

THE TALENT POWERED ORGANIZATION

Strategies for Globalization, Talent
Management and High Performance

Chapter 1



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THE TALENT-POWERED ORGANISATION

Chapter 1: Talent Imperatives for a New Economic World

When the winds of change blow, some people build walls and others build windmills – Chinese proverb

The world is changing at a bewildering pace. Everywhere new markets are opening up, new workforces are emerging, and new ways of working are challenging our thinking. We are in a new stage of globalisation where talent and brainpower are becoming the predominant currency.

The traditional management paradigms which focused on productivity and efficiency were designed for the 20th century economy. Enabled by technology and process engineering, they derived from the need to obtain high productivity from a workforce whose costs were rising. This narrow focus made sense for the world's developed economies at a time when more than half the world was effectively excluded from the global marketplace. In the past two decades, politics and technology have changed the world beyond recognition: with a total world population of 6.4 billion, fewer than 100 million people are excluded from the new global economy.

The first phases of globalisation in this new era focused on outsourcing as a means to reduce costs – working cheaper. Now we are emerging into an era which is about working everywhere - going where the talent is, where the resources are, and where the markets are, connecting up people and processes globally and breaking down traditional barriers.

The famous 'war for talent' has gone global, or as Kjell Nordstrom observed in his book Funky Business: Talent Makes Capital Dance, "The war for talent is over and talent won."

We want to explore what this means, especially for how we think about talent and workforces and manage them - and what new disciplines and capabilities we will need to do this a lot more effectively – as we must.

In this first chapter we will consider some of the remarkable changes in the global marketplace, people demographics and the ways in which we work. Understanding this context and its many apparent paradoxes is crucial for understanding what to do about it.

A new context

The task of finding and managing talent has become more complex, turbulent and contradictory than ever before. Once-familiar talent pools are drying up as new ones are rapidly opening – rich and seething but often full of cross-currents and hidden rocks. This is creating great challenges for managers and leaders of organisations large and small.

Talent managers today must cope with a world of change and contrast:

- global abundance but local scarcity of talent
- fewer young people and more older people, many heading rapidly towards retirement
- rising demand for new skills aggravated by demographic pressures and educational shortcomings
- new methods of working and new relationships between users and suppliers of talent
- more diverse and remote or even virtual workforces with different attitudes to work across the generations
- steady change in the nature of work with more and more of us working in the fuzzy world of information.

Overlaying all of these trends is the challenge of engagement. Finding talent is not enough if it is not aligned and motivated, yet the evidence suggests that many of our workforces are less and less engaged. Attitudinal differences to work across the generations make it harder to understand how to deal with this. But without that understanding, business growth is unsustainable.

All these trends have propelled talent issues to the top of the corporate agenda. They have brought with them a mix of new opportunities and challenges which must be met with new thinking. When all taken together, they represent an extraordinary level of change – almost the “perfect storm”. We are reminded of a remark by Harold Macmillan, British Prime Minister in the late 1950s. When asked about the hardest thing about his job, he replied “events, dear boy, events”.

Five talent imperatives – which approximately correspond to the five ensuing chapters in this book – can help you navigate your way to success and become a truly talent-powered organisation:

1. Talent is a strategic issue, and a human capital strategy is an intrinsic part of any business strategy. This means understanding the value of talent, and recognising the critical components of business strategy that require us to think through the talent and organisational implications and options.

2. Diversity is your organisation's biggest asset, and your ability to attract and work with diverse talent is a critical competitive advantage.

3. Learning and skills development are now the most important capability for the talent powered organisation. They need to be focused and built around a clear understanding of the specific skills and competencies your organisation needs to succeed.

4. Engagement is the mystery ingredient that can transform business performance. Aligning and motivating people will enable you to multiply talent in your organisation and improve its performance.

5. Talent management is everyone's job in your organisation. The HR function is a key enabler, but best practices and a talent mindset must be embedded and sustained throughout your business.

We hope that these talent imperatives will help you to navigate the new economic environment, so we shall tackle them in order.

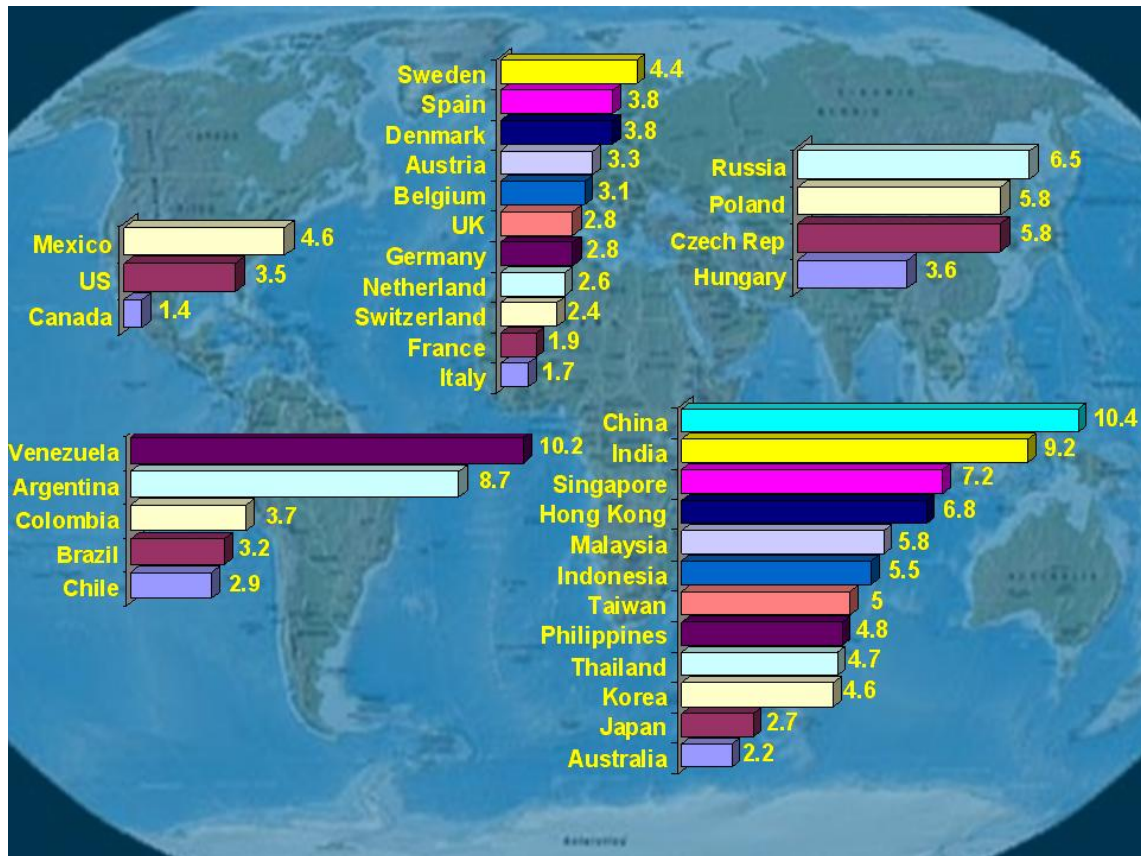
1. The Strategic Importance of Talent

Converging economic, societal, and technological forces have all elevated the importance of talent for 21st century organisations. Talent-powered organisations anticipate and take advantage of the rapidly changing talent landscape shaped by sustained worldwide growth, the rise of new economic sectors, and the increasing role of human capital in creating value for organisations. In an increasingly talent-dependent world, talent-powered organisations understand the strategic importance of talent and view talent management as a critical organisational capability.

The new paradigm of growth

We are living in times of sustained worldwide growth. GDP growth is expected to continue at average rates of 3.5 per cent for the foreseeable future with virtually every country in a growth cycle, although the rates of growth are unevenly distributed, as shown in Table 1 below. The fastest-growing economies in 2006, India and China, both far exceeded the average with GDP growth rates of 8 per cent and 10 per cent respectively. The Indian Minister of Finance, P Chidambaram, was recently quoted in [The Economic Times of India](#) as saying that India had to sustain growth rates in this range for the next 10 years to remain competitive, in particular with China. The growth rates in Table 1 are across the whole economy, and in reality new sectors such as IT Services and Communications are growing at a much faster rate.

Table 1: world GDP growth rates, fourth quarter 2006¹



The pace of growth at the moment seems relentless. Within the next 20 years, by most projections, India and China will be the largest economies in the world, followed by the US and the EU. A whole new 'middle class' is emerging today based on over 600 million people with spending power estimated at \$4 trillion. The only constant now is change - adapting to new market opportunities, new competitive pressures, and new operating models for workforces and businesses. Organisations must respond, and they must have the right resources and capabilities.

The idea of talent as the force that powers companies is taking centre stage. Without the people, you cannot succeed, and people are emerging as the prime source of value, sustainability – and in most companies, of cost. Yet business understanding of how people add value, how to invest in their development for

¹ Adapted from Stephane Garelli, IMD, "Winning in a new world of competitiveness", AOC Annual Conference, Birmingham, UK, Nov 23 2006.

best effect, and even how they work and what motivates them, remains surprisingly limited.

Economic revolution: the changing nature of work and value

Over the last 20 years, along with the opening of new markets, the economy of the developed world has undergone a revolution in the type and nature of work and where and how value is added. The prime engine – still at full throttle – is the growth of services. It has propelled fundamental changes in methods of work, the nature of production and value creation.

Modern organisations own and employ fewer of the basic inputs of production – land, materials, capital and support services – than they did 20 years ago, and they generally produce a much smaller proportion of their output directly, in their own facilities. The twin forces of globalisation and new technology have produced a decisive shift away from centralised production with repetitive methods to a more devolved system, in which production is shared between many different units and partners, often scattered round the world and often independent of the producer of the final output.

As a result of this transformation there has been a massive shift in the sources of value in modern businesses. Twenty-five years ago, 80 per cent of a typical company's market value was based on its tangible assets, such as machinery and facilities and how effectively it was generating returns from these. Only a small part of its value was attributed to intangible assets, which were largely residual and unrecognised. But today those proportions have been reversed. On average across all industries, only around 20 to 30 per cent of value is attributable to tangible assets. By far the greatest part of a typical company's value now comes from intangibles – such as its unique knowledge, of production, service and delivery methods, knowledge of markets, relationships with customers and suppliers, its brand value and reputation, and of course its workforce capabilities. Almost all of these intangible assets are driven, in one way or another, by human talent.

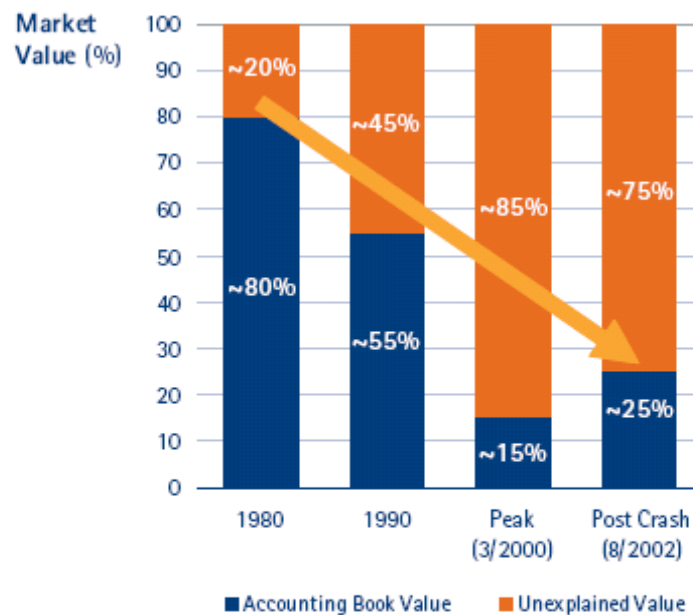
Figure 1 below illustrates the changing nature of value among major US companies.

Figure 1: new sources of value²

² A New Paradigm for Managing Shareholder Value, John Ballou, Roland Burgman, Goran Roos, and Michael Molnar, Accenture Institute for High Performance Business, Wellesley, MA, July 2004.

The figure below shows the decreasing relevance of accounting-book value among S&P 500 companies between 1980 and 2002. It shows the market-to-book ratio: how much of a company's market value can be accounted for by the traditional accounting assets on the balance sheet. It has been argued that intangible assets, especially intellectual capital, can explain much of the premium between market value and book value. Whether this is a total or partial explanation, there is no question that companies have become more and more reliant on intangibles and intellectual capital at the same time as market value has come to dwarf book value. This suggests that managing intangibles may be the key to increasing market value.

Exhibit 3: The Growth of Unexplained Value



Sources:

Lev, Baruch. "Intangibles: Management, Measurement, and Reporting,"
Brookings Institution Press, 2001

Lev, Baruch. "Remarks on the Measurement, Valuation, and Reporting of
Intangible Assets". Economic Policy Review (Federal Reserve Bank of New York),
September 2003

Accenture Analysis

The shift to intangible sources of value reflects a fundamental change in the nature of competitive advantage. For any enterprise, even in traditional manufacturing, competition has shifted from owning fixed assets such as land, buildings and machinery, to knowing how to produce goods and services in the most efficient way and bring them to market more successfully than its peers. In this new economic world, it is less valuable to own a piece of land than to know when to sell it and relocate activity somewhere else. It is less valuable to own a factory than to know how to produce something in the most efficient way

possible, less valuable to own a piece of technology than to know how to use it – or to think of a better means of production which may make that technology valueless. All of these forms of essential competitive knowledge – and many more – derive from human beings.

Recognition and measurement of these types and sources of value are very inconsistent and incomplete. There are no commonly agreed standards and we persist in focusing measurement of enterprise value on predominantly tangible assets and backward-looking accounting measures. Attempts to improve this situation have not taken off, particularly attempts to get agreement on how to value the human capital, such as the UK government-sponsored Accounting for People initiative some years ago. We will return to this important theme in later chapters and offer frameworks and measures that shed more light on these ‘unexplained’ types of value.

But first we look at the issues that have brought about much of this change in underlying values and raised the importance of understanding and managing talent to new levels. Added together they look like they are creating the perfect storm in this new globalised war for talent.

2. The need to embrace diversity

Global demographic shifts and dynamic labour markets have made identifying and accessing talent vastly more complex for every organisation. Talent-powered organisations build capabilities in defining critical workforce capabilities, anticipating talent needs, discovering new sources of talent in diverse and dispersed talent pools, and managing a global, ethnically diverse, multigenerational workforce. In an increasingly diverse world, talent-powered organisations use demographic and geographic diversity for competitive advantage.

Shifting populations and ageing workforces

The world’s population continues to grow, although at a rate that has been slowing since the 1970s, and is now at 1.2 per cent a year, according to the US Census Bureau. Fertility rates have dropped by half since 1972 from 6 to 2.9 children per woman, which is an extraordinary decline. There is now significant variation in rates of population growth and a general trend of populations starting to shrink in the developed world. The rate of population growth in developed countries is now five times lower than in less developed countries. The causes are not surprising: better education, availability of contraception, higher survival rates for infants and children, and pursuit of improved living standards have all contributed to the reduction in births.

A fertility rate of 2.1 children per woman is needed to maintain population numbers, yet Europe's fertility rates have been dropping below this for years – France and Ireland being the highest at 1.8, Italy and Spain the lowest with 1.2 (UN 2002 population report). Germany at 1.4 is at the average for the whole of Europe. At this rate, Germany will lose a fifth of its 82.5 million people over the next 40 years – a loss of population unknown in Europe since the devastating Thirty Years War in the early seventeenth century. Elsewhere across the continent is a similar story – Estonia will shrink by 25 per cent, Romania by 27 per cent, Bulgaria by 38 per cent. Russia is losing 750,000 a year, enough for President Putin to call it a “national crisis”.

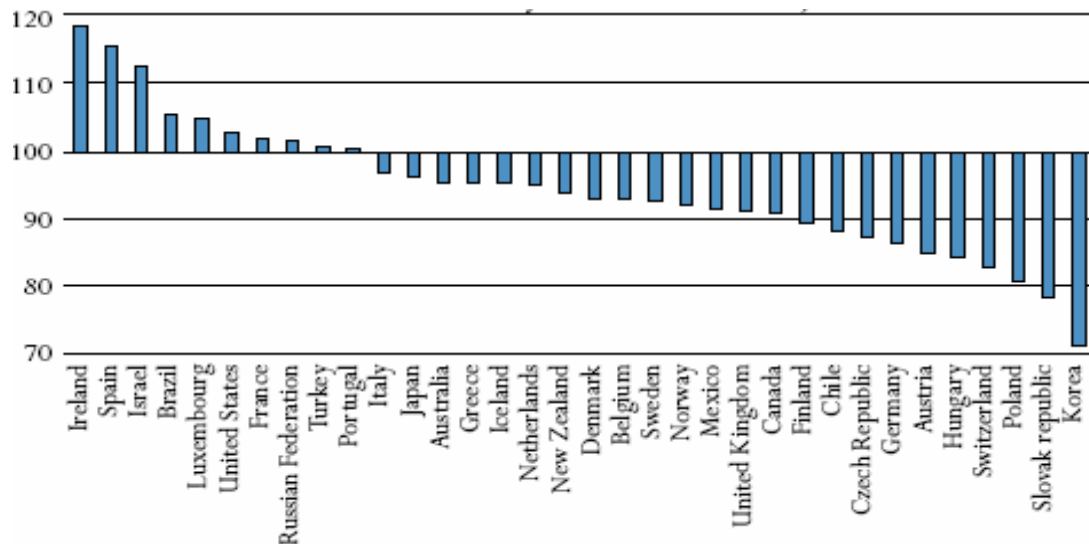
In other more developed countries of the world, the same thing is happening. Japan, having had a low fertility rate for many years and today averaging 1.3, has become the first industrialised nation to move into population decline. In 2006 the official statistics showed that it had a net reduction of almost 20,000 people and from this point the reduction starts to increase. Average age there is now 42.3 years, up from 30.4 years in 1975. Populations continue to grow in many parts of the world, mostly in regions such as Africa and the poorer parts of India, but also in areas like the Middle East where the UN expects the population to double by 2050 to 650 million people. China stands out among emerging economies as its birth rate has declined from 5.8 in 1970 to 1.8 today owing to its stringent birth- control policies. In the longer term this will cause problems with an ageing population.

Never in the last 650 years since the time of the Black Plague have birth and fertility rates fallen so far so fast in so many places, according to Ben Wattenberg in his book Fewer: How the New Demography of Depopulation Will Shape our Future. Figure 2 below shows the range of decline in many countries in the youth population expected over the next 10 years.

Figure 2 Expected demographic changes within the youth population aged 5-14 (2005-2015)³

2005 = 100

³ OECD Indicators. Education at a Glance 2006. Chart A11.1, page 160.



Other significant demographic changes are taking place at the same time. People are moving to the cities to take advantage of the new economic opportunities and jobs. By 2007 more than half the world's population will live in cities: in China there are now more than 160 cities with populations in excess of 1 million.

Immigration patterns continue to shift as movement across borders becomes easier. This may well offset population decline in some countries but can exacerbate population decline in others, particularly amongst the young which is a challenge currently for many Eastern European countries. However, political and social barriers in many countries continue to make it difficult to close the demographic gaps through managed immigration. By contrast, the US is expected to continue to grow through immigration by 100 million in next 45 years whilst Europe will lose roughly the same amount (according to Ben Wattenberg). So on current trends the US will be the only modern nation that will grow.

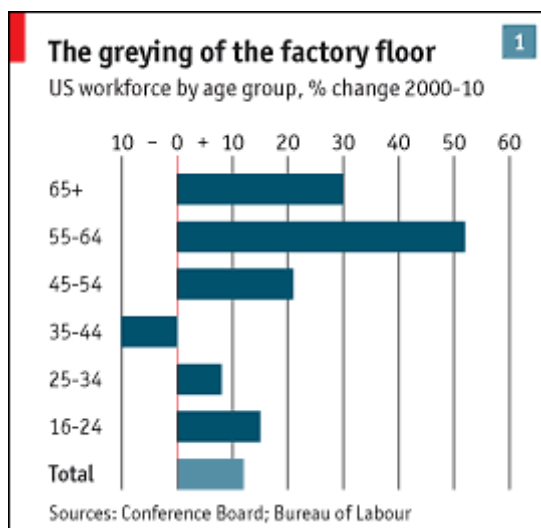
At the other end of the population age scale, the postwar baby-boomer generation in most Western Countries and Japan is approaching retirement and is expected to live longer than any previous generations thanks to improved healthcare, diet, and general improvement in economic conditions. Hence the much-quoted ageing workforce phenomenon. Some of the statistics can make for startling reading:

- The UN estimates that by 2050, one in five of the world's population will be aged 60 or older, compared with 1 in 10 now
- According to the UN, China will have a median age of 44 by 2015 (compared to a median age of 30 in 2000) and can expect to have 349 million people aged 65 or over in 2050 – more than the entire current American population

- Within the US Federal Government 30 per cent of the *entire* workforce will be eligible to retire in 5 years, and in some US states this figure rises to half
- The EU's working-age population (aged 15-64) is set to fall from 307 million in 2004 to 255 million by 2050 – from 67 per cent of the total EU population in 2004 to 57 per cent by 2050⁴
- By 2009 the size of the youngest cohort of the EU working-age population (aged 15 -24) will drop below the size of the oldest cohort for the first time⁵
- If current migration and employment patterns continue we could lose more than 12 million employees in Europe by 2030 or close to 8 per cent of the workforce ⁶

Figure 3 below shows graphically that the fastest-growing segment of the US workforce is older workers, especially those aged 55 and older.

Figure 3: changing age profiles in US



Aside from the impact on workforce size and availability, the economic burden of these changes is becoming apparent. China will have major problems because of the lack of a social safety net for its ageing population. The Center for Strategic and International Studies (CSIS) estimates that less than a quarter of the population have pension cover which will put a big burden on the current generation of only children – the so-called 4-2-1 problem with 4 grandparents, 2 parents and 1 child supporting them. The US will also have

⁴ EU Commission Green Paper Confronting Demographic Change: a new solidarity between the generations 16 March 2005

⁵ Ibid

⁶ Peer Ederer. 2006. "Innovation at Work: The European Human Capital Index." Lisbon Council Policy Brief.

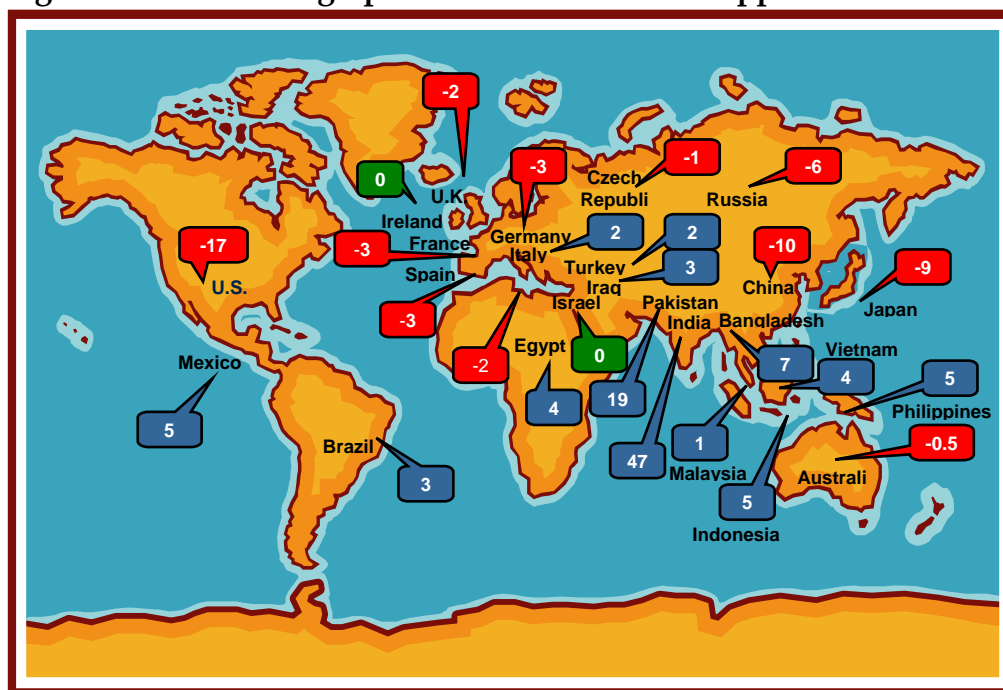
significant challenges in affording the costs of the ageing generation – costs of Medicare and Social Security will rise from 4.3 per cent of GDP in 2000 to 11.5 per cent in 2030 and 21 per cent in 2050, according to the Congressional Budget Office.

The situation is perhaps most critical of all in Russia, where the population has been shrinking at about 700,000 a year, prompting the UN to warn that without drastic action it could fall from 149 million today to less than 100 million by 2050. Worse still, the ageing of the population means that on current trends there will be four dependents for every Russian worker by 2025. No wonder President Putin has doubled child-support payments, improved maternity benefits, and introduced cash incentives for women to have second children.

Japan is already innovating to address the problem. As The Economist recently reported, the Japanese are taking production automation to the limit with so called ‘dark factories’ which have no human labour at all. Further automation is being introduced in areas such as healthcare, where the shortage of manual labour is already acute. We can expect technology to enable more and more creative responses to demographic developments.

Looking at all these demographic trends collectively, we can see the shift in the key working age groups across the world in the next 20 years as is shown in Figure 4 below.

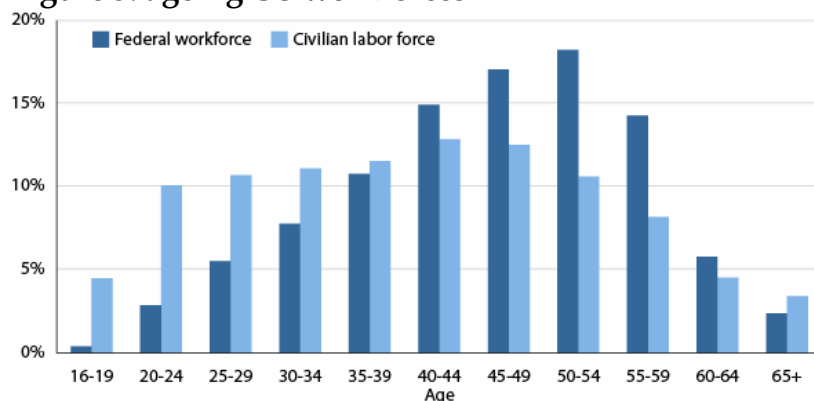
Figure 4: world demographic trends and labour supplies



Surplus or shortfall is calculated keeping the ratio of working population (age group 15-59) to total population constant
 Source: U.S. Census Bureau; IBM

Within certain industries, the ageing workforce issue is becoming acute as they have more of a tradition of long-serving employees and have not been bringing in younger talent to compensate. These are typically the industries which young people see as less attractive or 'cool'. The trends are mostly common across countries. Particularly prone are government agencies, energy and utility companies, heavy engineering, non 'eco-friendly' industries, and even, in some countries, industries like insurance. The ageing workforce problem in government in the US is now well documented and has prompted state and federal governments to introduce a range of programmes – albeit with varying degrees of urgency. Figure 5 below illustrates the problem dramatically.

Figure 5: ageing US workforces



Source: US Office of Personnel Management (Dec. 2004); US Bureau of Labor Statistics (Q1 2005)

Even at the National Aeronautics and Space Administration (NASA), surely a bastion of youthful technology, a survey by the newspaper Florida Today in 2004 found that nearly 40 per cent of its people were 50 or older. NASA employees over 60 outnumbered those under 30 by almost 3 to 1.

This prompts an obvious question: how we can attract new workers and retain them for longer in the workforce in these countries and industries most affected? We will explore this question further in later chapters, but to give a sense of the magnitude of the issue: in Germany by 2030 the average retirement age would need to move up to 66 from 60 today to neutralise the effect of this demographic change. The good news is that this generation of baby-boomers looks set to reinvent retirement just as they reinvented many social phenomena now commonplace around the world.

Global abundance, local scarcity

As the working population in the developed world shrinks in size and grows older, globalisation has given us huge pools of new talent elsewhere, and organisations around the world are trying to tap into them wherever possible.

In 1980 the workforce available to the free-market economies of the world was approximately 960 million, but by the year 2000 that figure had risen to about 2.9 billion with the political changes and opening up of countries formerly closed.⁷ Of this increase, about 0.5 billion came from increased population, principally in poorer countries. The opening up of China, Russia and Eastern Europe in the last 20 years, and the strong emergence of India have dramatically increased the available talent pool. The entry of these countries has added millions of new workers to the global labour force. They are not only cheaper than their counterparts in advanced economies but in some areas their equals or superiors in education, skills, productivity, mobility and ambitions. It is no surprise that organisations in advanced economies have been eager to hire them.

New technologies and methods of working have made this global talent more accessible, and opened up opportunities to make use of previously excluded or marginal sources of local labour. There are many millions eager to embrace new skills and new opportunities and gain access to the products and services the developed world has enjoyed.

But there is a paradox here, for despite the huge numbers theoretically available as part of a globalised workforce, there are critical shortages of skills in organised labour almost everywhere. The huge working populations of India and China account for more than 1 billion people, dwarfing any other countries, but less than 10 per cent of these workforces have the education and background for organised work: the great majority still work in unorganised tasks, in agriculture, or live in poverty.

To complicate the paradox in the supply of labour, there is intense demand for new skills, created by the accelerating pace of change in products, technologies and markets. New skills are needed in modern economies just when there are fewer new people to learn them. The growing attractions of talent markets and consumer markets of India and China and many other emerging economies have led multi-national companies to descend on them and stoke up local battles for talent.

⁷ Richard Freeman "What Really Ails Europe (and America)" [The Globalist](#) 3 June 2005

In India, the IT services sector in particular is growing at an incredible rate. Local Indian IT services companies have grown from almost nothing in six or seven years to tens of thousands of employees. They include firms like Infosys, Satyam, and Tata Consulting Services which now employs 85,000 people in India. Accenture is one of the global multi-nationals competing for the same talent, and our workforce in India has grown from a few hundred to over 25,000 in the space of six years. In 2007 India will overtake the United States to become the largest single country in our firm of 160,000 employees. IBM has announced that it expects to have more than 100,000 employees in India within the next two years.

All of this has prompted the National Association of Software and Services Companies in India (NASSCOM) to predict that the IT sector will face a shortfall of 500,000 professionals by 2010. Shortages are also projected among call centre workers in India. The government in India says that the demand for offshore call-centre workers there may outstrip the supply by some 260,000 workers by 2009. The call-centre industry has already absorbed many of the most highly skilled operatives, causing recruiters to settle for workers with less-than-ideal credentials⁸. The same concern is being expressed in the IT Services and Technology sectors.

China too is suffering acute shortages of key talent and these are becoming a major constraint on its rate of growth, especially shortages of management and leadership talent. Two thirds of companies in China in a 2006 Economist survey reported difficulty in filling senior posts, and several leading companies had to hire American CEOs. Attrition rates at manager level are reported to be 25 per cent higher than the global average⁹, and it is reported that as many as 75,000 managers who can work in global environments will be needed over the next 10 to 15 years - today there may be as few as 5000¹⁰. A recent report from executive search firm Heidrick & Struggles gives several reasons for the shortfall in qualified executives in China: education and work opportunities of many now aged 50-60 were disrupted by the Cultural Revolution; the local talent pool was depleted by the "brain drain" of the 1980s and 1990s; there are few strong business schools in China; and local Chinese executives often lack global know-how.

Many Chinese and multi-national companies have also sought to address the issues through bringing Chinese talent from overseas back to China - the phenomenon of the *hai gui*, or "sea turtle", the Chinese term for those who left

⁸ Gartner Press Release: "Gartner Says Skills Shortage in India's Call Centers Has Negative Impact on Service Delivery." September 12 2005.

⁹ Society for Human Resource Management: Report "2005 Human Resources Trends in China".

¹⁰ McKinsey: Report "Addressing China's Looming Talent Shortage", October 2005

China to study and work overseas but are now "swimming home" to take high-level positions at multinational companies. These returnees are sought after by large companies not only for their fluency in Mandarin or Cantonese, but also for their understanding of China's complex history, political system and cultural and social traditions which can mean the difference between success and failure in one of the most important markets of the future. This group is in a privileged position.

Nor should we forget Central Europe. It has been more than 15 years since the collapse of the Iron Curtain opened up Central Europe and its 10 countries have survived some painful transitions. Most of the region's economies have managed to thrive, as shown by the continued accessions to the EU. Today, Central Europe is a major source of talent and capability in support of the rest of Europe. These countries have the obvious advantages of proximity to the rest of Europe as well as a wider range of European language skills.

Surprisingly, the region is drawing in foreign investment at a rate of \$37 billion annually, which places it second to China in the international competition for capital and ahead of India¹¹. Most of the region's countries have tax rates as low as 15 per cent for corporations, which is also a strong incentive. Multinationals, from Hewlett-Packard to SAP to GE to IBM, have been moving in. Accenture is also opening centres across the region to support global clients with IT skills, call-centre and back-office operations from Riga to Bucharest, and we are forced to look continually at new locations as popular centres like Prague show increasing signs of overheating.

Few anticipated that the once-bankrupt economies of Central Europe would move up the industrial food chain so quickly and attract research jobs in knowledge-driven industries ranging from telecoms to autos to pharmaceuticals. Now, thanks to their growing ranks of high-skilled workers, these countries are growing fast as havens of outsourcing for engineering and software development, just behind China and India¹².

In the Czech Republic, investments in such sectors as software and customer-service centres rose 150 per cent in 2004. According to IBM, Hungary, Poland, and the Czech Republic ranked among the top 10 global destinations for research and development jobs in the first half of 2005. In Europe, only Britain attracted more R&D work. Some 67 per cent of the Polish economy already consists of services, according to the OECD. There is a strong entrepreneurial culture and spirit, demonstrated by their appetite for work - Poles work an

¹¹ Business Week "The Rise of a Powerhouse" December 2005.

¹² Business Week, op cit, December 2005

average of 1,984 hours a year, well above the 1,777 hours clocked by US workers and far more than the 1,362 hours Germans work, according to OECD figures.

The knock-on effect

The demand for talent in new economies has had important consequences. In both India and China, local and multi-national companies face significant challenges of retention, wage inflation, and battles for new graduates which are as fierce as anywhere in the world. Despite graduating 2.5 million college students with strong English skills annually, the campuses of the top business and technology schools when the potential employers roll into town have to be seen to be believed, with students being given multiple lucrative offers of employment on the spot. Turnover is high, and people in Chinese and Indian companies where talent shortages are greatest are quite prepared to leave a company to bump up their salaries. At PepsiCo's 400-strong sales team in Guangzhou, turnover was about 50 per cent in 2000. After setting up better systems for staff feedback, the company halved attrition over three years, but that still left turnover at close to 25 per cent.

Employers have responded by raising salaries, with some sectors experiencing annual wage inflation over 20 per cent. As a result, the lucky few can command high salaries. Pay packages for top-level managers in China are comparable to those of their counterparts in the US, easily running into hundreds of thousands of dollars¹³. Meanwhile, leading Indian companies are increasingly inclined to bring in Western CEOs, and good middle managers are so rare that wage increases for project managers have averaged 23 per cent for the past four years. Wages for software/IT middle-managers in India were 5 per cent of US wage levels in 1998, but by 2003 had reached 15 percent and rising.

In Eastern Europe, wage rate variations are indicative of where talent shortfall is the greatest. Manual workers' wage rates are around 20-30 per cent of those in Germany, but salaried workers' pay in the more competitive sectors is only around 30 per cent below the rest of Europe, and still 3 to 4 times higher than in India at the moment.

If these rates of wage inflation were to be maintained, it would negate most of the labour cost advantage from these countries within five to seven years. But this is a facet of the global talent marketplace where wages for certain categories of talent will become more comparable as real and virtual mobility increases. Consequently, many organisations are now seeking to improve their people

¹³ [The Financial Times](#) reported in an article on the topic in February 2006.

management, to increase their attractiveness as employers along with their ability to retain the talent they recruit. The IT services sector in India has been developing some of the best people and talent management practices in the world. Because it has to.

The frenzy for talent in IT services and the communications and hi-tech industries is having a knock-on effect in all industries. If you are in a less appealing industry sector or cannot pay at the same rates, then attracting and keeping the talent is becoming increasingly difficult. Many companies in the engineering and manufacturing sectors are finding it difficult to recruit and retain people, despite being the bedrock of economic growth in all of these countries for the past several decades. We are seeing more and more of the hourglass shape in organisations where people who join at the bottom are leaving within three to five years to pursue opportunities elsewhere, while the loyal older generations of company men and women stay on.

Cities like Bangalore have become overheated since the world beat a path to its door during the later 1990s. Infrastructure is creaking and the cost of living has soared, while real-estate prices are rising at 10-15 per cent annually. So firms are already looking for cheaper places in India – cities like Cochin, Jaipur and Pune. According to NASSCOM, about 30 per cent of India's outsourcing revenues (\$12.5 billion in 2003) will move to smaller cities in the next few years. This is not just a question of money – officials at IT firms say the employees are more loyal in the smaller cities since competition is so fierce in the larger cities, resulting in a lower attrition rate of more like five per cent compared with as much as 30 per cent in Delhi and Bangalore. The shift is good for these smaller cities where unemployment among young people can be as high as 30 per cent. Accenture operates services and support from six cities in India today and that will doubtless increase.

The same phenomenon is happening in China, and in Central Europe where new cities and regions are opening centres supporting multi-national companies almost every month. According to the Conference Board, productivity continues to grow in China in the private sector with an incredible 17 per cent annual improvement between 1995 and 2002. Costs have continued to fall in the face of competition and Chinese companies moving to cheaper cities and locations. Other countries such as Brazil, Malaysia, and Vietnam are also becoming wired in to this new world and are attracting multi-national companies in search of talent and resources.

As basic infrastructure and support are becoming stretched, companies are sometimes taking matters into their own hands. For example, the acute shortage of hotel rooms in cities like Bangalore has led to Infosys building its

own accommodation - so much that it will reportedly become the largest 'hotelier' by numbers of rooms in India. Such a development was unimaginable only a few years ago.

These issues create enormous challenges for companies seeking to 'globalize' and extend their workforces to incorporate more diverse sources of talent. Even for those in sectors where global expansion is more difficult, such as government, the issues cannot be ignored as ultimately we are all competing in the same talent pool. We will return to these points in Chapters 2 and 3 as we discuss strategies and approaches to meet these challenges and take advantage of the changes they are creating.



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In many countries the skills shortage for employers has been aggravated by powerful special factors such as:

- underperforming education systems which fail to match skills and expectations of school leavers and college graduates with those needed and valued by employers
- pensions policies which penalise older workers who want to continue working or take up new positions in their organisation
- the growing reluctance of younger workers to work in certain sectors of the economy and their preference for variety and independence rather than conventional career patterns as employees of one organisation

- the prevalence, particularly in many EU countries, of job-protection measures and an associated mindset which help to preserve people in obsolete or less marketable skills and holds back their retraining in more valuable ones
- restrictive immigration policies, which may have been intended to protect the jobs of domestic workers but also have the effect of stifling the flow of talent across borders.

Some of these are worth considering further, particularly the challenges of the education gaps.

3. The importance of learning and skills development

Accelerating demands for new skills and capabilities combined with worldwide skills shortages have made learning and skills development a strategic necessity for all organisations. In an increasingly talent-dependent global economy, talent-powered organisations emphasise learning and skills development to create the prepared, adaptable workforces necessary for strategic success.

Is education creating the skills we need?

The world is becoming more educated as availability of basic education spreads. For example, upper secondary level education (beyond the compulsory level of education) typically starting at ages 15 to 16 is now close to 80 per cent across the 25 EU countries. Across all OECD countries, the proportion of the population now attaining tertiary-level education is at 29 per cent for 25-34 year olds versus 17 per cent for those in the age group 55-64, according to the OECD. In countries like the UK and the US, 50 per cent or more of the population today now reach tertiary-level education. Continuing vocational training varies widely, and adult learning is becoming a significant issue as we shall see.

This percentage is of course very variable around the world. Numbers of tertiary-educated students are still highest in the US with over 14 million, although a significant and increasing proportion now comes from overseas, especially Asia. India now has more than 6 million students, followed by Japan at almost 4 million, and China currently also at around 4 million, although increasing fast. Russia has a relatively small student population of 2.6 million. The world looks to these ranks of students – or graduates – to supply management talent, engineers, scientists, doctors, lawyers, technologists, and others that businesses are so hungry for.

But what sort of education and qualifications are these students coming out with? Are they gaining the skills that businesses need? In the developed world, there appears to be a growing trend of failure by secondary and tertiary education to produce the right basic skills.

In the UK, employers have complained of low-quality science qualifications, and the disappearance of physics, mathematics and language students while media and cultural studies become ever more fashionable. The Confederation of British Industry has deplored poor literacy and numeracy skills among college graduates as well as school leavers, and a lack of basic communications, decision-making and leadership skills.

The Corporate Executive Board (a Washington-based research and education organisation) recently surveyed 4000 hiring managers in over 30 US companies. They complained that the average quality of candidates had declined by 10 per cent since 2004, and that the average time to fill a vacancy had increased from 37 days to 51 days.¹⁴ A recent employers' survey showed school-leavers to be seriously deficient in applied skills – “those skills that enable new entrants to use the basic knowledge acquired in school to perform in the workplace”. In written communications, they found 81 per cent of high-school graduates, 47 per cent of two-year college graduates and 28 per cent of four-year college graduates to be deficient. In leadership, they found deficiencies ranging from 24 per cent to 73 per cent. In professionalism/work ethic, the deficiency ranged from 19 per cent to 70 per cent.¹⁵

These statistics are worrying. But it cannot be that younger people in the developed world have inexplicably become less able than previous generations. It has much more to do with the education they pursue.

The nature of graduate qualifications has changed quite significantly over the years in the US and Europe, and this has exacerbated the declining populations of young people we described earlier:

- Although the number of UK graduates increased by 30 per cent between 1996 and 2004, the percentage of students studying physical sciences and architecture declined by 0.8 per cent and 0.48 per cent respectively. Comparatively, the biggest increases were found in the social, economic

¹⁴ Economist survey 7 Oct 2006 “The battle for brainpower”.

¹⁵ Jill Casner-Lotto, Linda Barrington. 2006. “Are they really ready to work? Employers' Perspectives on the Basic Knowledge and Applied Skills of New Entrants to the 21st Century U.S. Workforce.” Research Report of The Conference Board, Inc., the Partnership for 21st Century Skills, Corporate Voices for Working Families, and the Society for Human Resource Management.

and political sciences (5.42 per cent) and studies allied to medicine, principally nursing (4.4 per cent).¹⁶

- In the UK, there were more Media Studies undergraduates (21,655) in 2004 than Biology (17,380), Maths (17,925), Chemistry (11,070), Physics (9,350), Philosophy (7,630) or Finance (6,750) graduates.¹⁷
- In 2003, the US graduated more than twice as many performing arts students than those studying maths and the physical sciences combined: 77,181 compared with 11,171 and 17,983 respectively.¹⁸
- Approximately 15,000 UK students took A-level further mathematics in each year during the late 1980s. In 2004 the number was 7,270. ¹⁹
- The number of graduates from German colleges with degrees in computer science is expected to drop from 17,000 in 2006 to some 14,000 in 2010.²⁰
- In France, the number of registered students taking bachelor-level science degrees dropped from 46,000 in 1995 to 29,000 in 2002 , a fall of 37 per cent.

These concerns are getting raised with increasing frequency, but it is not clear how this trend will be reversed – especially since the National Commission on Mathematics and Science Teaching for the 21st Century found that two thirds of mathematics and science teachers in the US will be forced to retire by 2010. However, perhaps all is not lost. In a recent Harris poll of the most prestigious professions, teachers came third, just behind scientists and doctors – having leapfrogged over priests, engineers and lawyers in the space of two decades.²¹

Meanwhile, the slack is getting picked up in the developing nations around the world. The number of tertiary graduates in 2003 in the field of Science, mathematics and computing has more than doubled since 1998 in the Czech Republic, Latvia, Lithuania, Malta, Poland and Slovakia.²²

In Asia there have been some huge changes in education. Korea has transformed itself in the last 50 years to one of the most modern economies in the world, and a large part of getting there is due to the investments by government, often working together with industry, in expanding the education sector, particularly in higher education. Today, 97 per cent of Korean 25-34 year olds have a high-school education - the highest rate in the principal industrialised economies of the world. Key characteristics of a successful education system well demonstrated in Korea include business working as a training provider together with investment in lifelong learning and re-skilling.

¹⁶ Figures from UK Higher Education Statistics Agency

¹⁷ Figures from UK Higher Education Statistics Agency

¹⁸ Figures from US National Center for Education Statistics

¹⁹ Guardian Education “It doesn’t add up”, 24 Oct 2005

²⁰ Heise Online “IT industry lobby group says Germany lacks specialists” 16 Oct 2006

²¹ The Harris Poll 65, Harris Interactive (15 Sept 2004), Science and Engineering Indicators 2006

²² Eurostat, Statistics in Focus; Graduates in Tertiary Education 2003

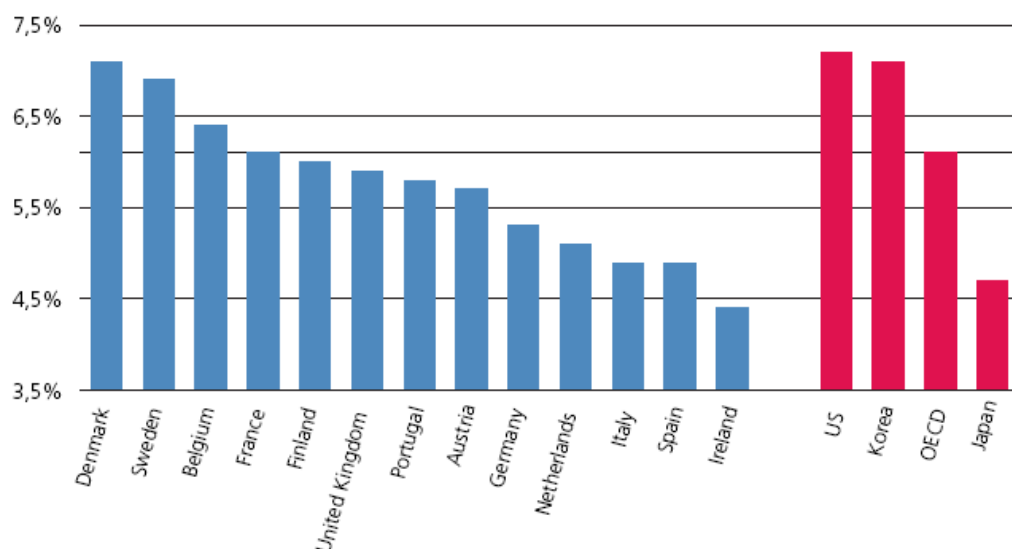
In India there are now around 200,000 new computer science graduates a year mostly from the six Indian Institutes of Technology. Last year China graduated more than 820,000 engineers, of whom 30 per cent can compete internationally.²³ Around one third of students in China study engineering, compared with 20 percent in Germany, and around 4 percent in India²⁴. In China, the total number of qualified scientists and engineers working in R&D is expected to exceed the total in Europe by 2010, and they have committed themselves to significant increases spending on education from today's relatively low 2.8 percent of GDP to 4 per cent by 2010²⁵. In 2003, 25 per cent of all college-educated workers in science and engineering occupations in the US were foreign-born.

The reality is that all countries are competing in the global talent market and it is vital for each country's competitiveness to continue to produce a significant proportion of the population with the skills and experience the global economy needs. But some countries are spending a significantly higher proportion of their GDP than others on education.

Levels of investment in education – an issue of national competitiveness

Figure 6 below illustrates the point in differences in the developed economies of the world.

Figure 6: national education spending



²³ Heise Online, op cit, 16 Oct 2006

²⁴ IHT, Chinese Paradox: "A shallow pool of talent", 25 April 2006

²⁵ Gov.cn: "China to raise education expenditures to 4% of GDP", 6 March 2006

As noted, we appear to be falling behind increasingly in producing the skills needed in the developed economies of the world, and there is already evidence that Europe is failing to keep up with the demand for skills driven by the knowledge economy. For example, it is estimated that in 2005 Europe had an advanced network technology skills shortfall²⁶ of around 160,000 people and that this will rise to 500,000 in 2008. This represents a skill gap of 8.1 per cent of total demand in 2005, rising to 15.8 per cent in 2008.²⁷

The Lisbon Council for Economic Competitiveness and Social Renewal (an influential think tank) carried out a study in conjunction with Zeppelin University in Friederichshafen on understanding human capital across Europe. They focused on how countries are investing in and building their human capital, principally through education and training. Their key conclusion was that “some countries are courting disaster by allowing their human capital to stagnate”, and urged policy-makers in Europe to invest more in the individual citizen. Top of their Human Capital Index list in Europe were the Nordic countries followed by the UK and The Netherlands. Propping up the bottom were Italy, Spain and Portugal, with Germany not far away. They believe that countries towards the bottom end of this index risk economic stagnation.

Although it is easy to focus on the education of children, the reality is that around 70 per cent of the workforce that we will have in 2020 is already out of school and college. Therefore there is a critical need for governments and corporations to concentrate on adult learning and development. Right now, their willingness to invest varies enormously. In Europe, the Nordic countries and the Netherlands fare best, with almost twice the level of comparable investment than countries like Italy, Germany and Spain according to the EU. We will discuss this issue further in Chapter 4.

Migration of skills and jobs

Relative weakness in building home-grown talent can be compensated by immigration of talent. Today, people are mobile and in particular, young people from Asia are moving to take advantage of learning opportunities or jobs.

²⁶ “Advanced IT networking skills” refers to security and new network developments such as Internet-Protocol telephony, security and wireless networking

²⁷ IDC White Paper commissioned by Cisco Systems, “Networking Skills in Europe: Will an Increasing Shortage Hamper Competitiveness in the Global Market?”, September 2005

Australia has been one of the world's greediest nations for skilled workers from abroad. For over three decades, successive governments have systematically encouraged large-scale, explicitly skill-selective, immigration policies. Without such policies, it has been estimated that Australia's current population would be about 12 million instead of 20 million²⁸. At the 2001 population census, about 23 per cent of the resident population were foreign-born. Since 1996 there has been a shift towards importing skilled workers on a temporary basis, and a proliferation of separate visa categories. This has had the effect of raising the proportion of immigrants in skilled categories from 29 per cent in 1995-6 to 62 per cent in 2003-4, and improving the labour market performance of migrants to Australia – in sharp contrast to the experiences of Canada and the US, where the labour market situation of immigrants has deteriorated in recent times.²⁹

To an extent, India represents the obverse of Australia, since for the past 20 years it has been one of the world's most important sources of skilled migration. There are currently estimated to be more than 20 million Indians living abroad, generating about US\$160 billion in annual income, and accounting for US\$400 billion in output. Until recently, this has been perceived as a classic "brain drain", not entirely mitigated by the earnings sent back to India by emigrants – accounting for nearly 2 per cent of India's GDP during the 1990s. Since the millennium, it has gradually become clear that through diaspora networks, skill and technology transfer, cross-border investment flows and the operations of multinational companies, India itself has reaped benefits not only economically but also educationally.

What goes around comes around, it seems. And in 2006, the pendulum is shifting to the point where Australia is increasingly concerned about its brain drain, while India is enjoying some of the benefits of return migration, and the assimilation of skilled workers from abroad.

There has also been a strong trend in recent years to move jobs to other countries to access their talent.

This is starkly demonstrated by the growth of offshoring of jobs in the IT industry from the US and Europe to India in particular, which has around 80 per cent of this market today. Whilst estimates of the impact of offshoring vary widely, the US and the UK are most exposed and may impact as many as 40-50

²⁸ Kippen, R. and P. McDonald. 2000. "Australia's population in 2000: the way we were, and the ways we might have been" *People and Place* 8(3): 10-17.

²⁹ See Graham Hugo "Australian experience in skilled migration" (extracted from *Competing for Global Talent*, published by the International Labour Office, Geneva 2006).

per cent of new jobs in this sector as shown by the research findings in Figure 7 below:

Figure 7 Impact of offshoring

IMPACT OF OFFSHORING ON EUROPEAN AND US INDUSTRY JOBS		
Offshoring—impact on IT jobs	Existing jobs (2003-2005)	Job creation capped by offshoring (2006-2010)
US	Between -2 and -4% p.a.	Between 25% and 50% of jobs
UK	Between -2 and -4% p.a.	Between 25% and 40% of jobs
Continental Europe	-1% p.a.	Between 10 and 25%

TABLE 3 SOURCE: FORRESTER RESEARCH, GARTNER GROUP, GLOBAL INSIGHT, ESTIMATION ODDO SECURITIES

Offshoring in this context is being driven not only by labour arbitrage opportunities, but also to access talent and the quality of skills and work performed.

4. The challenge of engagement

Changes in attitudes about work and life priorities, the rise of knowledge work and workers, and changing patterns of work have made engaging employees simultaneously more important and more difficult. Talent-powered organisations understand that engagement is the powerful force that enables them to multiply their talent. As business becomes ever-more dependent on talent, truly talent-powered organisations engage employees to achieve superior performance.

Attitudinal shifts to work and life –Gen X, Gen Y, the Net Generation

Many demographers and social commentators have drawn attention to the shift in attitudes across the generations, and the apparent lack of willingness and interest in the current generations to learn and work in the ways that previous generations did. Understanding these shifts is vitally important in understanding how to manage and attract the different generations.

Although we talk about generations, the different cohorts of people being born in different decades do not fit neatly into actual generations, but rather into social groupings with particular characteristics. The descriptors and characteristics most often used in the past were most applicable to the West, and most closely aligned with the Anglophone world. Attitudes shift as people grow older – the idealised worldview of the young inexorably shifts to the more

pragmatic, world-weary view of maturity. Practicalities such as raising families force economic considerations to the fore, so that job security becomes more important, as does work-life balance – although recent surveys on this topic show that some attitudes to issues such as work-life balance apply across the generations.

Attitudes vary also across regions of the world. Although the internet and common access to global media have created some homogeneity in the political and social outlook of younger generations, a stronger work ethic and focus has been detected among young people in the developing economies of the world. Having had less opportunity until recently to build their own wealth and enjoy its trappings, they seem to have a greater hunger. And they are the first generation of their people to see these opportunities opening up, just as the baby boomers were the first generation to see new opportunities in the post-war developed world.

A recent Gallup poll of young Chinese showed that the first priority for more than two thirds of respondents was to “work hard and get rich”. Young people in the West would often prefer to skip the first bit. The mantra across the US and Europe today is work-life balance, in contrast with the developing world’s work-hard-and-succeed mantra. But this is also a reflection of contrasting attitudes between older and younger workforces. The Corporate Research Council in its 2006 series on Competitive Employment Value Propositions highlighted some of these variances. In China, for example, no potential employees mentioned work-life balance among their desires. In all the cities surveyed, compensation came top every time. In the UK, Australia and New Zealand, by contrast, work-life balance figured highly.

As Thomas Friedman observed in The World is Flat, “young Chinese, Indians, and Poles are not racing us to the bottom. They are racing us to the top.” They are not content with where they have got to and they want to compete with, not just support, enterprises from around the world.

The first significant shifts in attitudes and beliefs came with the Baby Boomers - the celebrated post-war generation born between the 1940s and 1960s. They were part of a population boom as the world came out of general economic depression. They were also seen as a reactive generation wanting to change much of what previous generations had created. That done, they mostly settled into predictable patterns of work and employment, and they worked hard to accumulate. They are now rapidly approaching retirement.

The baby boomers were followed by what became known as Generation X – those who were born between the end of the 1960s and the end of the 1970s.

This generation was smaller and generally viewed as being more cynical; to an extent, they seemed to feel overshadowed by the baby-boom generation. But Generation X also grew up during a period of significant social change. This generation attracts different names in different parts of the world: in the West, it is also known as the Nineties generation, whereas in Russia and Eastern Europe, it is often known as the Glasnost-Perestroika generation. In the developing world, this generation had to adapt to huge and rapid social and economic changes, including the emergence of women into the workforce.

There was a historic view that this generation did not want to work hard, but again as they have aged, the pressures on them of making money, general social conformity, and work-life balance mean they are relatively stable in the workforce, although not always content.

The most recent generation was born from the beginning of the 1980s. It is now entering the workforce in strength and producing the greatest worry over recruitment and retention. It is most often called Generation Y, but has many other names or sub-groups that people like to study. For the most part they are the offspring of baby boomers and the largest group since that generation – hence the epithet ‘Echo Boomers’. They are also defined by their use and appetite for technology – hence the more familiar title ‘Net Generation’ as defined by Don Tapscott in his book Growing Up Digital, although this name was more commonly associated with those born from the 1990s onwards.

There is a limit to the value of precise generational definitions, but there are broad circumstances that have shaped the thinking and attitudes of the different age groups in the workforce today. Warren Bennis and Bob Thomas (co-author of this book) in their book Geeks and Geezers looked at these and observed the following.

Workers of 70 or more (‘geezers’) are more likely than younger generations

- to have been brought up in stable families with one (usually male) breadwinner
- to have undergone stricter and more formal methods of teaching
- to have strong loyalties to their birthplace, community, country, family and employers
- to have changed jobs and working practices infrequently if at all
- to have lived and worked in hierarchical environments, with clear decision-making structures, which put a premium on predictability and security.

By contrast, workers under 35 (‘geeks’) are more likely

- to have been influenced by personal events, encounters and mentors, and by entertainment rather than history
- to have experienced greater variety and instability in family relationships
- to have experienced less rule-bound methods of teaching (although these may have returned in many countries for the youngest generation of workers, in response to media and political pressures)
- to have no strong loyalties to any particular environment
- to have changed jobs and careers more often (typically they expect to work for 7 to 8 employers compared with at most 3 or 4 for the older generation)
- to have changed not only working practices but entire lifestyles rapidly and frequently in response to changes in technology
- to have developed little respect for hierarchy or security and to have come to expect and demand the maximum opportunity for personal fulfilment.

In the generation now entering the workforce we are seeing some very different signs on how they want to work, and the huge influence that technology and modern media are having on their lives. This is also the generation which makes up most of the new workforces of the developing world – in China, Brazil, India and Vietnam they represent over a third of the total available workforce, more than double the proportion of the baby boomers.

Although this generation lacks certain key skills demanded by business, it is imbued with expertise in the new forms of media and technology, which they improve year by year to capture the new entertainment and lifestyle opportunities provided. In addition, they have typically grown up in relative security and affluence, giving them a sense of being able to accomplish almost anything, according to Patty Giordani in her book Y Recruiting. They have grown up totally at ease with technology and with high expectations of its performance and potential – in the US, it is estimated that over 90 per cent of people aged 15-17 are computer users, and other countries have greater broadband penetration. Given the globalised nature of the workforce today they are also the most racially diverse and egalitarian group to come into the workforce.



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2006

Most important, the Net Generation has used digital media to create new and personal forms of entertainment, collaboration and connection. Their parents, the boomers, may have been the first to enjoy "youth culture" but they had to take what they were given from radio, television, movies and music companies. The Net Generation have been given interactive, inter-exchangeable media giving them unprecedented opportunities to customize and invent not only their choice of entertainment but their entire personal space and identity. As Don Tapscott observed, when this generation enters the labour force, it is culturally resistant to any form of centralised control and to any working demands which rob them of their "right" to personalize their environment. He defined their norms as:

- Freedom – choice, change their minds, mobility
- Customisation – freedom to hack
- Scrutiny – ability to authenticate everything
- Integrity – requirements for integrity, including openness and balance
- Relationships, Collaboration
- Experiences, Entertainment, Fun, Playfulness
- Speed, Immediacy.

Understanding and making use of these characteristics offers exciting new possibilities in how we access and engage this new generation of talent. They are adaptable and quick to grasp new ideas having become so familiar with sharing and collaborating. We may just have to go out into the world of the

internet and find them and they will provide their brainpower – often just for the fun of it. We will come back to that in Chapter 3.

Somewhere between the Geeks and the Geezers are the workers of 35 to 70. Many of them lead lives of anxiety, juggling work, family and relationship demands without enjoying either the security valued by the previous generation or the fulfilment sought by the next. These people, particularly middle managers, are becoming less loyal to their employers and expect to move jobs more rapidly to meet their expectations (or cope with those of their circle). Accenture's surveys of middle managers have consistently shown that this is a group of unsettled people. No fewer than two thirds of today's middle managers would consider changing their jobs and half of these people are actually doing something about it.

The day-to-day management of multi-generational teams is tough enough, let alone retraining and reskilling them all, and making each member more motivated and productive. But these are challenges facing more and more organisations. They will not succeed without rewards and performance management systems and approaches which make separate personal sense to each one of their people while simultaneously generating a sense of common cause in line with the organisation's strategic priorities. Understanding the generational differences is crucial to understanding engagement and motivational issues, career direction and aspiration, leadership role models and expectations, and work styles. These will be reviewed later when we consider discovering and recruiting talent in Chapter 3, skills development in Chapter 4, and the challenge of engagement in Chapter 5.

The changing nature of work: knowledge workers

The nature of work has been changing for some time now as the developed world has shifted away from reliance on manual work towards an economy based primarily on knowledge work. Even in the developing economies, talent shortages and competition are mostly associated with knowledge workers. Earlier on we noted the growth in intangible value of enterprises – a phenomenon directly related to the rise in knowledge work.

But what are knowledge workers and how well do we understand them? The term was coined as early as 1959 by Peter Drucker, to describe people who add value to their organisation through their ability to process existing information to create new information which could be exploited to define and solve problems. As examples, he cited lawyers, doctors, diplomats, law makers, marketing experts, managers and bankers, which might reflect a certain bias towards people with specific professional skills.

Many commentators have identified particular characteristics of knowledge workers, including problem-solving and learning ability, individuality and a need for autonomy, and the ability to absorb new information or see existing information in a new light. They have a strong sense of their own worth and they want to demonstrate it and have it recognized.

Economists have also studied this phenomenon, and even within knowledge-based work, have noted that the nature of the skill requirements has been changing. In an article in 2006 in the Journal of Labor Economics published by the University of Chicago, Alexandra Spitz-Oener demonstrated that “occupations require more complex skills today than in 1979 and that the changes in skills requirements are most pronounced in rapidly computerising occupations”. No wonder it is getting more difficult to find the right skills and we worry about shortcomings in education.

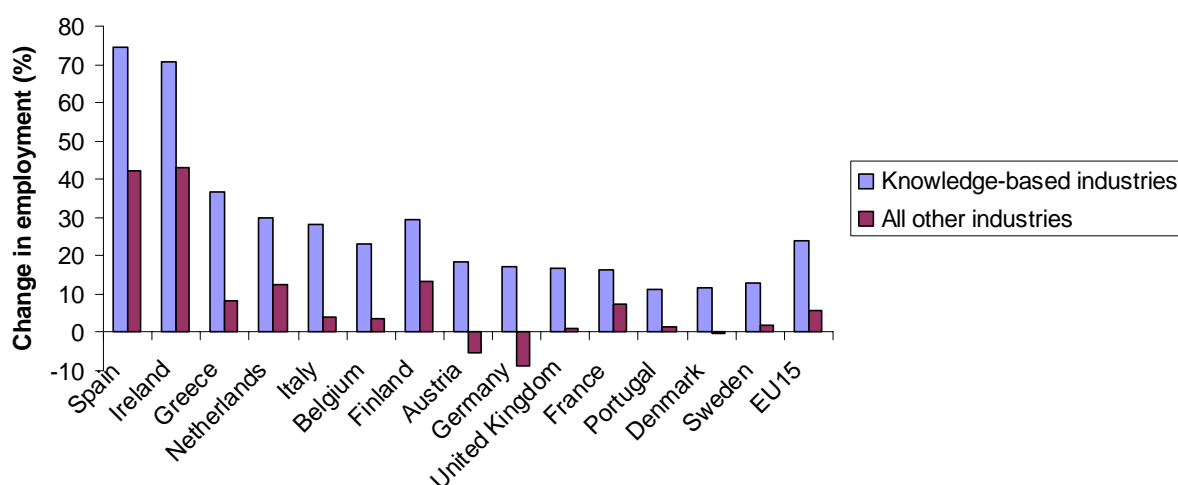
Drucker’s ideas have been taken on by others and most recently developed by Thomas Davenport, whose 2005 book Thinking For A Living took a close look at knowledge workers, whose expertise and experience lies behind the success of many of the world’s leading companies. “Knowledge workers,” says Davenport, “are going to be the primary force determining which economies are successful and which aren’t. They are the key source of growth in most organisations.”

Lest you doubt the importance of knowledge workers, consider these recent findings.

- According to American Demographics’ analysis of the US Bureau of Labour Statistics 10-year projection report published in December 2001, 56 per cent of the American workforce belonged to a major occupational group that gathered, processed or used some type of information to conduct their work
- According to the EU, the combination of people working in market services and non-market services (public services and non profit) across the EU25 is now 67 per cent, or 130 million people out of a total of 195 million (Eurostat report 2005 – data 2004).

Figure 8 below shows the shift in new jobs from 1995 to 2005 in the 15 EU countries with a very strong bias towards knowledge-based industries.

Figure 8 New jobs in knowledge-based industries versus all other industries 1995-2005 (EU15 excluding Luxembourg) ³⁰



The shift to knowledge work places a higher premium on education and training and on people's ability to learn new skills, notably their ability to work with the almost ubiquitous computers and technology. Along with that comes a need for general skills, including problem-solving ability, team-working, adaptability, and informational skills, as well as specific technical or content skills such as science and engineering, languages, commercial knowledge.

Managing knowledge workers is bound to be difficult, and very different from the approaches to improve the efficiency of manual workers that began with F W Taylor in the early 1900s and his principles of Scientific Management. Talent is not a commodity nor is one unit of talent a perfect substitute for another. Knowledge workers' value lies somewhere in the recesses of their brain – so how can you extract and evaluate that? Their job is to think, but how can you tell when they are thinking? You certainly can't tell what they are thinking. Even in a national company, your knowledge workers are probably widely spread, and in a global company, they may well be in a different time zone. So how can you keep tabs on them?

It sounds impossible, which may be why many organisations seem to adopt the HSPALTA policy. This is Thomas Davenport's acronym for Hire Smart People And Leave Them Alone. But this is not enough.

We need to improve output productivity, innovation, collaboration, and other facets of knowledge work to drive real value and improvement in business

³⁰ Knowledge economy fact sheet, Economic and Social Research Council, 2005

performance. As Davenport observed, “everybody else has already been squeezed, so now it’s the knowledge worker’s turn.”

Knowledge workers have been newly empowered by technology and globalisation. As Friedman described in The World Is Flat, the world has been “flattened” by a combination of geo-political change, breakthroughs in information technology, and new ways of working. He writes of a “triple convergence – of new players, on a new playing field developing new processes and habits for horizontal collaboration” that has rendered irrelevant most of the old command-and-control work structures. We are now starting to see ways to improve the performance and productivity of these types of workers, but as we shall see later, one of the biggest challenges is in engaging them and motivating them to give of their best.

Changing patterns of work

Changing attitudes are being reflected in changing patterns of work, and for example, can be observed in declining average job tenure. According to Peter Cappelli, George W. Taylor Professor of Management at The Wharton School, average job tenure in the US began to decline significantly in the mid-1990s, especially for managerial employees. Declines in long-tenure jobs explain much of the overall decline. The number of people in jobs for ten years or more declined slightly from the late 1970s through 1993 and then fell sharply through the end of the 1990s to the lowest levels in two decades. Increased career mobility is evident among workers at every career stage. Young workers now make 10 per cent more job changes in their early careers than previous generations of young workers did. Meanwhile, fewer men in later stages of their careers (ages 58 to 63) have been with the same employer for 10 years or more than in the past – only 29 per cent in 1989 as compared to 47 per cent in 1969.³¹

Conversely, there are fewer and fewer employers actually making that offer to them. More and more jobs, particularly first jobs, are offered on fixed-term contracts or in the expectation that their occupiers will move on.

These figures mask the growth of self-employment – increasingly a deliberate choice for workers who trust in their ability to sell their skills and do not wish to commit themselves to any particular employer or work environment. In fact, as Daniel Pink revealed in his provocative book Free Agent Nation: How America’s New Independent Workers are Transforming the Way We Live, over

³¹ Cappelli, Peter. 1999. *The New Deal at Work: Managing the Market-Driven Workforce*. Boston, MA: Harvard Business School Press.

25 million Americans are now self-employed. There are more “free agents” than the combined total of all employees of federal, state, county, and local governments – “Free Agent Nation is larger than the entire public sector.” Besides self-employment more and more people are joining or forming small businesses which can offer the same variety of working assignments as self-employment and the same opportunity to change direction. According to Pink, fewer than one in ten Americans work for a Fortune 500 company. Entrepreneurialism is rampant: Census Bureau figures indicate that 70 per cent of businesses in the United States have no paid employees.

There is much evidence to show that the self-employed work longer hours than their peers in organisations. The self-employed have no paid holidays and no sick leave. Every day of leisure, illness or pure idleness comes out of their own pocket. Small wonder that average weekly hours worked by self-employed people are higher.

- On average, men (in the UK and US) who are self-employed work between 54 and 56 hours a week compared with employees who work around 44 hours.³²
- In Canada, the self-employed worked 41.4 hours per week in 2005 compared with 35.6 hours for employees, on average. 35 percent of self-employed persons worked over 50 hours compared with only 5 percent of employees.³³

Many of the same things apply to those who work in small companies. There is little or no fat in such companies – if their workers slack they not only hit themselves in the wallet but let down their colleagues. Again, figures suggest that hours worked by those in small companies are higher than those worked in bigger ones.

- In Belgium there is a significant difference in the number of hours worked depending on the size of the company. According to the European Social Survey (2002) analysis of Belgian employee data, the actual number of hours worked decreased inversely proportionally to the company size. An average of 44 hours a week are worked in companies with fewer than 10 employees, 38 hours in companies with 100-500 employees and just over 40 hours for those with 500 or more.³⁴

³² See “Explaining the Nature of Work and the Labour Supply of the Self-employed”, Economics Department, University of Durham funded by the ESRC.

³³ Statistics Canada, Labour Force Survey April 2006

³⁴ “Employment relations in SMEs”, [European Industrial Relations Observatory Online](#), February 2006 Belgium.

- Similar findings are present in Germany: 40.5 hours were worked a week in companies with 10-49 employees, 40 hours for 50-199 employees, 38 hours for 200-999 employees and 37 hours for 1000+ employees.³⁵
- This phenomenon was also apparent in Japan. Work hours totalled 42 for companies employing less than 30 people, 40 hours for those employing 100-999, and 38 hours for those employing 1000+. ³⁶

Employers in large organisations can take advantage of these changing work patterns and preferences, but they require more flexible ways of contracting for work and engaging this pool of talent. We will examine some of these points in the next couple of chapters.

5. Talent management throughout the organisation

Given the strategic importance of talent and the ability to create and develop it talent management has become everyone's responsibility in every organisation. In talent-powered organisations, organisational capabilities in discovering, developing, and deploying talent allow everyone in the organisation to identify and nurture talent in ways that enhance performance. In a talent-driven economy, talent powered organisations understand that while top leadership and HR involvement are essential, a talent mindset and capabilities must be embedded and sustained throughout the organisation.

Talent vs Labour vs Human Capital

These changes in the type and content of work are why the word "talent" has come to be used so much now in business, as opposed to the general term of 'labour'. The traditional use of the word "talent" usually refers to a special gift, particularly in relation to arts, sports or intellectual pursuits. In business it has come to encapsulate all the various attributes of people today, particularly in the context of knowledge workers.

³⁵ Employment relations in SMEs", [European Industrial Relations Observatory Online](#), February 2006 Germany

³⁶ "Working conditions and the labour market", [Japan Labour Bulletin](#) vol. 34 No.1, Jan 1 1995, The Japan Institute of Labour.

Essentially, talent means the total of all the experience, knowledge, skills, and behaviours that a person has and brings to work.

Talent therefore is used as an all-encompassing term to describe the human resources that organisations want to acquire, retain and develop in order to meet their business goals. Described in this way for each person, it can be developed and augmented, or reduced and left undeveloped and that is the challenge for every organisation today. The support people receive from relationships and their environment at work, organisation and process, technology, information, and from factors outside work, including family, friends, health and recreation are all factors that influence how effectively talent is engaged, developed and directed.

That is why talent means something different from labour. In classical economic theory “labour” is one of the three necessary factors of production, alongside capital and land (which includes foodstuffs, raw materials and other extracted products of land). Labour is anonymous and impersonal, and it is ascribed properties which are required to make sense of the relationships in classical economics. In particular, labour is subject to the law of diminishing returns. As we shall see, talent is not. It can be multiplied constantly to create value.

We also use the term “human capital” to convey a greater sense of value attached to the employees of an organisation and a wider sense of economic contribution than is implied by the term “labour”. We see the terms “human capital” and “talent” as broadly interchangeable, although human capital tends to get used when we think about the strategic, economic and financial aspects of talent, particularly how human capital contribution could be permanently increased by investments in human development, such as in learning, working environments and support systems. But ‘human capital’ has fallen out of favour in some quarters, because it seems to treat human beings as an impersonal resource.

In general, we prefer the term “talent”, particularly when we want to capture the qualities which set it apart as a factor of production: uniqueness combined with ubiquity; diversity combined with dynamism; its ability to multiply and create ever-increasing sources of new value.

One important aspect of talent is its mobility. As Bill Gates once observed, the key assets of Microsoft go up and down in the elevators and in and out of the doors of the company every day. Today, they are less and less likely to even come in and out of the doors.

Adapting organisational structures

One of the exciting phenomena of the modern workplace is that it is no longer a single physical workplace. You can work the way you want: from home; on the move; invisibly. You can wear what you like, eat and sleep when you like, invent your own work patterns.

We are seeing much greater flexibility in how people contract their skills and time to employers – and these are challenging the old disciplines of the workplace and chains of command. The problem is that traditional organisations often lag far behind the changes in the way people want to work.

We have yet to catch up fully with these changes, to adapt to them and to take advantage of them. But start-up companies are showing the way: some have thriving multi-million dollar businesses with almost no full time co-located employees. By contrast, many large organisations are still struggling to make matrixed or networked structures work, and many remain stuck in organisational hierarchies that reflect old command-and-control thinking, but do little to facilitate collaboration, networking and innovation across business areas and functions. Imagine how the new Net Generation feel about such environments.

Major changes have happened since William Whyte, an editor at Fortune magazine, wrote The Organisation Man over 50 years ago, a book that defined the nature of corporate life for a generation. It described an America whose people had "led in the public worship of individualism" before turning into a nation of employees who "take the vows of organisation life". The company that used to be most closely identified with this way of life was IBM. For many years it was characterised by its managers who wore only dark blue suits, white shirts and dark ties, symbols of their lifetime allegiance to Big Blue. But as The Economist reported in an article in on "The New Organisation" in January 2006, today 50 per cent of IBM's 320,000 employees have worked for the company for under five years, 40 per cent of them are "mobile" and do not report daily to an IBM site, and about 30 per cent are women. It has also changed from being chiefly a seller of computer products to becoming a broad-based services supplier. Many organisations have undergone similar changes.

The changes at companies like IBM are broadly reflected in the shifts in working patterns across the working population. Flexible and part-time working, independent contracting, virtual or tele-working have opened up new options and flexibility for employees as well as new sources of talent, particularly for people with caring responsibilities or older workers, besides meeting the preference of younger workers for new career patterns.

These are some recent findings on new ways of working:

- The number of virtual workers in the United States – full-time employees who work remotely or contractors who never leave their home offices – increased by 800 per cent from 2001 to 2006 . (This increase masks a decline in “home workers” in the agricultural sector.)³⁷
- Currently, there are an estimated 18 million tele-workers in the United States, compared with 10 million in 1996, according to the US Bureau of Statistics. That number rises to 22.2 million if you count every American worker who spent at least one day a week working from home or another out-of-office location in 2005 – an increase of 30 per cent on 2004³⁸.
- Part-time work accounts for around 11 per cent of employees across the EU, averaging just under 20 working hours per week: the number of people working on limited duration contracts has increased from less than 12 per cent in 1996 to 14 per cent in 2005.³⁹

There is also some evidence of the preference of the new generations of workers for working alone, sometimes on a sub-contract basis, but also in small groups or “micro-enterprises” of fewer than 10 people. Not only are micro-enterprises by far the most numerous in terms of numbers of organisations, but today they also employ the most people as a segment by organisation size. In 15 EU countries, micro-enterprises employ 54 million people whereas large enterprises (more than 250 employees) employ 41 million⁴⁰ .

We will explore the implications of these findings in Chapters 2 and 3 as we look at new ways of sourcing and engaging talent.

Summary

Whatever its business or activity, your organisation’s survival depends on the ability to discover, develop and deploy talent of every kind. This is the new competitive paradigm, and the challenge is different from anything your organisation has faced before. It demands a new mindset – inspired by new leadership, informed by new strategy, supported by new expertise. We are entering a new Age of Talent, and we must move beyond the oft-quoted

³⁷ Nemertes Research, cited in [Small Business Review](#), 17 August 2006

³⁸ “The Telework Coalition”- [Forbes](#) 26 June 2006

³⁹ See European Communities Eurostat 2005

⁴⁰ European Communities Observatory of European SMEs.

platitudes of “people are our most important assets” to meaning it and doing something about it.

Very few organisations have the right resources in place to meet the new talent challenge. Their methods and basic approach to talent issues, supporting infrastructure, and management focus are inadequate for the task. Their metrics, both internal and external, fail to recognise the new nature of value in the business, let alone provide guidance to good investments to increase it. The specialist department usually assigned to talent issues – Human Resources – often lacks the skills and capabilities, and in many cases the confidence and credibility, to manage all these issues and treat them strategically. Now, as top executives become more and more aware of these issues and failings, there is a new focus of attention on talent management practices, capabilities, and measurement.

In the ensuing chapters we will show how and why

- your organisation’s leaders must create the right mindset to **multiply the value of talent** in every part of your organisation, together with a new approach and a new model to sustain it
- you must **embrace diversity** in many different ways to gain competitive advantage from the proliferation and complexity of talent markets
- you must **invest in learning and skills development**, but in a much more focused way
- you need to work hard to **build engagement** in all the talent you use to add much greater value to your organisation
- you must **share the responsibility for talent multiplication** throughout organisation, so that it supports all your strategic goals.