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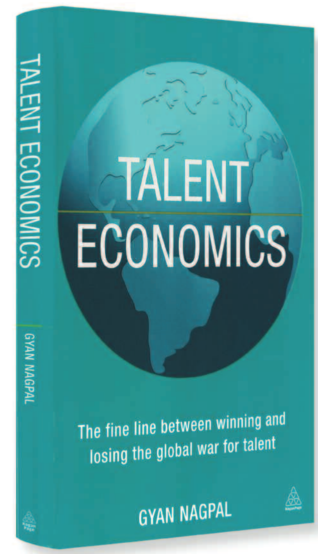

Talent Economics

The Fine Line Between Winning and Losing the Global War for Talent

by Gyan Nagpal

THE SUMMARY IN BRIEF

The microscope on talent is in sharp focus, and HR has more programs and processes to manage talent than ever before. Yet many CEOs continue to see talent management as an escalating risk. The truth is that market realities across the world are so fundamentally different that one-size solutions almost never succeed.

Talent Economics is a refreshingly new, outside-in view on talent, which brings workforce analysis, management practice and strategy together. It uses economic inquiry as a discipline to present a brand new perspective on talent management —as simply put — economics is the study of how the forces of supply and demand allocate scarce resources.

Talent Economics presents business leaders an opportunity to step back and understand the ebb and flow of global talent, before translating this new understanding into a winning strategy.

IN THIS SUMMARY, YOU WILL LEARN:

- To understand key global trends in talent resources.
- How to develop purposeful leaders and innovators.
- How to manage the diversity of human resource present in today's global marketplace.
- How to apply macro and micro talent economics.
- How to develop a 21st-century talent strategy.

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THE COMPLETE SUMMARY: **TALENT ECONOMICS**

by Gyan Nagpal

The author: Gyan Nagpal is an award-winning talent strategist and leadership coach who is deeply invested in researching changes to the global talent pool. Over the last decade, he has helped some of the world's largest organizations build significant business franchises across the Asia Pacific region. In addition to his primary role as the CEO of PeopleLENS Global Associates, he is a Senior Fellow-Human Capital at the Conference Board and a member of the NTL Institute.

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Complexity, Economics and 21st-Century Globalization

If multinational companies today want to be global companies tomorrow, they will need different approaches to product development, different approaches to innovation, and different management approaches to what we see commonly today. By definition, a "truly global" firm in 2020 should have the ability to be domestically relevant to consumers in both developed and developing markets at the same time.

The State of Current Strategy

If we analyze the current set of companies operating across both developed and emerging markets, we see three "broad bucket" business strategies in popular use.

Strategy A. A company is an international organization motivated to exist in emerging economies principally through a *cost play*. This could be through low-cost manufacturing, material procurement or sourcing of services. In general, a strategy A company still earns 75 percent or more of its revenue from a primary home market.

Strategy B. These organizations are motivated to generate significant revenues from both mature and emerging markets, but principally via a *product play*. Tactics include distribution of a similar product globally and creating a common global brand presence. For a company like this, 40-60 percent of revenues may come from overseas and emerging markets, supplementing an already healthy home-market revenue system.

Strategy C. This strategy is followed in organizations that innovate and tailor products in specific response to market realities. This could mean having an entirely different product or brand strategy for each type of market. These firms tend to be deeply embedded in high-growth economies, with differentiated products that compete across a broad price spectrum. Let's call this a *market play*. Tactics here include building local brands, a distribution presence in smaller towns and cities, and hiring senior local leaders with significant autonomy to drive product strategy. In this case a majority of revenues (60-70 percent) may come from non-traditional (i.e., other than home) markets.

Most companies that follow strategy C also adopt strategies A and B in their overall approach. This template demonstrates the greatest commitment to building a truly global organization. It also represents the best strategic balance between global production synergies and investment or consumption opportunities in both the emerging and developed world.

With more than half the world's GDP at stake, ambitious global companies competing for shareholders' attention will have no option but to adopt strategy C approaches. The change will undoubtedly reshape the current DNA of a successful global business entity. Management styles will need to change, as will current approaches to managing resources, including the most critical one — talent.

Virtual Work

From the workforce's perspective, virtual work and remote computing have begun to make an impression

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on the way we work — albeit slowly — because of archaic supervisory mindsets that have refused to relent. But the cost-benefit equation is getting increasingly difficult to ignore. With cheaper, secure multimedia access now available, flexible working is a credible alternative like never before, and, as recent research proves, employees want this.

Talent Commoditization — a Supply Shift

On the surface, the fundamental employment equation between the individual and the organization remains the same: a salary for output, benefits for belonging and a career for contribution. But in practice, over the last 40 years many underlying employment assumptions have irreversibly changed.

The concept of retirement is one such casualty, although optimistic employees still seem to cling to both the concept and the term.

Over the last 30 years, the greater monetization and portability of benefits, a critical ingredient of an enduring employment agreement — retirement income — was no longer a function of loyalty to one employer. Talent had truly become portable. Consequently, "experience," when no longer a measure of security, becomes what it is now — freely exchangeable currency. Employees can now monetize their value and seek better pay and benefits elsewhere, and this makes perfect sense, as the employee alone is responsible for funding his or her retirement needs and lifestyle.

We stand on the threshold of the next war for talent. This one is less about employee retention and HR processes. It is more about reinventing employment. The winners will be those who move anchors for their business. The losers will try and retrofit old HR policies and arrangements to a radically new talent-value system.

Purposeful Leaders and Innovation

At the heart of a CEO's decision model and espoused strategy lives leadership purpose. Leadership purpose is an all-encompassing superset of vision, focus, values, learning, conditioning, goal orientation and time reference. A leader needs to have this, as it provides both anchor and compass to weather short-term challenges and navigate towards long-term success.

One way to clarify leadership purpose is to ask the question, "What are the one or two business priorities you hold sacrosanct? Are customer satisfaction, shareholder returns, product innovation or employee morale in your top two?"

One purposeful leader who has changed how his company operates at its core is Vineet Nayar of HCL.

CASE STUDY — HCL

HCL is an India-based technology company, which was losing market share to bigger rivals when Nayar took over as President in 2005. His route to turn the company around was a unique one. He forged a strategy to change the culture at HCL based on his ideology — that great companies are built around people more than anything else. Nayar calls it "EFCS" for "Employee First, Customer Second." At HCL it is both a philosophy and a galvanizing force, which has not only created more transparency and accountability but also inverted the pyramid — acknowledging frontline employees as the most important in his organization.

Nayar himself says, "HCL was a traditional pyramid, in which frontline people were accountable to a hierarchy of managers. The hierarchy usually made it more difficult for employees to add value. I began to wonder if we could turn the organization upside down, so that senior management — the heads of enabling functions such as human resources and finance and even the CEO could become accountable to employees."

It is easy to see Nayar's leadership purpose in every decision he makes and every action he takes. It isn't surprising that HCL doubled its net income within three years of Nayar taking charge.

Indeed, a leader without purpose is a leader by accident.

Talent Economics

There is something about a competition of equals that takes the game to a completely new level. Although loaded with risks and pressure, a playing field where everyone has a fair opportunity to win makes winners play beyond themselves and, over time, improves the game as a whole.

Global competition today doesn't resemble anything we have seen in recent history, and, as a result, we cannot find recourse in a familiar set of rules. In reality, the game itself is changing, unwinding the very rules that have guided business for centuries. So much so that the match between the prosperous and the aspirants is increasingly beginning to resemble a competition of equals.

The Need for a Strategic Shift

A deciding factor of success in the global marketplace will be an organization's skill at managing the diversity of its human resource. Yet our ability to manage "global talent" hasn't evolved at the same pace as our business footprint. How many times have we seen an organization make strategic decisions to invest millions of dollars in a new market or industry first and months later look at key talent metrics such as supply of engineers, graduate education numbers or workforce demographics as an afterthought? Many of these considerations probably only emerge during implementation, when an acute shortage of talent can be felt on the ground. In practice, because of insufficient or poor-quality HR forecasting, many companies end up missing performance deadlines or having to rely on expensive expatriations to plug critical capability gaps.

There are two solutions to this problem. First, include strong talent analytics and talent strategy formulation in the strategic business planning cycle and, second, don't delegate this to the HR department.

This Isn't the HR Department's Job; It's Yours

Managing talent is a line manager's daily responsibility and, by that same yardstick, developing a proactive and commercial talent strategy is something that sits squarely on the business leader's table. I am not saying the HR function mustn't be involved. Indeed, the HR department has a very important role to play — a contributory and facilitative one. It has access to huge mountains of employee data, controls critical levers of employee engagement, and hence should have an important input to strategy. But the HR department shouldn't be the one deciding strategic talent imperatives.

The first step for us is to clear up the confusion over roles and responsibilities. Leaders own; the HR department supports.

Macro Talent Economics: the Study of Aggregate Talent

Economic analysis must start with the big picture, with an attempt to see how conditions for business exist within an economic system in general. In the same vein, talent economics must begin by focusing on the labor force within a social system, be it a country, industry or job family globally. I recommend business leaders begin by identifying the macro talent trends swirling around them. By understanding changing workforce demographics, mobility trends or the student pipeline, business leaders start understanding the rules that govern the game.

Macro talent economics is the study of talent within a market system. As an input into strategy, it ensures that we map a country's workforce by analyzing the variables that have an impact on local employment conditions. By studying trends, we look to predict overall talent flows, availability of management talent, skills, employment proficiency and a host of other conditions that could have an impact on our organization's people strategy and practices.

I recommend macro talent analysis always start with the study of three simple "quantitative" ratios that collectively establish the labor supply for a country in question. These are

1. Aggregate talent: the study of workforce changes in an economy.

2. Replacement and mobility ratios, which reflect birth rates and migration trends within an economy. In other words, how many workers enter the labor force for every retirement?

3. Age and dependency ratios, which seek to identify how much employable talent exists in relation to those who are unemployable. In simple terms, how many dependents does an average worker support, and is this number increasing or decreasing? Age is another important perspective. What are a country's age forecasts telling us, and how will this have an impact on labor supply or employment conditions?

Once these three ratios are established, we move on to demographic ratios and an analysis of the workforce mix. There are two distinct demographic perspectives:

4. The workforce's gender mix: average economic participation rates for women versus men at all levels of the labor force, with a particular emphasis on women at various layers of management.

5. Generational shifts: generational markers for the countries in question and the implications of these for employment preferences and practices.

And finally, we can analyze three "qualitative" macro variables critical to business:

6. Basic proficiency: the quality of basic education available and the impact it has on workforce proficiency levels.

7. Management proficiency: the quality of tertiary education experiences and the supply of future managers within an economy.

8. Governance and sustainability: the importance given to good governance and the ever-increasing focus on long-term sustainability within a social system.

Why are these eight insights important? Let's assume a company has capital invested in 15 countries worldwide and, as a result, runs individual country operations drawing from 15 distinctive talent markets. This company would be well served by macro trend analysis. Examining similarities and differences between these markets could help inform strategic talent investments for both the short and long term.

An African Sunrise

Over this century, Asia barely tracks the global averages. The African labor force, currently devastated by the HIV epidemic and home to some of the poorest countries in the world, will grow over eight times its 1950 numbers. Latin America follows next, with the developed continents predictably at the bottom. The question every business leader must ask before investing millions of dollars in far-flung international markets is, "How will this have an impact on my business?"

The Global Workforce

Economic juggernauts such as Japan, Russia, Germany and China will all face a potential workforce contraction over the next 40 years, brought on primarily by historically low birth rates. Many emerging markets too have seen birth rates slide. But with relatively younger populations, emerging markets will continue to grow their labor pool, although the pace of growth will eventually slow. This growth, along with improved healthcare and education in many disadvantaged nations, will result in the global workforce growing by one third between now and 2050.

Age Issues of a Different Kind

Globally connected organizations will increasingly have to contend with the challenges age differences create for pay and benefit programs, performance equity and mobility of talent. 2020 isn't far away, and in some sectors of the global economy age differences are already playing out. For example, many companies shipping manufacturing or services activities over to high-growth emerging markets face the situation described in the following case study.

CASE STUDY

A large financial services firm was well into a major migration of transaction processing work from its U.S. operations over to an outsourced vendor in the Philippines. This is a very popular cost-play strategy in global organizations today. By shipping off basic services to low-cost emerging markets, many companies are able to reflect large savings in overall cost. The majority of this saving comes from much lower labor cost, which in itself is influenced by a healthy supply of young talent lining up for jobs.

However, in this case, the migration of work to Manila was fraught with quality challenges, and many service levels were well below expectations. When we analyzed the situation, the reason for poor quality was not capability, motivation or the quality of upfront staff training — which was in fact quite comprehensive.

The two major reasons were extremely high employee turnover levels at the junior levels and inexperienced management. In this case, very inexperienced. The average supervisor was 25 years old; the average middle manager was 29. Each middle manager managed an operation made up of several hundred employees.

The situation isn't unfamiliar, and it represents a common reconciliation required when moving work overseas, especially to a country with a vastly different workforce.

An Imperative for Global Managers

As we can see, seismic socioeconomic events cause generations to tip. And with local realities being so different, there is no such thing as a South African baby boomer or a Chinese generation Y. What's more, the world's four largest economies have four entirely independent sets of generational markers. From an organizational perspective, understanding generation markers for different countries can provide fascinating management insight into cultural and motivational differences in the workplace. It has macro talent economic implications because it can also help us predict differences in behavior, expectations and management style across key talent markets. As a leader, I realized this the hard way in a very personal experience. In 2007, my direct team came from Singapore, England, Australia, India, Hong Kong, Japan and the Philippines. As a leader, it was fascinating to watch each team member demonstrate distinct cultural and generational preferences in the decisions made, a fact that sometimes did lead to occasional misunderstandings or conflict.

It was clear fairly early on that if we wanted to be a benchmark team — which hired, retained and grew the best talent — we would need to understand and appreciate our differences better. So we began investing a portion of each face-to-face meeting towards deciphering our individual cultural and generational codes. Not only was this a fun activity for the group; it increased our appreciation of interpersonal context and each other's opinion.

Micro Talent Economics: Managing the 21st-Century Employee

From a day-to-day perspective, just the big picture view isn't enough. For one, it can't predict changes in individual behavior. To do so, we must also understand how the circumstances surrounding the individual employee are changing and equally how the overall relationship between an employee and employer is changing. I call this the study of micro talent economics. There are seven indispensable practices for 2020.

1. Focus on finding the right talent. As a direct result of the war for talent, the HR function has started developing and using its own version of the CVP (customer value proposition) to drive talent-sourcing efforts. Called the employee value proposition (EVP), it helps advertise the specific attributes of a company that could prove attractive to potential employees, with a clear aim to promise exactly what can be delivered.

Similar to the CVP, a well-formulated EVP allows an organization to highlight and sell its employment experience in a deliberate, consistent and transparent manner. In a large diversified organization, this is imperative if it wants to avoid the risk of every hiring manager positioning the organization differently to candidates. A good EVP is nothing but the recipe of value an organization promises a prospective employee.

But the promise is only one part of this equation. The other part is delivery. In other words, does the candidate experience the culture promised once he or she joins? This can only happen if your EVP promises reality ('this is who we are') rather than aspiration ('this is who we want to be').

2. Build unconventional entry points for talent.

The reality is that careers increasingly come with a reboot button, and companies that realize this early possess a competitive talent advantage. This means we must be willing to explore the talent jungle beyond the well-trodden campus and lateral hiring routes. Here are some ideas:

• **Mid-career internships.** Involving nothing more complicated than taking the entry-level internship model further up the hierarchy, mid-career internships allow mature talent a unique, low-obligation entry point.

• **Returnships.** A returnship is aimed at those seeking re-employment after an extended career break, particularly women.

3. Poach your talent before the competition does. We know that 21st-century employees are more mobile and possess a broader career viewpoint than employees in the past. In an employment era such as the one upon us, this makes internal mobility a virtue. It is also a measure of an organization's health. Losing good people because we were not able to accommodate a "reasonable" desire for career or geographic mobility is nothing but poor management.

4. Create an expansive mindset. Traditionally, diversity efforts have focused on achieving an equitable demographic mix based on gender, race or age. In the future, though, with increasing business ambiguity, the focus must also be on achieving diversity of experiences, backgrounds and thought.

5. Open the window — think outside-in.

Another force set to reshape the 21st century employment equation is the rapidly growing quantity of outside-in intelligence on a company, freely available over the Internet. Apart from making both candidates and current employees better informed than ever before, the availability of what used to be confidential information is already proving very tricky for employers.

Pay information is one of many examples that highlight the need for organizations to be more reverse engineered and externally focused. Market intelligence is the name of the game, and for the first time in history, it is in the hands of the average employee.

6. Help innovation thrive — create organizational flow. The great organizations of the 21st century will be built on flow. The "quality revolution" in the latter half of the 20th century has taken us to a point where all products that reach a supermarket shelf work. Most do what they are meant to do quite well. The competitive differentiators of the future will be products that are the most innovative even though they may not be the best.

Flow grows from a foundation of improvement and mastery. Organizational flow is a deliberate and direct outcome of visible single-minded focus in a senior management team, i.e., leaders with a compelling vision and the ability to inspire the same vision in others.

There are three additional ingredients needed to achieve a purposeful and innovative flow organization in the 21st century. They are the right competencies, the right environment and the right incentives to drive innovation.

7. Measure and grow cerebral engagement. Cerebral engagement is all about flow — the flow of ideas and innovation. Are employees learning while doing? Do they bring ideas to work and share them with others? Are they willing to defend their ideas against criticism? Do they thrive on change, and are they looking to innovate?

21st-Century Talent Strategy

By first decoding how a rapidly evolving global talent pool has an impact on your organization, you can eventually assemble the ingredients for your strategic response. To truly craft a "top-drawer" strategic response, I propose three fundamental principles for any talent strategy.

Principle 1: Talent strategy must start with deep diagnosis and respect for contextual differences. The starting point of strategy is analysis focused both on external trends and the internal forces helping or hindering business growth. We want to be able to distinguish symptoms from their causes and map opportunities and risks within an overall talent system. Context is important too. It is sometimes easy to forget that even in the most global of organizations, 90 percent of talent is local. Hence talent strategy must also be locally relevant.

Strategic efforts must reflect the needs of all employee segments, all key locations and all parts of the business. It isn't prudent to focus investments and efforts on a small subset of the population.

Principle 2: Talent strategy must be built with a time and investment viewpoint. We want to be able to address short-term and long-term needs. Hence strategy must ideally have a three- to five-year viewpoint. Never just one year. That's because an annual plan can only address short-term needs in a short-term manner. Similarly, if we are serious about our strategic choices, we must invest time, leadership energy and money into them. This is as serious an investment as any company makes and hence should be able to deliver quantifiable business value.

Principle 3. Talent strategy must be owned by the CEO. The HR department has a key role to play during analysis, in supporting execution and as an overall facilitator, but accountability for execution of long-term talent strategy must rest with the business leader.

Your talent strategy doesn't have to be complex. In fact, I often encourage my clients to express each location's talent strategy on one page. The process to arrive at this one page manifesto, though, should be rigorous.

Step 1: Diagnosis

The aim of diagnosis is to arrive at a list of action areas that matter most. I have found there are 11 competing realities that vie for focus and investment within an organization's overall talent context. Some are external to the company, while others are internal. Each is an independent variable, yet collectively they shape our talent priorities. Put together, these 11 perspectives provide a very competent diagnostic profile of your company's talent needs.

1. The local economic environment. The best place to start diagnosis is with an "outside-in" view of your business. Ask yourself, "What are our business circumstances, and how does this affect my talent choices?" Consider factors such as labor practices, capital market maturity, intellectual property laws, political stability and recent patterns of economic growth. For a single-location business, this will be relatively easy. However, if yours is a global company with hundreds of offices, I would recommend evaluating the countries that have 5 percent or more of your global headcount or that generate over 5 percent of your global revenues.

2. The supply of external talent available to your business. How much high-quality talent can you find in this location? This is where the analysis of macro talent trends comes in very handy. Education, migration, aging populations and generational shifts all affect the composition of available talent, as does the impact of government policy.

3. The quality of external talent available to your business. Consider a prominent location for your company today, and ask yourself how easy it is to find "skilled and ready-now" talent in this location.

4. The maturity and market share of your business. In countries where your market share is still small or you are trailing the dominant player or players, you will need to invest in differentiating yourself as an employer.

5. Your market standing as an employer. Conjoined to where you currently stand in your industry, also consider how attractive an employer you are. One way of doing this is looking at where you hire from and who hires from you.

6. Your internal talent demography. Every new employee starts out highly dependent on others for information, introductions, job assistance, emotional support and, most importantly, affirmative encouragement. If this exists, the journey from dependence to independence is an easy one. The best organizations help take employees beyond independence to a stage of interdependence, where they help each other succeed and where they play as a team.

7. Your current management maturity. If we can get the people who matter most to lead effectively, over 90 percent of the leadership issues further downstream disappear automatically.

8. Your flow circumstances. We want an organization that accentuates employees' energy and can collaborate across boundaries. We don't want independence; we want interdependence — the ability to help each other win. Ask yourself, "How easy is it to maneuver across my company?"

9. Your innovation index. In the 21st-century, innovation has proven to be quite different. For one, it has become less about continuous small improvements. It is about quantum leaps. It isn't linear anymore; it's exponential. Being innovative isn't really a choice anymore.

10. Your growth and change agenda. While change is just one of the variables that helps delineate an organization's investment priorities, I would give it a place in the top three. That's because a refusal to change can be brutal. Look at the horizon. What are the changes facing your industry or organization? The higher you rate your change agenda, the higher "change capability" you should rank as a talent priority.

11. Your business strategy. Every destination needs a roadmap. So unless you already have this roadmap in front of you, ask yourself or your leadership team the following 10 questions:

- Where do we want to be in five years? (The aspiration)
- What will help get us there? (The game plan)
- What do we need to change? (Our burning platform)
- Where will we need to invest? (The best use of the scarce capital)
- What will our portfolio look like? (Product evolution)
- Why will our customers choose us? (Competitive advantages)
- What are our milestones along the way? (Our scorecard)
- What does success look like? (Hard measures)

Once you have answers to these eight questions, take your strategy through two more gateways:

- What are the biggest risks to success? (Scenarios and contingencies)
- Why should someone invest in us today? (The promise)

Step 2: Invest in Strategic Priorities

The next step is to craft the solutions and initiatives that will form the backbone of your talent strategy. There are four interests we must consider within this overall strategy: the needs of the individual, the needs of the group, short-term needs and long-term needs.

A simple planning approach helps us manage this polarity of time and focus. I call it the PITA model:

Professional: investments that strengthen current capability.

Interventional: investments that urgently address an existing problem.

Transformational: investments that build culture for the future.

Aspirational: investments that build talent or skills for the future.

Each of these represents a specific type of talent-strategy solution, and the exact recipe of solutions we pick is based wholly on the outcomes of diagnosis. What solutions would help you make the best use of your precious dollars? Eventually, we want to bridge the gap between your needs and your investments.

Step 3: Ownership and Focus

Strategy is a map, not a journey. The journey lies in effective execution of strategic imperatives. And this journey cannot be delegated. In large organizations this means leaders all across the organization must participate both in formulation and execution of talent strategy. Doing so won't just help them understand their talent needs better; it will help develop them as leaders too.

The 11 continuums help us diagnose and compare locations or businesses, and the PITA model helps us build a balanced set of solutions. But all this does is help us arrive at the right car with the right key. What we now need are leaders willing to start the engine and drive.