Managing today's global workforce

Elevating talent management to improve business

May 2010

Ernst & Young

Quality In Everything We Do

Foreword

Talent management is a recurring topic among executives and board members. But what does it really mean, and why is it important?

Attracting and retaining talent has become a boardroom issue that is steadily climbing higher on the corporate agenda. *The 2009 Ernst & Young business risk report* shows that risks associated with talent management broke into the Top 10 last year to become the seventh most important risk occupying corporate leaders' minds. Talent management risk centers on the danger of losing key competencies (including members of leadership) that allow an organization to achieve its business goals.

In response, companies are focusing on developing recruitment, training and retention programs to help ensure that needed skills are available in the future. At Ernst & Young, we view talent management as an end-to-end process, linking a company's mission, vision, values and strategy with the way it manages and develops its people. While other companies may define talent management differently, we believe this end-to-end process encompasses every aspect of the employee life cycle and, therefore, use this definition as the basis of the concepts discussed in this report.

To gain a better understanding of the way companies outside of Ernst & Young are approaching this challenge, we conducted the *Ernst & Young Global Talent Management Survey* to answer the following questions:

- Do most companies integrate and align their talent management programs across the organization? Do companies run stand-alone programs or do they attempt to harmonize programs with each other and with the organization's broader business goals?
- Do organizations with integrated and aligned talent management programs achieve superior business results compared with those whose programs are not?
- Are companies with international assignment programs losing key talent, skills and knowledge through inefficient career planning for repatriated employees? By failing to focus talent management programs specifically on these employees, do they lose valuable skills to competitors and waste their investments in their international assignees?

Our experience strongly suggests three hypotheses:

1. The ability to align a company's human capital (or people) processes with its overall business strategy, while fully integrating key elements of its talent management system, is an achievable goal rather than a theoretical or academic exercise.
2. Elevating talent management to a more strategic level yields indisputable business benefits.
3. Global companies must make international assignments part of their overall talent management program and include a focus on formal repatriation programs for returning expatriates.

In mid-2009, we launched the *Ernst & Young Global Talent Management Survey* to test these hypotheses and answer the questions posed previously. Our broader goal was to better understand talent management practices across different global regions, at companies of different sizes and in different industries. We received an overwhelming response from leaders at more than 340 global organizations — primarily senior executives — including CEOs, CFOs, COOs and vice presidents of human resources.

Analysis of the survey data validated the hypotheses stated above. This report is a summary of our key findings and observations, as it explores the value of aligning talent management programs with the overall business strategy. It also focuses on the importance of including international assignments in such programs and describes the relationship between talent management and financial performance in companies.

Talent management is about more than managing physical bodies that come to work each day. It is about managing human (or people) capital, a phrase that describes an intangible resource comprising your employees' knowledge, abilities, capabilities and skills. Technologies, products and strategies can be replicated, but it is people who enable a company to innovate, differentiate and succeed. Harnessing that human capital requires elevating your view of talent management to a more strategic level.

Forward-looking companies will regard these ideas as a starting point for building more effective talent management programs and for recruiting, developing and retaining your employees of choice. But this is not a one-size-fits-all approach — your companies and your employees require a framework for building a strong human capital pool that meets the specific needs and challenges of your organization.

Consider how the research findings, observations and case studies apply to your organization.

Sam Fouad
Global Managing
Partner – People

Esther Hahm
Co-author
Human Capital

Bill Leisy
Co-author
Performance & Reward

Overview

Survey demographics and methodology

Ernst & Young LLP conducted an online survey among human resource, finance and risk management professionals, and C-suite executives from global Fortune 1000 companies. The aim of the survey was to provide further insight into how talent management programs and mobility assignments are being aligned and integrated across the enterprise.

Our survey findings are based on more than 340 responses representing a cross-section of some of the largest employers around the globe in a variety of industry sectors. Nearly one-third of respondents[1] (32%) worked for companies headquartered in the US. Roughly one-quarter (24%) worked for organizations based in Europe, the Middle East and Africa. 10% were headquartered in Australia; another 8% in individual countries like Canada, Brazil and China; and 7% in Japan. Most respondents were senior operations, finance or HR executives. The survey was conducted from July to September 2009.

[1] Note: Percentages for all survey responses were rounded up or down to avoid using fractions when reporting final data. In addition, not all survey respondents answered all of the questions in the survey and therefore, percentages may not add up to 100%.

Why talent management holds the key to organizational performance

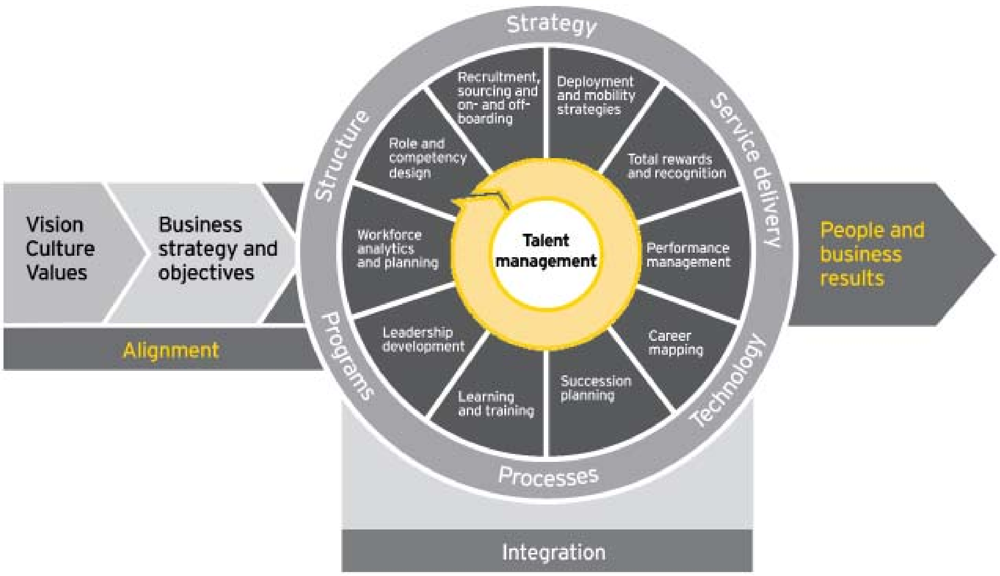
A senior executive at a financial services company recently stated that, if not for the employees, his company would be nothing more than a large building with bad furniture. While furniture and other features vary from one organization to another, the executive was correct: a business is only as good as its people.

Given the recent economic downturn and its attendant workforce downsizing, you don't hear this sentiment expressed as much as you used to. Nevertheless, as the global economy revives, businesses that have kept in mind the importance of their people will be among the first to rebound. These organizations have used downsizing more strategically than others, releasing employees who lacked the required competencies and keeping those whose skills fit the company's planned product or service offerings. They have understood that their people hold the keys to efficiency, competitive differentiation and success in the economic recovery.

Foundations of talent management

In today's global market, "people success" consists of aligning your company's vision, values and strategy with its management of people and integrating the key components of your talent management programs so they form a coherent whole.

As discussed in this report, a holistic approach to talent management is illustrated by the programs that are featured in the following diagram:



By *aligning*, we mean connecting the values and strategies of the organization to the way you manage your talent. Say, for example, your organization's values and strategies are designed to increase personal accountability, risk taking and teaming. How do your talent management programs support those goals? Does your organization evaluate and reward risk taking and teaming behaviors? Do you try to define competencies that support these behaviors in the recruiting and hiring process and provide leadership development to foster them within the organization? Do you understand what competencies will be required going forward, and do your employees have the necessary skill sets to match? If so, your talent management programs are *aligned* with your business strategy.

Integration means that your talent management programs are tied together across the organization: that the output of one process is the input of another, creating an interlocking, self-reinforcing and internally consistent whole. Do you use information from workforce analytics to identify high-performing employees and key groups of required skills? Do you then use that information to develop the appropriate training, development, succession management, and compensation and benefits programs? If so, your talent management programs are also *integrated*.

How do these concepts square with reality, and how far have companies evolved in understanding the value of their people? To find out, we polled 347 executives from a range of industries and produced the *Ernst & Young Global Talent Management Survey*.

Our findings were positive. Nearly two-thirds (63%) of respondents said that the talent management programs at their companies were aligned to support future growth strategies, while 32% said their talent management programs were integrated globally, 20% were integrated regionally, and another 18% were integrated by business unit.

But talent management is a complex process, one made more so by the economic downturn and the widening footprint of global organizations. The survey identifies performance gaps that companies should address (please see Alignment and integration: a mixed picture).

Globalization drives integration

The economic downturn has slowed globalization, causing a drop in international trade and global expansion. But this pullback is temporary; the longer-term trend is toward further globalization in trade, capital, labor, technology and culture.

That trend is precisely what makes talent management so critical to today's multinational corporations. Here are some of the dimensions that concern global businesses:

- **Global mobility and growing complexity.** Despite economic weakness, companies must deploy talent wherever it is needed around the world. Yet creating a global talent strategy is becoming increasingly complex. To achieve true integration, programs must become more standardized and harmonized with the company's overall talent management strategy — while remaining flexible enough to meet local requirements.
- **Recruitment and retention.** More than one-quarter of the respondents we surveyed (27%) are bracing for a period of widening knowledge gaps as older employees retire, taking with them important skills that are hard for

companies to replace. Nearly two-thirds (64%) said that their companies plan to manage human capital issues by building internal capacity. Many others have identified the need to address the issues associated with a changing, younger workforce. We look at some ways in which strategic recruitment and retention are helping companies to bridge the skills gap.

- **Talent management and enhanced business results.** Superior talent management correlates strongly with enhanced business performance. An analysis of the survey data found that companies whose talent management programs are aligned with their business strategy deliver a return on investment (as measured by return on common equity, or ROE) that is, on average, 20% higher over a five-year period than companies without such alignment. Among companies that integrate key elements of their talent management programs, the results are even more dramatic: ROE over a five-year period averages 38% higher than among those who do not.

Companies seeking a competitive advantage in today's marketplace will view talent management as a process that connects a company's strategy with its mission, vision and values, and the way it manages and develops its people. Leading practices exist to ensure that talent management processes align with corporate strategy and fit together into a coherent whole. Enterprises that pay insufficient attention to these practices may fail to anticipate important demographic shifts and other changes in the talent management landscape. This paper provides a way to help companies avoid that risk and to move forward into the future.

Alignment and integration: a mixed picture

Key findings from the *Ernst & Young Global Talent Management Survey*

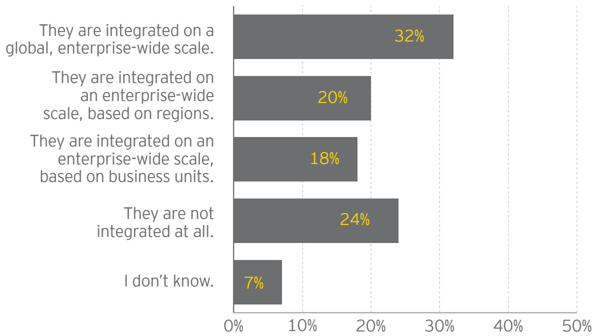
Global organizations are aligning talent management programs. Close to two-thirds of respondents (63%) said that their talent management programs were aligned to support their companies' business strategies. The remainder (37%) said that their talent management programs either were not aligned or they did not know whether the programs were aligned.

More companies are integrating their talent management processes. More than half of respondents said that processes and programs in their companies were integrated globally (32%) or integrated across the organization with some variation by region (20%).

Many companies lack accurate employee data. Only about one-third of respondents (30%) said that their companies' employee data was accurate and updated globally; 31% said either that their companies lacked accurate employee information or that they themselves knew nothing about corporate employee data programs.

Integration of talent management and technology platforms is inconsistent. About one-third of respondents (32%) said that technology platforms and talent management were integrated globally and enterprise-wide; 20% said they were integrated enterprise-wide based on regions; 18% said they were integrated enterprise-wide based on business units;

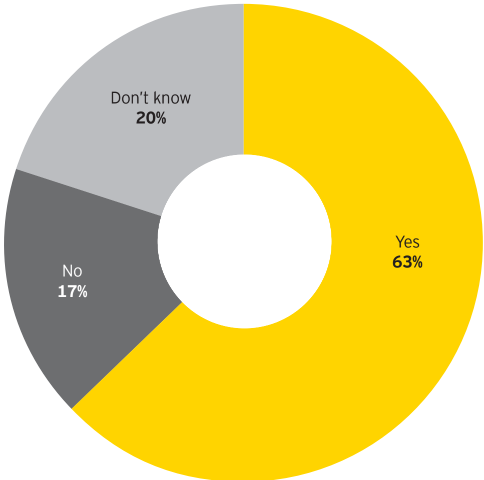
Are your talent management programs, IT systems and processes integrated globally, regionally or by business unit?



and 31% said technology platforms and talent management were not integrated or that the respondents did not know what level of integration had been achieved.

Succession management needs more focus. About one-half of respondents' companies (49%) have formal succession management programs in place, focusing mainly on executives (74%) and senior management (88%). However, the findings suggest succession management programs need to be developed for other employee groups, as the areas most affected by retirements and skill shortages are technical (28%) and middle management (26%).

Are your talent management programs aligned to support your organization's growth strategy for the future?



Case study

Making talent management a business priority in a downturn

Often when talent management issues are identified, the process for addressing them is too narrow in its scope. To be successful, organizations must view talent management in the context of a changing business strategy. For example, a large Canadian financial institution expects that one-third of its workforce will retire within five years. Originally, the organization thought this was merely a demographics issue. But after analyzing projected headcount and skills needed for the future, they found the company faced a potentially serious competency gap. The recent economic downturn meant massive layoffs and reduced recruiting initiatives, which only intensified that projected gap. In response, the company created programs to assist all employees with acquiring the new skills that are necessary to meet the challenges associated with industry consolidation, increased regulation, higher client expectations and greater operational complexity.

This case illustrates some common challenges companies face when implementing a talent management program. They may find it difficult to identify the skills needed in the future because the business environment is constantly changing. Moreover, cultivating certain skills often leads to changes in organizational roles and expectations; some people may not fully grasp the extent of their new roles, making it difficult to evaluate their skill levels. Some individuals may be reluctant to develop new skills, especially employees who are close to retirement.

Global mobility gets more complex

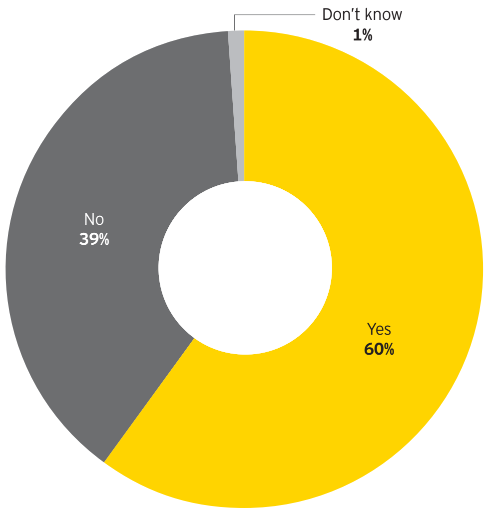
The economic downturn has slowed the process of globalization, causing a drop in international trade and bringing to a temporary halt the global expansion plans of many multinational corporations. But the longer-term trend is toward renewed worldwide integration in trade, capital, labor, technology and culture. This trend explains why international assignments should be an integral part of talent management. Although the economic slowdown has led many organizations to modify their approach to overseas postings, there are still opportunities to develop people cost effectively through international assignments.

Managing people capital becomes far more complex when performed at the global level. Companies must have a better understanding of cultural differences, legislative and regulatory issues, demographic trends and labor laws, which vary from one jurisdiction to another. No matter where they are headquartered, however, organizations have come to recognize that they operate in a global marketplace. Whether they are multinational corporations or smaller companies that occasionally send employees on overseas business trips, they have become international to a degree that would have been hard to imagine 20 years ago.

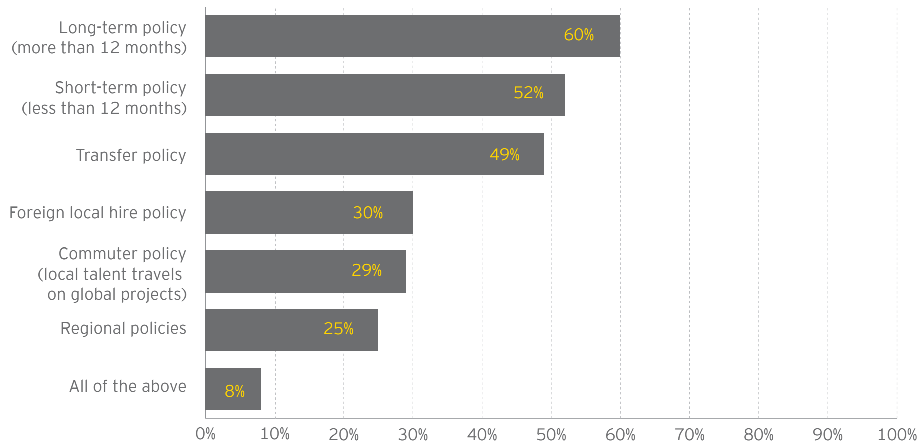
Our research shows that nearly two-thirds of the responding companies (60%) have at least some internationally mobile employees, while more than one-third (36%) have more than 100. Realizing the need to manage the increased complexity brought about by globalization, many organizations have established mobility policies for traditionally recognized assignments. More than half (52%) have policies for short-term international assignments, while 60% have them for longer-term expatriates.

The recent economic downturn has affected global mobility programs, with companies reducing the number of international assignees (43%), reviewing assignment policies for cost-reduction opportunities (30%), or making greater use of local hiring (28%). Unfortunately, most companies have failed to address the long-term trend toward globalization in their talent management programs. Nearly two-thirds of survey respondents (63%) say that their organizations lack standard policies

Do you have internationally mobile employees (employees working in a location other than the country in which they were hired)?

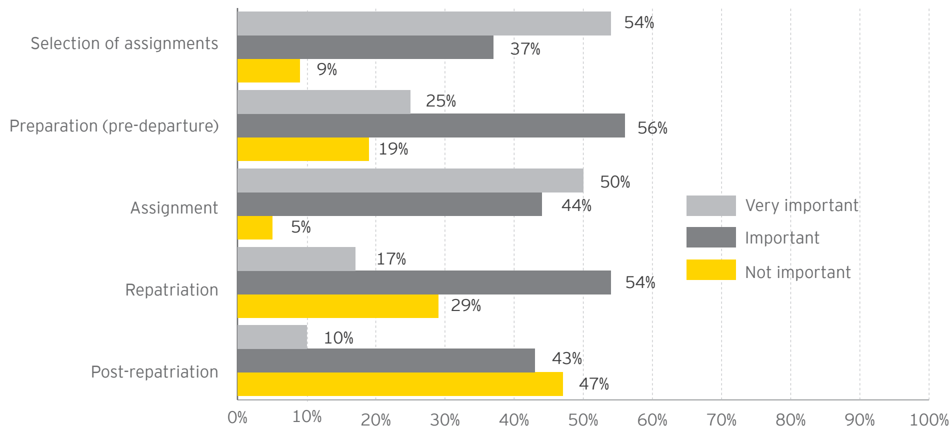


What policies for internationally mobile employees exist in your organization?



Which of the following have you done as a result of the current economic downturn?

Please rank the following phases of the international assignment process in terms of priority and where the majority of your organization's efforts are focused.



for managing the careers of international assignees or do not know if their organizations have such policies. Nearly one-third (32%) say their organizations have no consistent talent management strategy for internationally mobile employees, while almost half (47%) place little or no importance on helping returning expatriates reintegrate into the organization.

While you were away …

The consequences of these deficiencies are serious. If employees come back from a posting abroad to find they can't use what they learned overseas — or that their organization doesn't value the experience they acquired there — they will feel disheartened at best and disillusioned at worst. Employees take international assignments to advance their careers. Too often, they return to find that things have changed while they were gone. Not only are they expected to catch up without missing a beat, but they may also see colleagues who remained at home pass them by. Employees who take global assignments that aren't integrated into an overall talent management framework may compare unfavorably with those who developed their skills at home. If they feel unappreciated, they may take their new knowledge (acquired at company expense) and defect to a competitor. Such realities can make employees reluctant to go abroad — and make companies reluctant to send them.

In addition, many organizations have difficulty computing an accurate return on investment for employees posted overseas. HR departments do perform some ROI calculations, but international postings often fall outside of the company's main talent management platform and tend to be fragmented across multiple vendors

Are the careers of internationally mobile employees managed on an enterprise-wide basis (as part of an overall strategic talent management program)?

and geographic locations. Because no single group is in control, companies often cannot track the total cost of their expatriate programs, which may be quite high. In fact, our survey shows that only 37% of international corporate programs are coordinated across the enterprise and that 34% have no talent management programs whatsoever for international assignees.

Although the economic downturn has prompted some companies to fill more international assignments with local hires, the long-term trend toward greater global integration means that overseas postings will continue to play a key role in talent management for most mid-sized to large companies. Organizations that want to run effective talent management platforms should think about how to incorporate their international assignments across the entire firm, to manage global talent systematically rather than on a hit-or-miss basis. This will enable them to centralize the management of the programs and, moreover, to measure the return on their investments accurately. As an additional benefit, companies may find that increased coordination aids in retention since employees returning from international assignments feel that their experience is valued and are therefore less tempted to take their knowledge and talents elsewhere.

Key takeaways

- Companies benefit by integrating international assignments into talent management programs and developing a standard career management program for international assignees.
- Returning expatriates should be smoothly transitioned back into the organization to increase retention and job satisfaction.
- Companies that include international assignments in their overall talent management framework will benefit from the investments made in employees, rather than losing that value when their people move elsewhere.

Case study

Attracting and keeping talent in a growing economy

Over the past decade, Brazil's economy has evolved from one with a primarily agricultural base to one powered by manufacturing, construction, mining, oil and gas. Combined with demographic changes, this shift in the country's economic base has presented Brazil with some formidable challenges.

One of them has to do with Brazil's younger-than-average workforce. Its members are looking for exciting careers, sparking a talent war among companies there. Many have responded by creating two-year trainee programs aimed at attracting and retaining Generation Y employees. These programs rotate new hires throughout different business units and assign a senior executive to serve as a mentor or counselor. Some companies incorporate an international assignment into these programs — a powerful tool for attracting and keeping talent. The young employees view international assignments as a stepping stone to their career development. Many organizations also use international assignments to develop the careers of fast-track, high-potential employees.

Brazilian companies are increasingly seeking to expand into other markets in Latin America, North America and Africa, which is leading them to a more international perspective. Among South American respondents to our survey, close to half said their companies had international assignment programs. But many programs are not yet sophisticated nor aligned with the company's overall business strategy. This suggests a tremendous opportunity to make the programs far more effective and productive through greater centralization and integration, as well as to focus on the needs of repatriating employees to ensure key talent does not leave the organization.

Talent management

Despite an uncertain economy, the survey results indicate that companies have begun to emphasize aspects of talent management, such as performance management, recognition, rewards and engagement, internal training and succession management.

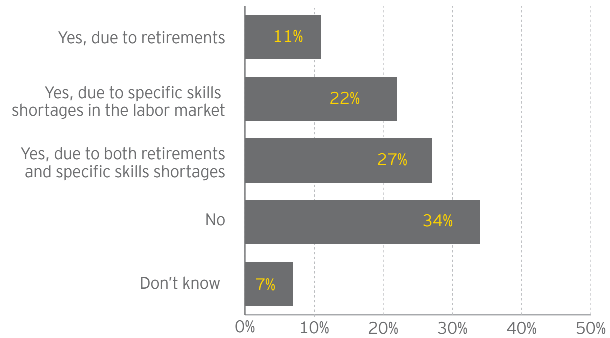
Recruitment and retention

Never easy, recruiting and keeping high performers will likely become even harder as the economic recovery takes hold. Our research shows that many organizations already see skills shortages ahead. Asked whether their organizations would experience a talent gap or brain drain in the future, more than one in five respondents (22%) agreed. And more than one in four (27%) said that the combined effects of skills shortages and impending retirements will produce a talent deficit that will have to be addressed in the coming years.

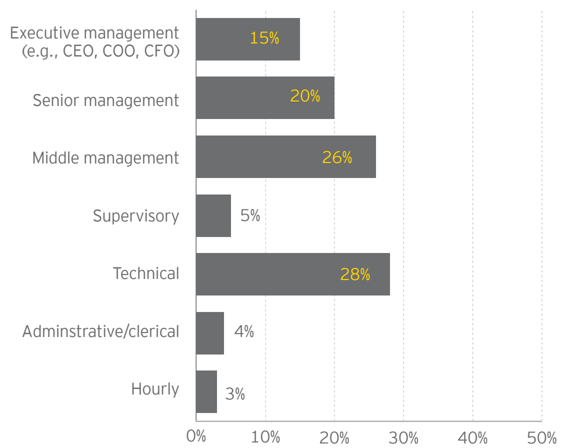
These shortages will cluster in the ranks of middle management (26%) and in professional/technical (28%) jobs.

Organizations must refocus on the recruitment, development and retention of middle managers and technicians, roles currently not addressed by traditional succession planning. In fact, we are starting to talk to clients about "talent succession," a term that incorporates middle as well as senior management. Middle management shortages are growing because companies tend to tap into middle management ranks to populate upper management positions, putting even more pressure on talent succession. Successful talent succession programs will not only effectively align to the business strategy and objectives, but also integrate seamlessly with the key talent management programs and processes.

Based on your estimates, will your organization experience a talent gap or brain drain in certain areas of the organization due to either retirements or specific skills shortages?



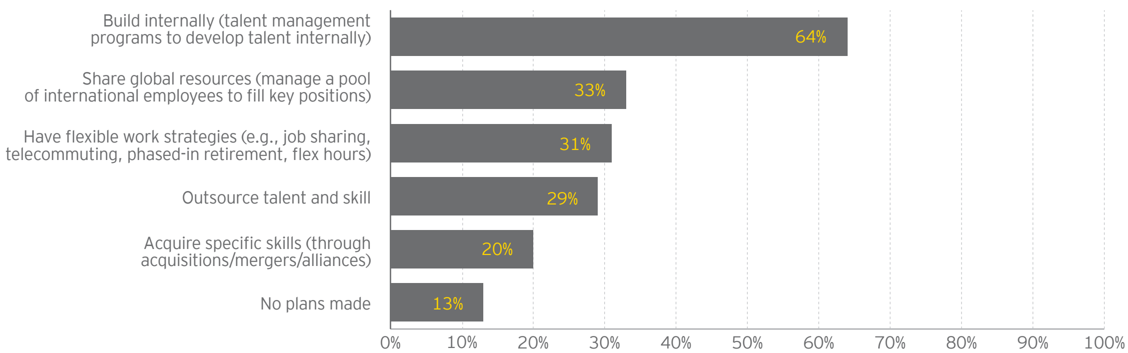
Which group within your organization will be most impacted by either retirements or skills shortages?



Leading practices in recruitment and retention

Companies are already making changes to manage the skills gaps they see coming. Nearly two-thirds of survey respondents (64%) said that their organizations plan to address future human capital issues by building internal capacity. This seems a sensible enough response since research has shown that candidates who are groomed for succession internally are more successful than those brought in from outside an organization. The question is whether firms today have the infrastructure in place to develop the talent they will need in the future. Programs centered on training and development, mentoring, succession planning and other areas of people management are vital to ensure that

Has your organization made plans to implement any of the following strategic initiatives to manage human capital issues brought on by the needs of today's workforce?



companies have the wherewithal to build their internal skills over the long term.

Here are some of the leading practices likely to help companies recruit and retain the talent they need, globally and across generations:

- **Recruit talent using market segmentation.** Leading companies approach recruiting the same way they do marketing: by segmenting their targets into demographic clusters and tailoring their communications to each specific group. Management knows which skills are needed and what aspects of the corporate culture or brand will help differentiate the organization from other potential employers. Managers may also be measured on how well they capture the skills needed for a particular location or business unit.
- **Use workforce analytics and role and competency design.** Leading companies have a sure command of the facts when it comes to the people they want to hire. For example, if a hospital wants to recruit critical-care nurses, it should know how many qualified nurses work within a 45-minute drive of the hospital (assuming that 45 minutes is an acceptable commute to local residents — something else the company should know). The company must assess the current availability of talent, look at its needs, define an acquisition strategy and offer a value proposition compelling enough to attract its target recruits. Once this is done, a well-defined role structure must be developed with clear accountabilities and levels of authority. Understanding the competency level each employee possesses (knowledge, skills and behavior) permits the creation of more efficient career development programs so each individual can grow to take on greater roles.
- **Create effective compensation strategies by knowing which benefits employees value most (and least).** Organizations must identify and focus on what matters most to employees and potential hires. This could include competitive pay, career advancement opportunities, work-life balance or other elements. Often retention can be improved by finding out how employees are feeling, especially during an economic downturn. For example, if a company decides that some benefits must be cut, it should try to eliminate the ones that are less valued by employees while preserving those most important to job satisfaction.

The global workforce is accommodating an influx of younger workers, causing many companies to implement programs they had never considered. Recognizing the need to uncover talent in every area of the labor market, 56% of respondents said that their companies may launch internal diversity or inclusiveness initiatives aimed at Gen X and Gen Y employees (11%), Baby Boomers (6%) or the entire organization (39%).

Case study

Recognizing diversity and the need for targeted benefits programs

Diversity and inclusiveness initiatives have become a priority in many parts of the world as employers recognize that key skills may reside in groups of employees they have never focused on in the past. Japan, in particular, has become far more innovative in its recruiting practices owing to an aging workforce and a stagnant economy. Along with flexible work arrangements and special recognition programs, diversity and inclusiveness programs have begun to attract people who want to work part time so they can spend more time at home taking care of their families. In some cases, this group includes women who have important technical skills or are middle managers — two key areas in which talent gaps are emerging at companies worldwide. Recognizing the need for innovative approaches to attract and retain talent, survey respondents from Asia seemed to be among the most willing to consider diversity and inclusivity programs.

Performance management

Two-thirds of respondents (66%) said that their company's talent management initiatives include performance management, defined here as a program of actions to ensure that organizational goals are met. Performance management is central to most HR programs, so this finding may not come as a surprise. Even so, it's worth remembering that companies must integrate their performance management efforts into the broader framework of talent management, including the way it manages and develops its people. Good programs entail both evaluation and development — that is, they assess individual performance and provide ongoing constructive feedback to employees. This is an evolving process that must be continually refreshed and updated as employees develop. Many companies seem confident that they are good at performance management: nearly half of the survey respondents (49%) said that their company was effective in this area.

Recognition, rewards and engagement

Recognition and rewards are two of the foundational components of talent management and the key to employee engagement. In fact, 61% of respondents said that recognition and rewards programs are among the talent management programs most often used by their companies. Recognition and rewards include the use of cash and non-cash emoluments for performance, providing employees with a direct incentive to do their best and encouraging high performers to stay with the company. Along with performance management and succession planning, recognition and rewards programs are closely linked to all other facets of talent management and are instrumental in supporting the company's overall business strategy and employee engagement.

However, this concept of recognition, rewards and engagement has been challenged by the current economy. Companies are more cautious in dispensing rewards, with many paring back cash compensation while providing non-cash benefits that are valued by employees but less expensive for the company. In some countries, companies are offering flexible work arrangements. Because of their ability to encourage desired behaviors among employees, recognition, rewards and engagement programs remain one of the most critical components of talent management.[2]

Internal training

In a departure from past practices, companies are turning their attention inward and looking more closely at internal training, development and coaching. As noted earlier, studies have shown that employees who receive internal grooming for management perform better in the long run than those brought in from outside, because they have a better understanding of the company and its culture. Fifty-seven percent of our survey respondents said that leadership development and internal coaching are key planks in their companies' talent management platforms. More than half (55%) cited learning and training as part of their solutions.

2 Interestingly, only 8% of respondents said that engagement, defined as commitment to the job and the employer, is a major concern. This finding could stem from the reality of a weak economy that has made engagement almost universally low, leading companies to conclude that little can be done right now to raise it.

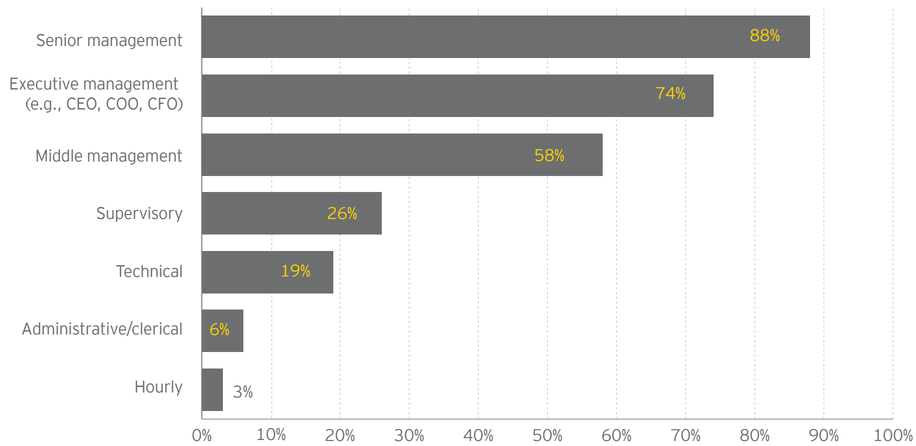
Leadership development and succession planning

Much has been written about succession planning, which remains a key issue for most large companies. Forty-four percent of our survey respondents said that leadership development and succession planning are among their main concerns related to talent management, and nearly half (49%) indicated that succession planning constitutes an integral part of their talent management program.

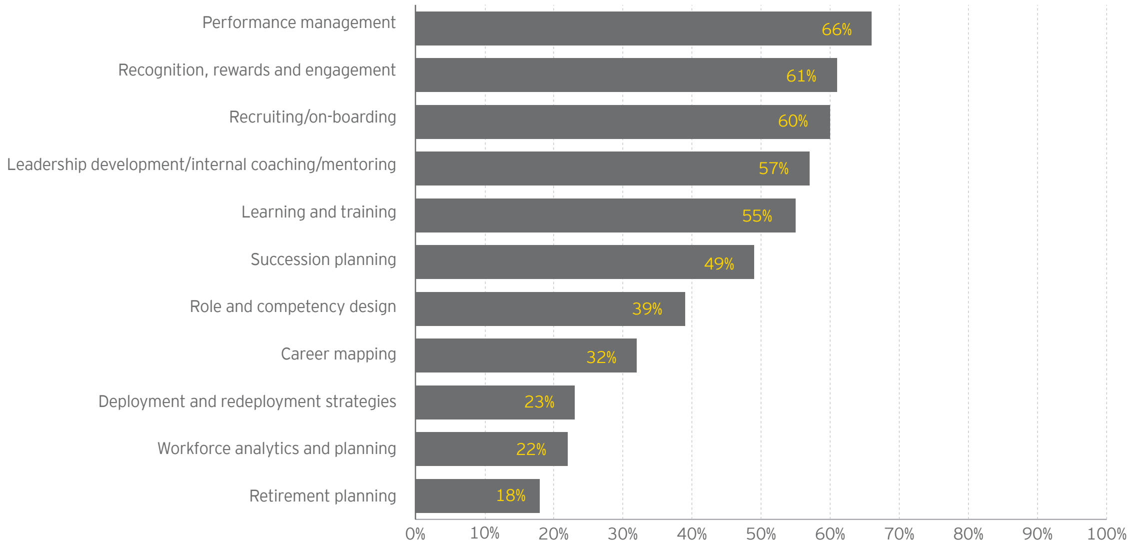
Most succession management plans at our survey respondents' companies focus on senior management (88%) and executive management (74%). This focus may be appropriate but is insufficient by itself to ensure a robust internal talent pipeline. At about half of the companies surveyed (58%), succession management plans centered on the middle ranks of the organization, while only about one-quarter (26%) focused on supervisory positions, and about one-fifth (19%) concentrated on technical positions. This lack of attention to middle and supervisory/technical posts will cause future headaches, given the current stagnation in the middle tiers of the enterprise.

Both our research and our experience working with clients suggest the leading practice is to push the focus of succession management from the upper tiers of the company down into middle management. For example, creating detailed career maps –

What positions/levels does your succession plan include?



Which of the following programs are considered part of your strategic talent management solution?



which address professional expectations based on personal interest and long-term career goals for high-performing employees will help individuals match their long-term goals with organizational opportunities. All companies, especially larger ones, need to understand that they already have a large internal labor force that they should tap and develop with these types of programs. This represents a huge opportunity to mine internal talent cost effectively and to develop people in a way that makes them more likely to remain with the organization.

Key takeaways

- Companies should focus their recruitment and retention efforts on middle managers and technicians, roles currently not addressed by traditional succession planning.
- Organizations must consider whether they have the infrastructure in place to develop internally the talent they will need three to five years from now.
- Companies must look at the makeup of their organization to determine whether more flexibility should be built into their programs to attract, retain and engage their current pool of talent.

Case study

Flexible work arrangements

The need to reduce headcount during a downturn can lead an organization down one of two paths: positioning itself for growth when the economy turns around or cutting staff to the point that it must scramble to find talent when business picks up. The latter option is less strategic but more common.

Happily, difficult times can lead to unexpected solutions. In Australia, many financial services and consulting firms offer employees flexible work arrangements, a practice widely favored by employees. Options such as purchasing additional leave, taking unpaid leave or working a four-day week have grown increasingly common. Australia's mandatory leave is 20 days, much lower than in Europe, so businesses that offer extra leave of 5 or 10 days generally do not suffer much disruption when employees take off the extra time.

Flexible work arrangements are designed to keep experienced talent on hand when new business opportunities arise, minimizing recruiting and training expenses for the organization. Australian respondents to the *Ernst & Young Global Talent Management Survey* were more likely to consider flexible work schedules than respondents anywhere else in the world. In addition, almost three-quarters of Australian respondents said their companies were thinking about supporting flexible work arrangements by offering additional technology, such as personal digital assistants and laptop computers.

With the global economy apparently stabilizing, business opportunities are improving. Companies that offer their people greater flexibility are more likely to have the employees they need to meet resurgent demand. And what started as a stopgap measure has, in many cases, established itself as a permanent practice. Employees who opted to participate in flexible work arrangements are asking that the programs be continued. HR executives must adjust to this new reality by giving employees more freedom to work as, and when, they prefer.

Case study

Enhancing employee engagement at an IT services provider

India is confronting the issues associated with attracting and retaining a younger workforce. Engaging the new generation of workers requires a new approach, requiring Indian HR departments to think beyond traditional benefits. For example, one of India's leading IT service providers faced high attrition and low morale in its young workforce, posing a threat to the quality of customer service and the organization's reputation. Recognizing the importance of employee engagement as part of the overall talent management solution, the company conducted an employee engagement survey and designed interventions that would enhance engagement and lift productivity.

The company survey showed that overall engagement levels were satisfactory, but that employees wanted improvements in the physical work environment, compensation and on-the-job resources. The organization developed a plan outlining specific measures to address these concerns over the course of the year.

Over the next two years, the company performed two impact assessment surveys. Sampling 20% of the employee population, the organization looked into the outcome of its interventions. Although the employee engagement score moved up approximately 10% in one year and 16% the next, new areas of concern emerged, including rewards and recognition, work-life balance and certain company policies. In addition, scores for the original areas of concern did not improve, showing that additional interventions were needed to solve systemic problems.

In response, the organization began offering yoga and meditation classes, flexible shifts and more recreational activities designed to enhance work-life balance. It also redesigned its criteria for rewards and set up a system to monitor progress in the future. These steps have increased the organization's overall employee engagement and reduced attrition compared with its industry peers. Further plans are in the works to conduct future surveys and assess the long-term business impact of these initiatives.

Business results enhanced through effective talent management

Companies need to evaluate their talent management programs for effectiveness and ROI. Some recognize this need and conduct such evaluations regularly; others do so only occasionally. Among our survey respondents, 29% say they evaluate their talent management programs annually, while 37% do so on an ad hoc basis. They use a variety of metrics to justify their investment in talent management programs. Nearly two-thirds (65%) rely on retention and reduced turnover rates, for example, while more than half (52%) point to productivity.

While such metrics are useful and effective, a targeted sampling of 43 publicly traded respondent companies shows an additional dimension of measurement: a strong correlation between effective talent management and company performance. Companies whose respondents said that talent management programs were aligned with business strategy enjoyed an average per annum ROE that was 20% higher over a five-year period than those lacking alignment. Among companies that integrated key elements of their talent management programs, the results were even more dramatic: ROE per annum over a five-year period averaged 38% higher.

- Aligned companies enjoyed a per annum five-year average ROE of 21.09% vs. 17.50% for non-aligned companies. This represents superior performance of slightly more than 20% for the aligned entities.
- Companies identified as having integrated their talent management components had a five-year per annum average ROE of 22.62% vs. 16.39% for those that were not integrated. This represents superior performance of 38% for the integrated companies.

Methodology for determining the relationship between more effective talent management and financial results

Based on the results of the talent management survey, we set out to determine if a relationship exists between effective talent management programs and financial performance. From our original survey, we identified two critical questions that would help us to understand this relationship:

- Are your talent management programs aligned to support your organization's growth strategy for the future?
- Are your talent management programs, IT systems and processes integrated globally, regionally or by business unit?

Our analysis began with a sample of 43 large publicly traded companies from the total pool of survey respondents. This represented approximately one-third of the total publicly traded companies that took part in our survey. No individual company or company-specific data was identified in any way to ensure complete confidentiality of responses.

From this pool, we compared the ROE of those companies that responded positively with respect to aligning their talent management programs against those that responded negatively to the same question. The same analysis was applied to positive and negative responses regarding the integration of a company's talent management programs, IT systems and processes either globally, regionally or by business unit.

The ROE data was calculated by OneSource Global Business Browser, an external and independent database of more than 24,000 global public parent companies and more than 126,000 global private parent companies. ROE data was collected and analyzed for a five-year period (2004–8). OneSource calculates ROE using a formula of net income (minus preferred dividends) divided by the average of the beginning and end-of-year shareholders' equity. The database reports five-year average ROE, as well as a wide variety of other financial information drawn from publicly filed financial statements.

This analysis suggests several conclusions. The first, clearly, is companies that align and integrate their talent management programs produce superior financial results over those that do not. The second, slightly subtler point is that executing the elements of talent management by integrating them is what really causes performance to spike: while simple alignment lifted ROE by approximately 20%, integration resulted in an additional 38% gain. Finally, measuring ROE over a five-year period also indicates a sustained level of superior performance, rather than a statistical anomaly caused by unusual conditions in a single year.

Although the analysis of survey data did not capture more, we are confident that aligned and integrated companies will perform better in other, non-financial ways as well. Non-financial performance is reflected in lower turnover, higher retention, better development of internal talent and stronger employee engagement. Although difficult to measure, these factors represent crucial components of job satisfaction and employee productivity. They will be important elements in corporate retention strategies as the economy picks up and employees begin reassessing their career options.

Case study

Developing a new people and rewards strategy at a major retailer

In response to the economic slowdown, the European Union (EU) put in place several short-term crisis measures designed to help the labor market, including: wage moderation concessions in return for employment, adjusted working time, and measures to prevent mass dismissals. In addition to these short-term steps, the EU has pursued a long-term economic growth strategy focusing on the following elements:

- Increasing the labor supply
- Modernizing social protection systems
- Improving the adaptability of workers and enterprises
- Increasing investment in skills and human capital

The EU's tradition of investing in human capital has helped companies achieve higher rates of employee engagement and productivity. But these rates may not continue, given the pace at which business models are changing. For example, a major retailer in the UK had grown organically for many years before undertaking a major acquisition aimed at transforming the business. Employee turnover had historically been low, and the company had a specific culture and way of working. Following the acquisition, management recognized that the organization needed a comprehensive new approach to people management. In particular, the acquisition required an upgrade of major IT systems, but the company found itself unable to recruit the quality and number of executives needed to support this objective.

The company developed and implemented a new reward strategy covering base pay, short-term incentives, bonus plans and associated performance metrics. The enterprise reviewed its benefits and pension arrangements and developed an HR activity plan for the next two years to support major change management. This required the introduction of new systems and processes, significant stakeholder management and communications, and risk identification and mitigation.

This fully integrated approach, aligned enterprise-wide, led to improved company performance. Today, the company is one of the UK's most successful organizations, and its talent management program is considered the gold standard.

Key takeaways

- Companies are emphasizing recruitment and retention, performance management, recognition, rewards and engagement, internal training and succession management. These areas of focus reflect the talent management programs that have the greatest alignment to the companies' business strategies and employee engagement.
- Leading practice is to push the focus of succession management from the upper tiers of the organization down into middle management. Mining the internal labor force is a cost-effective way to develop talent.
- Companies that effectively align their talent management programs with their business strategies and integrate these programs with each other and across the organization deliver significantly higher financial returns.

Conclusion

Every company and country faces unique challenges, and no single talent management program or approach applies to all of them. Yet our research and client work indicate that leading companies adhere closely to the following principles:

- Talent management (how an organization manages and develops its people consistent with its business strategies) must be an integral part of the business strategy to be effective.
- Alignment and integration are the keys to the success and effectiveness of global talent management and are proven to correlate strongly with superior business performance, both financial and non-financial.
- An organization's global mobility program is a critical component of its global talent management program and must be aligned to the business strategy and integrated fully into the organization-wide talent management program.

How can you translate these findings into a plan of action? First, get a clear handle on your organization's overall business strategy going forward. Assess the current talent management programs and processes offered today and what you have to do to get them better aligned with the business; integrated with each other and across the organization; and relevant to your specific employee demographics, needs and wants. Analyze the gaps, prioritize based on strong ROI measures and commit to making it happen. It's all about your people.

This plan may sound simple, but executing it properly can be a challenge. Managing talent means trying to harness the full potential of your human or people capital — that intangible resource that brings with it the complexities of and connections to human behavior. How companies react, based on their own unique circumstances or based on their employees' collective reaction to programs and policies, is the difference between success and failure. Businesses face an increasingly diverse employee base with different values and perspectives. They must build flexible talent management programs, install mechanisms for career development and lay the foundation for new skills along with creating compensation and benefits programs with features that differ radically from those employed in the past. These may contain items such as flexible work arrangements and the accompanying technology, different compensation arrangements (including performance-based) and special recognition programs that are both cash and non-cash.

In addition, increased diversity in the workforce means that talent management has plenty of moving parts. Therefore, organizations must regularly analyze their programs for effectiveness and ROI, making sure that all appropriate employee data are captured and aligned. This will increase the efficiency of all talent management programs and, at the same time, serve as an early warning system for problem areas.

Although every organization is unique, the ideas and strategies outlined in this paper can help you and your teams develop a roadmap for balancing the needs of the company with those of its employees, as well as prepare you to address its human capital challenges in the years ahead.

Need more information?

If you want to learn more about how Ernst & Young can help your organization in the area of talent management, please contact the Performance and Reward, Human Capital, or Assurance and Advisory Business Services professional in your area. Alternatively, you can reach out to one of the following individuals:

Name and role	Phone	E-mail
Sam Fouad Global Managing Partner – People	+44 20 7980 0800	sam.fouad@uk.ey.com
Bob McAndrew Global Performance & Reward Leader Human Capital	+1 214 969 8362	bob.mcandrew@ey.com
Dina Pyron Global Director Human Capital	+1 212 773 7667	dina.pyron@ey.com
Esther Hahm Co-author Human Capital	+1 212 773 5561	esther.hahm@ey.com
Bill Leisy Co-author Performance & Reward	+1 404 817 5370	william.leisy@ey.com

Ernst & Young

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 144,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit www.ey.com.

SCORE No. DR0020