

# THE TALENT MANAGEMENT CHALLENGE

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## ABSTRACT

*In the last years, employers understood the importance of talent management. However, as crises became aggressive worldwide, their priorities shifted to costs, and customers. Layoffs, jobs restructuring, and early retirement were in the headline. While employers think they did the best for their key employees, talents are disappointed with the lack of strong leadership, the wrong incentives they were offered, bad treatment and scarce communication of belt-tightening actions, that caused them a drop in morale. Most of them are considering changing jobs when the downturn will be over. The purpose of our research was to review the practices used in talent management, with emphasize on the organizations operating in Romania and in the United States of America, and to search for ways to improve them, so that companies are able to retain and to fully use their talents for competitive success.*

**KEYWORDS:** *talent management, high potentials, downturn*

## 1. Introduction

Reality proved in years that talent management makes the difference between outstanding and marginal organizations, in both periods of economic expansion and turbulent economies. That is why companies that aim at achieving good performance, start to approach talent management in a professional way, as an integral function of the business.

Are managers aware of the importance of talent management? Do they properly understand the costs of a mismatch in employees and skills (not enough to meet business demand, or too much, leading to high headcount costs and layoffs), and the risks of losing valuable professionals through the failure to retain them? Last but not least, how did the global economic crisis influence talent management?

The purpose of our research was to review the practices used in talent management, with emphasize on the organizations operating in Romania and in the United States of America, and to search for ways to improve them, so that companies are able to retain and to fully use their talents for competitive success.

Towards this end, the authors reviewed the literature, analyzing the latest international trends and needs for improvement, in this particular field.

In order to study the peculiarities of talent management in Romania and USA, the authors analyzed, besides the literature and own observations and discussions with top managers and Human Resources managers, the results of 24 interviews conducted by the Romanian and American Executive MBA students from Bucharest and Atlanta (1) in March 2009 with general managers and HR managers in local or international medium and

large companies operating in eleven different industries (14 in Romania, and 10 in America). Also, they analyzed the 110 results of a questionnaire administrated in September and March to Romanian and American employees, with the purpose to study the disparities between top managers' and employees' perceptions related to priorities in talent management. Due to a good personal, telephone, and e-mail communication, the response rate was 100% (1).

## **2. Talent management over the years**

In the present turbulent economy, the biggest challenge faced by all employers that want to resist on the market and to make money is the need to respond quickly to changes in competitive environment. So, having the right employees, with the right competencies, in the right jobs, in the most cost effective way, should be the basic people management concern in any organization. This goal can be achieved through an effective talent management that requires a balance – between internal development and outside hiring, and between the interests of organizations, and those of employees.

In 2004, a survey (2) reported that two-thirds of employers were doing no planning for their talent needs. Employers were turning outside to the labor market, to find the supply of talents. Many senior executives, being proposed to organize training and development programs for employees were answering: “Why should we spend to develop talents, when we can get them from competition? So, the emphasis was on hiring not on developing talents, major consequences being: scarcity on the labor market, big turnover, and higher and higher expectations regarding compensation and benefits. Only very recently, a part of the employers started to recognize the shortcomings of this approach. In 2006, more than half of the CEOs and other business leaders around the world interviewed by McKinsey&Co recognized that there was insufficient commitment to talent management (3). A 2007 survey reports that 81% of employers have concerns about their supply of leadership talent that will affect their future business plans (5). In Romania, discussions that the authors had with tens of the top managers revealed that they preferred to take employees from competitors, considering that in such a way they could benefit from their accumulated training and experience, as well as of their contacts with clients. On the other hand, they were complaining of huge turnover and high salaries. Being asked what is the situation in the USA, middle and top managers (students in the Executive MBA program of Kennesaw State University in Atlanta Georgia) reported in September 2007 and 2008 that buying talents from the labor market was more used than developing them inside the company. This approach represents one of the reasons for which, out of the 110 employees surveyed in September 2008, 58 Americans and 52 Romanians – many intended to change the job in the following six to 12 month (54% of the Americans and 48% of the Romanians) (1).

## **3. Talent management in a turbulent economy**

After 2005, most of the executives of competitive companies understood that talent management represented the main source of competencies in their companies. However, as crises became very aggressive worldwide, in 2009, the priorities of executives (5) were shifting to cutting and managing costs (61%), acquiring/serving/retaining customers (56%), and managing human capital (27%). In January 2009, corporate layoffs, were in the headline (50% reported layoffs in the last three months, and 40% were going to continue the process in the following 12 months) - complemented by jobs restructuring to lower costs and increase efficiency, and early retirement. Recruitment was by far the lowest priority. The first three criteria used by surveyed companies when making decisions about

workforce reductions were role necessity, skill capability, and past/current performance. This situation made employees to decide to do their best to stay in their current jobs, waiting for more favorable times to change them. The same 110 American and Romanian employees surveyed in September 2008 (1), reported in March 2009 a decreased desire of mobility – only 20% of the Americans and 12% of the Romanian were still intending to move to other jobs in the following 12 months.

However, executives around the world understood the powerful role that talents play in maintaining companies' competitive position in the market, and in preparing for growth, once the current crisis will pass (5). In January, 44% of them were preoccupied by the decrease in employee morale, using increased frequency of employee communication to address this issue. They were also reporting that they were trying to enhance and deepen the capability of the human assets within their organization. Approximately 62% of them listed "training & development" and 61% "talent retention" as leading priorities. Anticipating the end of the recession, and feeling that talents who held on their jobs in tough times will look for better opportunities when economic fears recede, many executives start being very focused on retaining them, trying to identify methods for keeping their core workforce. Meanwhile, talents around the world (5), report that they are disappointed with the lack of strong leadership, with the wrong incentives they are offered, and with the way they were treated and supported by leaders who, during downturn, didn't communicate enough with them belt-tightening actions (62% of surveyed employees reported this), causing them a drop in morale (76% of surveyed employees). An interesting remark is that the excessive workload is not the main factor of their dissatisfaction, as executives think. In August, 49% of the surveyed talents reported that they were either looking for a new job or planned to do so after the recession ends. Lack of compensation increases (36% of respondents) and new opportunities on the market (35% of respondents) were named the most significant reasons. As layoffs and cutbacks remain widespread, job security is the most important barrier to changing employers. For the Americans and Romanians surveyed (1), trends were the same, job security, and promotion opportunities after the crises ends being the main motivating factors to stay in the current jobs.

#### **4. Talent management – a research on companies operating in Romania and U.S.A.**

The analysis of the interviews and questionnaires mentioned above led to the following conclusions:

- In Romania and USA, talent management primarily rests in the hands of the Human Resources department and CEOs, rather than line managers (15 out of about 24 answered that responsibility rests almost exclusively in HR department's hands, with 7 of the 17 respondents detailing that only top management positions - e.g. first two management layers, are making part of a formal talent management program). Twelve managers (out of 24 interviewed) mentioned that business units heads are seldom involved in the talent management, 11 mentioned the CEO as leading the talent management process, whereas only 5 of the respondents mentioned line managers as the only ones being interested in the process. The employees themselves are considered to play a role in the talent management process in 5 out of 24 surveyed companies.

- About 70% (21 answers) of the companies interviewed and researched do not have a clear talent management system. As many as 12 (50% - 5 Romanian, 7 American) respondents mentioned that in their companies there are targeted interventions and specific support given at different stages in the career path of their high potential employees. Four (17% - 1 Romanian, 3 American) answers revealed that this matter is regularly dealt with

during the annual review process and it is the responsibility of all line managers to assure that the right interventions are made. Cross functional and international assignments are among the most mentioned interventions. Five (20%-Romanian) of the interviewed subjects admitted that in their companies either no actions are taken, or the recommended actions are not followed up. Two interesting answers were that employees are considered responsible for voicing and fulfilling their development needs. Managers reaching a certain level have limited, if any further development options. In general, only promotions are considered as development opportunities.

- A positive fact is that in 17 (71% - 10 American, 7 Romanian) out of 24 companies, there is a formal succession planning in place. In 14 of the companies, the plan concerns top management positions, in 8 also middle management, in 2 companies (American) succession planning is covering the whole personnel.

- Regarding talent development, on the job training is the most used method (23/24 respondents), followed by on-line training (15/24) and class training (14/24). More than half of the respondents have mentioned they are currently using less classic methods such as coaching (10/24), sponsored high education degrees (9/24), collaborative training with partners (14/24) and job rotations/overseas postings (13/24). Mentoring (10/24), apprenticeship (5/24) and shadowing (4/24) are to a little extent known and used. On the job training/hands on experience is considered the most efficient and rewarding method, followed by coaching, formal training and inter-departmental assignments and job rotation. Some respondents mentioned a combination of on the job training with formal training and/or coaching. Respondents mentioned that budgets were cut dramatically in 2009, and they still do not know what will happen in 2010.

- The current global downturn increases the need for ideas and action of devoted talented employees (24 answers). Virtually all respondents (23/24) mentioned the ability to deal with and manage change as being critical for the next three years, followed by communication and interpersonal skills (19/24) and analytical and problem solving skills (16/24). Industry knowledge has been mentioned by only 10 respondents. Other answers covered emotional intelligence and technical skills. Unfortunately, only 8 respondents out of 24 interviewed (33%) mentioned that their high potential employees are involved in creating and implementing the crisis strategy, whereas in 14 cases the answer was a clear "No". Two respondents answered that they don't know. 13 out of 24 companies (or 54%) stated the current market situation to be already affecting their talent management, whereas 11 interviewees (46%) stated that the current situation does not affect them. Out of those who admitted that their talent management is affected, most of them mentioned the cut in budgets is affecting personnel development, followed by the focus on other more stringent challenges imposed by the current situation, but there were a few having mentioned that the recent massive restructuring in many industries have flooded the market also with highly skilled professionals creating a unique opportunity for some employers.

- All respondents agreed that, in the following challenging period, companies will be confronted with talent shortage. Lack of investments in training and developing employees has been the most mentioned cause of talent shortages in the following years (17/24), followed by increasing gap between what universities provide and what market needs (9/24), migration of talent overseas (6/24 - Romanians) and shift in personal values, such as work-life balance (6/24). Lack of accountability of current managers and lack of focus on long term planning (e.g. succession planning) have been mentioned as potential negative trends affecting talent management in the coming years.

- Out of the interviewed managers, 66,6% (11 Romanian and 5 American) reported that branding their company as an employer of choice is not a priority. The answers to this question revealed that 7 companies (29% - 5 American and 2 Romanian) of those interviewed are actively promoting their brand as an employer of choice seeking for awareness via their Communication Department programs, 4 companies (21%) mentioned they have an active presence in the University centers in search for young graduates as future potential employees, and one company (4%) admitted doing nothing in this respect.

- All respondents agreed that high potential employees can help the organization during the severe global economy downturn. Some relevant fragments from various answers are (referring to high potentials): “they can be closer to the people and help the change”, “their visionary approach and drive to challenge and change the status quo”, “challenging times better define those that are great”, “high potential employees are critical for business success as the next top management generation”, “They tend to understand faster what is going on and can think out of the box in order to push the other people out of the comfort places and out of the business as usual state.”, “They have a higher interest in company’s performance and their own performance, so they should be drivers in these times.”

- The most frequent factors considered by interviewees hindering them to develop high potentials are the lack of development paths (9/24), lack of career opportunities (8/24) and lack of appropriate skills and qualifications (7/24). Inability to meet benefits package expectations (4/24) and poor work-life balance (2/24) are the next reasons mentioned by those questioned.

- Most of the 110 employees interviewed mentioned the ability to search for internal candidates as most effective way to recruit and train high potential employees (17/24), followed by the ability to offer flexible working arrangements (13/24) and offer higher salaries and better benefits (8/24). Outsourcing was mentioned only by few interviewees (4/24). Two interesting comments are worth to be mentioned: 1) “keep creating a company culture where the individual is respected, feels valued, is objectively evaluated for own contribution, is recognized with non financial means as well, works in a team in a positive atmosphere, has a challenging, well suited job and the opportunity to learn and develop” and 2) “improve environment where employees feel there is genuine interest from management in their career goals”

## **5. Research conclusions**

Our research led us to some conclusions, regarding some improvements in the talent management practices.

- In order to maximize the benefits of talent management, our recommendation would be that all companies should make all related programs part of their overall human resources strategy.

- Companies should create clear and detailed succession planning processes which will serve a pipeline for next generation of leaders within the company. Senior and middle management positions should be part of a formal succession plan to protect the organization against the risk of turnover, but also to create a career path perspective among talents (preferably all staff, not only managers).

- Companies should put in place a clear and detailed development program, to adequately train and develop talented employees. HR specialists should understand the pros and cons of the multitude of training methods, in order to combine them in the most

effective and efficient way, so that to balance the interests of cost control and high organizational performance.

- A clear set of performance criteria and career plans should be developed for each employee, criteria that are relevant for the success of the company in the competitive environment. Critical competences should be defined. In order to create and keep talents, companies should develop internally or externally their competencies, in line with the career path established together with them. If the company does not have the skills internally to develop the individual or does not have the time, they risk that talents become unsatisfied and leave the company, as soon as they believe this is safe.

- Companies should make sure they involve their talents in the company's development plan. Talents like challenge, and interesting work. Although they more and more care about the work-life balance, they are ready to work hard. However, for them, good leadership, close and honest communication, recognition, are very important for motivation, engagement, and satisfaction, as well as for the decision to stay. Employers that will be able to keep the talents engaged in the company will resist on the market in this turbulent economy, and after the crisis ends.

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