New Frontiers: Turning Complexities into Differentiators in the New Labor Market

By Tonushree Mondal and Susan Dunn

Not long ago, talent managers oversaw a single, independent leadership pool. They looked for trends and made educated guesses about future requirements and gaps. They developed leaders for the most pivotal roles by preparing them for most of the job (the 80/20 rule). They did so with the help of tools within their control, including recruitment, promotion, development, coaching, and rewards.

But technological advances, shifts in consumer preferences, generational differences, geo-political changes, the shortage of certain critical skills, and other factors have added to the complexity of managing talent.

Now, these same leaders are expected to manage talent across organizational and geographic boundaries and be fact-based and accurate in their pipeline projections. The 80/20 rule is no longer sufficient. They need to ensure that all pivotal roles have leaders who are fully prepared to bring head, heart, and guts to their roles, as well as an enterprise-wide perspective to their decision-making.

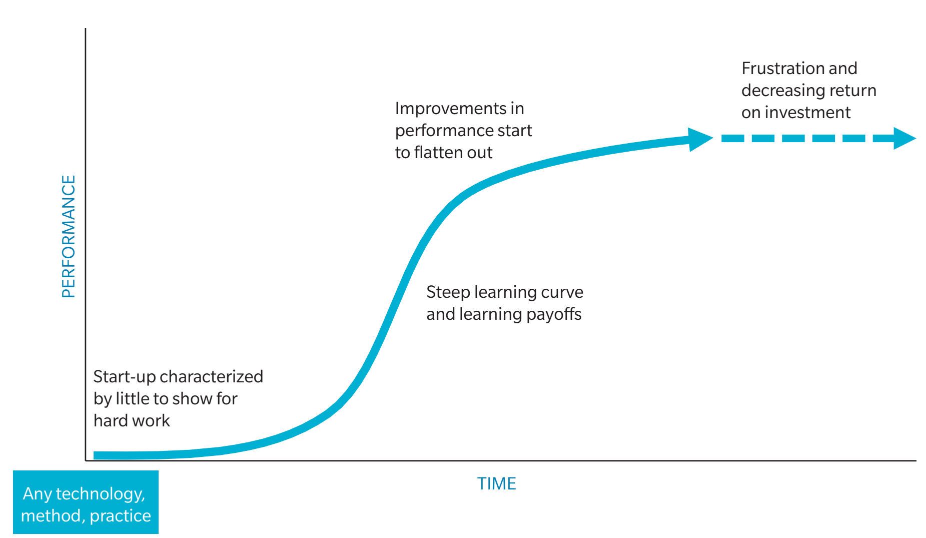
In the face of all this, managers confront a fork in the road. Do they work to simplify and minimize the complexity and become a fast follower, or do they adopt the role of a vanguard and figure out a way to harness the complexity and make it work for them? The choice leads to one of two outcomes. Fast followers will be able to hold their own but will be undifferentiated as an employer. Vanguards, on the other hand, will be able to differentiate themselves in the talent marketplace and provide a significant advantage to their organization.

This dilemma is not limited to talent management. The S-curve shows that it's true for any leader with a new approach in practice, process, product, or procedure (see Exhibit 1, "S-Curve: Maturation Phases of a New Approach," at right). New approaches mature through three phases:

- Launch: Despite investments in a new method, improvements in effectiveness do not come right away. When a new approach is implemented, it takes a while to iron out the wrinkles, and get people comfortable and up to speed.
- **Growth:** Once this happens, leaders experience significant improvements in effectiveness. This encourages further investments, resulting in further increases in effectiveness.
- **Maturation:** At some point, the approach reaches a limit, and further increases in effectiveness begin to taper off. In the end, frustration sets in as additional investments reap little if any improvements in effectiveness.

Leaders and organizations that thrive in an "S-curve world" sense when they have reached the top of the S-curve. They no longer see their approach as investment-worthy, ask "how might we" questions, or develop and test new, unproven approaches. In essence, they jump to a new S-curve. And in so doing, these vanguards reinvent the way their work proceeds.

EXHIBIT 1. S-CURVE: MATURATION PHASES OF A NEW APPROACH



In our work with organizations, we are beginning to see some vanguards taking on the new challenges. They are asking some big "how might we?" questions, and in many cases we are partnering with them to invent new approaches. So what are some of the key questions that vanguards are posing and the emerging solutions they're using to answer them?

- **Optimizing across a portfolio of global talent pools.** A key determinant of an organization's success is its ability to efficiently source the required talent. The quality and availability of talent in a geographical region or country is driven by the prevailing economic and social environment. Countries that provide access to health care, training, education, and an enabling environment are creating the space in which high-quality talent develops and thrives. A critical decision for talent managers is to look across all of the countries of the world and forecast which will provide the talent pool that best fits the organization's global requirements.

Thus, the vanguards among these talent leaders are asking a key question: *How might we look across the full set of global options and optimize where we develop and deploy talent?* The World Economic Forum and Mercer have compiled data from 122 countries to help answer this question.

- **Managing the shape and talent flows of the internal talent pipeline.** Traditionally, talent managers treated the talent pipeline as something to track and respond to versus predict and manage. The emergence of "big data" has created the opportunity to take an evidenced-based approach to analyzing and managing the talent pipeline. Organizations can use their historical data to systematically understand trends, correlations, and causal factors to accurately forecast their own internal labor market. Here the vanguards among talent leaders are asking: *How might we more fully understand the dynamics of our internal labor market and more accurately manage the shape and flow of talent?* They are starting to systematically analyze their internal labor-market talent structure and velocity to understand how talent flows in, though, and out of the organization to assess choke points or bottlenecks and to project their future talent pipeline.

- **Leveraging a portfolio of experiences to prepare leaders for critical roles.** Ten years ago, managers looked at various pieces of research and postulated that the vast majority of learning comes from on-the-job experience. The formula 75-20-5 is now commonplace among talent managers. Despite this solid shared understanding, though, very few organizations have mastered the ability to leverage significant experiences as the core element of developing critical roles. Most organizations provide essential experiences for only a handful of roles (CEOs' direct reports, usually) and provide a narrow set of options. As a result, many leaders arrive at the role knowing the right things (head) but not behaving in ways that matter (heart and guts). Vanguards facing this challenge are asking: *How might we ensure that, by the time a person assumes a critical role, he or she has already internalized the required behaviors?* They are defining these critical roles with future-focused competencies and a portfolio of experiences that can shape the development of these competencies.

- **Raising the bar on talent-management decision making.** Most Fortune 500 organizations have a well-defined process for making talent-management decisions (who to hire, fire, place on a PIP, promote, develop, coach, mentor, and rotate) for the top 300-500 people. This process is run by a staff person who gathers and distributes the necessary data, convenes the meeting, offers a set of movement or development options for each leader, and facilitates the discussion. Below the top echelon of leaders, these same talent-management decisions are made by supervisors without support. Most organizations that we consulted indicated that the quality of decision making falls off quickly and significantly when managers are left to manage on their own. Thus, vanguards apply the same rigor and focus to talent-management decisions as they would to other asset management decisions (e.g., building, equipment, patents, and brands). Now they are asking: *How might we improve the quality of talent-management decision making?* Mercer has been working with vanguards on a simulation that allows leaders to practice a quality-improvement discipline and apply it to the talent on their teams. The objective is to apply more fact-based workforce decision making with a

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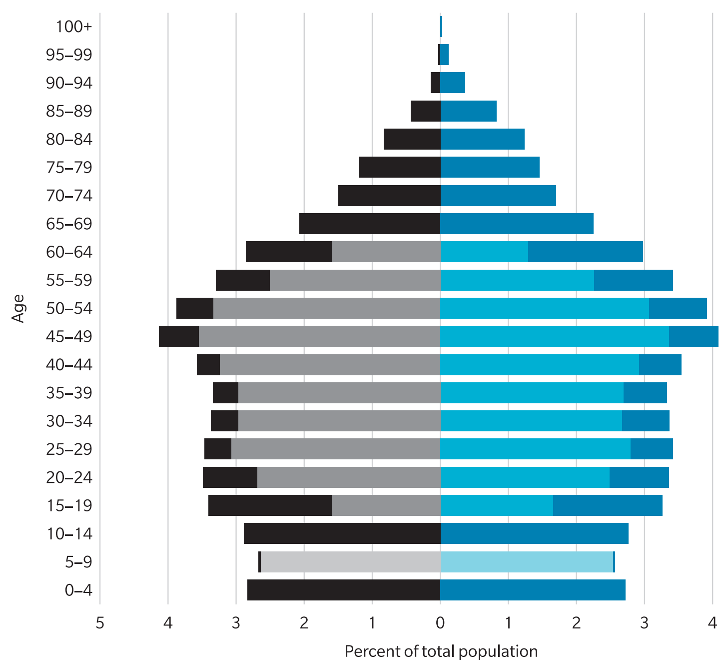
EXHIBIT 2. HUMAN CAPITAL INDEX–CANADA RANKING

Human Capital Index Rank: 10 (n=122)

Pillar 1: Education	2
Pillar 2: Health and wellness	20
Pillar 3: Workforce and employment	15
Pillar 4: Enabling environment	17

Additional Indicators

Total population (1,000s)	34,126.2
Median age of population	40
GDP per capita PPP (constant 2005, international $)	35,936
GDP growth (annual %)	1.7
Aged dependency:	20.4%
Youth dependency:	23.7%
Male labor force participation, age 65+:	1.0%
Female labor force participation, age 65+:	0.5%



Education and Workforce Distribution Key:

Male
- Total population
- Labor force participation
- Primary and secondary enrollment

Female
- Total population
- Labor force participation
- Primary and secondary enrollment

long-term, cross-organizational lens and demonstrable return on investment.

For each of the questions described, let's look at some examples.

No. 1: How might we look across the full set of global options and optimize where we develop and deploy talent?

Intuition has its place in business—but not when it comes to global growth initiatives. Global growth requires the ability to assess the value of a country's human capital in order to achieve business objectives.

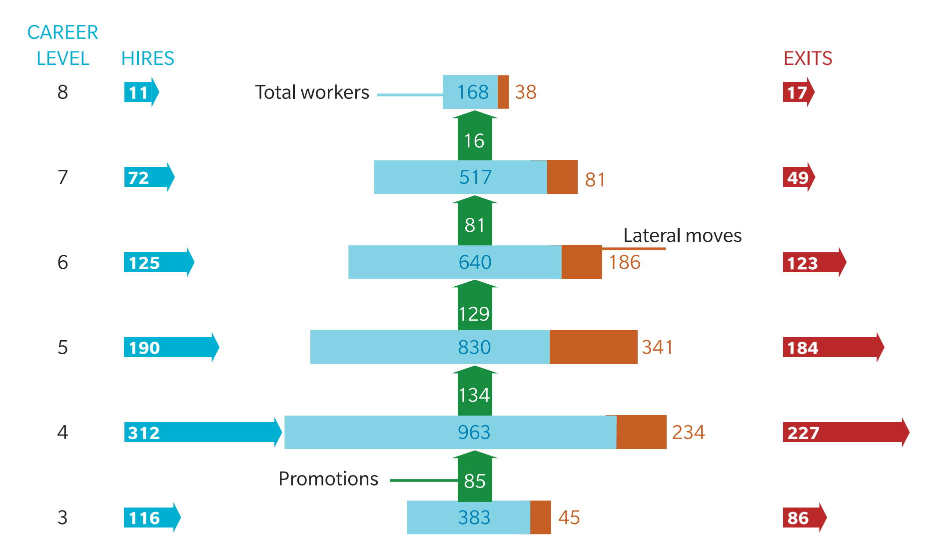
The World Economic Forum, in partnership with Mercer, recently released the Human Capital Index, a new measure for tracking the development and deployment of human capital around the world. The Index rates 122 countries and regions by how they stacked up against one another across 50 metrics quantifying how well human capital is developed, nurtured, and deployed as a productive asset. The report provides an indicator of current human capital risk, such as extensive youth unemployment and the crisis levels of jobs/skills mismatch; it is also a predictor of escalating issues if no action is taken to address such challenges as aging societies, obesity, and AIDS.

By using a ranking of human capital assets around the world, talent managers can help to influence their organization's growth and diversity strategies and determine talent sourcing and deployment investments. Understanding the gap between the nature and quality of the talent pool available in a desired country and that required for business success is very powerful. Say, for example, there is a country with insufficient women in the labor force at the entry- to mid-level population, which is a key talent resource for an organization. It would need to adjust its budget and forecast to allow for certain educational interventions to generate the type of talent needed to achieve the organization's business goals.

Let's use Canada as a specific example (see Exhibit 2, "Human Capital Index-Canada Ranking," on page 32). It scored high on education but, contrary to popular belief, relatively low on health and wellness, where it ranked 20 due to a higher incidence of stress and obesity. As a result, companies wishing to enter into or expand operations in Canada would want to take into account this additional data point on health to ensure that their costs and plans reflect the nature of labor that is available.

As talent managers begin to see the world as their global talent pool, making more informed and strategic decisions with the help of such tools as the Human Capital Index, they will become the driving force in fulfilling corporate growth imperatives.

EXHIBIT 3. INTERNAL LABOR MARKET MAP



No. 2: How might we more fully understand the dynamics of our internal labor market and more accurately manage the shape of the organization and the flow of talent?

Described simply, an internal labor market map summarizes important rates and flows of employees by career level in, through, and out of the organization. Examining workforce movement in this way helps people managers identify choke points or bottlenecks within the organization, where external hires are relied on more heavily to fill gaps.

The shape of the internal labor market map (see Exhibit 3, "Internal Labor Market Map," below) is defined by the horizontal bars that account for the total number of employees at each level. The flow of talent is depicted by the arrows. The red arrows show the three-year average of turnover, and the blue ones indicate the three-year average number of hires at each level. The green arrows show promotions.

To interpret an internal labor market map, talent leaders can examine several different dimensions and begin to gain helpful insights such as:

Shape. Does the organization, business unit, or function look like a pyramid, diamond, or spindle? What is the ideal shape given its business objectives?

Flow. Are there certain points in the level structure where there is an over-reliance on hiring or choke points where promotion opportunities are limited and causing unwanted turnover?

A planned strategy to manage the shape and flow of an organization can involve a set of actions, such as making critical hires, managing choke points (enabling high-potential talent to rise more seamlessly to the top), and increasing desired external churn.

Let's look at an example. Analyzing its internal labor market map, Company A discovered its shape had evolved into something that resembled a Christmas tree (see Exhibit 4, "Company A Internal Labor Market Map," on page 34), yet a pyramid was more in line with its business model. Cost-cutting interventions over the years resulted in terminations at the lower end of each level, leading to its "wobbly" shape. Adding to that, there was a bulge at the higher end and choke points at the lower end where people could not move up, resulting in high levels of turnover as people did not see "stepping-stone" roles for career moves.

The strategy, therefore, was to look at jobs at each level to determine where the bulge was occurring and explore whether those jobs could be redesigned and broken up. A "pinch-in and push-down" approach at each level was put in place to break down jobs into smaller stepping-stone roles and assess internal talent to ensure the best players rapidly gain broadening experiences towards destination roles. In the end, the organization achieved its objectives: Minimize lost business momentum, retain key talent, and maximize employee engagement with more opportunities for career advancement.

No. 3: How might we ensure that, by the time a person assumes a critical role, he or she has already internalized the required behaviors?

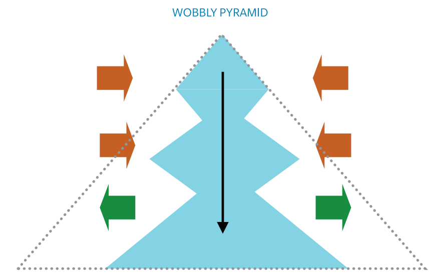
In needing to do more with less investment, HR leaders years ago identified and disproportionately invested in critical roles or job families. Many organizations, however, make the mistake of only identifying strategic roles—which, by default, are all perceived as direct reports to the CEO—versus critical roles, which can either be a strategic role, a specialized skill set, or a role that performs a core activity for the organization.

Once these roles are identified, talent managers can turn their attention to defining the future-focused competencies and portfolio of experiences that can shape the roles' development, such as:

- Creating a planned mix of stretch rotations geared to the destination role.
- Encouraging lateral career trajectories through different functions or roles (e.g., broad technical expert, intra-functional expert, or cross-functional expert).

A typical critical role for a multinational organization is the general manager responsible for managing the profits and losses of a country. The performance of the individual in this role can have a significant impact on overall business results. So when mapping the paths to such a critical destination role, it's important to describe the competencies using the widest lens of a "whole leader"—such as head, heart and guts—and then identify a portfolio of experiences for each competency. "Head" includes more cerebral skills, such as business and financial acumen; "heart" includes more of the relational skills, such as people development; and "guts" includes more transformational skills, such as the ability to operate in a global environment and undertake disruptive change. A portfolio of experiences for each of these competencies might include managing a turn-around situation, leading large teams, or undertaking global assignments.

EXHIBIT 4. COMPANY A INTERNAL LABOR MARKET MAP



No. 4: How might we improve the quality of talent-management decision making?

As mentioned earlier, most leaders already know how to make high-quality asset-management decisions. They take a rigorous, data-based approach when deciding to maintain equipment, invest in patent protection, or develop a product. We asked several leaders why this same rigor is not applied to talent-management decisions, and noted two barriers:

- **Mindset.** Leaders don't see talent as an asset. If they are to apply the same rigor in making key talent decisions (e.g., who to develop, how much to invest), then they would need to shift their mindset.
- **Context.** Leaders do not see this as a key part of their role. Their role description only specifies supervision and does not expect them to develop or add value to the leaders in their group. The governance structure does not organize collective decision making. The leader is not rewarded for any outcomes related to talent development.

By addressing key talent questions and applying the right solutions, companies can succeed in attracting top talent to pivotal roles.

To shift mindset and context, we engaged leaders in a simulation in which they worked in groups of four to manage the talent on a team of seven. They competed with other groups, each of which started with the same team of seven people. Each group had a limited budget and needed to make several talent-management decisions around how to leverage their talent-management funds. The group that added the most value to its team won.

We have leveraged this simulation with several groups of leaders. After the simulation is complete, leaders apply their learnings to their teams and think through the decisions they would make around investment of their own talent-management budget. The participants reported that their post-simulation decisions were different. They also were able to identify organizational barriers to making decisions in this way.

By addressing key talent questions and applying the right solutions, companies can succeed in attracting top talent to pivotal roles. The fast followers who don't embrace complexity may hang on for a while, but without any game-changing differentiation. But the vanguards are already jumping S-curves, experimenting with new ways of managing talent, and securing a competitive advantage.

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