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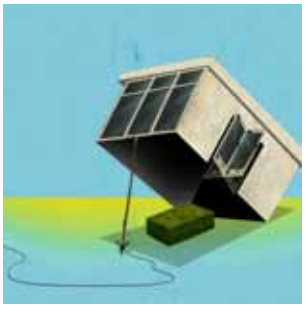

The Talent Paradox: Critical Skills, Recession and the Illusion of Plenitude

BY ROBIN ERICKSON, JEFF SCHWARTZ AND JOSH ENSELL
> ILLUSTRATION BY BRIAN STAUFFER

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Critical Skills, Recession and the Illusion of Plenitude

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With relatively high unemployment and low voluntary turnover, it is tempting to go back to "business as usual" and put employee recruitment and retention challenges on the back burner. Many executives may expect there to be a surplus of labor available that companies can swoop in and grab when the market picks up. However, this is only half of the story. Despite high unemployment, many companies are increasingly having trouble filling job vacancies, with over 3.2 million unfilled jobs in the United States as of July 2011.[1] Worse, these shortages often occur in critical, skilled roles that have high barriers to entry and are crucial to a company's success. This points to a talent paradox:

While there is a surplus of job seekers, some companies are facing shortages in critical areas where they most need to attract and keep highly skilled talent.

In other words, high unemployment rates do not mean that the talent you need will be there when you need it.

This talent paradox is raising the stakes in the competition for critical talent, with organizations trying to outbid each other for a select group of critical employees and the skills they need to succeed. Poaching competitors' top performers is becoming commonplace. This competition is fueling rising salaries as well as prospective employees' expectations, making it difficult to meet skill needs while keeping labor costs at desired levels.

A targeted retention strategy can help companies navigate the talent paradox through an increasingly sophisticated view of what employees are looking for, what they value and why they are leaving. If a company can better understand why employees are leaving, it can take the requisite actions to get them to stay—in effect, creating a retention firewall to keep employees in and competitors out.

A RECESSION ISN'T A STRATEGY

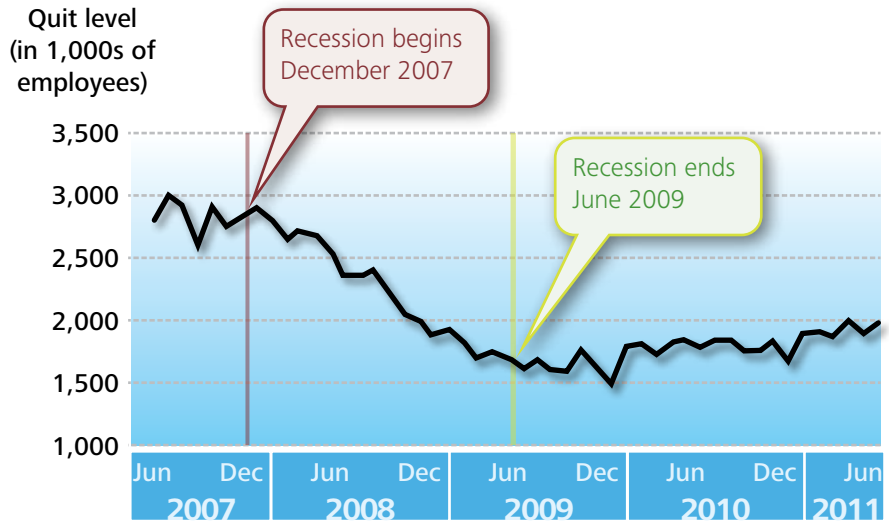
Companies face a labor market where, despite high unemployment, they still need to focus on attracting, developing, managing and retaining their critical employees who have opportunities to leave for higher salaries and more varied job roles and experiences. As the economy improves, we expect employees with critical skills will begin to leave their employers in larger numbers based on historical turnover after recessions and recent Deloitte* research that suggests only 35 percent of global employees surveyed expect to stay with their current employers.[2,3]

Since employees' desire to change jobs is so strong, one may wonder why these employees have not already left. The main reason is that the majority of these employees have nowhere to go in the current labor market. However, critical employees whose skills are in demand, no matter the economic situation, frequently can leave to go to another organization. Because organizations have a constant need for this critical talent, power in the labor market for these skills and talent is shifting from demand (organizations) to supply (employees). Even when the economy is down, these employees have opportunities to leave if dissatisfied with their jobs and retention incentives.

Overall, quits (or voluntary turnover) have dropped significantly since the recession began in December 2007. However, since the National Bureau of Economic Research declared the end of the recession in June 2009, the economy is slowly beginning to see an increase in voluntary turnover as workers switch from one job to the next (Figure 1).[4] In May 2011, 2 million employees quit their jobs, the highest level since December 2008 and a 35 percent increase from a low of approximately 1.48 million employees who quit their jobs in January 2010.[5]

* As used in this article, "Deloitte" means Deloitte Consulting LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.

Figure 1. U.S. quit level in thousands of employees, total nonfarm, seasonally adjusted (June 07 to July 11)



Source: Bureau of Labor Statistics: Job Openings and Labor Turnover Survey[6] and National Bureau of Economic Research[7]

Critical and highly skilled talent is cautious but increasingly on the move. Despite an increased level of voluntary turnover since January 2010, there has not been a significant change in overall unemployment. Part of the reason is that employees who have opportunities in the market quit their jobs after receiving better job offers instead of quitting to join the ranks of the unemployed.[8]

Lost critical talent is becoming increasingly difficult to replace as the shortage of skilled employees continues to grow, even in emerging markets with higher numbers of science and engineering students. Employees with critical skills often fill roles with barriers to entry (e.g., length of training, arduous certifications, legal issues such as citizenship requirements), take a long time to develop the requisite experience, and are in limited supply. In these labor markets, companies can go out and buy more workers (up to a point), but the wage increases needed to attract these workers and make them take the risk of leaving their current jobs could be very significant. However, even a large increase in wages will not necessarily lead to many new people ready to fill the jobs in the short run; because of the time it takes to develop these employees, it could be years before workers are more readily available.[9] This only increases the importance of a company's retention efforts to its overall success.

Software engineers are one area where companies' inability to keep and find the engineering talent they need is impacting their ability to create new products. Daniel Gruneberg, co-founder of the daily deal site Zozi, notes that "there are a lot of ideas, but to actually do it you need someone to build it."[10]

To try to attract the necessary talent from the market or competitors, technology companies have begun to increase starting salaries, benefits and stock options. Reggie Bradford, CEO of Vitrue, noted that his company "now pays starting salaries of up to $90,000 for engineers with one year of experience," over $20,000 more than they paid six months ago.[11]

Because of this high demand for talent, voluntary turnover and job switching are common in technology companies. For example, *Top Prospect*, an incentive-based social recruiting site, analyzed the companies their users left and subsequently joined to show the flow of employees through Silicon Valley. Their analysis showed high flows such as Facebook gaining 15.5 employees from Google for every one employee Facebook lost to Google, Apple gaining 7.6 employees from Yahoo! for every one lost to Yahoo!, and LinkedIn gaining 22 employees from Microsoft for every one lost to Microsoft.[12] While these flows are due in part to the relative size of the companies and the attraction of future IPOs, with constant turnover such as this, it is no wonder technology companies offer a wide range of benefits to try to retain top talent. However, just as using the recession as a retention strategy has proved ineffective, poaching employees with critical skills isn't a strong talent strategy for long-term success.

MEETING THE EMPLOYEE RETENTION CHALLENGE

Companies' retention strategies should take an increasingly sophisticated view of why employees are staying and leaving. Yet, as Deloitte surveys and recent data show, business and HR executives' perspectives on what they think their employees want and what employees actually want often differ—this is especially true of nonfinancial programs and priorities. So where should business and HR leaders focus their retention efforts? To successfully attract, develop and retain the key employees needed to succeed in today's economy, three imperatives emerge:

- Identifying the employees and *skills* most critical to **your** organization and strategy.
- Determining what different groups, generations and, wherever possible, individual employees actually want through increasingly personalized approaches.
- Cultivating your capabilities to understand, anticipate and predict what is driving your employees to leave.

1. Identifying the employees and skills most critical to your organization and strategy

Organizations should first identify their critical workforce segments, those

DELOITTE'S LONGITUDINAL TALENT SURVEY SERIES

Talent Edge 2020 is a longitudinal survey series conducted for Deloitte Consulting LLP by Forbes Insights that explores changing talent priorities in all industries at large businesses in the Americas, Asia Pacific, and Europe the Middle East and Africa. Available at www.deloitte.com, the Talent Edge 2020 series follows Deloitte's *Managing Talent in a Turbulent Economy* series from 2009 and 2010.

employees who drive a disproportionate share of revenue, who are difficult to replace and without whom an organization cannot execute its business strategy. These are the employees that a company needs to acquire and keep to be successful in the market. Identifying the key workforce segments that produce the most value to the organization and focusing efforts on these groups enable executives to make talent investments that yield the most significant return. Our experience suggests that many companies think they do this but actually find it hard to do for a variety of reasons, including company politics, HR concerns and an egalitarian discomfort with saying one group of employees is more valuable to the organization than others. However, focusing investments on critical workforce segments is no different than focusing capital investments on the areas of the company growing the fastest—it is all about getting the most return for the dollar invested.

Given how technological change, regulations and globalization continue to drive structural change in the labor market, companies should go beyond identifying their critical talent in the present and also take a long-term view that considers finding and keeping the skills needed now and in the future. It doesn't help that these skills are changing—sometimes rapidly. As the economy continues to evolve, it will increase the pace at which current skills become obsolete and are replaced with new ones. For example, the skills companies needed their software engineers to have only a few years ago have now become commonplace and replaced with new ones such as mobile application development and HTML5—technologies that barely existed only a few years ago.

Not only are the required skills continually changing in the world of technology, but most companies are demanding new skills from their skilled trade workers. Additionally, a lack of qualified trade workers with the new, necessary skills is leading to labor shortages that could impact the proliferation of new technologies. For example, in the solar industry, there is a rapid increase in demand for photovoltaic installers and electricians with specific experience in solar installations as job growth for these occupations was expected to exceed 40 percent from 2010 to

2011. Given this rapid growth, solar employers cannot find the qualified workers they need as there are not enough workers with the necessary skills.[13] In response to this and the overall increased demand in the green energy sector, the National Joint Apprenticeship and Training Committee, a joint program between the International Brotherhood of Electrical Workers and the National Electrical Contractors Association, published a Green Jobs curriculum with 75 lessons to help apprentices learn new skills and to further develop journeymen looking for the skills needed to work in the green economy.[14, 15] Developing employees with the skills needed today is key to resolving the labor shortages; however, development programs also need to be focused on the future as skills will continue to evolve.

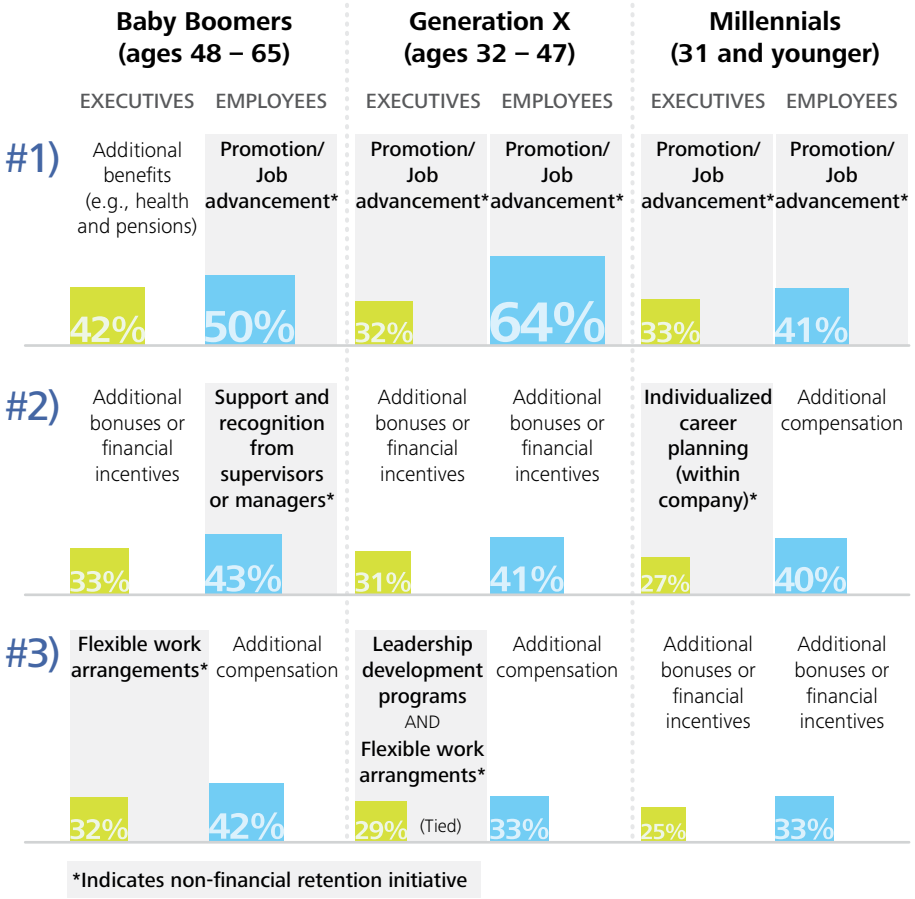
Skills evolution has also occurred in the services sector. For example, ManpowerGroup notes that companies are now looking for salespeople who have skills such as "excellent oral presentation," "critical thinking" and "consultative approach: ability to read people, diagnose problems" while only a few years ago they were looking for salespeople who had "assertiveness," "thorough knowledge of product or service" and "competitive nature."[16] Because of constant skill change, it is no longer enough to hire a critical skills worker; you need to hire a critical worker who has the latest skills and the ability to up-skill over time. If companies want to thrive in a constantly changing market, they will not only need to attract and retain employees to fill key jobs; they will also need to focus on developing and attracting employees with the right skills within these jobs and keeping them.

Health care providers are experiencing this issue in the area of medical coding. Coding is how organizations take the descriptions of patients' conditions and turn them into codes that can be easily tracked and grouped together, and it plays a key role in insurance reimbursement, reporting and quality of patient care. Currently, the practice of medical coding is going through a transformation as companies and countries move from the World Health Organization's International Classification of Diseases (ICD) Ninth Revision to the ICD Tenth Revision. The changes from ICD-9 to ICD-10 are significant—for example, the number of diagnosis codes will increase from approximately 13,600 to approximately 69,000 to allow for more granular descriptions.[17] Additionally, companies in the United States have to move to this new standard quickly as the U.S. Department of Health & Human Services set an October 1st, 2013 deadline for ICD-10 compliance.[18]

Some health care organizations have been early adopters in moving to ICD-10 and have trained their employees on ICD-10 as part of that transformation. However, since other health care organizations now need these resources, competitors are increasingly trying to poach medical coders with ICD-10 skills. Because of increased demand, coders with ICD-10 skills are receiving large offers to leave their current employers and move to competitors. If health care organizations want to

keep the medical coders that they invested in training from leaving, they will need to understand their needs and target specific retention initiatives to keep them.

Figure 2. Top three most effective retention initiatives by generation: Executives' expectations vs. employees' desires



2. Determining what different groups, generations and, wherever possible, individual employees actually want through increasingly personalized approaches

Once an organization confirms which employees are critical, they should conduct a diagnostic to find out what these employees really want through anonymous employee engagement surveys, focus groups and in-person conversations. Research from Deloitte's *Talent Edge 2020* and *Managing Talent in a Turbulent Economy* survey series has uncovered a tale of two mindsets where, for the most part, employers are unaware of which retention incentives are most effective. Most companies think they know what their people want, but often do not take the time to understand what different employees want from them or understand the impact the recession has had over the last few years—e.g., yes, flexible work environments

are important, but after three lean years most employees are now more interested in promotions and higher compensation. The risk is that many companies take a blanket approach that does not reflect what employees truly value, which varies based on generational, global and gender differences in addition to the current economic, technological and cultural environment.

- **Generational differences:** Different generations have different goals, expectations and desires—and employers should tailor their retention plans to satisfy them. Figure 2 reflects what executives think each generation wants and what each generation is really looking for.[19] Coming out of the recession, the foremost thing that employees are looking for are promotions followed by additional financial incentives for Millennials and Generation X and support and recognition from managers for Baby Boomers.

- **Global differences:** The latest *Talent Edge 2020* report found that almost a third (32 percent) of the surveyed employees in Europe, the Middle East and Africa (EMEA) thought that "lack of job security" would be the top reason for them to leave an employer and more than half (57 percent) of the EMEA employees surveyed found promotion/job advancement to be the strongest retention incentive. Almost a third (35 percent) of surveyed employees in Americas and 21 percent in Asia Pacific (APAC) chose "lack of trust in leadership" as one of the three most significant factors that could cause them to look for new employment today, while only 14 percent of surveyed employees in EMEA made the same choice.[20]

  Talent management and retention need to be viewed as a *global* art and science. For example, global corporations are more worried about the poaching of critical employees in India than in the United States right now because even with shortages of key skills, the talent markets in the United States are deeper than they are in emerging markets. Part of successfully managing the talent paradox is making sure that organizations that want to compete around the world have a global portfolio of employees, e.g., employees with the right skills in the right countries.

- **Gender differences.** Deloitte's research found that surveyed men appeared to focus on financial incentives, while surveyed women were more likely to seek recognition. Among surveyed men, 42 percent said "additional compensation" would keep them from leaving and 39 percent cited "additional bonuses or other financial incentives" as top retention incentives. Among women, only 27 percent cited "additional compensation" as a top retention incentive and only 19 percent cited "additional bonuses." Meanwhile, 40

percent of surveyed women said "support and recognition from supervisors or managers" would be a valuable retention incentive, compared to just 28 percent of surveyed men.[21]

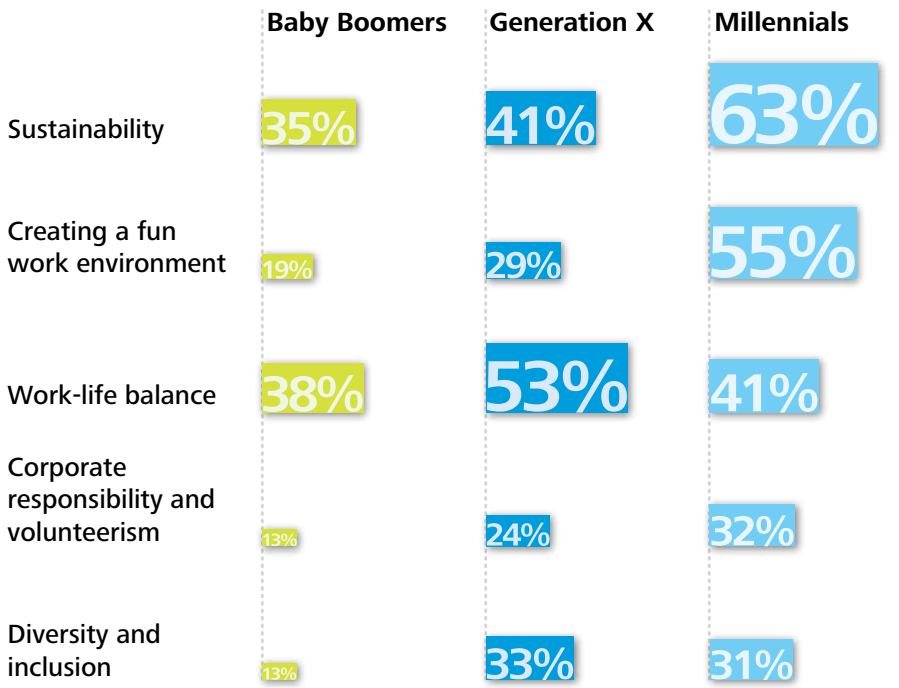
- **"I want what I want, and it's not what you think."** As technology, the economy and culture change, so too do employees' expectations of their employers. Only a few years ago, employees had never even heard of iPhones, would not have dared ask to work from home on a regular basis, and could not have carried their whole office with them unless they had a moving truck. However, employees now expect their employers to provide them the tools they need to work remotely and offer them the chance to do so. To adapt continually to such changes, companies should focus on having a culture that is open and receptive to constantly changing its talent programs to meet its employees' needs. It is no longer enough to have a "menu" of talent programs where employees can pick the ones that meet their tastes—instead, a talent strategy needs to focus on the company's and employees' core values to provide the flexibility needed to meet the demands of its talent.

When looking at cultural aspects that contribute to retention, consider how values differ by groups of employees, such as generations. Figure 3 shows that nearly two in three (63 percent) surveyed Millennials rated a company's commitment to "sustainability" as "very important" compared to just one in three (35 percent) surveyed Baby Boomers. And by more than 2:1 (32 percent to 13 percent), surveyed Millennials were more likely to consider their employers' commitment to "corporate responsibility/volunteerism" to be very important than were surveyed Baby Boomers. Work-life balance was most important to surveyed Generation Xers at 53 percent, compared to 38 percent for surveyed Baby Boomers.[22]

As an example, W.L. Gore is a company that focuses on a set of fundamental beliefs and guiding principles that serve as the basis of its strong culture.[23] Part of its culture is believing that employees should be passionate about what they want to do and then giving them the freedom necessary to pursue their passion while at work. Its culture is also shaped by a lattice organizational structure that is "free from traditional bosses and managers" and makes employees responsible for the work they choose to take on. Continuing to focus on this and other aspects of its culture has allowed Gore to be named in *Fortune* magazine's "100 Best Companies to Work For" for 14 years in a row. By continuing to focus on providing its employees what they need to live their cultural values, Gore has been able to gain the talent it

needed to earn a spot on *Fast Company* magazine's 2009 "Fast 50" list of the world's most innovative companies.[24]

Figure 3. When considering an employer, how important is the organization's commitment to the following?



Source: *Talent Edge 2020: Building the Recovery Together*, April 2011, Deloitte Consulting LLP

3. Cultivating your capabilities to understand, anticipate and predict what is driving your employees to leave

Too many organizations start actively managing attrition at the moment a critical or highly skilled employee tenders his or her resignation—in other words, when attrition risk has reached 100 percent. A better paradigm would be to:

- Identify which of your critical, high-performing and high-potential employees are most likely to leave six months in the future.
- Understand the reasons why those individuals might leave.
- Know what you can do to increase their likelihood of staying.

The use of retention analytics and predictive models allows organizations to identify employees at risk of leaving *before they leave*, helping companies to develop the mitigating programs needed to keep their critical employees. By understanding what employees are looking for and what their options are, organizations can do a better job of giving their employees what they want. Internal data (promotion,

compensation, etc.) and external data (demographics, economic indicators, etc.) are modeled to identify predictive patterns, such as the probability of voluntary turnover. Predictive analytics is a sophisticated approach to data analytics, creating leading indicators, as opposed to historical insights. Using advanced analytics to predict turnover risk, down to the individual level, can provide the lead time needed to identify employees who are likely to leave, help companies understand why each individual is at risk, and help determine what to do *today* to minimize the risk of that employee leaving.

The specific reasons that drive the individual risk scores will be unique to each organization's workforce, industry and culture. Rather than deploying costly blanket initiatives, using predictive analytics to determine why specific individuals are at risk enables HR leaders to invest in targeted activities that are customized to the individual or group at the most significant risk of leaving and that have the most likelihood of success through intervention.

Recognizing the high demand and turnover rate in management consulting, Deloitte has developed a retention analytics model that identified possible predictors of voluntary turnover for key talent segments in Deloitte. The model helps Deloitte identify both individuals and pivotal groups of employees most at risk. For each employee, the model detailed both the calculated attrition risk score *and* the key drivers of that risk (reason codes). Some of the top reason codes for Deloitte were the average number of flights taken per week, the average number of hours worked per week, and the number of paid time off (i.e., vacation) hours actually taken. The tool also identified actions that might mitigate the risk of turnover for each employee with a high probability of attrition. Key retention initiatives will soon be implemented by individual, pivotal role and key demographics.

WHY WOULD ANYONE CHOOSE TO WORK HERE (AND WHY WOULD THEY STAY)?

Given the talent paradox, that is the question many companies should answer if they hope to attract and retain critical, scarce and highly skilled talent. Companies can no longer assume they can easily acquire the critical talent and skills they need or that talent will stay put in their organizations simply because of economic conditions: The recession and current weak economy are no longer a viable retention strategy for highly skilled and prized employees and leaders. Given the growth aspirations of many companies and the scarcity of critical skills and talent, no matter the economic state, it is increasingly important to proactively focus on giving employees a reason to stay and grow with the organization.

At some level, this boils down to treating critical talent like customers, focusing on needs and expectations for money, benefits, job experience, development

and corporate values to develop talent or employer brands that clearly summarize what employees (current and future) can expect from their employer. The employer brand a company offers should give employees a sustained reason to want to join, stay and grow—focusing on financial, tangible and intangible benefits including a company's culture. To build a strong employer brand, companies should identify their critical employees and determine what they really want and combine their talent experience with their customer experience and overall corporate mission.

Finally, there is a good dose of science emerging in what was once mostly art. Analytics and predictive models can highlight which employees are most at risk of leaving and suggest what actions might get them to stay. Analytical tools and capabilities are now an attractive investment for business leaders whose plans rest on having critical talent in the organization.

Ultimately, there is no off-season. With the global economy in the doldrums, it is tempting to consider the recession as an unfortunate but convenient moat around critical talent. Yet, just as planning continues in a turbulent economy, the competition for the best players to implement those plans also continues. Neither "the economy" nor "talent" are monoliths. Even as some segments of the workforce see their fortunes fall, others are well aware that they will be key players in growth segments during and especially after economic conditions improve. Being the place those workers seek out, stay and grow is to be in a position of strength. **DR**

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