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Talent Management

The global labour crisis hits home.



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“I believe the real difference between success and failure in a corporation can very often be traced to the question of how well the organization brings out the great energies and talents of its people.”

Thomas J. Watson, Jr., IBM
Chairman and CEO, 1963

Executives often talk about employees being their most important asset. But those words will soon ring true as never before. By 2020, the Canadian labour market is expected to face a shortage of a million workers. Yet it won't take nearly that long for companies to start feeling the pain.

In a 2004 survey of Canadian HR executives, more than half said they had already encountered significant challenges hiring for key technical or skilled jobs, and retaining critical talent. In another survey, 83% of Canada's medium and large companies said they were currently experiencing shortages of skilled labour, with more than 60% expecting the problem to become even more pronounced in the future.

Canada's growing shortage of labour and talent is being driven by a number of long-term trends. Baby boomer retirement. Slower population growth. Competition from employers in the U.S. and abroad. And a chronic shortage of skilled immigrants.

When experienced employees retire, they take with them a wealth of knowledge. Companies will find it increasingly difficult to fill those vacant positions – and even harder to replace retiring employees' experience and expertise. To preserve those priceless assets, companies need to bring in new people while the old guard is still

available to share what it knows.

People-related issues will have a big impact on business strategies. With labour and talent in short supply, companies will need to carefully plot their long-term moves. “Failure to anticipate shortages will force companies into tough choices,” says Stephen Diotte, a partner in Deloitte's Human Capital practice. “They will either have to buy the necessary talent at a huge premium – or watch their strategies fail for lack of resources. In either case, the impact on shareholder value is clear.”

Myth versus reality

Most senior executives are already aware of the global labour shortage – and realize it's going to get worse. Yet there are a number of myths and misconceptions about how it will affect businesses and organizations in Canada.

Myth: The impending labour shortage will have a huge impact on everyone.

Reality: Some industries and companies will be hit harder than others.

The impending labour shortage is usually described in broad, sweeping generalities. But the truth is, different industries and job categories will be affected in very different ways. With young people flocking to white-collar professions, companies in financial services and information technology are likely to suffer the least, while companies in manufacturing and construction will take the biggest hit. Even within an industry, the precise impact will vary from one company and profession to the next.

Myth: The greatest challenge will be finding highly educated professionals.

Reality: In Canada, there will also be a significant shortage in the skilled trades.

Most young Canadians believe a university degree is the key to success, and

are increasingly setting their sights on a white-collar career. In a recent study, only one in four Canadians age 13 to 24 said they would be likely to consider a career in the skilled trades. The result? A chronic shortage of blue-collar workers and skilled tradespeople is imminent. The same study reported that 56% of the responding companies were forced to hire people not qualified for the job, and 30% had lost business as a result of skilled labour shortages.

The shortage will have the greatest impact in areas where skilled trades are at the core of the business – industries such as mining, pulp and paper, and construction, as well as public sector functions such as security and public works. Other industries will primarily be affected at the infrastructure level – such as warehouse equipment operators, security guards, and electricians – where the impact will be less visible, yet still significant.

Myth: The only way to deal with a labour shortage is to fight aggressively for talent when the time comes.

Reality: The key to success is cultivating your talent base – starting right now.

The typical reaction to a labour crunch is focusing massive efforts on acquisition – recruiting aggressively and paying big premiums for what is often low to mid-range talent. But there's a better way.

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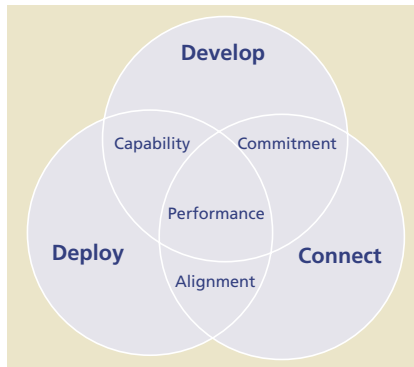
Getting to the heart of talent management

Most people want work that challenges and engages them. That's what makes them stay with a company – and maximizes their productivity. Many studies have shown that financial compensation is a big factor only when people don't like what they're doing.

Higher productivity. Greater loyalty. Reasonable pay. Sounds good, right? But there's one catch: To make it happen, companies must change the way they approach the problem – focusing less effort on acquisition, and more effort on development.

This new approach to talent management has three major components.

The Develop-Deploy-Connect model



- **Develop** Employees need training to do their jobs, but formal training is just a small part of the development process. In business, the real learning comes from doing. That means giving people opportunities to stretch and grow, encouraging them to take chances and try new things, and connecting them with other people who can provide guidance, wisdom and support.
- **Deploy** Employees thrive when doing work that aligns with their skills and interests. That means

assigning tasks they find rewarding and fulfilling, and offering a variety of activities and challenges so they don't get bored. Younger employees, in particular, require a wide range of challenges and experiences. Although aligning people with the right tasks requires a little more effort, the end results are higher productivity, greater job satisfaction and improved loyalty.

- **Connect** People have a strong desire to belong. They want to be involved in something bigger than themselves – contributing to it, and being supported by it. Companies can satisfy that need by fostering internal communities that encourage employees to help each other by sharing information, generating new ideas, mentoring others, and being mentored themselves. These practices help establish a strong and enduring bond to the company. They also unleash the full power of collaboration – boosting overall productivity and effectiveness.

“People want to feel as if they are invested in the business, and that the business has invested in them – beyond just providing a paycheck,” says Diotte. “Addressing all three elements – Develop, Deploy, Connect – can help a company retain its existing talent in a tight labour market.”

It can also help companies attract new talent. Most job openings are filled through personal referrals and word-of-mouth, without ever being advertised. The Develop-Deploy-Connect model helps create an appealing work environment that employees will happily and actively recommend to their friends and colleagues, reducing the need for heavy recruiting and huge salary premiums.

Best of all, this new approach to talent management helps boost employee productivity and effectiveness – even when labour is plentiful – creating maximum value for a company and its shareholders.

Room at the Top

Companies around the world face a critical shortage of executive leadership, and the problem is getting worse. From 1995 to 2003, the number of CEO dismissals increased by 170% – driven by the market's constant demand for performance and by accounting scandals and other governance issues that put executives under the microscope. At the same time, mergers and flatter organizational structures have eliminated many of the management positions that were once used to identify and develop the next generation of leaders.

The leadership shortage is particularly acute for Canada's largest companies. Global companies need leaders with global experience and global perspective – something many Canadian managers have not had an opportunity to develop.

“The reality is companies will need to look beyond our domestic borders to hire top talent,” says Steve Gilbert, a tax partner in Deloitte's International Assignment Services practice. “They must find ways to attract these individuals, and to deploy them on the right opportunities – wherever those opportunities may be. Geography cannot be a barrier.”

To fill their impending leadership gap, many Canadian companies are starting to put more effort into succession planning. “Effective succession planning is an outcome, not an input,” says Gilbert. “To succeed, companies must follow a formal and rigorous process.”

Why are companies focused on identifying and developing talented leaders from within? For one thing, succession planning is critical for business continuity, as well as investor and stakeholder confidence. For another, leaders from the inside tend to perform better.

According to a recent study, insider CEOs outperformed outsiders by an average of 2.2% in shareholder returns (over the six-year period of the study). Inside hires also tend to be less expensive and more likely to embody company principles and culture – important considerations, particularly at a time when external executive searches can cost in excess of a million dollars and adherence to company principles is viewed as an essential tenet of good corporate governance.

Thinking globally

Companies with a significant international presence are sometimes reluctant to implement a talent management strategy based on the principles of Develop-Deploy-Connect – even though they often have the most to gain. Global companies need employees with global perspective. And the best way to develop that perspective is through direct, hands-on experience, ranging from short-term project assignments to permanent deployment abroad.

“Despite the critical need for employees with international experience, many companies are deterred by the perceived costs of moving employees between countries – particularly the tax implications,” says Deloitte’s Steve Gilbert. “However, these issues should not constrain a company’s talent management strategy, as most can be avoided or minimized through upfront planning.”

Developing a talent management strategy

“The talent shortage will affect every company differently,” says Margot Thom, a director in Deloitte’s Human Capital practice. “That’s why it’s so important for every company to look at the problem and develop its own unique strategy.”

The first step is identifying critical workforce segments, based on the company’s business strategies and priorities. Critical segments vary from one company to the next, but are generally the ones that contribute more than their fair share to the organization’s success. For example, a package delivery company might view its truck drivers as a critical segment because

they have direct contact with customers and make decisions that ultimately determine service quality and customer satisfaction. One critical segment that all companies share is top-notch global leadership.

The second step is identifying and validating labour trends. The talent crunch will hit some areas harder than others. Companies need to determine how those shortages relate to their specific workforce requirements – particularly for critical segments – and take action accordingly.

The third step is assessing the organization’s ability to develop and retain employees. HR practices – including performance management, rewards and recognition, organizational learning, knowledge management and hiring – must be consistent with the principles of Develop-Deploy-Connect. Information systems and platforms must be able to support collaboration, information sharing, online education and other practices that promote development and foster a sense of community.

Once the gaps have been identified, the final step is setting priorities and defining a talent management strategy. The strategy serves as a roadmap to help a company strengthen its talent management capabilities, establish the necessary HR practices and infrastructure, and address critical talent shortages before they occur.

“The global talent crunch is going to happen, and there’s nothing anyone can do to stop it,” says Deloitte’s Diotte. “But by focusing more attention on development and retention – and relying less on acquisition – individual companies can minimize its potential impact while boosting their current productivity and performance.” ●

Six Questions CEOs Need to Ask Their HR Leaders

1. Which segments of the workforce create the value for which we are most rewarded in the marketplace?
2. Which areas of our business will be most impacted by impending waves of retirement? What are we doing to prepare successors? What impact will anticipated retirement have on the skills and productivity necessary to meet future demand?
3. In what areas is the talent market heating up (i.e., demand will outpace supply)? Which segments of our workforce will be most impacted? What are the potential top-line and bottom-line implications?
4. What skills will we need over the next five years that we don’t currently possess? How will we create that capacity? What happens to our business if we don’t?
5. What is our turnover within critical areas? How much is it costing us? In customers? In productivity? In innovation? In quality? What are we doing to resolve the root cause?
6. Are we actively developing talent portfolios or workforce plans that will help us to understand and communicate the financial consequences of talent decisions on our business?

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