The Business Case for Performance and Talent Management
The nature of the work people do is changing.
In the 1900’s, up until the beginning of the first world war, farmers were the largest single group in the population in all developed countries and live-in domestic servants the second largest. In 1914, blue collar workers had grown rapidly but were still only 1/6 of the workforce. They alone worked for an organisation. Everyone else – 4/5ths of the total workforce - worked for themselves or for a master or mistress. Today, farming in the developed world is about 3% of the workforce. Live-in domestic servants have become extinct. Small tradesmen and craftsmen now account for less than half proportionately of what they accounted for 80 years ago. The growth area has been that of the knowledge worker - those people who work primarily with information or who develop and use knowledge in the workplace. They are people who gain access to work through formal education and this education continues throughout their career. This redefines what it means to be an educated person: Now, an educated person is someone who has learned how to learn and who continues to learn. Learning can be gained at any age.

In 1900 only 17% of all jobs required knowledge workers. By the year 2000 this had increased to over 60% (McKinsey & Co, 2001) and the rate of increase is accelerating. Since the 1990’s, when the major source of competitive advantage had clearly moved from capital, assets and geography to intangible assets such as talent, brands and intellectual capital, talent has clearly
emerged as a major source of competitive advantage. Acquiring and applying knowledge has increasingly become the key competitive factor and the knowledge society will become more competitive than any we have yet known because knowledge is universally accessible. As economies become more knowledge based, the incremental value of talented people continues to grow and the supply of them lags behind demand. Competition for talent has grown exponentially and is reshaping the way that businesses structure and organise themselves.

**Talent is now a critical driver of corporate performance and competitive advantage.**

The ability to attract, develop and retain talent determines the strategic capability of organisations. Management talent - the talent of the leadership within organisations - is a make or break factor in the achievement of strategic goals and the incremental value of the best managers versus the ordinary ones is enormous. Many organisations are now realising that attracting, growing and retaining top management talent is a strategic issue.
Talent is a Crucial Source of Competitive Advantage

Most management talent comes from the 25 to 40 year old age group but this age group is growing at a much slower rate than the total workforce, fueling competition for talent:

The Leadership Pool is Shrinking in Relation to Demand

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<tr>
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<th>USA (McKinsey, 2001)</th>
<th>New Zealand</th>
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<tbody>
<tr>
<td>Period</td>
<td>1998 - 2008</td>
<td>1995 - 2005</td>
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<tr>
<td>Growth in total Workforce</td>
<td>+12%</td>
<td>+12%</td>
</tr>
<tr>
<td>Growth in 25-44 year olds (the pool from which most management talent will come)</td>
<td>-6%</td>
<td>-4%</td>
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Recruitment alone is no longer sufficient. There is no alternative but to develop and grow talent within the organisation. During the next decade, only 30 percent of 20-year-olds in the U.S. will obtain a college degree, but more than 90 percent of new jobs created during this period will require such a degree. The number of computer science majors is 39 percent lower than it was in 2000 (Tamara Erickson: New Models of Work: Avoiding the Coming Crisis for the Changing Workforce, Workforce Management Masters Series presentation, June, 2006. “Companies have been hearing about the pending talent shortage for years. But what employers are failing to understand is that if they don’t address the issues now, it will be too late”, Erickson said. “This year marks the tipping point between labor supply and demand”. The workforce is going to shift rapidly during the next five years, and companies will need a different set of human resources practices”.

In the 2001 update to their 1997 ‘War for Talent’ study, McKinsey found that 89% of senior managers thought it is more difficult to attract talented people now than it was 3 years ago and 90% thought it was more difficult to retain them. Compounding the problem is the growing trend for the best talent to switch companies. The reason for this is simple: they have learned from experience that it is to their advantage to do so and opportunities are now more transparent. Internet job boards, career sites, passive on-line recruitment systems that enable people to search for positions without disclosing their identity and search consultants make it easy for the best talent to put themselves passively into the market whilst actively building track record with their current employer. In 2001 the Bureau of Statistics in the USA reported that the typical American worker holds nearly nine different jobs before the age of 32. All the evidence suggests that this number is increasing.

The power has shifted from the business to the individual. McKinsey research on managers in 2000 showed 20% said there is a strong chance they would leave their current company in the next two years and another 28% said there was a moderate chance of leaving. Talent churn has become as critical a problem as customer churn and the biggest contributor to it is a poor relationship between an employee and their manager. In particular, large studies by the Saratoga Institute in California who interviewed 20,000 recent leavers and the Gallup Organisation who surveyed 2 million workers in 700 companies showed that the length of an employees stay is determined largely by the relationship they have with their manager. In particular, employees who feel their manager understands their efforts, issues and challenges and works genuinely to support and help them achieve their goals stay longer. As General Colin Powell said “The day soldiers stop bringing you their problems is the day you have stopped leading them. They have either lost confidence you can lead them or concluded that you do not care. Either case is a failure of leadership.”

A further consequence of this high churn rate is cost. Top talent now demands much more from their employer and because of the incremental returns from top talent and the imbalance between supply and demand they are able to get it. Typically, these demands include greater rewards, high quality leadership, career development opportunities and work-life balance.
The New Business Reality

<table>
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<tr>
<th>The Old Reality</th>
<th>The New Reality</th>
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</thead>
<tbody>
<tr>
<td>People need companies</td>
<td>Companies need people</td>
</tr>
<tr>
<td>Machines, capital &amp; geography are the competitive advantage</td>
<td>Talented people are the competitive advantage</td>
</tr>
<tr>
<td>Better talent makes some difference</td>
<td>Better talent makes a huge difference</td>
</tr>
<tr>
<td>Jobs are scarce</td>
<td>Talented people are scare</td>
</tr>
<tr>
<td>Employees are loyal and jobs are secure</td>
<td>People are mobile and their commitment is short term</td>
</tr>
<tr>
<td>People accept the standard package they are offered</td>
<td>People demand much more</td>
</tr>
</tbody>
</table>

In their book *The War for Talent* published in 2000 the McKinsey and Company authors argue that companies are now realising that it is as least as important to make managers accountable for increasing their talent pool as it is to hold them accountable for their budget. In increasing numbers they are making the link between talent management and business performance and making the building of talent a priority.

The Economist Business Intelligence Unit, in co-operation with Development Dimensions International found in their 2006 survey of 20 corporate leaders in 10 countries that “The management of a company’s pool of talent is now too important to be left to the human resources (HR) department alone and has become the responsibility of the top executive.” They found that these CEO’s spend a large amount of their time – often more than 20% - managing talent (*The Economist Business Intelligence Unit: How top executives from ten countries are nurturing the leaders of tomorrow*, May 2006). It appears that increasing numbers of organisations are now realising there is a hard-wired the connection between developing talent and improving results.
Talent management is the top strategic HR issue that companies expect to face in 2007, according to a recent survey by ORC Worldwide published in January, 2007. A survey of 35 senior HR people from companies that have operations in more than one country and have workforces ranging up to 90,000 employees showed 37.1 percent of respondents say talent management is their highest-priority HR initiative for 2007. Respondents said they were concerned about acquiring, developing and retaining talent at all levels of the organization.

**High Performance Organisations Have Six Highly Interdependent Characteristics**

- Driven by leaders
- Built by relentless pursuit of strategies / vision
- Energised by an intense, performance driven environment
- Frequently aligned by a simple structure
- Based on world-class company skills
- Rejuvenated by well-developed people systems

McKinsey undertook research into high performance organizations and identified these six characteristics. One of the characteristics was being energised by an intense performance driven environment. What they found was that performance ethic was an all-pervasive, high intensity focus by the whole company to outperform the competition.

The companies researched included Coca Cola, Emerson Electric, General Electric, HP, J&J, and Sara Lee. In addition, executives at fast growing, up and coming companies such as Dell and Southwest Airlines were interviewed. The common denominator was that they were all high performers, well regarded in the market-
place and known for their ability to execute strategies in a superior fashion. In particular, they exhibited the following characteristics:

+ They have a talent mindset – a widely held, deep-seated belief that high performance and competitiveness are achieved through better talent
+ All managers, starting with the CEO, are held accountable for strengthening their talent pool
+ They clearly understand what top talent is capable of delivering
+ They understand that people will go to enormous lengths for a cause they believe in if they have leaders whom they value and respect.
+ They create a vision for the organisation and work hard to ensure everyone understands and engages with the strategy that will deliver it. Individual goals, targets and behaviours are focused on contributing to that delivery
+ Performance targets are contracted outcomes that people commit to deliver, not good intentions. As Ronald Williams, President of Aetna Inc said in April 2006 when outlining his company’s turnaround “We appreciate efforts; we reward results.”
+ Development is primarily focused around stretch jobs and frequent, high quality coaching and mentoring
+ Performance review and coaching sessions are undertaken every two to three months rather than once a year
+ They undertake rigorous talent reviews and differentiate between A, B and C performers. They invest in these people differently
+ They shape their company, their jobs and their strategy around talented people
+ They create a culture around the way they deliver their success to lock in ongoing high performance
+ Recruitment is like marketing
+ They have well developed people systems and tools to drive this culture
+ High performance is regarded as the measure of how well people are being developed as well as the reason for doing so

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A Performance Management System Has Three Key Roles

1. To ensure individual stretch performance goals are aligned across the organisation to deliver the strategy and vision

2. To make it easy for managers to give and receive high quality mentoring and coaching frequently so that capability is developed and top talent is retained and grown

3. To make the delivery of strategy visible in real time

High performance Requires an Electronic System

+ To manage performance proactively each manager must have access to their goals & targets and those of their manager, peers and everyone below them in real time.
+ Alignment with the strategy and business plan is key
The top team must be able to see the goals and targets for the whole organisation in real time to manage alignment with the business plan and the strategy
+ Progress towards achievement of goals must be visible in real time for the whole organisation. Managers must be able to see their full span of control
+ A performance management system needs to be easy use/high value to users to obtain their commitment
+ Administration and follow-up must be automated. Managers must focus on developing their people, the system must take care of administration and providing data
+ Time and information barriers must be eliminated as reasons for not managing performance frequently
+ Non-electronic systems are too expensive
+ One-on-one coaching and mentoring must occur with a frequency and quality that allows real learning to occur (2-3 monthly)
+ The system must drive people to behave in fundamentally different ways
+ It must make people act
+ It must ensure action is taken by everyone every time
+ How performance is achieved (competencies, values, leadership model) must also be measured and fed back using an electronic 360 degree feedback system.

"How was it achieved?"

Role Modeling
Leadership
Behaviour
360 degree feedback

The What and How of Performance

- Performance Improvement Programme
- High Reward & Accelerated Development
- Exit Programme
- Behaviour Improvement Programme

Business Performance Delivered
Performance Management System

"What was achieved?"