StepStone Solutions

Companies at a crossroads

A talent report written in co-operation with the Economist Intelligence Unit

Economist Intelligence Unit

Executive summary

After two years of uncertainty 2010 offers renewed optimism about prospects for economic growth. Although a recovery is welcome, it is the start, not the end, of a new journey. The post-recessionary environment will see companies at a crossroads, where critical decisions on managing talent will need to be made. The message from the survey of global executives summarised in this report is that businesses must concentrate on people and on their business talent - and do so urgently.

The survey highlights that low levels of employee trust and engagement, an ageing and increasingly age-diverse workforce, and a growing shortage of people with the experience and talent to manage across a global marketplace are common problems shared by businesses worldwide. After two years of cost-cutting, trust between staff and management is low. Moreover, there is increasing evidence of talent drift – as the most capable employees head to new jobs elsewhere. This, coupled with sharp falls in graduate and entry-level recruitment, threatens to create a 'perfect storm' for companies. A lack of talented, motivated staff will mean that organisations will find it difficult to implement successful recovery strategies.

Many businesses are now at a crossroads when it comes to talent management: they can implement success strategies that create and develop global talent pools; or they can choose to ignore the warning signs and risk experiencing an erosion in talent that is likely to result in sustained underperformance.

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The survey

In December 2009 the Economist Intelligence Unit conducted a global survey on behalf of StepStone Solutions to explore the talent management challenges faced by organisations as they recover from the worst recession in decades. The survey, the third in a series of annual surveys on talent management carried out on behalf of StepStone Solutions, attracted 410 senior executives from a wide variety of sectors and countries. The report that follows presents the highlights of the latest survey findings, together with related additional insights drawn from industry experts and commentators.

Location of respondents:

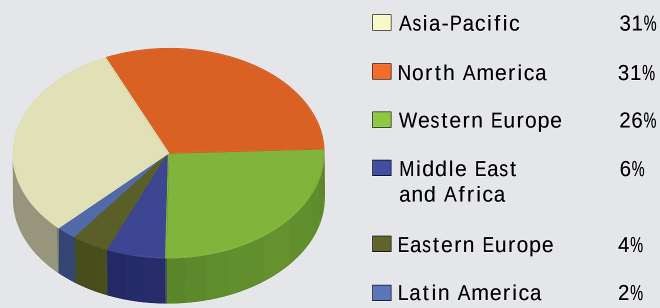

Figure 1

Executive role of respondents:

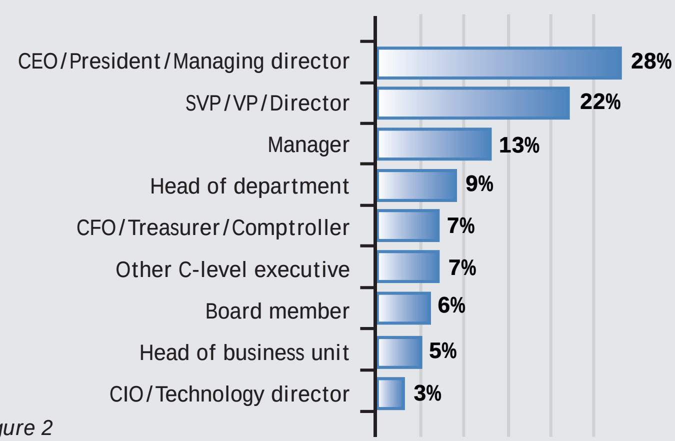

Figure 2

Key findings

- **Business confidence is returning and companies are hiring new talent.**

According to our survey, 44% of respondents expect a significant improvement in business prospects, while the same percentage foresees a slight improvement. This confidence is reflected in hiring expectations, with half of respondents saying their organisation would be hiring for new jobs and existing positions in the next 12 months. This contrasts sharply with last year's survey, when the largest proportion of respondents (40%) expected the outlook to worsen.

- **Talent issues are rising fast up the agenda, particularly in emerging and high-growth economies.**

In our survey, the availability of talented staff ranks overall third as a driver of growth according to 41% of respondents, behind only economic recovery and credit availability. The figure rises to 51% among executives from Asia-Pacific, and 53% among those in Eastern Europe. In the Middle East and Africa talent is seen as the number one driver of growth, selected by 62% of respondents.

- **Employee trust is an issue, especially in sectors hit by large layoffs.**

More than half (55%) of respondents have had to make redundancies over the past year, and only around a third (32%) say that levels of trust in their organisation are high. The problem is even worse in some sectors – for respondents from the automotive sector, 67% say that levels of trust in their organisation are quite low. And the figure is 44% in the hard-hit construction and real estate sector. Worryingly, while 38% of chief executives, presidents and managing directors see trust as high, 40% of line managers reveal that levels of trust are quite low, with just 16% saying that their employees are engaged.

- **Graduate recruitment is at low levels.**

While half of respondents say they will be recruiting for both new jobs and existing positions over the next year, only 6% plan to focus on graduate recruitment. This is down from last year's report, in which half of respondents said that graduate recruitment would be the most important strategy for their organisations' success.

- **Developing talent internally has become a critical strategy.**

Performance management, leadership development and training and development are the top three priorities for most respondents in the next 12 months (cited by 46%, 41% and 36% of those surveyed respectively). Buying in external talent is seen as less likely, with only 21% citing graduate recruitment as an important investment and just 7% pointing to investments in bringing talent in from overseas.

- **Managing an age-diverse workforce requires an increasingly customised approach.**

Almost half of those surveyed (49%) say that factors motivating employees vary widely between different age groups, with 50% citing career development as being important for younger workers and graduates, while 38% cite benefits such as stock options, healthcare and pensions as being important to employees aged 50 and over. Meanwhile, most see younger workers as more able to adapt to new roles and embrace new technologies (68% and 70% respectively), while older workers are viewed by 80% as being better able to work without supervision.

Introduction

After the most severe global recession in decades, signs of an economic upturn are evident, something reflected by the responses to our talent survey this year. With almost half (44%) of the respondents expecting a significant improvement in their organisation's business performance in the next 12 months, it seems clear that most consider the worst to be over. Companies that are aiming to take advantage of the recovery are looking to people as their greatest asset and consequently, rebuilding their talent pool. They will do this through buying in experienced executives, through internal people development initiatives or, to a much lesser extent than previous years, through recruiting graduates.

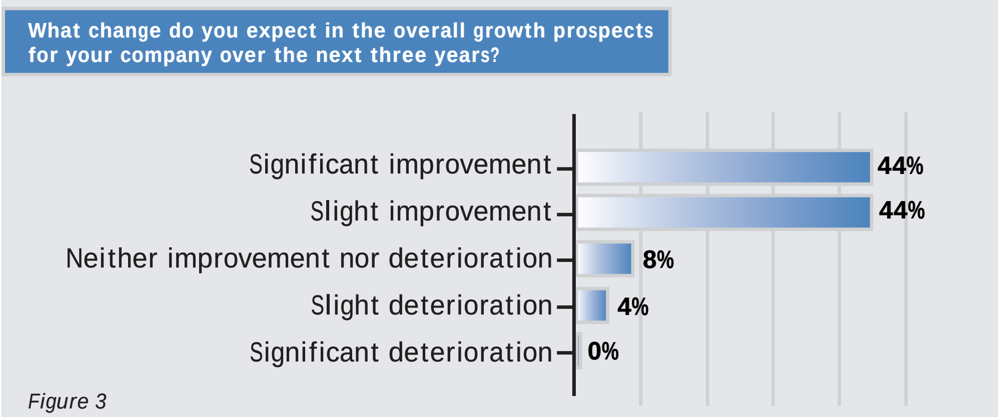

Figure 3

Geographically, there are divergences. North American and west European countries are placing much hope on expansion in emerging markets and are focusing on their talent management strategies in those areas. Meanwhile, many companies headquartered in those regions suffered less during the downturn, and as a consequence report continuing stiff competition for talent.

However, lingering uncertainty means that external hiring remains tentative, with more emphasis on building talent from within. Companies are recognising that they need to act now to rebuild bridges with existing employees if they are to take advantage of the upturn in the economy. Those that fail to do so risk facing a dearth in talent as their most promising and reliable employees head to new jobs elsewhere. Just 21% of respondents point to graduate recruitment as a critical investment for the coming year, while only 7% say their organisations will be acquiring talent from overseas during that period, down from 27% in last year's survey.

Figure 4

Critical decisions needed

Companies are at a crossroads, recognising that critical decisions on talent management need to be made if they are to take advantage of the economic upturn. Accordingly, talent management has risen up the agenda, ranking third (41% of respondents) in our survey after economic stability and consumer confidence as a factor in business success and significantly ahead of other perceived challenges such as debt financing and energy prices. However, there is evidence that many companies remain unconvinced that their strategies in this area are sufficiently robust. When asked whether they had a comprehensive succession management strategy in place at their company, for example, only 7% of executives strongly agreed with this statement.

Even during the recession, I never stopped looking for talented people, both from the skilled side and also younger, less experienced people.

Wilson Hon, EVP of HR, CSL, Hong Kong-based mobile communications company

After two years of cost-cutting, trust between staff and management is at low levels, prompting companies to make employee engagement even more of a priority. This is demanding the attention of talent management specialists, particularly in light of the fact that more than half (55%) of respondents say their part of the business has had to make redundancies in the past year. Among respondents describing themselves as managers, optimism on this issue was particularly weak, with 40% claiming that levels of trust in their organisations are currently quite low, with only 16% believing that their employees are engaged.

Age diversity also remains firmly on the agenda, particularly in Europe and the US, where the phenomenon of an ageing workforce is only likely to accelerate in the coming decade. In our survey, almost half of respondents (49%) had come across broad differences in the motivation of employees of different ages; 59% of organisations – and 66% of those based in North America – believe employees on the same level could now be 10 or 20 years apart in age. This is a trend that is likely to continue. As the labour market tightens, it will become increasingly more critical to retain and engage employees towards the end of their careers, and this may be particularly pertinent for employers in the UK. The Equality and Human Rights Commission has recently called for the current retirement age of 65 to be scrapped, saying it is out of date and discriminates against people who want to carry on working. The UK government has promised a review of the law.

Confidence levels on the rise

With renewed business confidence being expressed by many executives, it is perhaps unsurprising that many companies have plans to start hiring. Half of respondents claim that their business would be recruiting for both new and existing positions in the coming year.

Those most positive on prospects for recruiting staff were respondents in Asia-Pacific, with 61% of individuals from that region claiming their organisation would be engaged in recruitment activity over the next 12 months.

This sentiment is reflected in comments from senior human resources executives whose companies are headquartered or have divisions in the Asia-Pacific region. “We have offices based in Asia and it’s always been a very competitive market, even through the current recession,” says Neil Roden, group director of human resources at Royal Bank of Scotland.

Wilson Hon, executive vice-president of human resources at CSL, a Hong Kong-based mobile communications company, agrees. “Even during the recession, I never stopped looking for talented people, both from the skilled side and also younger, less experienced people,” he says.

Some sectors appear more bullish than others about their ability to add to their workforce in the coming year. This is the case in the professional services sector, in which 57% of respondents claim their organisation would be looking to hire in the next year, in the IT and technology sector (58%), and in the healthcare, pharmaceuticals and biotechnology sectors (69%).

This mirrors trends in the growth of these industries, particularly healthcare, which is expanding globally, and particularly in the US where healthcare spending has been rising sharply. Meanwhile, although the IT industry has been affected by the downturn, the fact that technology is becoming critical to the operations of an increasing number of industries has created a relatively stable employment market for the sector.

While some industries remain wary of boosting headcount, with some still expecting to have to make layoffs, the hiring halt appears to be easing. Only 9% of those questioned expect a hiring freeze to be imposed or to remain in place in their organisation in the next 12 months. This is down from 22% in last year's survey.

Which of the statements below best describes the recruitment strategy you expect to see at your firm over the next 12 months?

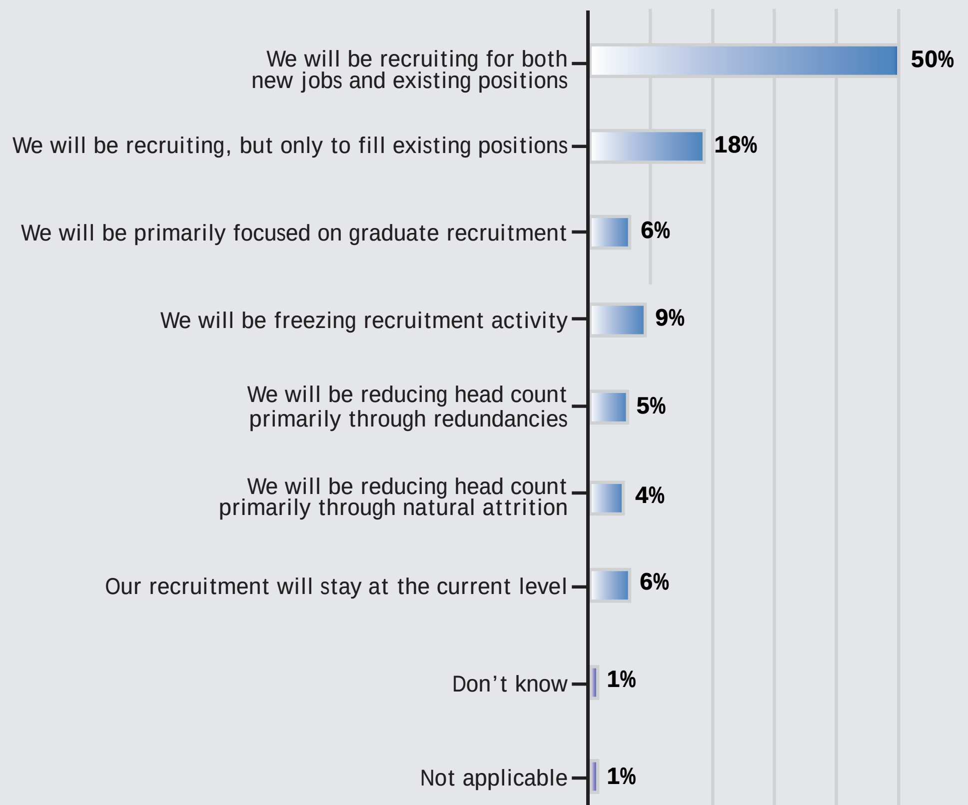

Figure 5

> *There's more demand than supply [for top-tier executives] – and in the future that is going to be even worse.*
>
> ***Jean-Michel Caye, Partner, Boston Consulting Group***

Moreover, there are other signs that companies are starting to hire again. In the US, for example, the Conference Board, which provides resources on management, reported a modest increase in demand for labour, with job offers posted online in December 2009 up by 255,000, compared with an average monthly increase for the year of 60,000. However, recruitment will, initially at least, be far more targeted than it was during the boom times, and there is evidence of this caution in recent US employment figures, with December's news of a countrywide loss of another 85,000 jobs.

"Coming out of a recession, you are not going to be recruiting people unless they're absolutely critical to the business," says Theresa Salter, UK-based human resources director at Jones Lang LaSalle, a global real estate services firm.

She believes that the recession has brought an increased focus to bear on recruitment strategies. "It may be maintaining headcount, getting the right individuals in place and making sure they are equipped to maximise their potential and can deliver more to the business, as well as providing highly competitive compensation."

For some companies, this could be a former employee. In the US, organisations are rehiring former employees because of their familiarity with the job and the company's culture, according to Right Management, a talent management group that is part of Manpower, the employment services group. It found that 18% of laid off workers are being rehired by a former employer, with only 10% in 1,000 employers saying they would not rehire past employees.

When it comes to senior executives, competition for talent is likely to be fierce. In developed countries, the top-tier executives receive at least one job offer a year, according to Jean-Michel Caye, a Paris-based partner of the Boston Consulting Group (BCG) and worldwide leader of its human resources practice. In a rapidly developing economy, by contrast, these individuals might get an average of three or four a year. "There's more demand than supply [for top-tier executives] – and in the future that is going to be even worse," he says.

Employee engagement at a low ebb

The downturn and the related job losses – with 55% of our respondents saying their organisations have had to make redundancies in the past year – have taken their toll on employee engagement.

Just under a third (30%) of those surveyed believe that levels of trust in their organisation are very low or quite low and they expect to see resignations, compared with 42% who believe levels of trust are high or very high. As managers become increasingly aware of the fact that their most capable employees will head to new jobs elsewhere, the race is on for companies to rebuild levels of trust and motivation among their staff or risk undergoing a difficult path to recovery post-recession.

Figure 6

Senior staff members appear to have a more positive view of levels of employee engagement than others. Of respondents to our survey, 38% of chief executives, presidents and managing directors say that levels of employee trust in their organisation are high. When it comes to managers, however, 40% say that those levels of trust are quite low, with only 16% believing that their employees are engaged.

Moreover, in some places, employee engagement appears to have hit a low point, particularly in the US, where a report from the Conference Board found that job satisfaction is falling. Only 45% of respondents to its survey reported that they were satisfied with their jobs, down from 52.1% in 2005. Meanwhile, research from Right Management released in November last year indicates that many workers are not happy with their current job, with 60% saying they intended to leave.

Figure 7

> *People are seeing the impact of the economy around them and people are worried about their future, so we emphasise the importance of communications.*
>
> ***Paul Jarrell, SVP of HR, DSM, a Dutch life and material sciences group***

Business unit leaders could play a crucial role in helping to raise levels of employee engagement. Over the last 18 months, during the downturn, many business unit leaders were not involved in strategic decisions such as talent management. For many companies, such measures were centralised at board level as staffing decisions were made quickly in response to worsening economic conditions. The gradual improvement in the economy should give heads of business units an opportunity to play a strategic role when it comes to talent management. In our survey, just under a third of respondents (30%) believe that business unit heads should approve the investments their organisation makes in people, but just 16% say that this is currently the case in their organisations.

Paul Jarrell, senior vice-president of human resources at DSM, a Dutch life and material sciences group, stresses the need to reassure employees during a downturn. "People became very nervous," he says. "It differs by market but, overall, people are seeing the impact of the economy around them and people are worried about their future, so we emphasise the importance of communications."

Mr Jarrell's view is echoed by the responses to our survey, with clearer communications strategy selected by 57% of those respondents who had made redundancies in the last year as the most important action their organisation needs to take to rebuild employee trust.

This figure rose to 69% among respondents from Asia-Pacific. Half of the high-level executives – CEOs, presidents and managing directors – agreed, while 46% of this group ranked second the need to make senior management more accessible.

Figure 8

For Linklaters, a global law firm headquartered in the UK, the challenge of managing layoffs also provided the catalyst for more open employee communications than is seen in a sector that is traditionally relatively opaque. "Like many, we went through a restructuring and redundancy exercise, and that in itself drove the need for a new sense of involvement and engagement with our people," says Jill King, human resources director at the firm.

"We're having new consultative forums such as town hall meetings, where we're engaging people more in the business issues," she explains. "So to some extent, we've created opportunities from adverse conditions."

As well as highlighting communications, almost half (49%) of respondents pointed to the need for their organisations to create clearer career paths for employees. "Job security has become of greater importance to people as well as work-life balance, and new ways of working have become far more important to people," says Mr Jarrell of DSM. "But career development is still the top choice."

In recognition of this fact, SCA, a global paper, packaging and personal care products company headquartered in Sweden, has created an open online system for its internal job vacancies. "The opportunities are sitting out there on the web," explains Caroline Brent, vice-president of human resources operational development at SCA Sweden. "That makes

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Caroline Brent,
VP HR at SCA Sweden

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However, money also remains firmly on the agenda, with a quarter of respondents selecting better remuneration as the most important way of rebuilding employee trust (following a round of redundancies) and creating employee trust. Younger workers from those companies that had made redundancies in the last year placed a higher emphasis on this – some 50% of respondents between the ages of 18 and 29 highlighted remuneration, for example, with 30% of those between the ages 18-39 choosing this option.

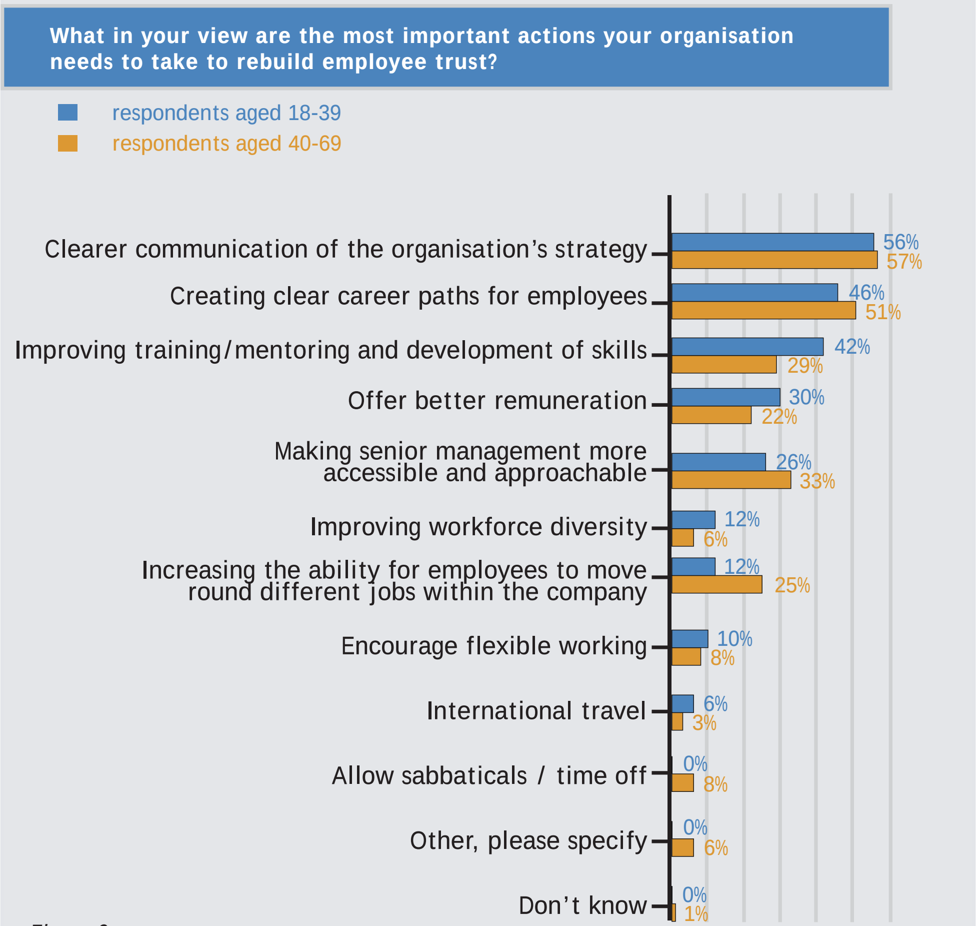

Figure 9

"There are undoubtedly issues around that generation that are important, such as what you do as a business for community and the environment, for example," says Mr Roden of Royal Bank of Scotland. "However, if you speak to the specialist companies dealing with graduates, they tell you they'll ditch all of that for a higher salary."

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Jill King,
HR Director,
Linklaters

Employer rankings

As the concept of employer branding – the perception of how an organisation is perceived as an employer – becomes more important to companies' talent strategies, they will be keeping an eye on a range of surveys that rank different companies as good places to work.

The Great Place to Work Institute is among those that produce these surveys, measuring companies on three interconnected relationships – that between employees and management, between employees and their job/company and between employees and other employees. In Europe, the Institute has created a ranking from 16 national lists.

In its 2009 European ranking, top of this list is Microsoft (through its offices in Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden and Switzerland). Meanwhile, in second place is impuls Finanzmanagement, a German company that specialises in the procurement of private health and supplemental health insurance, while ranked third is Google (through its offices in the Netherlands, Spain and Switzerland).

In the US, the ranking places NetApp, a data storage and management company, at the top of the list, followed by Edward Jones, a financial services company.

Another organisation engaged in the rankings business is Universum, a Swedish strategy consultancy that each year polls about 120,000 students in 11 of the world's leading economies to choose their top employer from 150 organisations. The polls – divided into engineering students and business students – have traditionally been conducted on a national basis. However, in 2009, they were aggregated for the first time, revealing Google at the top of the list, followed by Microsoft.

Fostering talent from within

As fewer companies are looking to external sources for skilled employees, the focus of talent is turning inwards. Graduate recruitment is cited as a source of talent by only 21% of respondents, with only 7% highlighting recruitment from overseas. This is in marked contrast to last year's report, when executives talked of turning to China and India for new sources of talent. Last year, 50% of respondents highlighted graduate recruitment as most important to their organisation's success, with 27% citing the ability to hire from overseas as important to the success of recruiting and retaining talented employees.

Fostering talent from within will offer organisations the opportunity to invest further in engaging with their existing employees. However, with recruitment of new talent into the organisation seemingly a low priority, companies are also facing the challenge of a potential talent drought in the long term. But the prospect of losing key existing staff, creating a talent drift, as capable employers head to new jobs elsewhere, seems to be a more current concern. Companies in our survey cite their greatest investments over the next 12 months as being performance management (ranked first by 46% respondents), leadership development (second, at 41%) and training and development (third, at 36%).

Planned investment in graduate recruitment in the next 12 months across regions

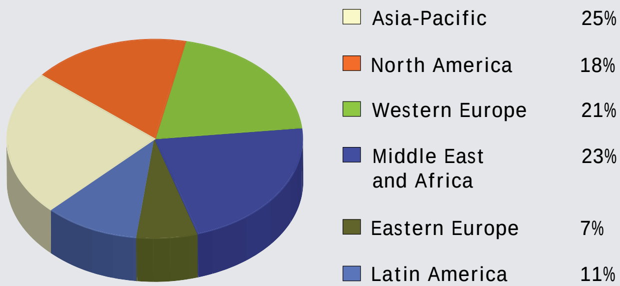

Figure 10

Doug Ready, visiting professor of organisational behaviour at London Business School and founder of ICEDR, a global network for human resource development, is sceptical about the ability of companies to take a long-term, strategic approach to talent and development. In research conducted by his organisation last year, more than 70% of senior human resource professionals in the companies surveyed expressed concern that their top executive teams were going to cut back radically on the talent and development initiatives they had built up over the past decade.

In terms of managerial and financial resources, where is your company planning to make the greatest investment over the next 12 months?

Figure 11

"How strategic could these efforts be if they took a disproportionate hit when it came to the downturn?" asks Professor Ready. "You may be forced into a decision between training people or letting people go, but if you're looking at these efforts more strategically companies should be using development efforts to build capacity."

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There is evidence that this approach has an impact on the bottom line. In a three-year examination of talent management strategies, the Hackett Group, a global strategic advisory firm headquartered in the US, found that companies with highly developed talent management capabilities experienced earnings that were 18% higher than typical Global 1,000 companies.

Mr Caye of BCG says that the most far-sighted companies take this approach, particularly during a downturn.

"Take General Electric and IBM during the Great Depression," he says. "What made them different from other companies at that time is that they restructured and fired a lot of people. But they also paid a lot of attention to keeping their best resources in excess of actual needs, developing and nurturing them so they could come out of the crisis stronger."

Some companies appear to be adopting such a strategy. Professor Ready cites the example of a financial services company that was particularly badly hit by the recent global financial crisis. Instead of cutting development, the company increased investment in this area and launched action teams for business priorities, enabling it to be well positioned for the upturn.

Investing in training

Some companies have found that investments in training and development pay off during a period when hiring is on hold and their business environment is shifting. Linklaters has recognised that its clients are becoming more global and may have investment interests in a range of different sectors and locations.

Like many firms, Linklaters has been through a restructuring and redundancy exercise. This is where the company's Global Resourcing Strategy has paid off. The initiative was designed to streamline the development of its lawyers in order to deliver consistent services to clients regardless of their location or sector.

"We have a big emphasis on flexibility in the widest possible sense of the word," says Ms King. "It means developing people who are prepared to do things differently, take on different responsibilities or work in a different place."

The approach has given its staff a broader skills base, which makes them more versatile and able to work across borders. In addition, it has allowed the firm to do more with existing staff.

"We put a lot of additional emphasis on our learning and development programmes to demonstrate that in a very tangible way we continue to invest," says Ms King. "We actually accelerated and increased our spend on what, for a lot of organisations, might be an easy budget to cut."

Some companies have also continued to focus on leadership training. Carlson Wagonlit Travel, headquartered in the US, has an 18-month programme called the Global Leadership

> *We have decided it's important for us to continue to grow our people and build that next level of capability in the organisation, and so we're launching a new class in 2010.*
>
> ***Nick DeNicola, acting global HR Director, Carlson Wagonlit Travel North America***

Journey, organised in conjunction with six business schools around the world, to help its executives broaden their leadership skills.

"It would be easy for us to cut that – it's not a cheap programme," notes Nick DeNicola, acting global human resources director and head of human resources for Carlson Wagonlit Travel North America. "But we have decided it's important for us to continue to grow our people and build that next level of capability in the organisation, and so we're launching a new class in 2010."

Technology can also help companies maintain training and development while keeping a tight rein on costs. Carson Wagonlit Travel, like many companies, uses a learning management system to deliver programmes online across the company.

Professor Ready argues that savvy companies need to recognise that internal talent development programmes provide a high return on investment in the long term, so it is worth investing time and effort in retaining as many key people as possible, particularly as growth prospects start to improve. "Then the question of cutting that development never even comes up because it's core to the business," he says.

Graduate recruitment

While companies often talk about the importance of filling their talent pipeline, there is evidence that graduate recruitment slowed considerably during the worst periods of the global recession and remains sluggish. Graduate recruitment ranks fourth in terms of where companies are planning to make investments in the coming year, falling to seventh place for respondents from North America and eighth place among Latin American executives.

Meanwhile, only 6% of all respondents say that they would be focusing primarily on graduate recruitment in their talent strategies over the next 12 months, a figure that falls to 3% among respondents from North America. "Companies put freezes on acquiring new recruits coming out of universities," says Professor Ready.

In the UK, a study of 100 employers released in July last year by High Fliers Research showed that the year's intake of new graduates had been cut by 28%, with entry-level vacancies in investment banking being reduced by 56%.

For some, this was reflected in the number of applicants for positions. Linklaters, which continued its graduate recruitment throughout the downturn, noticed a marked increase in the number of graduates applying for jobs at the law firm. "Normally, we would be competing with investment banks and financial services for the top graduates, but all of a sudden banking lost its appeal and becoming a lawyer became an attractive and safer option," says Ms King.

> *From the CEO on down our leaders are in classes and teaching.*
>
> ***Kevin Wilde,***
> ***VP and chief learning officer,***
> ***General Mills***

Case study: General Mills: Power to the managers

There is an old adage in the business world that people "join a company but leave a boss". With this in mind, General Mills, a US-based global food company, last year announced a new initiative, which it is now rolling out, that is designed to turn more of the company's managers into what employees would describe as "great managers".

Through employee surveys and turnover polls, General Mills believes that currently about 25% of the managers throughout its workforce are "great managers" - a figure the company wants to increase through this programme. However, this particular investment in managerial excellence is not only designed to attract and retain more employees - it is also about enhancing employee engagement, innovation and productivity. "Our research has shown that people leave bad bosses and stick around for good ones," says Kevin Wilde, vice-president and chief learning officer at General Mills. "But also, they'll perform at an incredibly high level for great bosses, and that's an insight a lot of companies have not come around to yet."

The initiative, which Mr Wilde says will probably run for several years, involves a range of training and development programmes. Moreover, much of the in-house development training is conducted using senior General Mills executives. "From the CEO on down, our leaders are in classes and teaching," says Mr Wilde. "And in our CEO's case, he's gone through his own 360-degree feedback this year with his team."

However, the new programme will also use the company's regular individual development plan (IDPs) in new ways. Mr Wilde cites the example of one department at the company, which has extended the IDP discussions between team members and their line managers to include executives that are a level above the line manager concerned.

This has several advantages. First, it has raised the profile of career development discussions to a higher level, involving greater numbers of senior managers in the development of talent. But it also provides an added incentive for line managers to have productive IDP discussions with their team members because they know that their own bosses are going to be scrutinising those discussions too.Every manager will receive some form of training as part of the programme and the results will be measured through employee surveys and other instruments, according to Mr Wilde. "We want everyone to take a greater step towards effectiveness and obviously we want fewer bad bosses," he says. "And we want to push up the number of employees saying 'I work for a great boss'."

Yet, despite the low expectation of graduate recruitment from many of our respondents, experts stress the importance of paying attention to this talent pool, particularly when it comes to long-term workforce planning and as a means of building future leadership. Given less of a focus on new talent, organisations could be facing a gap in talent in the long term. "You need never stop feeding the pyramid with bright young people," stresses Mr Caye of BCG.

> ..if you stop the recruitment of these future executives for two to three years, then you lose your pipeline and then it takes you years to catch up.
>
> **Jean-Michel Caye, Partner, Boston Consulting Group**

Some companies have found creative ways of maintaining graduate recruitment levels even when hiring has slowed down. The MBA programme at Simmons & Simmons, a UK-based legal firm, developed and launched in March 2009 with London-based BPP Business School, is not only a way of enhancing the business skills of lawyers. By offering it as an option to trainees, it has allowed the firm to defer for a year the start date of recruits who take up the option. Deferral has also been a strategy at Linklaters. "We had already hired people for 2011 and 2012, and we didn't change our approach," says Ms King. "But we did ask some to defer their starting dates to even out the intakes."

In some regions, where competition for graduates has traditionally been tightest, companies decided to stick to their recruitment commitments. This was the case with Infosys, an Indian technology services giant, where 60% of recruitment is made up of graduate hires. For its June 2009 intake, the company had made 20,000 job offers on campus a year earlier, a commitment it upheld.

"One of the things we agreed to was that investment in people would continue," confirms Nandita Gurjar, head of global HR at Infosys. The company, she explains, decided to beef up the capabilities of these recruits. First, it has extended the three-month training they all undertake on arrival to six months, and they are now trained in two technologies rather than one. This provides greater flexibility when it comes to deploying these employees across the company. But however companies manage their intake at this level, Mr Caye of BCG points out that, for leading companies, graduate and lower-level recruitment remains vital, particularly since for these organisations the internal fill rate when it comes to senior leadership positions is an average of 80% to 90%. He believes that as a portion of talented young executives will leave or be poached by other companies over the years, companies need to keep that pipeline of promising internal candidates filled.

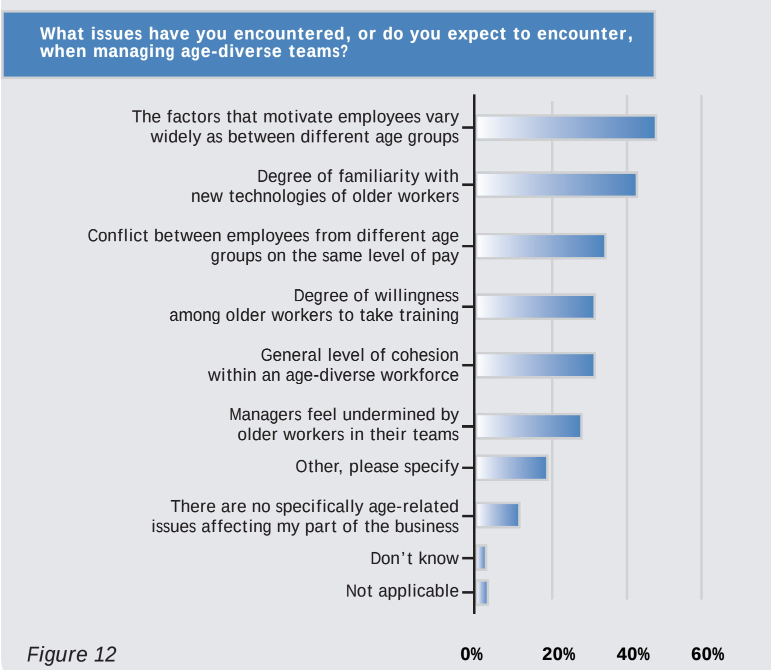

Figure 12

> ..if you go out of the graduate market it can be very damaging to the brand and it can take a long time to build that back up... with lots of people pulling out [of graduate recruitment], you get better candidates.
>
> **Neil Roden, Group director of HR, Royal Bank of Scotland**

"If you want to make sure you are nurturing your 300 top guys, you need to be making a 10- to 15-year plan," he suggests. "So if you stop the recruitment of these future executives for two to three years, then you lose your pipeline and then it takes you years to catch up."Mr Roden of Royal Bank of Scotland agrees. The bank, he says, has remained in the graduate recruitment market. Although there was a slight reduction in intake in 2008, last year numbers were back up to the norm.

"We made a very conscious decision to remain in the graduate market," says Mr Roden. "It's a good source of talent, and if you go out of the graduate market it can be very damaging to the brand and it can take a long time to build that back up. Consequently, with lots of people pulling out [of graduate recruitment], you get better candidates."

The High Fliers survey confirms this trend in the UK, showing that employers received an average of 45 applications for every graduate vacancy, up by a third from 2008 levels.

But during a recession, when many companies are suspending hiring activity in this area, competition for the brightest and best graduates becomes less intense, so executives stress the need to continue to build a brand profile among students.

This is the view of Ms Salter of Jones Lang LaSalle, who says that the company has continued to make its presence felt on campus through networking events and presentations. "We reduced [graduate recruitment] but we recruited more than our competitors," she explains. "And we'll continue to recruit trainees because they are the lifeblood coming through the company."

Managing the greens and the greys

If young, green employees provide companies with their pipeline of talent, they also have a rich seam of experienced staff nearer to the end of their careers. Nearly half of respondents to our survey (46%) report that their workforce is largely made up of people between the ages of 30 and 50, and a quarter agree strongly that there is a 10- to 20-year age difference in employees at the same level in their organisation. This range of ages could make the challenge of rebuilding existing employee relationships harder still as organisations will need to balance and manage the different motivations and skills sets related to such age differences.

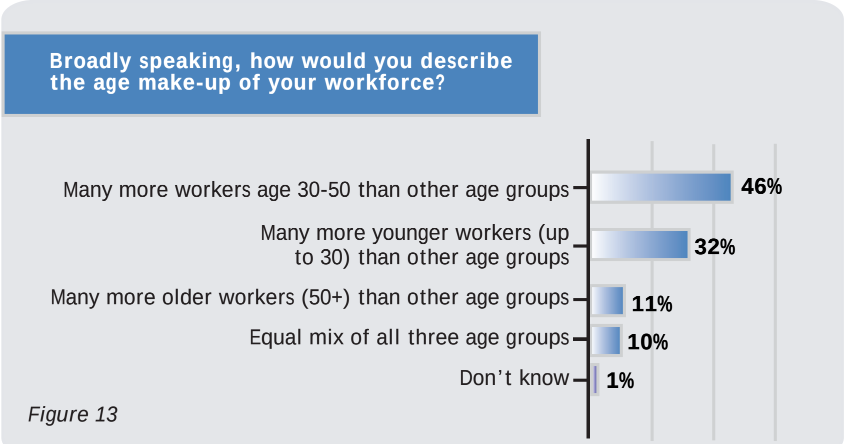

Figure 13

> *The fact that these [older workers] hang around longer means it's a chance to pass expertise on to the younger generation.*
>
> ***Professor Ben Rosen, University of North Carolina's Kenan-Flagler Business School.***

In our survey, respondents rate career development and workplace culture as the two most important factors for engaging with young workers and graduates aged between 20 and 30. For workers aged over 50, however, benefits (such as pension and healthcare provision) are seen as most important, with workplace culture in second place.

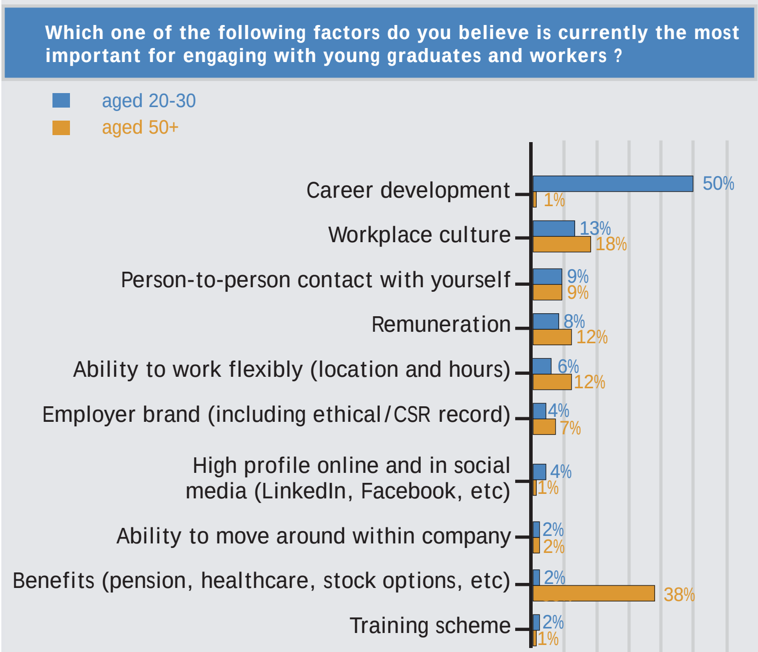

Figure 14

Moreover, some respondents put the gap between the oldest and the youngest employees at up to five decades, with 34% agreeing or strongly agreeing that this statement reflects the situation at their company, a figure that rises to 41% for respondents from North America. According to the Bureau of Labor Statistics, employment of older workers in the US has been rising steadily, with a 101% rise in workers aged 65 and over between 1977 and 2007, compared with a 59% rise in employment among the general population.

The growing cohort of older workers brings advantages as well as challenges for companies. First, older workers hold substantial amounts of informal knowledge about the organisation. "It's not only how things get done, but also about building relationships and having external expertise you can draw on," says Professor Ben Rosen, an organisational behaviour professor at the University of North Carolina's Kenan-Flagler Business School, whose research interests include age diversity. "And the fact that these people hang around longer means it's a chance to pass expertise on to the younger generation."

However, significant age differences bring organisational challenges, creating a need for a careful tailoring of roles and responsibilities as well as career paths and benefit packages for older and younger workers. In our survey, half of respondents believe that career development is most important for younger workers and graduates. For employees aged 50 and over, however, 38% point to benefits such as stock options, healthcare and pensions

There were misunderstandings, stereotyping and breakdowns in communication [between employees in different generations]

Professor Ben Rosen, University of North Carolina's Kenan-Flagler Business School.

as being important considerations. Almost half of the respondents highlight the divergent motivational factors among different age groups as an issue encountered when managing diverse teams.

Mr Caye of BCG also highlights the need to pay attention to what he calls "expanding the shadow of the future", where workers around the ages of 45 to 50 consider the prospects of their older colleagues, and note whether they are being laid off, neglected or given unchallenging roles.

"Expanding the shadow means making sure that the people that are 45 years old today believe they can continue to have progression in their career and a variety of roles in the company when they reach the age of 50 and above," says Mr Caye.

At the same time, companies need to deploy skills that may vary widely between younger and older employees. In our survey, the majority of respondents see younger workers as more able to adapt to new roles and embrace new technologies (68% and 70% respectively), while 44% cite the degree of familiarity with new technology for older workers as an issue encountered when managing diverse teams. Meanwhile, older workers are viewed by 80% as being better able to work without supervision.

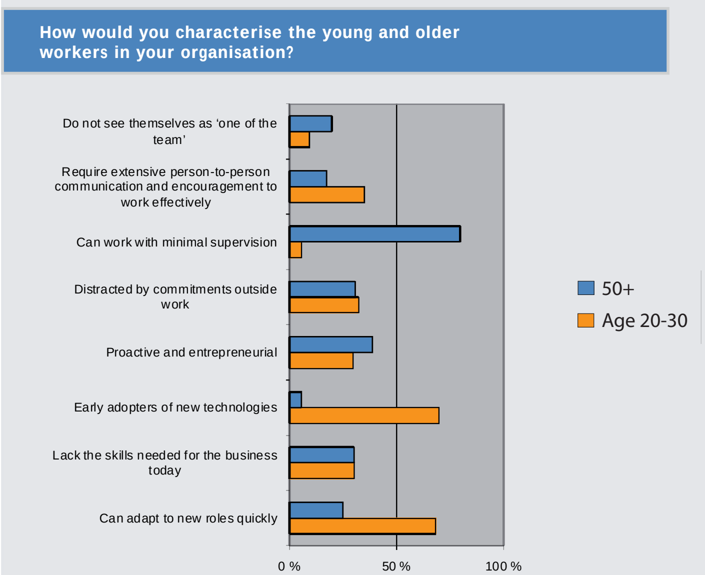

Figure 15

But beyond the varying skills and knowledge of employees in different generations, companies may also need to address a culture clash. In a year-long study of a professional services company, Professor Rosen was surprised at the intensity. "There were misunderstandings, stereotyping and breakdowns in communication," he says.

The good news, according to Professor Rosen, is that many of the programmes developed to address workplace diversity with respect to gender or ethnicity can also be applied to age diversity.

These include mentoring of younger workers by their older colleagues and reverse mentoring (pairing a younger employee with a more senior one). “Teaming people so they can get more exposure to each other and their talents seems to work well,” he says.

Furthermore, companies are finding new ways to retain access to the institutional knowledge built up by long-term employees. “There are some innovative things out there such as maintaining a great alumni network,” notes Marc Effron, president of the Talent Strategy Group, a US consulting firm. “This is because that is your network of knowledge and, when you need to, it’s easier to pull those individuals back in for a spot assignment or for advice.”

Dispelling the age myths

Part of the challenge organisations face when it comes to managing age-diverse teams is dispelling attitudes that workers of different ages have towards one another – attitudes that are often based on myths.

According to diversity specialist Binna Kandola, senior partner at Pearn Kandola, a UK business psychology consultancy, this is often a bigger problem than the actual differences in the attitudes, abilities and expectations of age-diverse employees. “Human motivation doesn’t change every 10 years,” he says. “It may alter a bit here and there, but that’s due to the environment we work in.”

Professor Kandola also points out that while older people are often seen as stuck in their ways, young people also acquire habits. “Young people have routines too,” he says. “And in 20 years’ time, they’ll have grown into habits that will be different from those who are 20 years younger than them.”

Moreover, unlike other forms of diversity, such as gender or race, younger people eventually become older people, and in the process often engage in what Professor Kandola calls “self-stereotyping” – a phenomenon whereby they attribute their own failings such as forgetfulness or inability to master a new technology to their advancing years. “Older people are in fact able to learn,” he says. “But we’re talking ourselves out of being able to change.”

He believes that it is more important for companies to discuss this phenomenon openly with employees and provide training to overcome the myths and assumptions, as well as reinforcing the message that stereotyping colleagues, whether young or old, is counterproductive.

Mentoring relationships can help break to down these stereotypes too. However, Professor Kandola points to a less obvious measure that companies can take to foster informal relationships between employees of different ages – redesigning the office space.

“Having natural floor coverings and natural objects around you and airy rooms with lots of light where people can congregate – all these things facilitate a more comfortable environment,” he explains. “And as a consequence more spontaneous discussions tend to take place.”

Conclusion

The global economic downturn forced many HR managers to spend more time managing the loss of employees rather than building internal expertise or recruiting fresh external talent. With business confidence levels on the rise, many are now looking at the prospect of hiring staff, even if that is simply to restore or maintain, rather than increase, headcount.

As important are efforts to develop a talent pipeline, both by selecting the brightest and best graduates and by fostering internal capabilities by putting staff through development programmes or placing them in cross-functional roles. Companies that fail to engage sufficiently with existing employees risk facing an exodus of talent as their best employees simply head for jobs elsewhere. This talent drift, if left unchecked, could have serious long-term implications for the business.

Companies, however, still appear to lack a systematic approach to talent management, with many responding to economic changes with short-term initiatives, whether that means cutting staff in bad times or hiring again in the good. For companies that halted their graduate recruitment programmes, it will be harder to re-enter that market once the economy picks up, leaving them facing the risk of a shortage in their supply of potential future talent.

Our survey shows that talent management has risen up the agenda, and the examples from savvy companies make it clear that some treat this as part of long-term strategic planning. But there is less evidence from our survey, when compared with previous years, of a consistent approach to investments in talent, with strategies that survive the bad times as well as the good.

Yet demographic trends – particularly in countries with an ageing workforce – suggest that the future can only hold increasing competition when it comes to recruiting and retaining top talent. Meanwhile, with emerging markets seen as a source of growth for many global companies, labour markets in those regions remain tight – and this trend is likely to increase as the world moves into recovery mode. This all points to a need for companies to take a much more longer-term view of their workforce planning and talent strategies.

As the global economy continues to recover, businesses are finding themselves at a crossroads with regard to talent management. Leading companies will once more look to recruit and retain the best – and those able to move first will probably have rich pickings. Those that choose not to invest in talent will find it difficult to implement recovery strategies.

Seven key steps to talent management in 2010

- As businesses move away from purely surviving, and as market conditions improve, there is pressure on organisations to create management strategies that develop strong talent pools at all levels of the business.

- Fewer companies are looking to external sources for skilled employees and the focus of talent is turning inwards.

- Companies must be prepared to spend time and budget on employee engagement and career development opportunities, to counter the risk of a slow talent drift.

- With the reality of an increasingly ageing workforce, investing in the recruitment and career development of Generation Y will help to stem a shortage of future talent.

- As business confidence levels are on the rise post-recession, business unit heads are likely to have a greater say on talent issues.

- Significant age differences among employees will lead to employers increasingly tailoring roles and responsibilities, as well as career paths and flexible benefit packages, in different ways for older and younger workers.

- As the labour market tightens, businesses will need to work harder to retain and engage employees towards the end of their careers, getting maximum value from their knowledge and experience and using them to mentor the next generation.

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Further Information

For further information about StepStone Solutions contact:

Europe, Middle East and Africa

T: +44 1483 739450
E: uk@stepstonesolutions.com
www.stepstonesolutions.com

Asia Pacific

T: +852 281 53 456
E: apacinfo@stepstonesolutions.com
www.stepstonesolutions.hk

North America

T: +1 866 708 4760
E: us@stepstonesolutions.com
www.stepstonesolutions.com

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