The New Reality

The Talent War 2012

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Executive Summary

In 2007 we issued the first paper about the New Reality, which characterizes a North American workplace with shorter job tenures, a multigenerational workforce, and a scarcity of talent. By talent we mean demonstrated ability, achievement, or skill in some special field of study or interest. The thesis of the New Reality is that the retirement of Baby Boomers will cause a talent shortage as younger generations are unprepared to fill the jobs left vacant.

A consequence of this demographic shift is that employers will face one another in a "War for Talent." We posited that organizations that wished to survive and thrive must accept the existence of the War for Talent and meet these challenges head on.

From December 2007 through June 2009, the U.S. experienced its most severe recession since the Great Depression. More than half of working adults experienced some work-related hardship as a result. The ladder to success has a few rungs missing now. Happiness and well-being are becoming new measures for success.

Key Findings

Employment Outlook. There are steady signs the economy is poised for job growth. The employment outlook is the best in years. 54% expect to add employees in 2012, in contrast to just 37% who reported the same in 2011.

Retention. Job satisfaction and engagement are at historical lows. 78% say retention is a priority for 2012, up 15% from 2011.

Talent Shortage. 64% believe there is a talent shortage now, an increase of 27% over last year. 93% believe there is now or will be a shortage in 12-24 months. There is a significant lack of understanding for how to attract and retain the younger generations.

Talent Gap. 65% perceive a talent gap between Boomers and GenX. 85% perceive a talent gap between Boomers and GenY. Skills lead the gap.

Concern, Readiness & Support. Concern and readiness for the New Reality remains alarmingly low while top leadership is taking on more involvement.

Two years after the labor market hit bottom, the potential for new hiring is showing steady signs of improvement. Experts are still debating what 2012 has in store with respect to a jobs recovery. Certain sectors, like manufacturing, were hard hit during the recession and may never see employment numbers recover to pre-recession levels. Yet, according to a 2011 survey by Deloitte and the Manufacturing Institute, an estimated 600,000 manufacturing jobs nationwide are going unfilled because employers cannot find people with the right skills.[2]

Hiring up, layoffs down. While a number of respondents expect to maintain workforce levels this year, over half (54%) expect to add to the size of their workforce. This is a 17% increase from last year. Importantly, the percentage expecting to reduce their workforce size has decreased to 6% from 13% one year ago. Government and non-government reports on employment provide promising signs the tide is turning. For example, ManpowerGroup's most recent Quarterly Employment Outlook report found a positive Net Employment Outlook through June 2012 for both Canada (+16%) and the U.S (+9%).[3] The "Net Employment Outlook" is the percentage of employers anticipating an increase in hiring activity subtracted from the percentage anticipating a decrease.

> **54% expect to add employees this year up from 37% in 2011.**

Who they're hiring. We found professional level employees (legal, accounting, medical, etc.) to be the most in demand, while senior level employees to be the least in demand as a percentage of new workforce hiring. Nearly 60% said they find their leadership talent from the inside through identifying and developing them from the inside. Labor/technical continues to be in demand. In places like Silicon Valley, where the demand for talented software engineers has outstripped the supply, the war for talent is already here.

Keeping talent in good times is a good practice. When there is a scarcity of talent it is an imperative if the organization is to continue to thrive. The number of organizations saying retention is a priority jumped up 15% over last year to 78%. Since job-hopping is no longer a stigma, it has become the new career path for many. The potential for employees leaving as new job opportunities come available is top of mind for many organizations.

Retention is a high priority for **78%**

Job satisfaction. A significant contributor to the potential exodus of talent is job satisfaction. Job satisfaction is at historical lows and the percentage of employees who report being engaged is less than 33% by some measures. A well-being survey from Gallup-Healthways found work environment to have the poorest results out of six indexes that make up the survey.[5] The specific items that make up the work environment index include: *job satisfaction*, *ability to use one's strengths at work*, *supervisor's treatment*, and *whether the work environment is an open and trusting one*. Recessionary cutbacks, still in effect at many employers, has required those still on the job to typically work more hours for less pay. Endless reorganizations have weakened bonds with ever-busier bosses. In the process, organizations may have underestimated the effect damaged work relationships, work-related stress and work/life balance is having on employees.

Job Satisfaction
has fallen to record lows

I'm leaving. It's not unreasonable to think that more than a few people are prepared to leave when the opportunity arises. For now, the job market principally favors employers, but this won't last forever. Employees will often leave when badly managed and the organization is confusing and uninspiring. A bad or even soul-destroying job held now may only be a necessary placeholder while actively networking for the next job.

While unemployment still remains relatively high, the ability to find talented people is not any easier. For some jobs, like mobile marketers, the war for their talent is here. The percentage of organizations that believe there is now or will be a talent shortage in the next 12-24 months increased substantially from 2011 (75%) to 2012 (93%). The demographic reality is that demand for employees with the right skills, experience, and fit is rising at a time when the overall supply available is set to fall.

64% say there is a talent shortage **now**, up from **37%** one year ago.

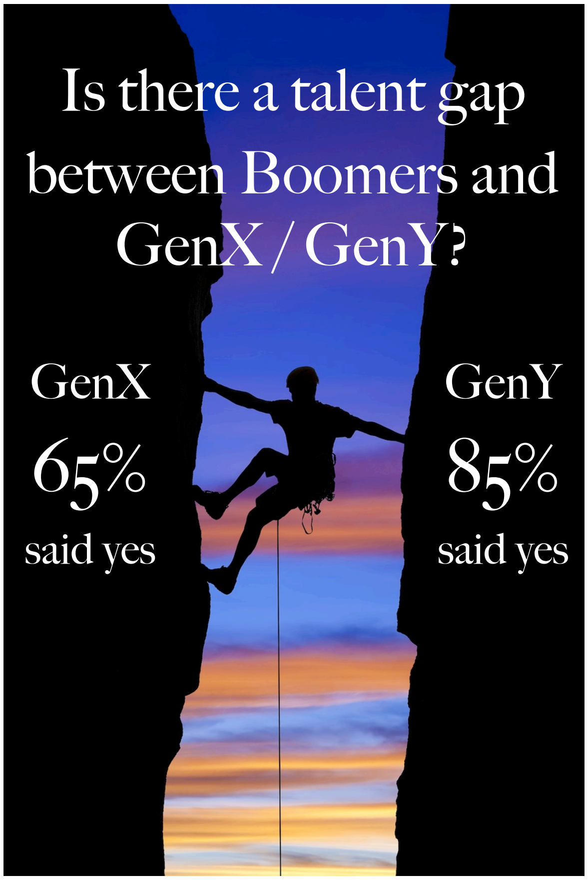
Boomer retirement. There are around 75 million Boomers on the verge of retirement, yet only 23% of organizations have a concern for their departure. For industries that currently employ an above average number of Boomers, their exit is more profound. Industries, like utilities and steel, that have to replace Boomers who retire from jobs critical to their operations and fill these vacancies with younger employees will find themselves in intense competition for a shrinking talent pool.

Younger generations. Over 72% have a *zero* to *moderate* understanding for how to attract and retain the younger generations. This is similar to past years, indicating that a majority of organizations remain unprepared for bringing younger generations into their workforce. Conditioned by a long recession younger employees do not believe in job security and feel they need to be prepared at all times for a new job. They are more directly involved in managing their own careers, and they use social technology to network with others to find opportunities. If you're using classified advertisements or online job boards, you'll lose the younger generations even before you begin your recruiting efforts.[6]

93% agreed the talent shortage is here or will arrive soon in the next 12–24 months.

The risk of losing the experience of Boomers and the lack of skills and experience in younger employees is potentially more true today than before the recession. Not only is there a lack of talent in terms of numbers, but companies are also struggling to bridge capabilities brought on by a lack of education or training. One underlying reason for this gap between available talent and desired talent is that jobs are changing more rapidly and the skills needed to do them are, too. Almost half (45%) said that *skills development* is a leading people-development initiative with their younger employees. Closely following skills were initiatives for *team building* (38%), *retention* (38%), and *engagement* (37%).

Leadership competency. With new levels and scale of competition driven by a knowledge economy and globalization the most critical leadership competency sought after is the ability to *manage change* (41%) - an important competency for a world now characterized by volatility, uncertainty, complexity, and ambiguity. Not far behind managing change are *setting vision and strategy* (32%), *solving problems and making decisions* (29%), *developing others* (26%), and *managing effective teams and work groups* (25%). In the next decade, leaders will not just see the future, they will make it. They will not be able to do it alone.



Percentages above are respondents reporting moderate to significant perceptions of a talent gap.

Retaining Boomers. Just over half (54%) of organizations report looking for ways to retain Boomers, up 6% from last year. By the numbers, this means nearly half of the organizations are *not* planning to retain them. Boomers do not appear to be playing a significant role in these organizations' talent strategies. As a consequence, younger generations are now, or will soon become, their source of talent.

Concern, Readiness & Support

In every one of our annual surveys the largest number of organizations expressed only a *moderate* concern for the New Reality. The number reporting a *significant* to *extreme* concern has been declining with every survey. This year, only 13% reported this level of concern. Some of this drop can likely be attributed to the recession and its lingering effects. In terms of readiness only 10% reported *significant* to *complete* readiness for the New Reality, the lowest readiness numbers yet.

Leadership support. Despite the low levels of concern and readiness, the percentage expressing leadership support for the New Reality rose dramatically. Last year, 15% said they had *full* leadership support and direct involvement, while this year 44% said they did. Support from the top is vitally important for making talent management an organization-wide objective.

It's everyone's issue. Even with improved leadership support, HR professionals continue to report having the strongest understanding of the New Reality. HR does need to own it, but they also need to distribute some of that ownership to other areas of the organization. HR should act as partners and trusted advisors to others around talent management issues. HR leaders need to collaborate with senior leaders to ensure that strategic alignment, resources, communication, and support are there. Support needs to be provided by HR downstream to line management. These are the key people having the most direct influence on the attraction and retention of talent. Ultimately, it's about collectively building a work environment that attracts and keeps great people. This requires every level of the organization working together to be successful.

44% in 2012 report full leadership support for the New Reality versus 15% in 2011.

Conclusion

A war for talent will present serious challenges to organizations that have either ignored and been indifferent toward their talent, or worse, treated them poorly through the economic downturn and slow recovery. As workforce demographics continue to shift, job opportunities rise, and talent becomes increasingly scarce, organizations unprepared for the New Reality may be overcome by the wave of competition for talent.

The most accessible strategy involves hanging on to talent. Retention and engagement are cornerstones of a good talent management strategy. An estimate by Gallup put the cost of disengagement in the U.S. workforce alone at more than $300 billion in lost productivity per year. This is not the only cost. Disengaged employees can do further damage by negatively promoting the organizational brand, which can attract or repel talent. Social media and other technology has made it easier than ever to disseminate this type of information.

To retain existing talent and to compete for new talent there must be a deep commitment to it throughout the organization, starting at the top and cascading down. Over the past decade, talent has become more important than capital, strategy, and even R&D. Today, capital is accessible, strategies are transparent, and R&D can be quickly replicated. People are now the prime source of competitive advantage for many organizations. Talented people, in the right culture, with the right motivation, can have better ideas, execute those ideas better, and even develop others better. As Larry Bossidy, the CEO of Allied Signal put it, “At the end of the day, you bet on people, not on strategies.”

Winning the talent war will not be about who pays the highest salaries, although salaries will inevitably climb where demand exceeds supply. Winning will be more about an organizational effort by both employees and leadership to execute a talent strategy and create a culture that attracts and retains the type of talent needed. In the process, organizations will need to devise new ways to find them, hire them, develop them, and reward them.

The New Reality is no less real

Don't let the high unemployment rate lull you into a false sense of security: *the War for Talent is real*. The drop in unemployment seen so far could be an early glimpse of what is to come as workforce demographics shift. It's true, there has been a decline in the share of the working-age population that is employed or looking for work, known as the participation rate. While some of this decrease is certainly due to discouraged workers dropping out of the labor force, the large numbers of Boomers moving into retirement is adding to it.

The workforce has been conditioned by a long, painful recession. They believe less in job security and more in being prepared at all times to find a new job. The workforce has evolved into a pool of free agents where "players" jump from team to team over shorter time periods. This is particularly true for "talented players" who have more choices. Technology has created broader networks of professional contacts. Through these contacts the foundations for jumping ship unfolds. For the organizations who believe that attracting and retaining talent is HR's challenge, the wave of talent leaving them may be too much to overcome if they are not prepared.

Get senior leaders involved

To be successful in the New Reality senior leaders must get involved. The volume, momentum, and complexity of changes are greater than ever before. Without the support and involvement of senior leaders it will be too easy to succumb to short-term pressures, fall back on old ways, and fail to execute the strategies required for attracting and retaining talent. This means leaders need to attend meetings, provide adequate resources, and promote the benefits of the result. In other words, get directly involved. Support from the top will help give it an organization-wide focus, creating deep rooted conviction among business unit heads and line leaders, that people really matter to the strategic advantage and growth of the organization.

Recruit smarter, recruit constantly

The Internet makes it easy to find just about anyone now. It also makes it easy for people to submit resumes at the touch of button. Most organizations aren't interested in just anyone, however. They are interested in people that fit the role, fit the team, and can be successful and satisfied in the organization's environment. In the past year, new technology has arrived that makes finding and hiring people more scientific, more precise, and more lasting. This new technology makes it possible to more effectively manage the hiring process, recruit constantly, and connect with talented, motivated people that fit the job and the environment.

Job boards that can be expensive and cumbersome tend to deliver more "resume spam" than qualified employees. Reviewing stacks of unqualified resumes consumes expensive organizational resources. The "old technologies" will either change, or give way, to the new technologies. One of these new technologies, thehiloproject.com, goes beyond the resume keyword search to incorporate role and work environment criteria for a deeper, more meaningful match. Further, job candidates are not matched only against a single open position for an organization, but can also be matched against *all* open positions for an organization. A great candidate won't be missed simply because they weren't a best fit for a single position they submitted their information for. Technology like Hilo allows organizations to manage job postings across a variety of media from a single interface while also getting feedback about job posting performance. These new technologies take advantage of finding talent where they are, they help organizations improving their recruiting process, and reduce the costs of recruitment and retention.

Hang on to your talent

Although 100% retention is not possible, better retention is when people are viewed as strategic assets. When viewed as an asset people are provided opportunities for growth and advancement, given quality compensation packages, have control over their work, have the ability to balance work and home life, and have quality relationships with manage-

ment. Not every organization is capable of providing all of this from the inside. Those that cannot should engage the services of consulting and executive search firms that are good at finding quality leadership talent, can provide expert guidance on compensation and reward packages, and deliver individual and team development programs that create a cohesive and productive organization, as well as, an internal pipeline of leadership talent.

Investing in people also means developing “B” players - the capable, steady performers who make up the majority of the workforce. Take advantage of talented Boomers and their experience for mentoring and developing younger employees. The organizations that acknowledge and use the experience of older employees, and respect the contributions and develop the talents of younger employees are more likely to see higher engagement and retention rates.

Your company is a brand, so is your organizational culture

Every organization, from small to large, has a culture. Culture refers to the set of values and behaviors that contribute to the unique social and psychological environment of the organization. A strong organizational culture will focus on the environment it creates for its employees, because this will encourage a more efficient and productive company. When you consider that employees often leave when they are badly managed and the organization is confusing and uninspiring, those in supervisory or management positions take on more critical importance.

Create an organizational culture that attracts talent by hiring or promoting people that have the ability to lead or manage others well. Support these people through training and development to get even better at it, hold them accountable for it, and reward them when they do it well. When employees enjoy their job, respect and trust their boss, and feel like valued members of the team, they are less likely to leave. They are also more likely to give others a positive message about working for the organization and refer talented people they know to the organization.

[1]Chambers, Elizabeth; Foulon, Mark; Handfield-Jones, Helen; Hankin, Steven; Michaels III, Edward. *The War For Talent*. *Mc*Kinsey Quarterly 1998 Number 3.

[2]Morrison, Tom; Maciejewski, Bob; Giffi, Craig; Stover DeRocco, Emily; McNelly, Jennifer; Carrick, Gardner. *Boiling point? The skills gap in U.S. manufacturing*. Deloitte, The Manufacturing Institute, September 2011.

[3]ManpowerGroup. *Manpower Employment Outlook Survey*, *US*, *Canada*. Q2/2012.

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[5]Mendes, Elizabeth. *One Million Surveys Reveal Portrait of Americans' Well-Being*. Gallup-Healthways Well-Being Index, October 2010.

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The 2012 New Reality survey is based on a survey of organizations conducted from October 2011 through February 2012. Over 500 responded to the survey. To be included in the final results, respondents had to be at the management level or higher; and had to be involved with decisions concerning finding and retaining talent. The total number of respondents that fit this criteria was 229. These were the responses used for this paper.

A majority of respondents (75%) were responsible for or working within the HR functional area (Figure 1). A wide range of industries were represented. Human Resources Services & Consulting represented the largest industry with 17%, followed by Non Profit (14%), Health Care (12%) and Manufacturing (10%) (Figure 2). Over half of the respondents were from smaller organizations having 500 or fewer employees (Figure 3) and less then $50 million in revenue (Figure 4) and 500 or fewer employees. Just over 90% were from the United States, with the remaining from Canada.

Figure 1. Functional Area

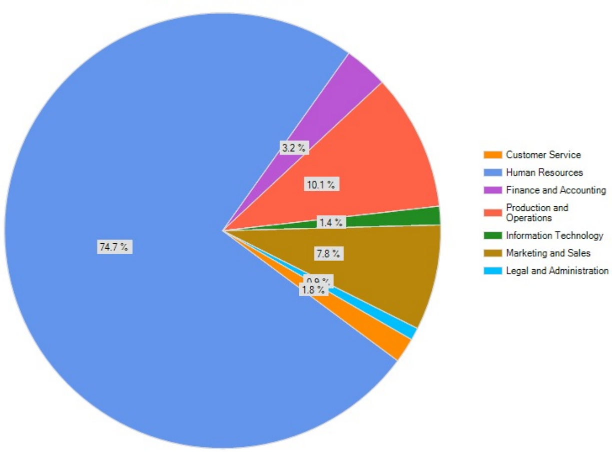


Figure 2. Industry

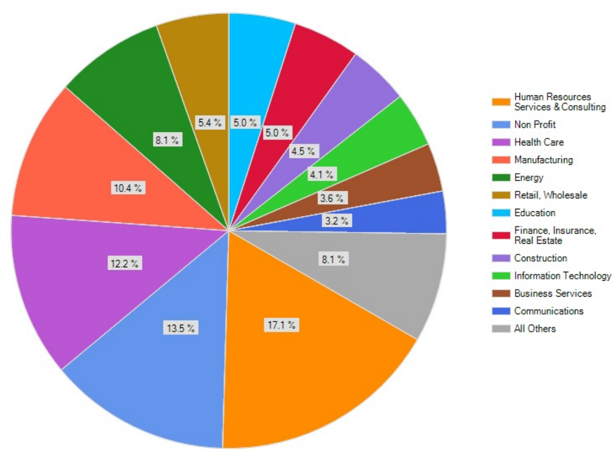


Figure 3. Number of Employees

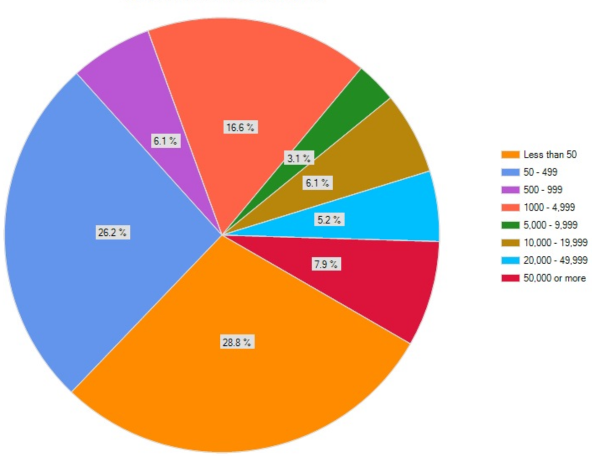
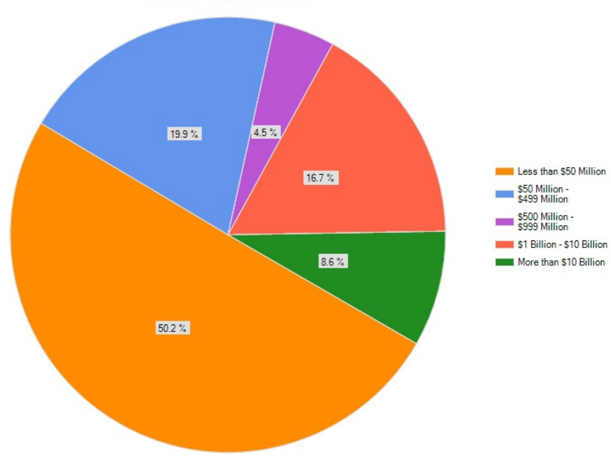


Figure 4. Annual Revenue



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