on the administrative rather than strategic aspects. In the case of performance assessment, for instance, the process can be highly rigorous, backed up with detailed discussions between manager and employee and appropriate interventions, or it can simply be a fill-out-the-form exercise to meet an administrative goal.
- Although managers clearly have a major role to play in developing talent in their units, respondents don't believe their companies are providing the necessary support to ensure managers can do this effectively (*Exhibit 10*, page 14). This may be one of the most troubling findings since it has implications not only for talent development, but also a company's ability to retain and engage employees. As managers accept more responsibility for helping drive people performance, they will need a great deal of support and training for themselves. Yet, as noted below, it's not clear HR itself is ready to take on that role.

Executive summary (cont.)

- Companies are using a wide variety of metrics to assess the impact of their talent management efforts, although none appear to be universal. Common measures include tracking retention and numbers of women and minorities in leadership and talent pools, for instance. Broader diversity measures, as well as engagement measures, remain far less common, but will presumably grow in importance as companies compete on a more global playing field (*Exhibit 11*, page 15).
- Respondents don't generally believe their HR organizations are fully ready to partner with the business in managing talent. Most (64%) are supporting talent activities through their generalist structure, with just 7% using a talent center of expertise. A third have nothing formal in place, although this may well change over time. More disturbing, however, respondents expressed concerns about HR's skills in supporting the line, especially in areas connected to data and measurement for decision making (*Exhibit 12*, page 16).

In Summary

Overall, our survey uncovered a broad range of talent management processes and practices, few of which won strong accolades for effectiveness. But our data do show greater use of best practices and higher perceived effectiveness for those companies that establish a formal position and accountability for talent management and have an equally formal approach within HR to develop and deliver talent programs.

Put another way, while talent management is universally regarded as a good thing, it is more likely to translate into effective programs and processes when companies dedicate resources and time to it — typically because senior management has come to recognize its critical importance in delivering the business strategy.

Definitions of talent are becoming clearer

Exhibit 1: The importance of talent management

% of respondents

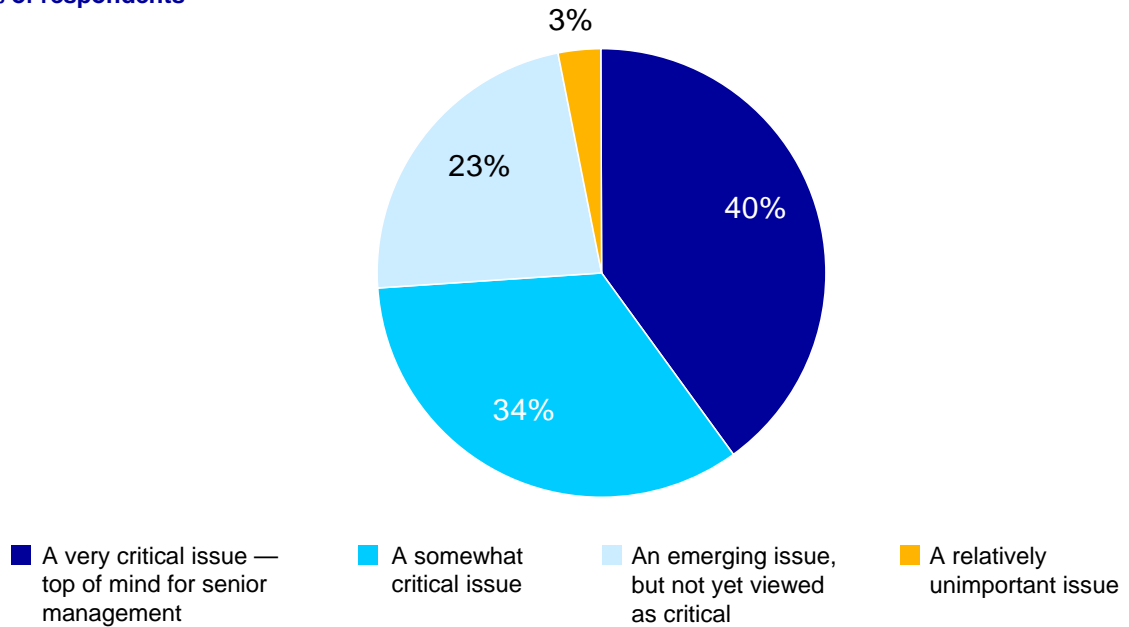
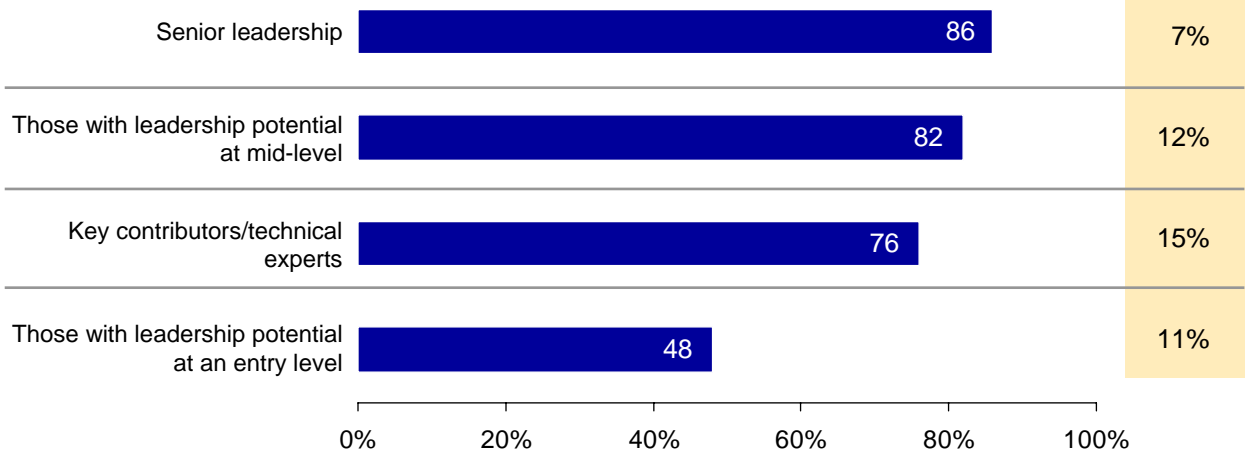


Exhibit 2: Groups considered talent

% of respondents

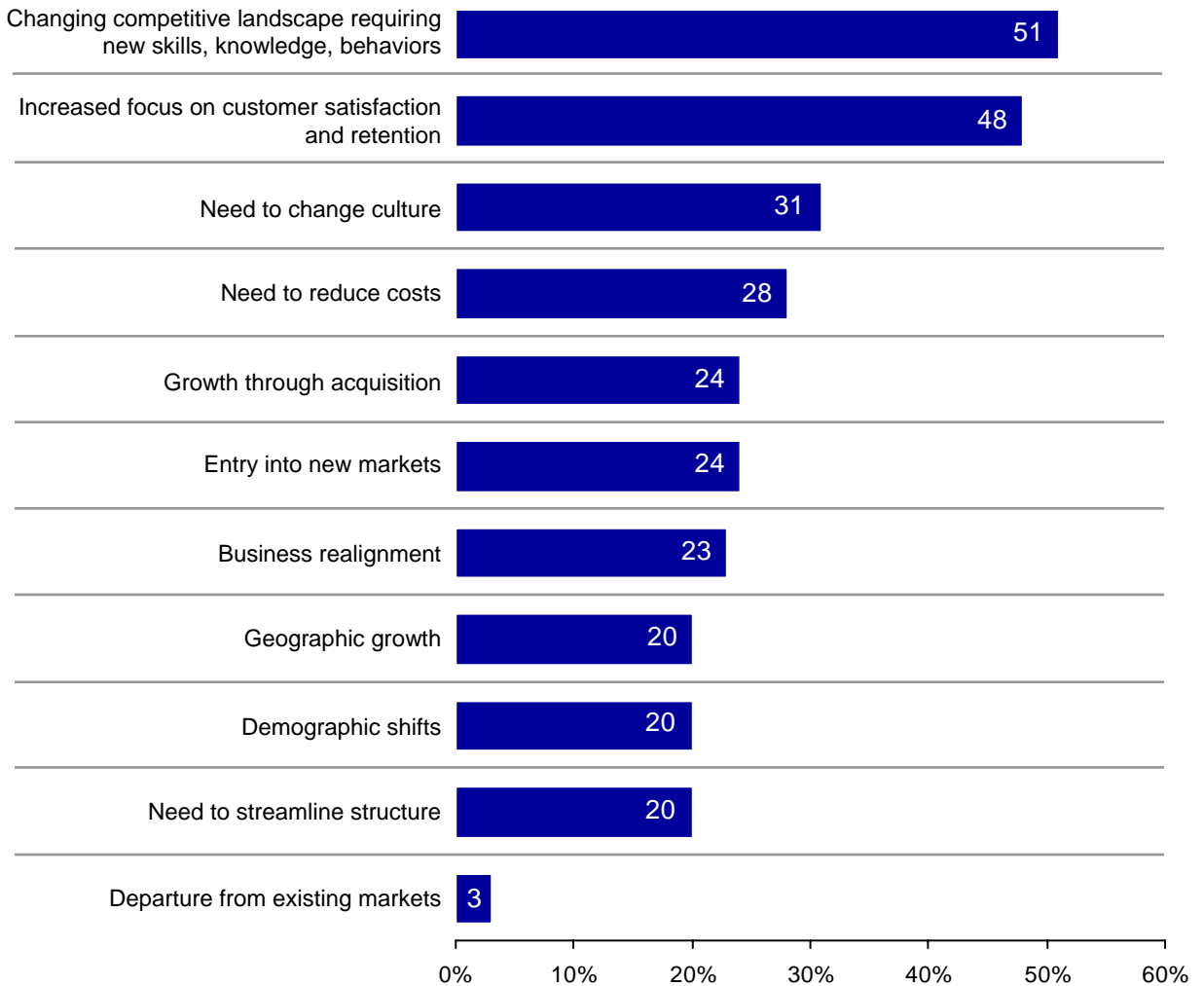
Percentage of workforce



Business needs are driving the focus on talent

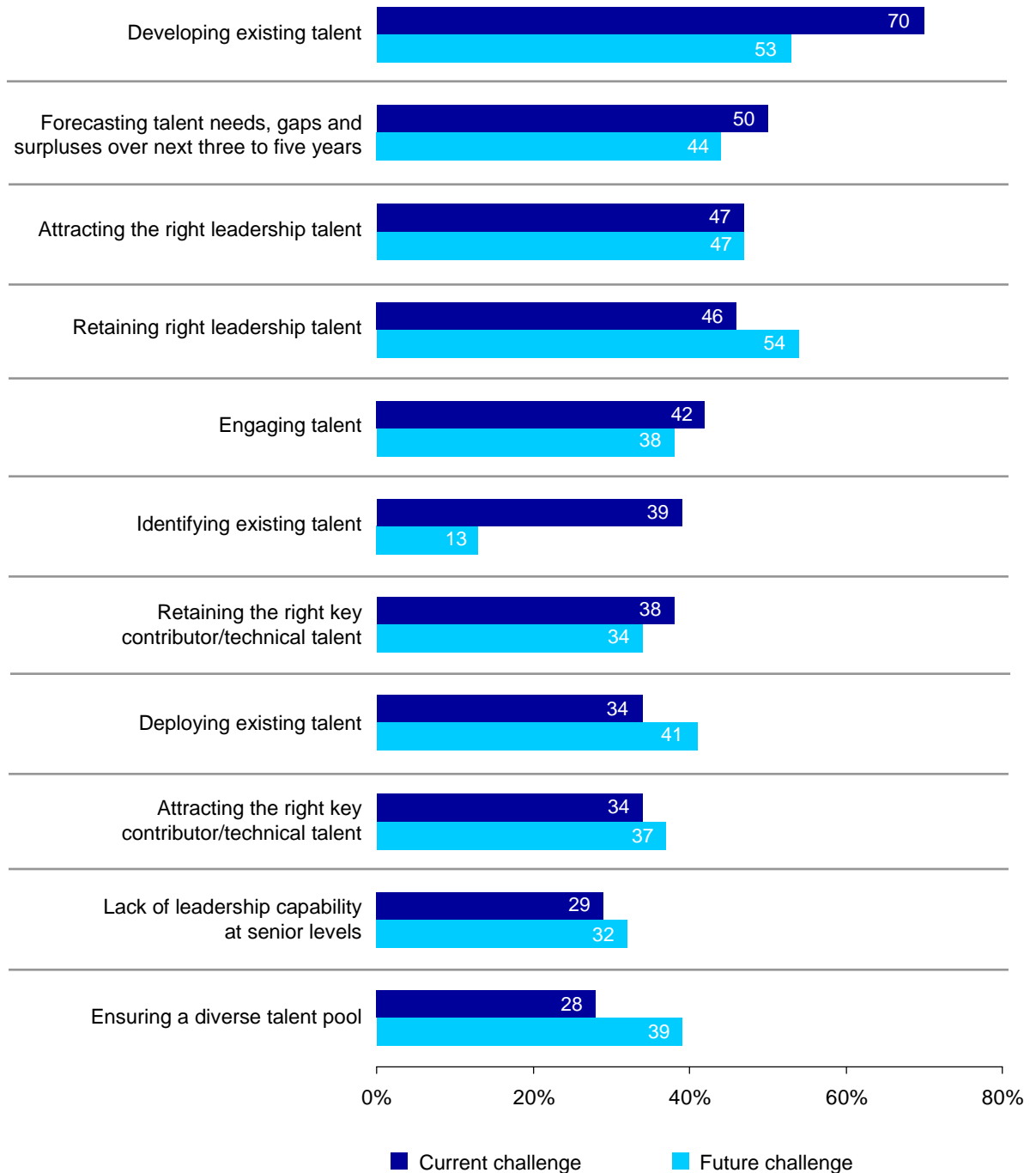
Exhibit 3: Factors driving the focus on talent management

% of respondents



Development of existing talent tops the list of current talent challenges

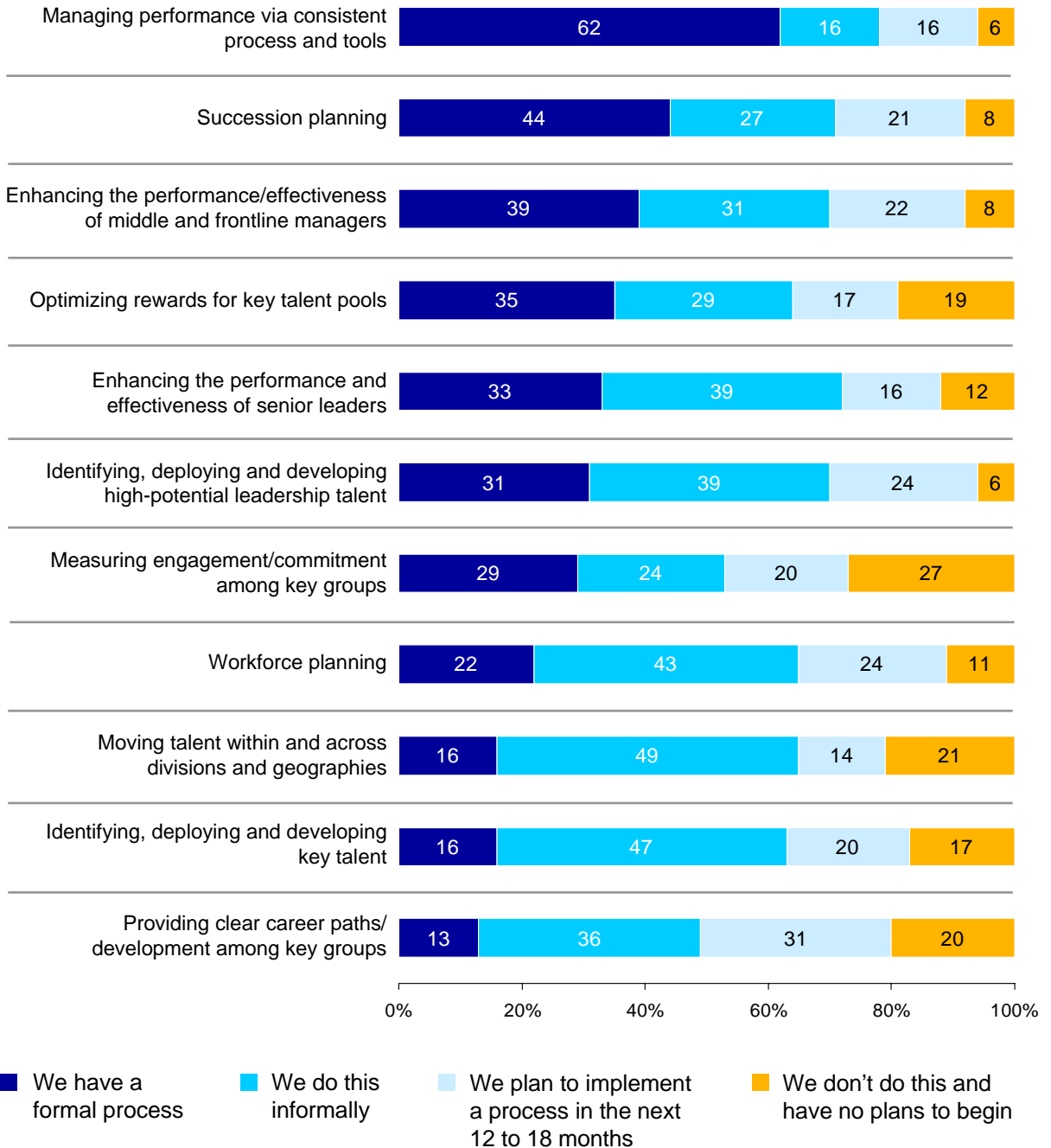
Exhibit 4: Top talent management challenges — current and future
% of respondents



Most processes remain informal, but there are signs this is changing

Exhibit 5: Prevalence of core talent management processes

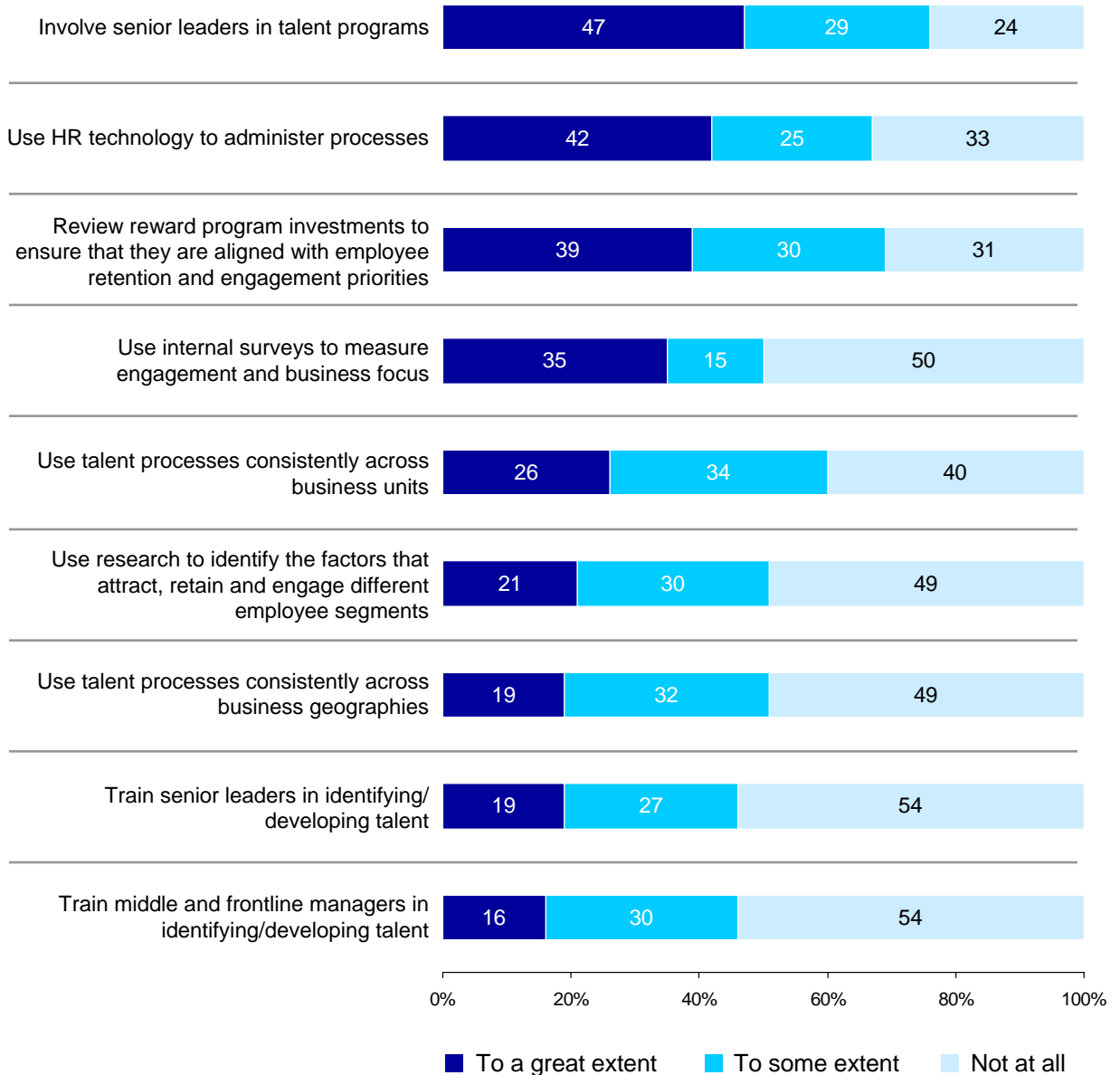
% of respondents



The picture is mixed when it comes to deploying current best practices today

Exhibit 6: Current use of best practices in talent management activities

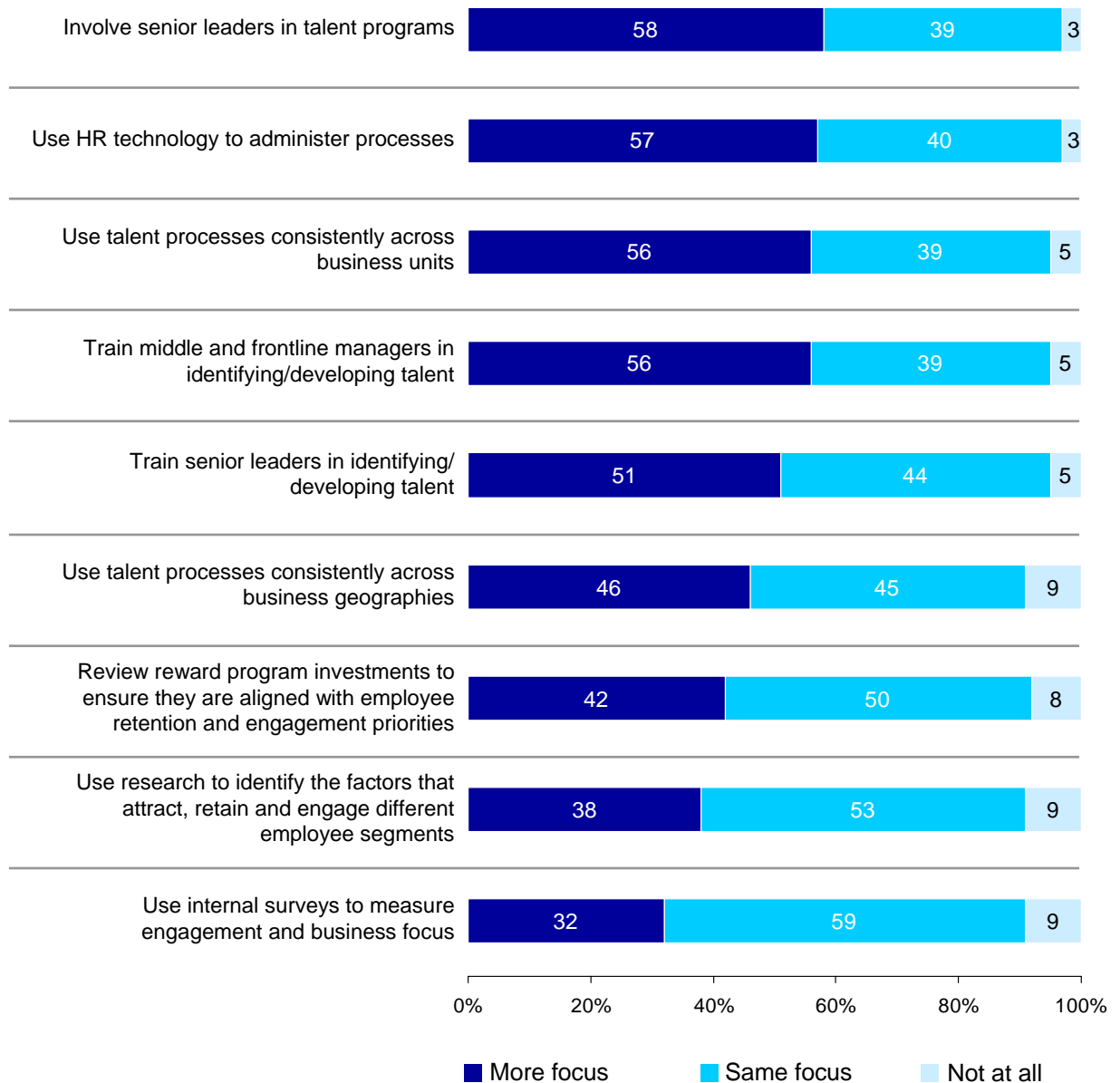
% of respondents



But evidence suggests more companies will adopt best practices in the near future

Exhibit 7: Plans to implement best practices over the next 18 months

% of respondents

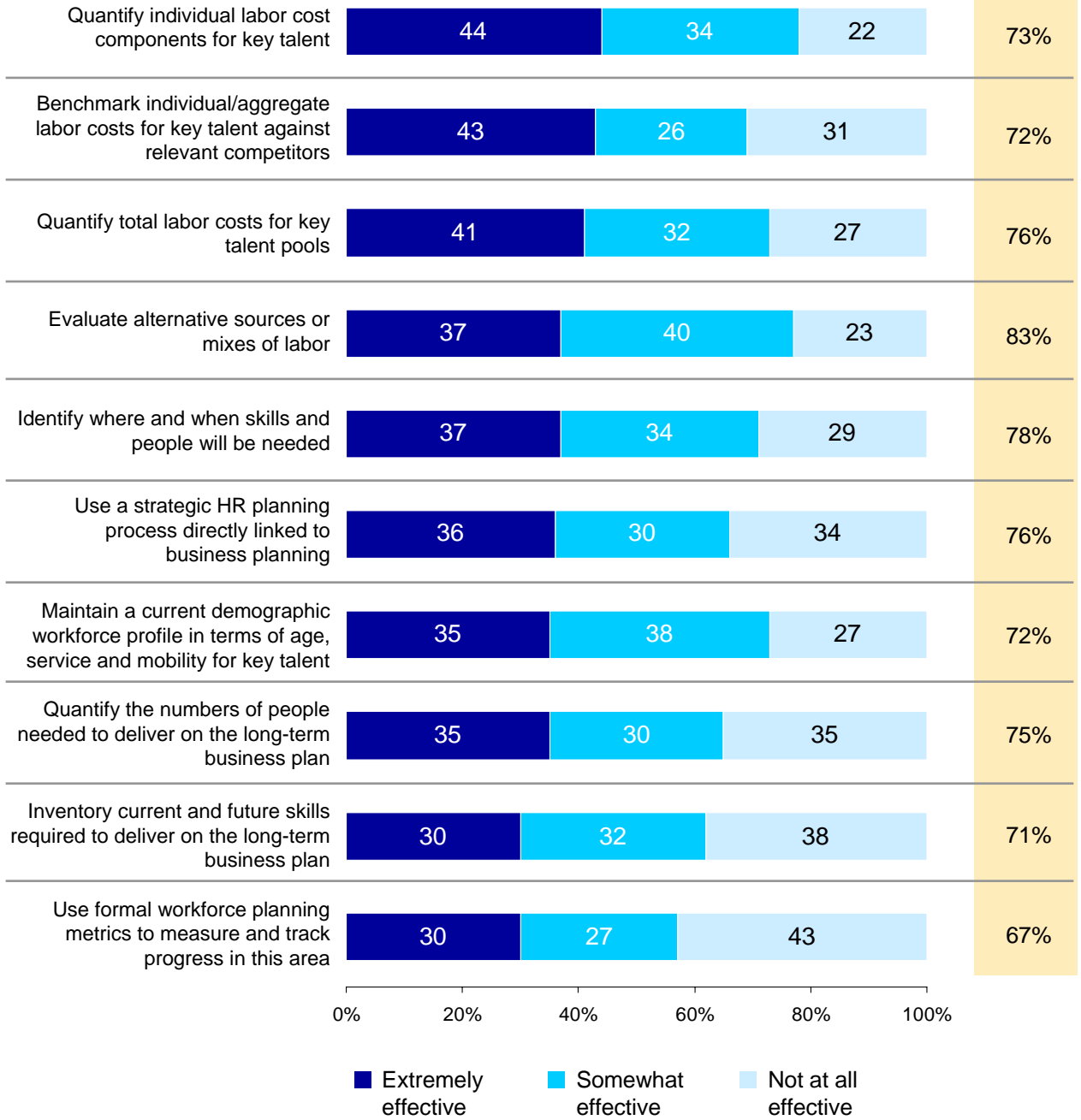


Workforce planning, although a critical challenge, has not yet fully taken hold

Exhibit 8: Effectiveness of workforce planning practices

% of respondents who use these practices

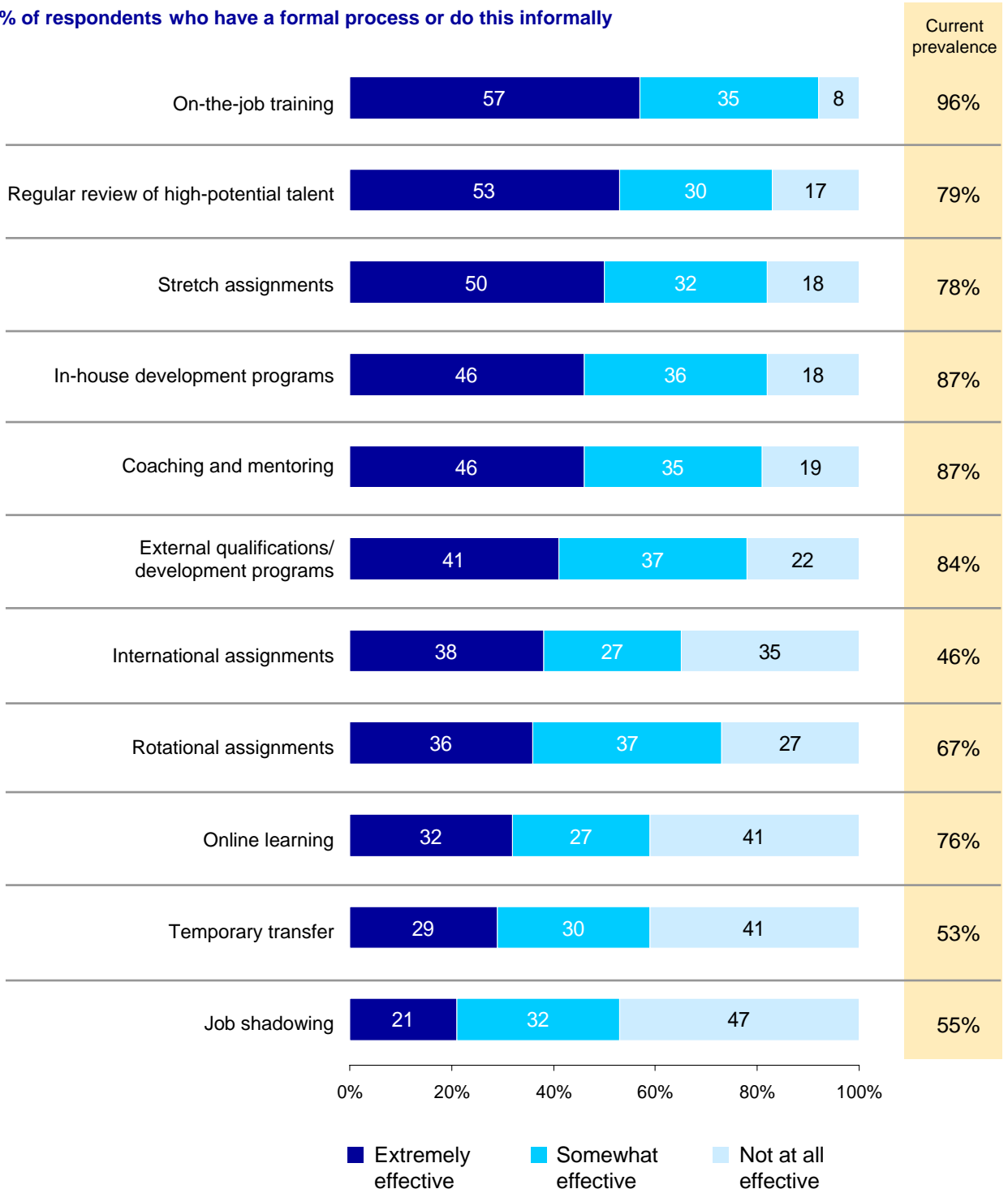
Current prevalence



Talent development involves a mix of traditional and more innovative practices, none of which are clear winners

Exhibit 9: Effectiveness of talent development practices

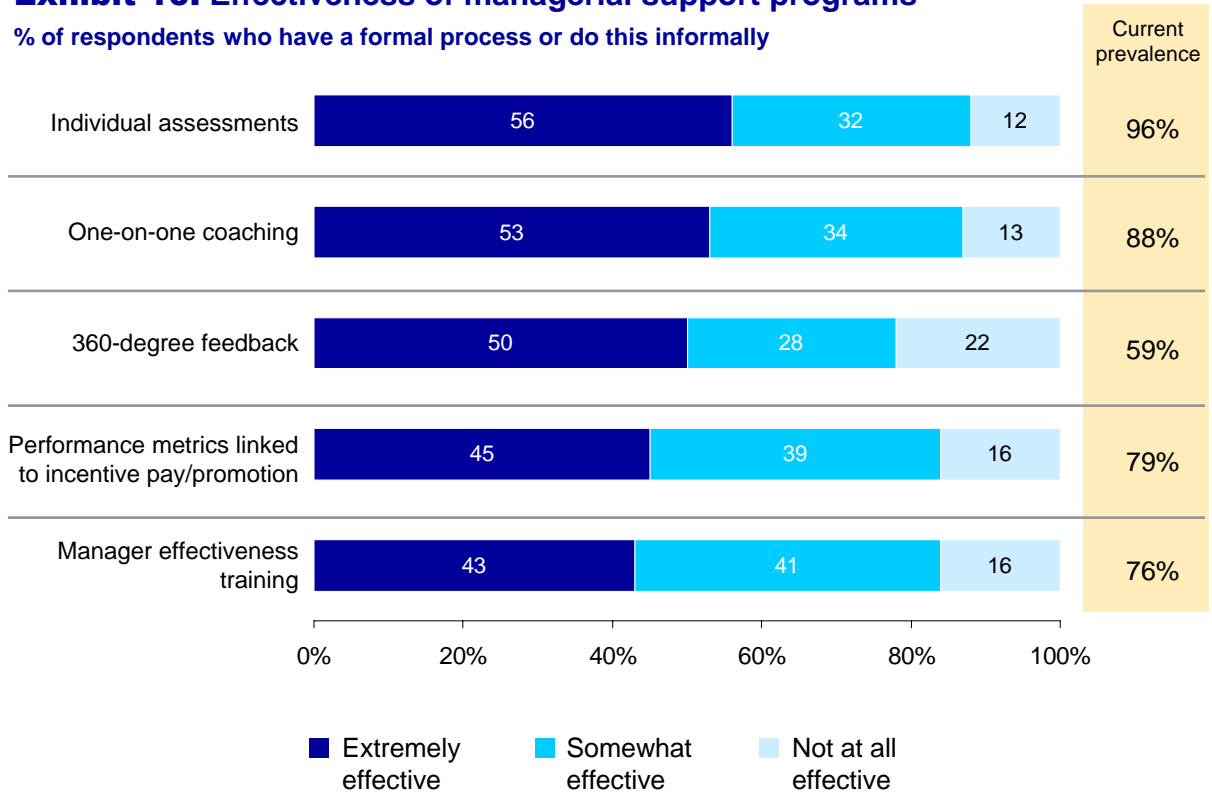
% of respondents who have a formal process or do this informally



Support for managers is prevalent, but not deemed highly effective

Exhibit 10: Effectiveness of managerial support programs

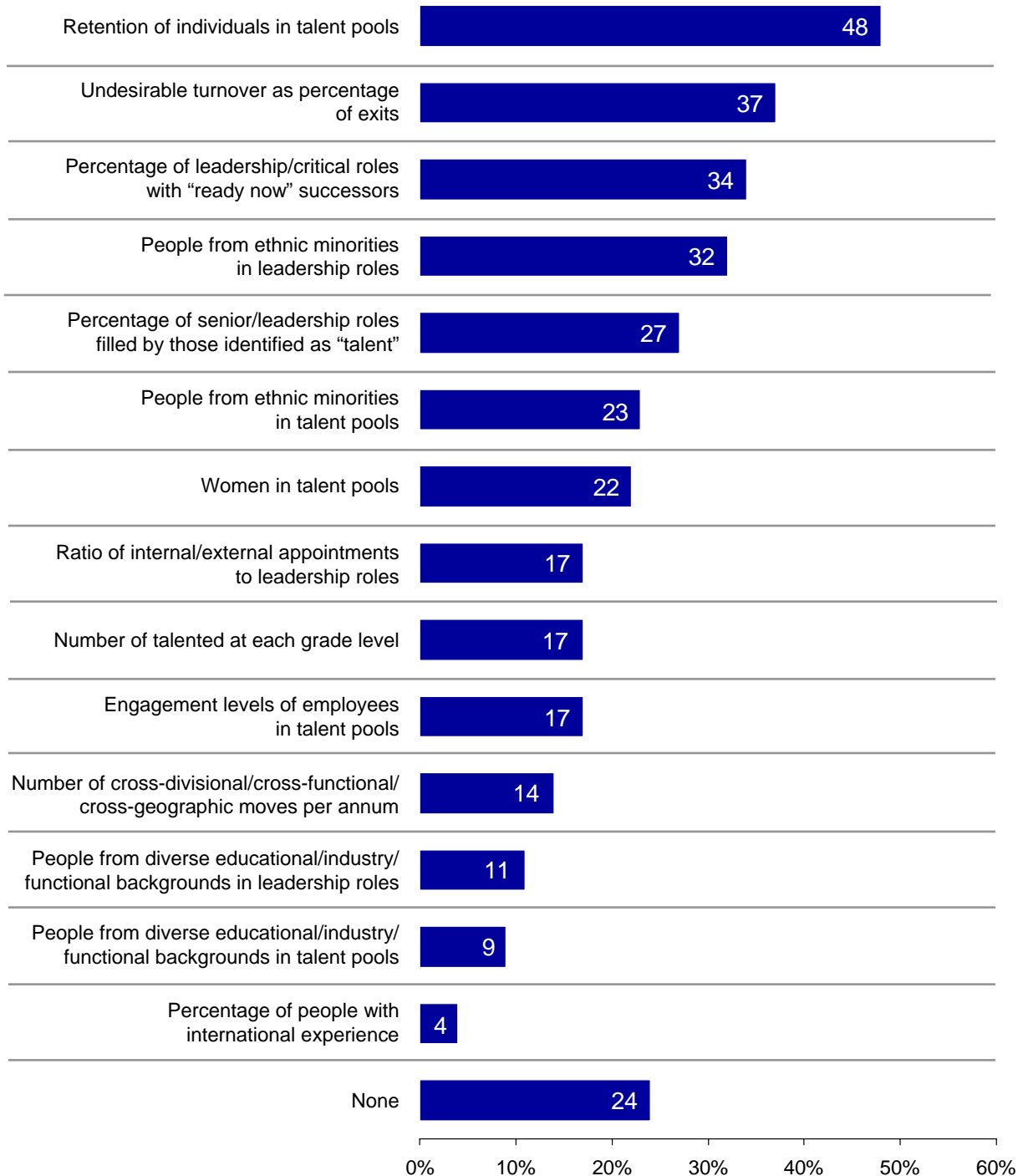
% of respondents who have a formal process or do this informally



Talent measurement is still in its infancy, particularly in areas involving diversity

Exhibit 11: How companies measure success in talent management

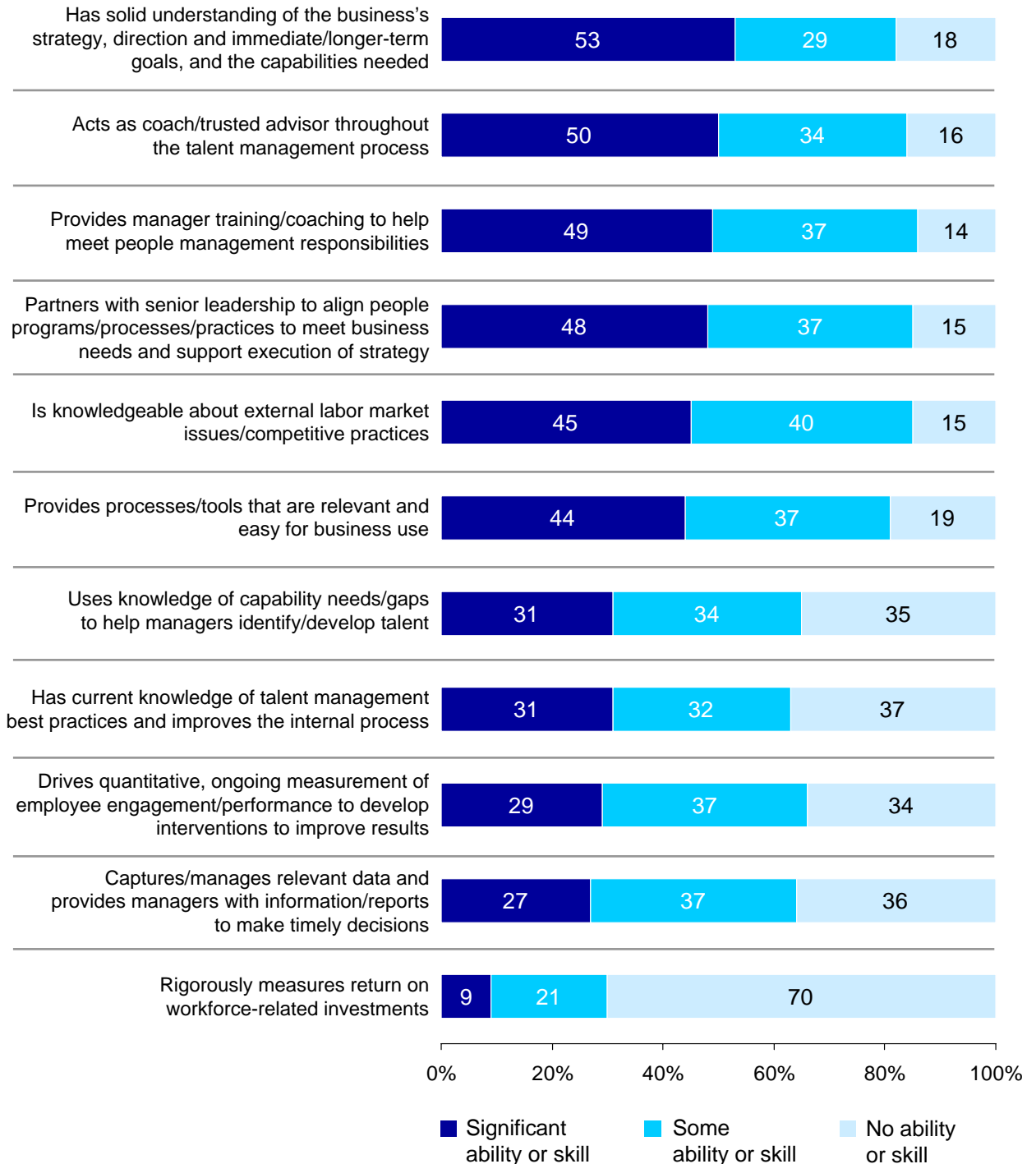
% of respondents



HR has work to do to step fully into a meaningful role in supporting talent management

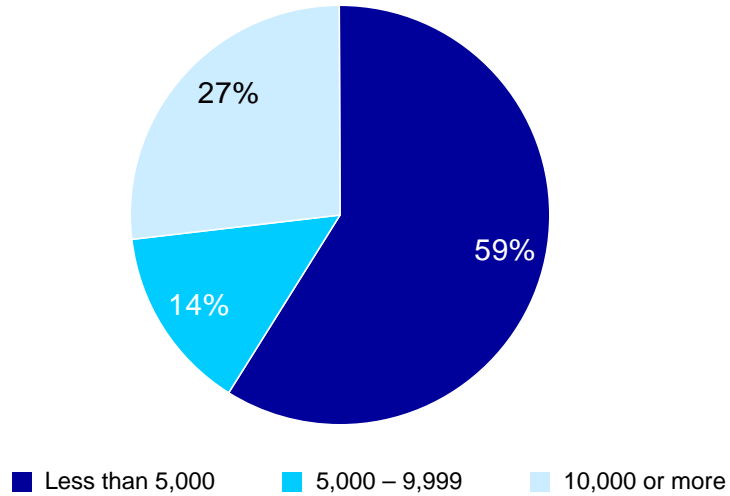
Exhibit 12: HR's ability to support line managers in managing talent

% of respondents rating HR ability



Survey demographics

Size of respondent companies by number of employees worldwide



Industries represented

