



cutting through complexity

# Time for a more holistic approach to talent risk

Global risk survey calls for a new take on talent management

KPMG INTERNATIONAL



# About this research

Between May and August 2013, KPMG International collaborated with global research firm Brandon Hall Group to capture a unique picture of talent-related risk across the world's public and private sectors.

More than 1,200 Human Resource (HR), talent, learning and business executives—based across 54 developed and developing countries—responded to our survey. Between them, they represented government and 15 different industries. Just over a quarter of respondents worked in companies with more than 30,000 employees. In addition, we conducted a series of interviews with a sample of survey respondents.

Defining effective talent risk management as having the right people in place at the right time to drive current and future business growth, our survey asked about the talent risks within respondents' organizations—including how these were perceived and mitigated. Specifically, our questions focused on five critical talent risk categories: capability, capacity, compliance, cost and connection.

Within each category we looked at the impact level of each risk as well as the current mitigation efforts in place. In other words, how concerned is your business and to what degree are you managing that concern?

## 5Cs: The 5 talent risk categories

### Capability

Risks associated with building the skills an organization needs to compete now and in the future—the breadth and depth of skills and capabilities present within a workforce, and how well aligned these are to an organization's needs.

### Capacity

Risks around the succession into critical roles and retention of critical people and teams. In other words, will an organization be able to create and maintain the size and shape of workforce needed to deliver its business plan?

### Cost

What is the risk of a workforce becoming unaffordable? What will it cost an organization to recruit and retain the people it needs? Will it be able to afford the overall cost of its workforce?

### Connection

What is the risk of an organization's top talent becoming disengaged? In addition, will an organization's talent-related processes remain sufficiently joined-up? Will it be able to share talent between units in the way it needs to? Is it able to connect groups of high-potential people together? Are leaders able to create an emotional connection between high-potentials and the business?

### Compliance

Risks relating to employee behavior, regulations and laws. This category covers both the need to ensure talent processes comply with local laws and regulations, as well as whether talent management is seen as a business critical process or an administrative process simply to 'be complied with'.

# Foreword

Organizations are competing for top talent on an unprecedented scale.

The topic of talent management and talent-related risk consistently ranks in the top three of C-suite concerns. KPMG's 2012 Business Leaders Survey 'Succeeding in a Changing World'—based on the views of nearly 3,000 respondents across the world—suggests that managing and retaining the right people is already seen as a critical challenge by almost one in four senior executives. Talent risks are set to increase as globalization, multi-generational workforces and competitive pressures take hold across all sectors and industries.

## Time for a more holistic approach

Despite the increasing concern for talent issues, this report reveals that many organizations take a narrow approach to talent management—one that is steadily weakening their organization's competitiveness.

Conducted in partnership with global research firm Brandon Hall Group,

our survey of more than 1,200 talent managers, executives and frontline managers based across 54 countries shows many talent managers remain highly focused on the immediacy of securing and retaining high-performing individuals but at the expense of designing a holistic talent management system that addresses wider concerns such as escalating costs, performance management, connecting employees to the enterprise and diversity.

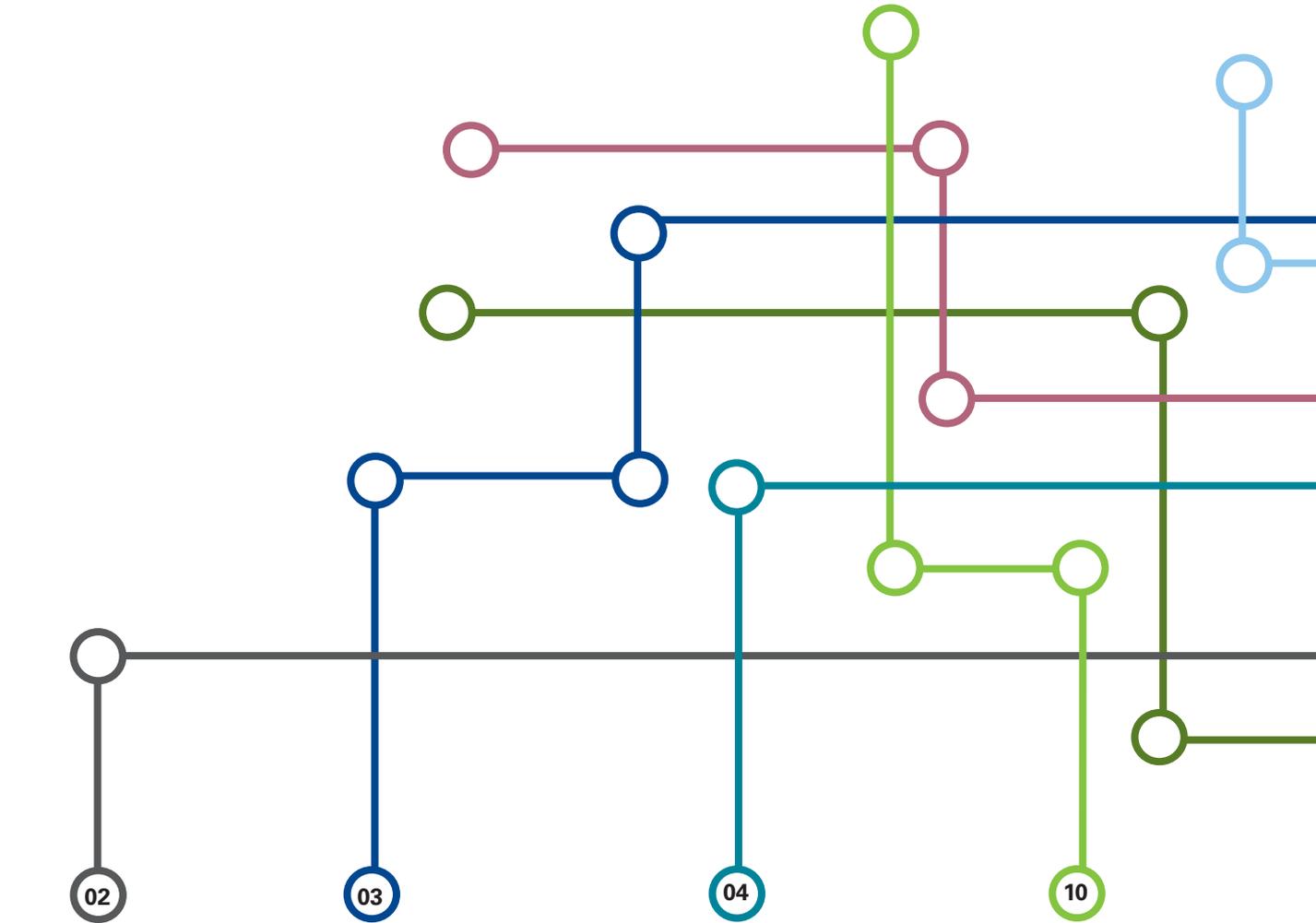
The survey concludes that organizations are being driven to implement short-term 'point solutions', ignoring the need to configure their talent management efforts in a broader, more sustainable way—one that aligns more closely with their organization's strategic needs.

Until talent managers trade the war for talent's one-size-fits-all mentality in favor of a much more finely tuned and comprehensively planned approach that measures the impact of their efforts, they will remain stuck in an endless struggle to pursue and retain a high performance few—all the while ignoring the needs of the many and the 'whole'.



**Mark Spears**  
Global Head  
People & Change  
KPMG in the UK

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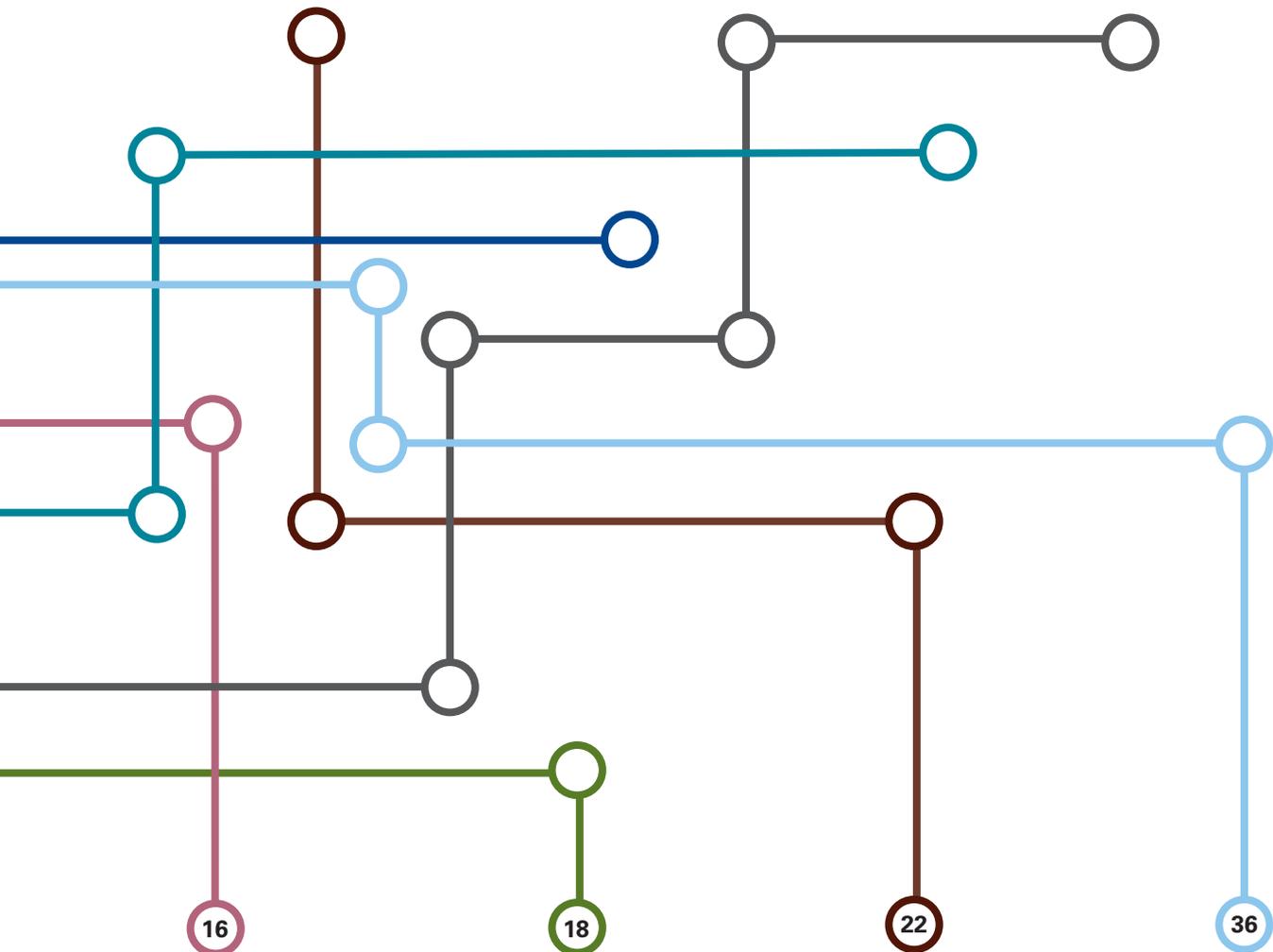
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# Executive summary

Against a backdrop of global competition for talent, our report reveals organizations are predominantly focused on talent risks relating to capability and capacity. These are the talent risks they are mostly concerned about, and the ones they are doing most to manage.

Capability and capacity-related talent risks include:

- a lack of depth of internal candidates for critical roles
- an insufficient pipeline of future leaders
- difficulties in retaining key people
- a lack of clarity regarding which roles are 'critical' to the delivery of business value
- a failure to develop the skills and capabilities required by the business in the near future
- a lack of compelling development opportunities for top talent.

## Bad connections

At the same time, our report reveals talent managers are relatively unconcerned about connection-related talent risks, namely:

- whether their organization's mobility policies and processes encourage or discourage movement between countries
- whether their workforces are characterized by sufficient diversity
- how willing business leaders are to share talent across the organization
- how able business leaders are to engage with, motivate and nurture business critical talent.

As one manager with a mid-sized US-based insurance company put it: "Our company spends a lot of time talking about engagement. But it hasn't been

looked at too closely—perhaps because they might be afraid of what they find."

## Compliance

Meanwhile, the report reveals many organizations are approaching performance management or annual reviews as box-ticking exercises, failing to see this process as a business-critical activity—or, in some cases, not bothering with it at all.

## Cost

To a lesser extent, cost-related talent risks also appear overshadowed by talent managers' focus on capacity and capability. Cost-related risks include the possibility of an organization's workforce becoming unaffordable, along with a failure to measure workforce cost effectively.

## Same page?

The survey also showed differences in opinion on talent risks between HR on the one hand, and business leaders and frontline managers on the other hand.

For example, executives and frontline managers based within the business appear less confident than their HR-based equivalents when it comes to how well their organizations are managing talent-related risks.

## Brave new world?

Finally, while the report shows perception and mitigation of talent risk-related issues varies little by organizational size or sector, it does highlight a marked difference in the way organizations in developed and emerging markets perceive and manage talent risk.

Compared with talent managers in mature markets, emerging market respondents felt their talent-related risks were greater—but that they were mitigating risks relatively effectively.

# Introduction

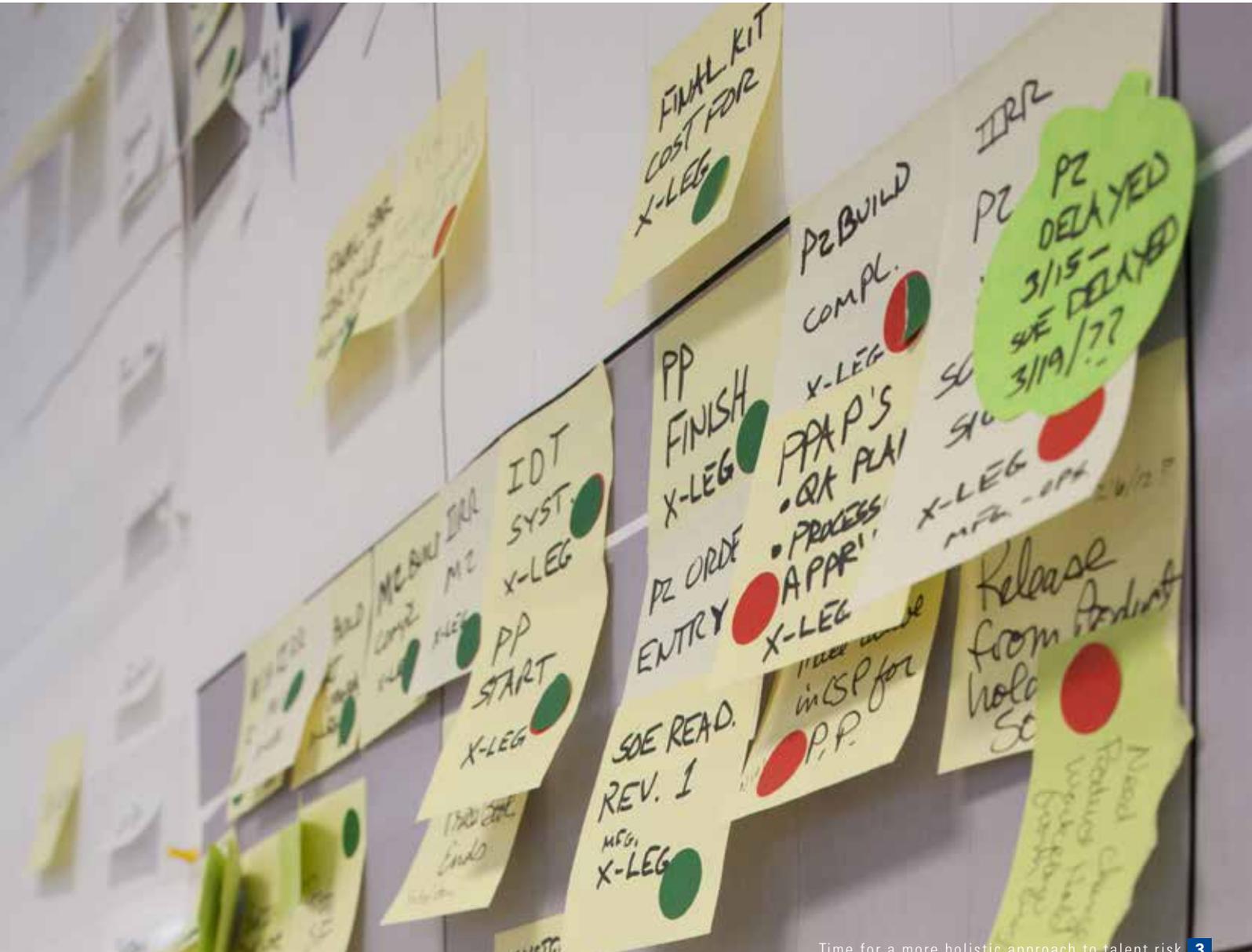
## A profile of global talent-related risks

Our research reveals organizations across the world currently fear—and are mitigating against—a host of talent-related risks.

But which risks are most likely to keep leadership awake at night?

Which ones are organizations working hardest to mitigate?

And what does this tell us about how organizations are approaching talent management—irrespective of their size, location or sector?



# Key findings— capability and capacity

“Managing young talent requires fresh thinking. However, in this sector it’s worth the effort as these employees are digitally fluent—and understand well that power now lies with our customers, and that we subsequently have to manage our digital capabilities as well as we can in order to influence our customers, including traditional media channels such as advertising. Coming out of this, the older generation does now need to upskill themselves from a digital point of view.”

”

— Global VP of HR at a consumer goods giant

First up, our survey shows respondents clearly focused on capability- and capacity-related talent risks—both in terms of *perception* and *mitigation* of risks. Capability- and capacity-related talent risks include difficulty filling key positions, a continued loss of top performers, a potential shortfall of future leaders due to poor succession planning, and a lack of clarity over which roles are critical to deliver business value.

Specifically, when we asked respondents which talent risks they *perceived* as posing the biggest danger to their organizations, capability- or capacity-related risks dominated our top 10, making up just over half the list.

## Capability-related risks

These are risks associated with building the skills an organization needs to compete now and in the future—the breadth and depth of skills and

capabilities present within a workforce, and how well aligned these are to an organization’s needs.

## Capacity-related risks

These are risks associated with succession into critical roles and retention of critical people and teams. In other words, will an organization be able to create and maintain the size and shape of workforce needed to deliver its business plan?



## Which talent risks were respondents most worried about?

1

### Capacity

#### An insufficient pipeline of future leaders

Respondents' biggest talent management worries right now? Concern over leadership pipelines. The data consistently ranks pipelines within the top three risks identified—irrespective of whether we looked at the issue by country, respondent's role or by size of employer.

Meanwhile, organizations with more than 10,000 employees ranked their leadership pipeline (or lack of) as their greatest talent risk.

2

### Capacity

#### A lack of depth of internal candidates for critical roles

Organizations are leaning heavily on employees with critical skills, stretching them to near-breaking point in a bid to meet goals in new products and growing markets. These roles are now in high demand and on the move.

Organizations with less than 3,000 people in particular see this risk as critical.

3

### Capability

#### Difficulties in recruiting top talent

More evidence the employment market is beginning to move forward, as talent managers turn their attention to how quickly they can recruit people with the most in-demand skills.

4

### Cost

#### Salary expectations of candidates with critical skills become too high

Salary expectations among top talent have started to trend upward as of late—and senior executives and organizations with less than 3,000 employees seem particularly worried about this talent risk.

5

### Capability

#### Difficulties in retaining key people—capability risk

Retaining top talent remains a critical issue for most talent managers.

6

### Cost

#### An insufficient budget for managing and developing talent

Particularly concerned about this issue were the business executives who responded to this survey. In fact, they were the only group of respondents who ranked the overall risk category of Cost as their number one risk area.

7

### Capability

#### Skills and capabilities required by the business in the near future are not developed

HR-based respondents and respondents working at organizations with more than 10,000 employees appeared most concerned about this risk.

8

### Capability

#### A lack of compelling development opportunities for top talent

Feared, in particular, by talent managers working within organizations with less than 3,000 employees and by their counterparts working in the consumer goods sector.

9

### Connection

#### Business leaders' inability to engage with, motivate and nurture business-critical talent

The only connection-related talent risk to make it into talent managers' top 10 talent-related fears. The data shows senior executives and talent managers working in financial services fear this risk in particular.

10

### Compliance

#### Managers view performance management, talent reviews, etc. as processes to comply with rather than as business-critical activities

The only compliance-related risk to make it into talent managers' top 10 worries.

It is also instructive in this context to look at where respondents say their organization is expending effort when it comes to talent management. A glance at the table opposite shows that there are a number of talent risks that appear in the list of top 10 risks identified, but do not feature in the list of top 10 risks actively being managed. These are:

- The managers view performance management/talent reviews as

processes to comply with, not business-critical activities

- Business leaders' inability to engage with, motivate and nurture business-critical talent
- An insufficient budget for managing and developing talent.

## The new HR

Across the developed and developing world, businesses are battling ever-increasing complexity, higher costs, more intense competition, more stakeholders, new risks and the need for further compliance—leaving us in what I like to think of as 'the New Normal'.

With this highly dynamic and changing environment as a backdrop, these survey results show that, now more than ever, HR practitioners need to design and implement a much more holistic, strategic approach to talent management. I believe practitioners must be capable of becoming:

- **animators**—capable of breathing new life and energy into their organizations
- **culture propagators**—able to design people policies and processes to build a winning culture
- **change facilitators**—able to instill in employees the beliefs, values and basic assumptions required for the organization to succeed.

Moving well beyond the tried and tested current practices, HR must deliver demonstrable strategic impact by:

- configuring processes and practices to hardwire innovation into an organization in order to generate breakthroughs such as product innovation on an ongoing basis
- using performance management to align organizational goals with employee expectations
- driving decision-making on a scientific basis, through the use of data analytics—including the identification of talent risks
- using technology to encourage networking and collaboration; capturing performance reviews; creating workforce profiles—and recruiting and retaining talent through social media.

New age HR practitioners are motivating, empowering, stimulating, inspirational and transformational. They voice their opinions, question the status quo and challenge conventional approaches. Growing up in an era of technology, they are more adaptive to change. They act as mentors and encourage collaboration. They have an innate sense of confidence and ownership of the talent management agenda.

**Nishchae Suri**  
People & Change  
KPMG in India

## Which talent risks were respondents actively managing?

- 1** — **Capacity**  
A lack of depth of internal candidates for critical roles.
- 2** — **Capacity**  
An insufficient pipeline of future leaders.
- 3** — **Capability**  
Difficulties in retaining key people.
- 4** — **Capacity**  
A lack of clarity over which roles are 'critical' to deliver business value.
- 5** — **Cost**  
The total cost of the workforce becomes unsustainable in relation to current revenues.
- 6** — **Capability**  
Skills and capabilities required by the business in the near future are not developed.
- 7** — **Capability**  
A lack of compelling development opportunities for top talent.
- 8** — **Capability**  
Difficulties in recruiting top talent.
- 9** — **Cost**  
The cost of retaining top talent becomes unsustainable.
- 10** — **Cost**  
Salary expectations of candidates with critical skills become too high.

Source: KPMG International

“In recent years, the business community has kind of figured out that not only do they have problems recruiting key employees today, but that they’re going to lose a whole bunch of people tomorrow — because everybody has a gray hair. When they start going, there’s going to be quite a whoosh going out the door. So employers have started to get the talent management religion, the smaller ones anyway. The large ones still don’t really get it.”

— HR manager for a small US niche manufacturer

## Three big changes that need to happen now

When talent managers ask what changes they most need to make *now* in order to future-proof their organization's approach to managing people, I advise them to do three things.

Firstly, with the most desirable people in increasingly short supply, public and private sector employers—particularly those in the developed world—need to start thinking outside the box when it comes to their traditional sources of talent. Taking the same approach to recruiting—for example, appealing to the same demographics at the same universities—will leave any organization struggling.

Instead, employers are going to have to broaden their approaches to plug into, for example, the relatively young populations throughout Africa. The legacy of European colonialism means this continent has many countries—Egypt is a great example—that share developed world institutions, but are full of well-educated young people who don't really have any place to go, work-wise. Or, closer to home, to become more flexible to tap into skilled and experienced women looking to return to the workforce part-time after having taken a break to start a family.

As long as we keep looking for talent in the same places, we're going to have a problem. New thinking, untapped talent pools are what's needed. With some luck, governments will recognize this and tailor their immigration policies accordingly.

Secondly, employers across the world need to become flatter in order to encourage innovation. Very simply, most organizations are currently characterized by too many layers between someone with a bright idea—the guy in the mailroom or the newly graduated student—and the person who can recognize, reward, sponsor and develop their idea. Employers need to find a way to flatten workforces, to make their organizations a place where anyone can come forward with an idea and where everyone is comfortable doing this—and knows how to do it. I'm not saying do away with your R&D team. I'm saying it's time to start looking at R&D simply as enablers who help bring other peoples' ideas to light.

This is particularly important with the Millennials now entering the workforce. At the risk of generalizing, this generation lacks their predecessors' patience, are relatively entrepreneurial and are very transient. Subsequently, if they doubt their employer is interested in their ideas, they'll take themselves and their ideas somewhere else—or develop them themselves.

Finally, companies need to start looking at talent as a form of currency, essentially seeing their talent as assets that contribute to a company's profits and losses. Finding a way to measure the value of each person and each team—to measure the value of their work and the return on investment they deliver. You need to measure and show the point and value of every person—to document clearly the part they're playing in delivering your strategy. Their direct *economic* contribution is key to the value of project, product or service results. In these terms, the talent management conversation needs to happen at a C-suite level—either led by a business-minded HR leader or a business-unit leader.

### Sig Shirodkar

People & Change  
KPMG in the US



# Key findings— connection-related talent risks

“**Nowadays, young people entering the workforce want to be more agile in the way they are allowed to operate. Whether they’re on the job or not, they want to be constantly plugged into work via technology—yet be allowed to manage their work in their own way. In addition, many of them are uninterested in a long career with the same employer. And they’re looking to be part of an organization with a meaning and purpose that goes beyond simply the financials.**”

— Global VP of HR at a consumer goods giant

Another of our survey’s more interesting findings concerns leaders’ apparent lack of interest in connecting and engaging with their talent and with enabling and encouraging collaboration.

## Connection-related talent risks

The survey’s connection-related questions asked respondents how they perceived—as well as the degree to which they were mitigating against—the risk of their organization’s top talent becoming disengaged. In other words, were their organization’s talent-related processes sufficiently joined-up? Was it able to share talent between units in the way it needed to? Was it able to connect groups of high-potential people together? And were leaders able to create an emotional connection between high-potentials and the business?

## Findings

In this context it was instructive to look at which talent risks respondents were least worried about. The survey showed respondents are relatively unconcerned about:

- international mobility policies and processes making it difficult to transfer talent between countries
- a lack of diversity in the workforce
- business leaders’ reluctance to share talent across the organization.

## Disengaged

In October 2013, *The Wall Street Journal* carried a story about Gallup’s latest findings on employee engagement. The Gallup research showed that across 142 countries, only 13 percent of the world’s wage earners said they were engaged in their work. The results were gathered from surveys with 230,000 workers in 2011 and 2012, and Gallup asked respondents to identify themselves as ‘engaged’, ‘not engaged’ or ‘actively disengaged’.<sup>1</sup>

Other results from our own research offer clues as to why this might be the case. Our research showed:

- Respondents ranked the risk of their ‘business leaders’ inability to engage with, motivate and nurture business critical talent’ as a top 10 critical risk—placed it in the top 10 risks that were being least managed (see Appendix).
- Respondents told us they were worried about how employees see their leadership—but no one is doing anything about it.
- Only 33 percent of respondents felt their business unit leaders were ‘incentivized to share talent across organizations for the benefit of the business and the talent’—seemingly at odds with the inclusion of development, retention and several other related risks in the top 10 risks respondents were most worried about.
- Although 60 percent of organizations feel their business leaders do play an active role in top talent programs, over 35 percent feel they do not.

<sup>1</sup> Source: *The Wall Street Journal*’s At Work business blog, October 2013.

## Which talent risks were respondents least worried about?

1

### Compliance

Talent management processes become non-compliant with local regulation, for example, data protection.

2

### Connection

International mobility policies and processes make it difficult to transfer talent between countries.

3

### Compliance

Employee relations hinder rather than help talent management processes.

4

### Capacity

A lack of workforce diversity.

5

### Capability

An inability to define the new skills or capabilities that will be needed by the business in the near future.

6

### Connection

Business leaders' reluctance to share talent across the organization.

7

### Connection

Business leaders' and HR/talent teams' inability to work effectively together to manage talent.

8

### Capacity

A lack of clarity over which roles are 'critical' to deliver business value.

9

### Cost

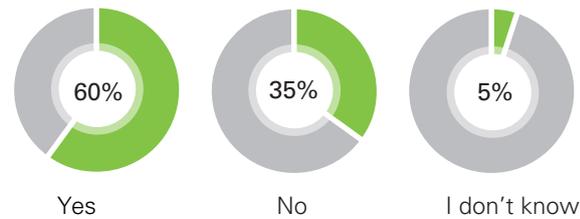
The total cost of the workforce becomes unsustainable in relation to current revenues.

10

### Cost

The cost of retaining top talent becomes unsustainable.

### Do leaders play an active role in top talent programs?



Source: KPMG International

## Disconnected organizations face ever-increasing recruitment costs

Are senior leaders able to engage with, motivate and nurture business-critical talent? Are these employees able to move around organizations in a way that helps them develop and remain interested in their work? And can high-performing employees connect and collaborate in a way that drives innovation?

While talent managers seemingly spend a lot of time talking about these and other connection-related talent risks, our research strongly indicates they are actually paying only lip service to these problems.

This is somewhat shocking, considering how well established the positive correlation is between engaged employees and satisfied customers, and between engaged employees and productivity.

After all, you would never hear a CEO say they were unconcerned by how consumers perceive their business's brand. Yet, at the end of the day, it is your people who are delivering your brand into your market, day in and day out. They're the ones who shape consumer perception. As the world globalizes, as virtual workforces become more common and as we move deeper into a knowledge economy, organizations will come under increasing pressure to connect their people.

In addition, Generation Y—the generation entering the workforce now—is all about connection. Connection is their mantra—whether it's wanting to work for a leader they understand, a brand they believe in or connecting to their employer in a way that allows them to work flexibly enough to suit their preferences.

Employers who leverage connection well and harness it are, therefore, going to unlock significant competitive advantage. Companies like Microsoft offer a great example of what this needs to look like. That company invests in enabling collaboration between high-performing employees—with productivity rising exponentially.

Alternatively, failing to manage connection-related talent risks will drive a lot of talent out of your organization—forcing you to foot an ever-increasing recruitment bill.

At the end of the day, to be really successful in leveraging talent, ownership of talent management needs to extend beyond HR—and have everybody in the organization thinking about talent.

**Laura Croucher**  
People & Change  
KPMG in Canada

## Talent review processes—where it all goes wrong?

Our survey also asked respondents how their organizations viewed performance management—a key engagement driver. Specifically, the survey asked about the extent to which ‘managers viewed performance management only as a process to comply with, rather than a business-critical activity’.

The results were interesting, lending weight to the survey’s revelation about how lightly organizations currently view connection-related talent risks such as engagement, collaboration and internal mobility.

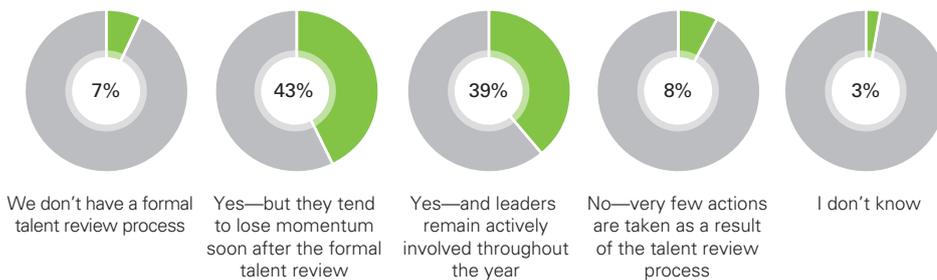
On the one hand, the survey showed that HR and business leaders shared the view that ‘poor performance management was a critical risk that was not being managed effectively at all’—calling it out as a real challenge.

However, the issue also turned up in the survey’s list of the top 10 talent risks respondents were least worried about.

When we asked how often senior leadership teams spent together formally reviewing talent each year, approximately 40 percent of respondents stated two or more days per year—and more than 20 percent stated that they lacked a formal talent review process.

In addition, we also asked respondents about the effectiveness of their talent review processes. Only 39 percent of organizations have talent review processes where leaders stay actively involved throughout the year. The other 58 percent of respondents said that their organizations either had no talent review processes, or that their leaders take no action or lose momentum once talent reviews have been concluded.

### Does your organization’s formal talent review meetings result in development plans for which leaders take responsibility?



Source: KPMG International

“Diversity doesn’t have 100 percent buy-in from everyone in this company ... But without somebody from the top really driving accountability, it’s going to struggle and disappear.”

— Global VP of HR at a consumer goods giant

**Organizations  
missing  
a major  
advantage  
around  
performance  
management**

The survey presented two significant surprises in relation to performance management.

Firstly, it seems many managers see performance management merely as a process to comply with or a box to tick—rather than a business-critical activity.

Secondly, the survey indicates also that many organizations actually lack a formal performance management process.

From the perspective of effective talent management, this is somewhat worrying.

When performance management processes are run badly, they eat up management time, create endless process and forms and—in the end—leave people disappointed.

But, when used properly, performance management drives up employee engagement, encourages the free flow of feedback and ideas, increases retention, enhances compliance, guides employee development and improves productivity.

After all, sitting down with each of their direct reports several times a year offers managers an excellent opportunity to improve an employee's understanding of what is expected of them—including what they need to do to differentiate your organization.

In addition, performance reviews—especially when conducted regularly—provide managers with the perfect chance to correct poor performance before it affects the company's bottom line.

And, if a manager must fire an employee, the employee's performance review will offer proof that they knew there was a problem—in case they challenge the termination.

**Ruth Svensson**  
People & Change  
KPMG in the UK

Finally, high-performing employees can use their performance review to agree to new goals—rather than being tempted to take their talents elsewhere.



## Myth busting: Giving the lie to diversity

I was disappointed but not overly surprised to discover talent managers are relatively unconcerned by both a lack of diversity in their workplace and by how well their organization was dealing with the problem.

In terms of the thinking around talent management, it's now pretty well established that diversity is an important issue. And, publicly at least, everyone claims to be concerned about it.

Ask about diversity in isolation, it is seen as important. Yet ask about diversity in the context of other talent issues, such as growing capability and managing capacity, and it slips down the list of priorities.

The data strongly suggests that, amid the usual day-to-day business pressures, talent managers are somewhat stubbornly continuing to see their purpose and role through an outdated, traditional lens capable of seeing only one side of the story—and one side of the solution. Either that or it is seen as someone else's problem.

I believe taking a meaningful stance on diversity and inclusion, backed up by meaningful action, will increasingly become the differentiating factor in the ongoing war on talent—driven partly by regulatory pressure and partly by major talent shortages.

### Tim Payne

People & Change  
KPMG in the UK



# Key findings— talent-related cost

“After three to five years, a college graduate will leave us. It used to cost approximately half their salary to train their replacement. Now it’s probably closer to US\$350,000. That’s a tremendous amount of money you’re going to have to spend if you don’t want to hire the right person, and then to keep them engaged and motivated to continue working for you and developing themselves with the goal of progressing through your company—instead of out the door.”

— E-learning manager on the retail side of a medium-sized US-based specialty manufacturer

What is the risk of a workforce becoming unaffordable? What will it cost an organization to recruit and retain the people it needs in five or 15 years? Will organizations be able to afford the overall cost of their workforces? Are talent managers even measuring workforce cost effectively?

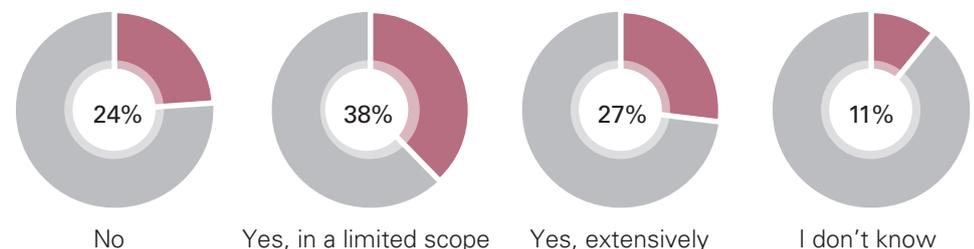
Our survey showed an apparent concern about talent-related cost—with two cost-related issues appearing within the top 10 talent risks. Specifically, these were:

- unsustainable salary expectations of candidates with critical skills
- an insufficient budget for managing and developing talent.

However, once again, it is equally if not more useful to take a look at what respondents said they were not worried about. Specifically, they were unconcerned about the total cost of the workforce becoming unsustainable in relation to current revenues (though US-based respondents were considerably more worried about it than those outside the US).

Our data finds that many businesses do not even track the real cost of the workforce as a key metric. Over 62 percent of organizations either don’t track total cost of workforce at all, or they use it only in a limited scope—and this did not change dramatically for company size.

## Using total cost of workforce as a key metric



Source: KPMG International

## Rising costs call for broader, more analytical approach

With salary expectations trending up again, it was unsurprising to see the research show talent managers worried about rising workforce costs.

However, the results indicate they're not nearly as concerned as they ought to be—given the extent to which looming talent shortages will soon render workforce costs unsustainable for many organizations.

Our survey findings from a US-based client is indicative of the direction of travel. Until a few years ago, the organization would spend approximately half a graduate's salary to train a replacement when the graduate left the company after five or six years. Now, that figure is closer to US\$350,000.

At present, talent managers appear to be approaching workforce costs from merely a short-term perspective and one that's overly focused on capacity and capability.

Yet, from a cost perspective, it would be better to take a broader approach that also considers connection-related talent risks, such as employee engagement, and compliance-related talent risks, such as how effectively they're tackling performance management—thereby driving down attrition, strengthening their employer brands—and, ultimately, reducing overall costs.

After all, it's going to be a great deal more cost-effective to engage, develop and progress employees to the point where they want to keep working for you than it is to see them walk out the door.

Meanwhile, talent managers must become better at measuring costs. This means becoming more confident with analytics—to the point where an HR manager can report on total workforce costs, including the costs of retraining, to name but two examples—as opposed to simply how much the payroll is increasing. HR managers simply aren't looking for—and conveying to the business—the insight that is available from a closer inspection of the numbers and total workforce costs.

**Peter Outridge**  
People & Change  
KPMG in Australia

# Different perspectives

Our survey shows there is little variation by organizational size or sector when it comes to what talent risks respondents most worry about or are actively managing.

However, when it comes to attitudes and perceptions of HR leaders on the one hand, and executives (including CEOs) as well as frontline managers on the other, some clear differences emerge.

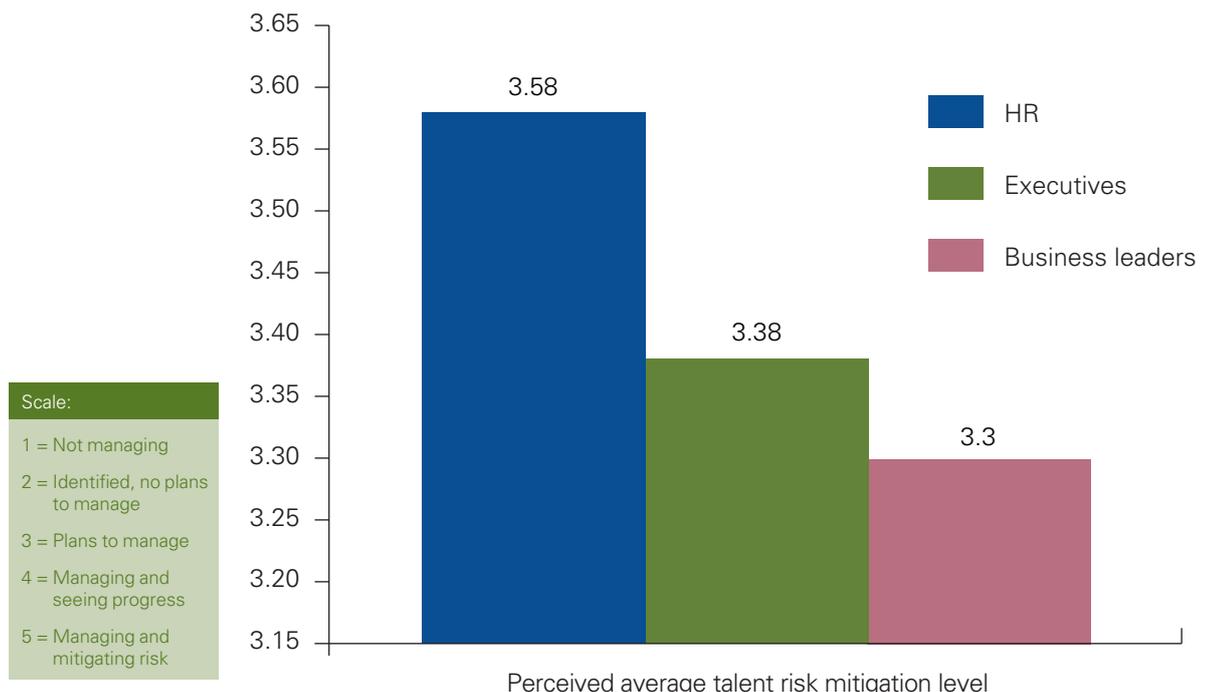
## Comparing risk categories

The survey showed executives and frontline managers were most concerned about cost-related talent risks—while HR leaders were more concerned about capacity risks.

Meanwhile, we saw even greater differences in the three groups when asked about how effectively they felt the various risk categories were being mitigated. Overall, HR felt that all areas were being mitigated more effectively than both executives and managers, except workforce cost.

Additionally, we saw a slight difference in the total average risk rating of each group. Specifically, respondents in the frontline roles thought that risks had a higher average risk rating (3.07 out of a potential maximum of 5) than HR (2.9) or executives (2.87).

## Perceived average talent risk mitigation level\*

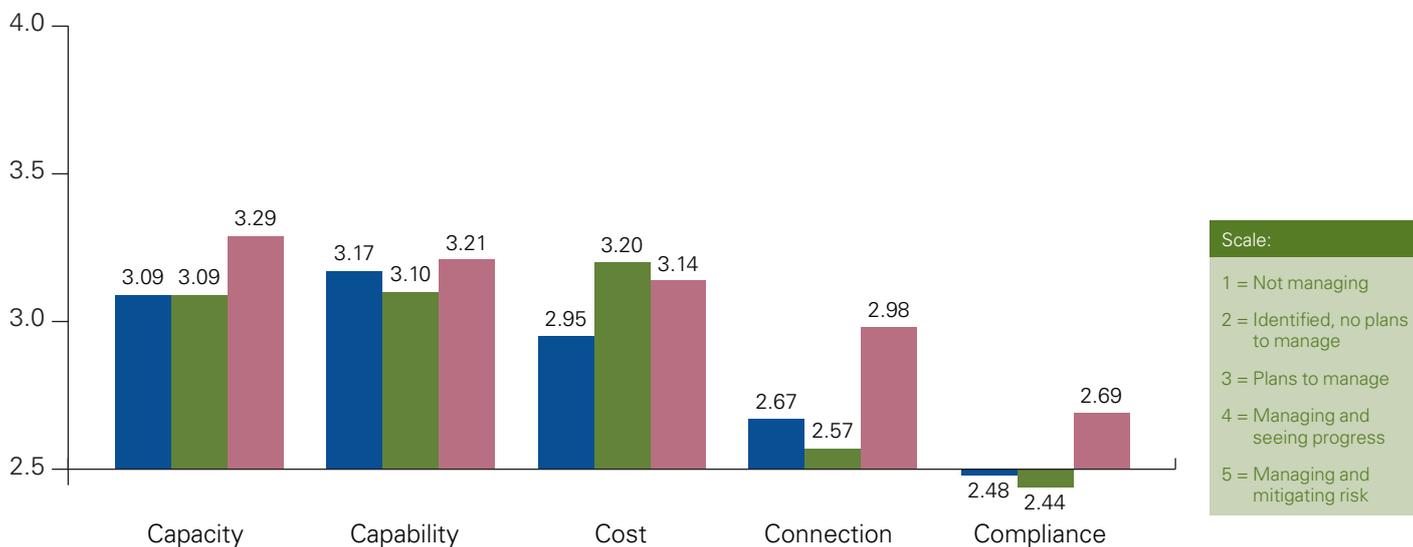


\* This data is based on averages to a five-point scale. Half a point difference is equivalent to a 10–20 percent difference in perception, given the sample group's distribution.

Source: KPMG International

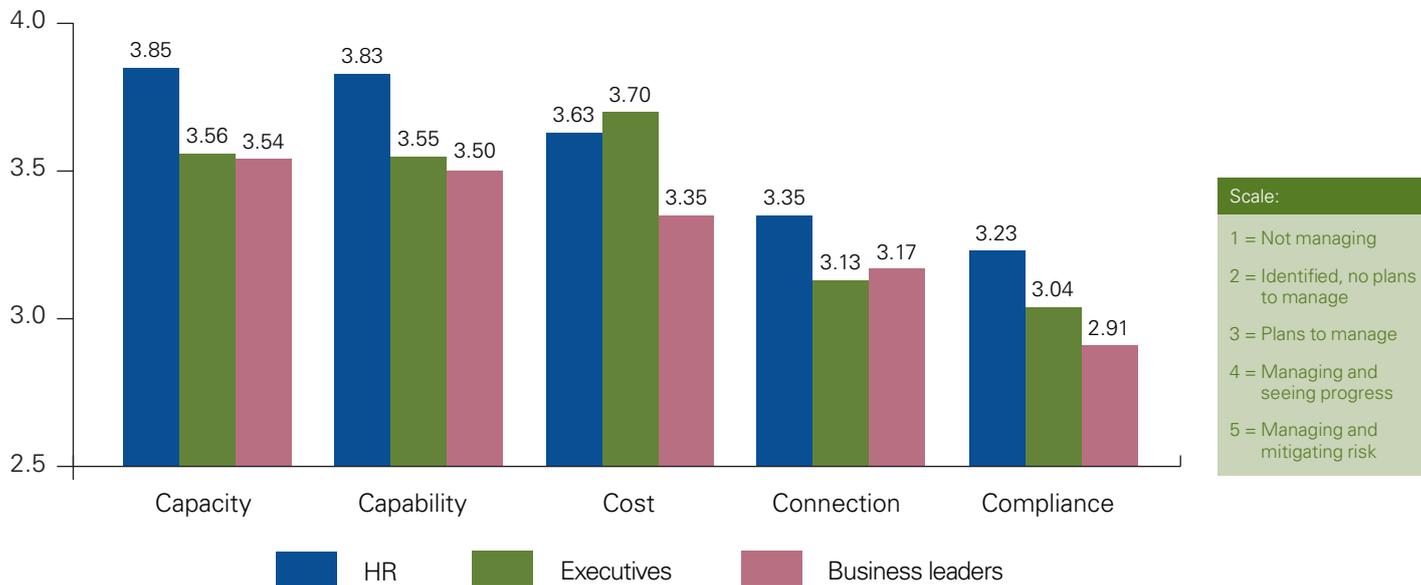
**Different perspectives: Business leaders vs. HR**

**Perceived level of risk impact by roles**



Source: KPMG International

**Perceived level of risk mitigation by roles**



\* This data is based on averages to a five-point scale. Half a point difference is equivalent to a 10-20 percent difference in perception, given the sample group's distribution.

Source: KPMG International



## Drilling deeper

When we delved even deeper into the data, we found the differences between HR and frontline managers' perceptions of risk were particularly pronounced. HR respondents were more concerned about risks related to capability—specifically, insufficient leadership pipelines and a lack of depth of internal candidates. HR respondents also felt that, across the board, risks identified were being well managed. This perception was not matched by business leaders who felt that almost all risks were being less effectively managed than their HR counterparts.

Meanwhile, frontline managers felt that overall talent risks were a bigger concern than the other groups—specifically, ranking the capability risks concerning insufficient leadership pipelines and a lack of depth for internal candidates as high. They also felt that almost all the risks were being less effectively mitigated.

However, one risk that HR and frontline managers agreed was critical, yet very poorly managed, centered on performance management—namely, that 'managers view performance management as a process to comply with, rather than a business-critical activity'. Both frontline managers and HR respondents agreed this was a risk that was being mitigated very poorly.

Overall, HR has the highest level of confidence in their organization's talent risk mitigation levels compared to executives and frontline managers. This is a real concern as it brings into sharp focus the fact that frontline managers are struggling to feel a positive return from talent management efforts. This further reinforces the long-standing credibility issue HR faces with the business not always seeing the value of their contributions.

## HR and business leaders— what’s driving the difference of opinion?

When it comes to perceptions of talent-related risk, why do HR-based talent managers differ from their executive and senior-level equivalents?

I believe this disconnect is caused by two significant shortcomings on the part of HR.

Firstly, HR continues to take a predominantly process- and transactional-focused approach to talent management—an approach it must trade for one that’s much more clearly aligned with its organization’s strategic objectives.

Secondly and subsequently, HR must become much better at measuring the value of its work—demonstrating a clear return on investment when it comes to showing how its work supports the organization’s strategy.

In an age increasingly engaged with big data, most HR teams at least understand the *potential* value of HR analytics. Yet they continue to offer only generic and basic operational and transactional measurements—metrics that provide little in the way of strategic correlations or, additionally, predictive data or actual insights that could have a positive impact on their organization.

Essentially, HR’s current approach to talent management remains anchored in the present and in the past. It’s concerned with what’s gone before, with the existing workforce and with its organization’s immediate priorities, rather than providing the C-suite with tangible intelligence about what’s going to happen in two, five or 10 years and how the organization should be reacting to these changes.

However, differences of opinion to one side, it’s also worth pointing out that both HR and business-based talent managers are taking too narrow an approach to talent-related risk.

Irrespective of how each group ranks each kind of talent risk, both remain too tightly focused on capability and capacity (and, to a lesser extent, cost and compliance)—at the expense of other core talent management priorities such as employees’ ability to connect with leadership and with each other in a way that improves engagement and collaboration or enables innovation, for example.

Until *all* talent managers discard their current one-size-fits-all methodology in favor of a broader approach that’s more closely aligned with their own organization’s unique strategic needs, they will continue to struggle to move their people agendas forward—and will witness the continued weakening of their organizational competitiveness.

**Patricia Molino**  
People & Change  
KPMG in Brazil

# Additional insights

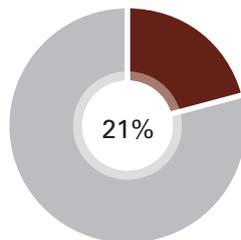
## Succession and capacity planning

The number one risk identified by respondents was 'an insufficient pipeline of future leaders'. This was also ranked as the second highest risk which was being actively managed. In contrast, when we asked organizations how effective their current succession planning processes were, over 39 percent of organizations stated that they either had no succession planning process or that their existing process was not at all effective. Only 26 percent of organizations

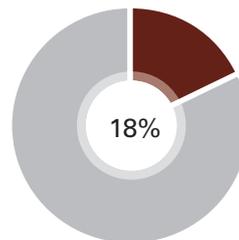
felt their succession planning was extremely or very effective.

Not surprisingly, organizations under 3,000 employees had the greatest difficulties with their succession planning process. Over 46 percent of them felt their succession planning efforts were not effective. In contrast, 36 percent of organizations over 10,000 employees felt their succession planning processes were very or extremely effective.

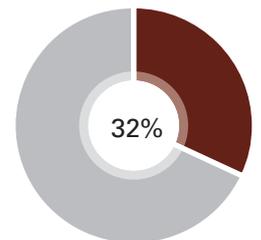
## Effectiveness of succession planning



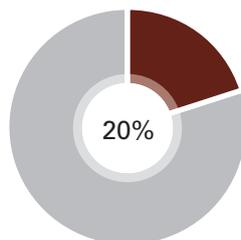
We do not have succession plans



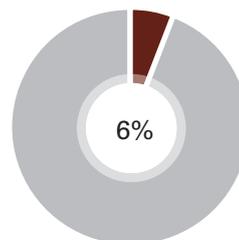
Not at all effective, lists with no action



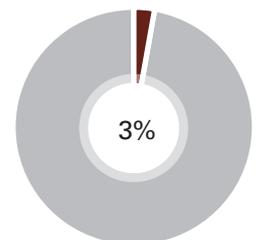
Somewhat effective, lists with regular action



Very effective, succession planning discussions



Extremely effective, actively work with successors



I don't know

Source: KPMG International

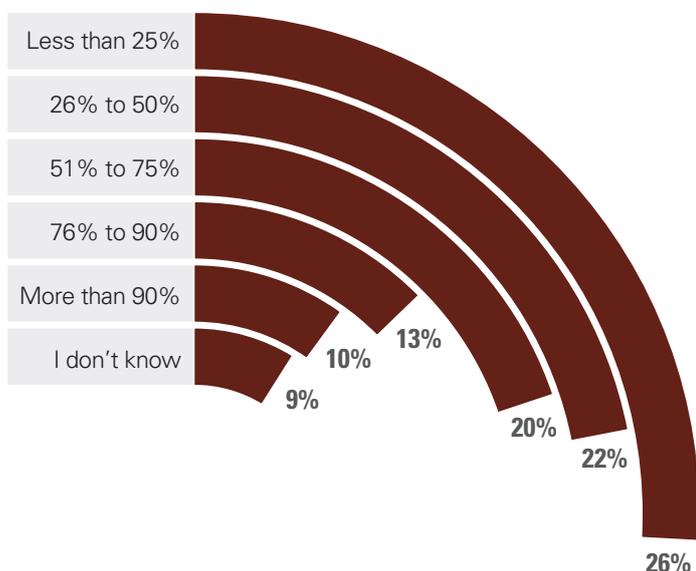
Further interrogation of the data revealed that those with extremely effective succession plans were:

- twice as likely to be effectively managing the risk of the total cost of the workforce becoming unsustainable
- three times more likely to be managing the risk of the cost of top talent becoming too cost prohibitive
- three times as likely to use 'total cost of workforce as a key metric'
- twice as likely to feel they have an adequate budget for their talent management needs
- twice as likely to expect they will receive an increase in their overall talent management budget.

In contrast, those without succession plans were twice as likely to respond that they considered 'a lack of compelling development opportunities for top talent' as a high risk. Furthermore, 25 percent of respondents who don't have succession plans in place indicated that they thought their talent management budgets would be reduced in the next year.

Effective succession plans are also tightly connected to the extent to which respondents indicated how many critical roles are filled with internal candidates. More than 43 percent of the organizations surveyed were filling over 50 percent of their critical roles with internal candidates. Company size didn't make too much of a difference in this question, with organizations over 10,000 employees having only a slightly higher percentage of internal placements over the other respondents.

**Critical roles filled with internal candidates**



Source: KPMG International

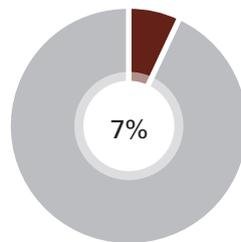
## Strategic workforce planning

When we asked respondents about their approach to strategic workforce planning—ensuring that they had the right people and skills to meet their business goals—they were not very optimistic. Over 64 percent of the respondents have no meaningful workforce planning in place, or they only plan for a small group of critical roles within the organization.

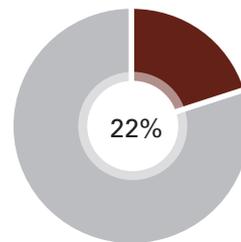
In this context, company size did not make a big difference with companies over 10,000 employees just slightly more likely to conduct detailed workforce planning. On the other hand, when we asked organizations about their effectiveness at assessing

the critical skills and capabilities of their workforce, a key element of effective workforce planning, we saw dramatic differences in company size. Over 28 percent of all organizations do not assess their employees on a regular basis for ongoing development. For organizations with fewer than 3,000 employees, we see this jump to 34 percent of the organizations. We also see that only 11 percent of organizations feel they are extremely effective at assessing critical skills and capabilities, assessing employees every six to 12 months. For small organizations, this reduces to 4 percent of the responses.

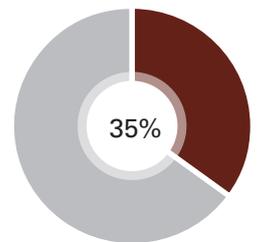
### Approach to strategic workforce planning



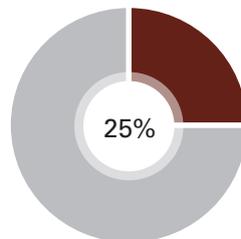
No strategic workforce planning



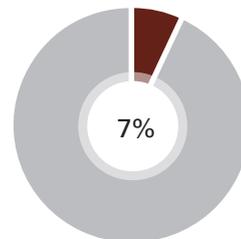
Basic approach



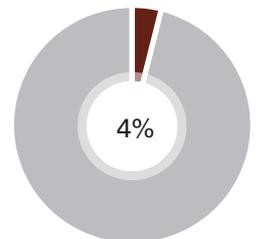
Simple approach



Detailed approach



Complex approach

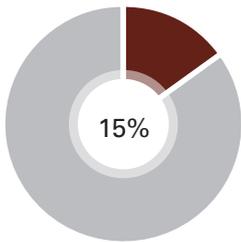


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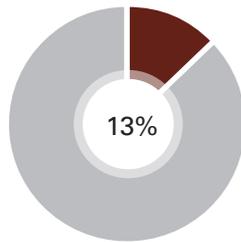
Source: KPMG International



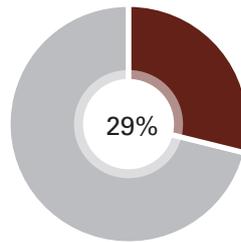
## Effectiveness of assessing critical skills and capabilities of workforce



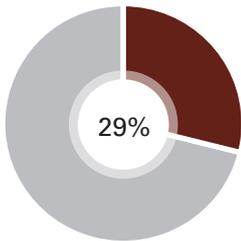
We do not conduct regular assessments



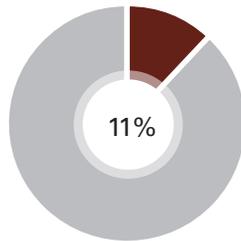
Not at all effective—  
For specific projects or programs we assess



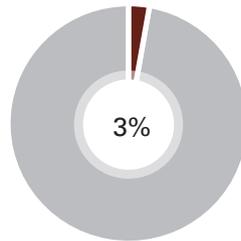
Somewhat effective—  
Every couple of years, we assess some employees



Very effective—  
Every six to 12 months, we assess all leadership roles and track them in employee profiles



Extremely effective—  
Every six to 12 months, we assess all employees and track them in employee profiles



I don't know

Source: KPMG International

## Closing the capability gap

A business process designed to ensure organizations have the talent they need for future business success, strategic workforce planning offers an extremely powerful tool for mitigating capacity- and capability-related talent risks.

It is perhaps surprising then that, even with the bias toward capability and capacity revealed by this research, the vast majority of organizations continue to ignore the potential of strategic workforce planning—instead insisting on making plans for tomorrow based on the people they have and the situation they are in today.

I would estimate that, at present, only 10 to 15 percent of organizations across the world have implemented or begun to implement strategic workforce planning—with only a handful actually reaching maturity. Most organizations have yet to begin the journey, historically held back by poor quality HR data dispersed across different systems, a lack of technology required to run the right simulations and by an inability of many HR managers to speak the same business language as their stakeholders.

All this is changing fast, however. Research by KPMG in 2012 showed very clearly that strategic workforce planning is now a top priority for many executives. As far as I can see, a huge amount of companies are right now waking up to its potential—and are taking their first few steps toward adoption.

They won't find the journey a difficult one. After all, effective strategic workforce planning is actually very easy to implement. At the risk of oversimplifying, organizations can achieve this goal simply by securing some robust workforce data—then combining it with the correct approach and technology in relation to their workforce simulations. That's it, really.

Applied correctly, strategic workforce planning will deliver in a relatively short time what has, until the past few years, remained the Holy Grail of talent management—a data-driven, quantitative insight into talent risks that accurately highlights exactly where organizations need to invest in order to fill their skills gaps tomorrow, next year and in 10 years' time.

**Dr Michael Geke**  
People & Change  
KPMG in Germany

## Talent risk in emerging versus mature markets

### The survey showed a marked difference in the way organizations in developed and developing markets manage talent risk.

Developed countries were equally concerned about cost, capacity and capability risks. Perhaps surprisingly, developed country respondents also had the least level of confidence in their overall mitigation efforts of compliance-related talent risks.

By contrast, respondents based in high-potential markets felt their talent-related

risks were greater—but also felt they were mitigating risks effectively, unlike developed market respondents.

In addition, high-potential respondents also felt their highest talent risks were related to building and developing capability.

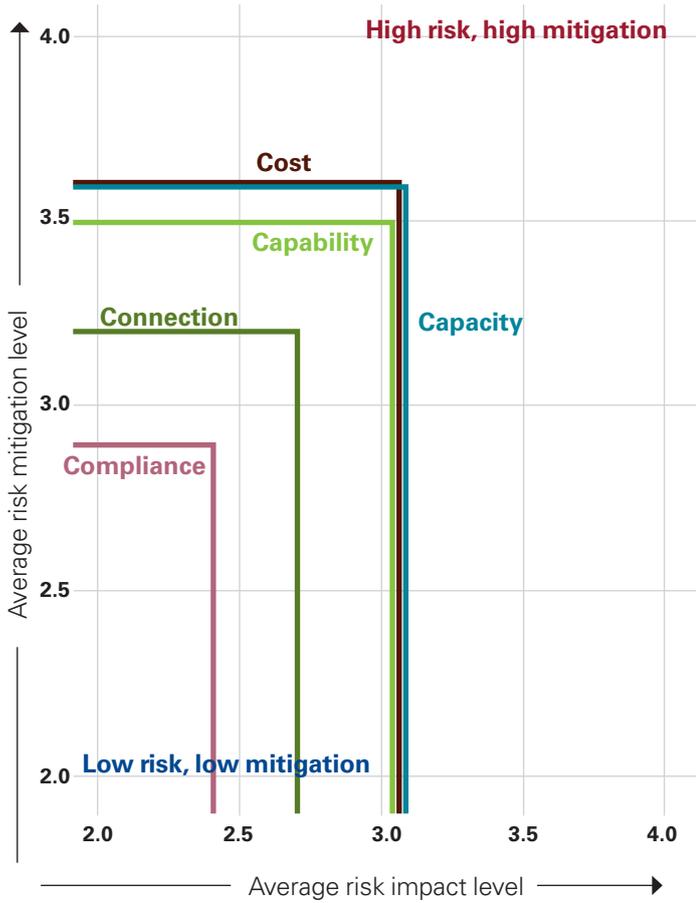
“During the next 10 years, we expect 70 percent of our growth to come from developing and emerging markets. On this basis, another of our biggest talent-related worries right now is whether or not we have the quality and quantity of developing world talent to make this happen. Conversely, our developed markets appear flat with limited prospects for growth—forcing us to consider whether we should actually be worrying also about our leadership pipeline in these markets as much as we have in the past.”

—Global VP of HR at a consumer goods giant

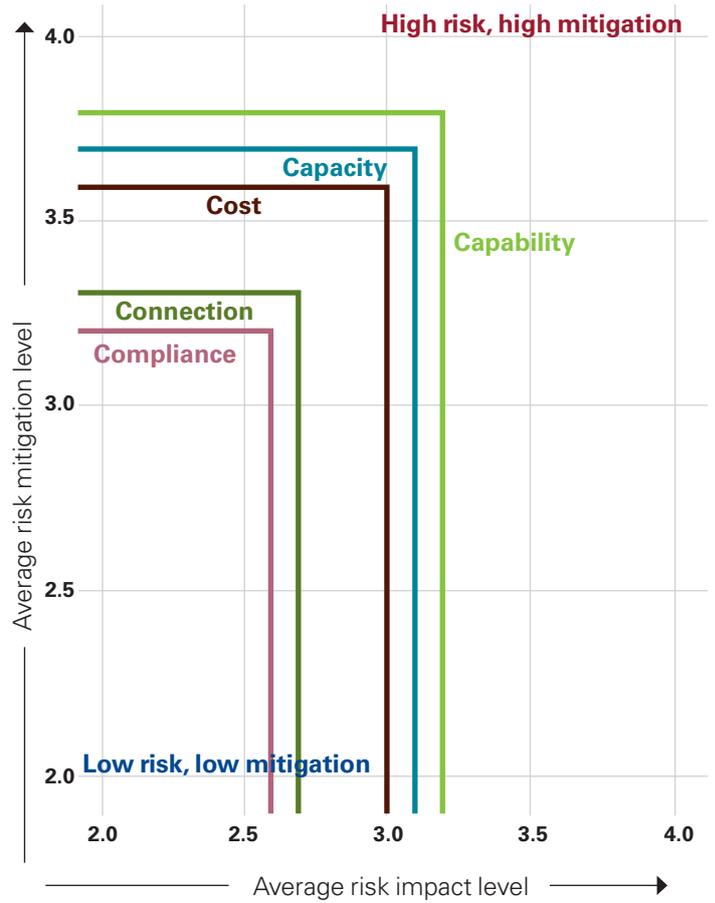




### Developed countries\*



### High-potential countries\*



Scale:

1	Not managing
2	Identified, no plans to manage
3	Plans to manage
4	Managing and seeing progress
5	Managing and mitigating risk

\* This data is based on averages to a five-point scale. Half a point difference is equivalent to a 10–20 percent difference in perception, given the sample group's distribution.

Source: KPMG International

## Managing talent in emerging markets

With emerging market economies growing fast, many multinationals see their best bet for growth in Brazil, Russia, India and China (BRIC) and, increasingly, south-east Asia, South Africa and Turkey.

At the same time, demographic trends mean these countries will also soon provide a big chunk of the global talent pool.

Nevertheless, multinational talent managers approaching emerging markets must tread carefully in the war for talent.

To begin with, culture is king. So, if you have a project in Indonesia, you might be tempted to fill a gap in your team by flying in someone from Singapore. Yet the cultural differences between most Asian countries are, essentially, quite extreme—and flying someone from outside Indonesia may—or may not—go down very well with your Indonesia project colleagues. It's not the same as getting an Australian, for example, to go and work in the UK or Canada—with those three countries sharing a common cultural heritage. From a talent management perspective, Asia's very diverse cultures add an interesting complication to the talent management challenge.

Secondly, managing talent effectively in emerging markets often requires organizational structures and career paths that are more aligned to cultural values than we might be used to in the developed world. For example, in India, progression through job titles and rank is an important part of the culture—one that runs directly counter to mature market trends toward flatter, less-hierarchical organizations. As always, the answer will probably lie somewhere in the center.

Then there's the fact that remuneration programs must reflect a locale's particular (and often rapidly changing) expectations and norms. What works in a mature market may not go down that well elsewhere.

Finally, emerging market professionals tend to prize companies with game-changing business models; offering opportunities to help develop their nation and the world economy. In a similar vein, they are also attracted to companies with a strong (and, preferably, locally focused) corporate responsibility agenda—as many of these professionals may have experienced or at least been touched by relative poverty firsthand.

### **Peter Outridge**

People & Change  
KPMG in Australia

“Companies in the Asia Pacific region have a long way to go to understanding what effective talent management is.”

Asia Pacific general manager at a global provider of performance, knowledge and learning solutions

## Other geographical comparisons

When it comes to talent-related risk, how do emerging markets compare?

Our analysis compared how talent risks and efforts at managing them were perceived in various countries and regions:

- the US
- Asia Pacific (excluding India)
- India
- Brazil
- Western Europe.\*

## Similarities

On this basis, we saw plenty of similarities. These included:

- the risk of an insufficient pipeline for future leaders—one of the top three risks for each of the above geographies

- the risk of a lack of depth for internal candidates for critical roles fell within the top three priorities for four of the five geographies, with only the US moving it down to a priority level of six
- connection- and compliance-related talent risks fell to the bottom of the priority lists, coming to rest beside the risks of ‘business leaders’ inability to engage and motivate critical talent’ and ‘managers viewing performance management only as a compliance action rather than a business-critical activity’
- the risk of difficulties in retaining key people and difficulties in recruiting top talent were generally seen as equally difficult by respondents—except in India, where retaining top talent was perceived as a higher risk.

\*Western Europe includes Belgium, Denmark, France, Germany, Ireland, Luxembourg, Norway, Portugal, Sweden, Switzerland and the UK.



## Top 10 risks by country

■ Capacity ■ Cost ■ Capability ■ Connection ■ Compliance

	All respondents	US	Asia Pacific excl. India	Brazil	India	Western Europe
1	An insufficient pipeline of future leaders	An insufficient budget for managing and developing talent	An insufficient pipeline of future leaders	Difficulties in recruiting top talent	An insufficient pipeline of future leaders	A lack of depth of internal candidates for critical roles
2	A lack of depth of internal candidates for critical roles	Salary expectations of candidates with critical skills become too high	Salary expectations of candidates with critical skills become too high	A lack of depth of internal candidates for critical roles	A lack of depth of internal candidates for critical roles	An insufficient pipeline of future leaders
3	Difficulties in recruiting top talent	An insufficient pipeline of future leaders	A lack of depth of internal candidates for critical roles	An insufficient pipeline of future leaders	Difficulties in retaining key people	Difficulties in recruiting top talent
4	Salary expectations of candidates with critical skills become too high	Difficulties in recruiting top talent	The total cost of the workforce becomes unsustainable in relation to current revenues	Difficulties in retaining key people	Salary expectations of candidates with critical skills become too high	A lack of compelling development opportunities for top talent
5	Difficulties in retaining key people	Difficulties in retaining key people	An insufficient budget for managing and developing talent	Salary expectations of candidates with critical skills become too high	Difficulties in recruiting top talent	An insufficient budget for managing and developing talent
6	An insufficient budget for managing and developing talent	A lack of depth of internal candidates for critical roles	The cost of retaining top talent becomes unsustainable	An insufficient budget for managing and developing talent	Managers view performance management/talent reviews as processes to comply with, not business-critical activities	Difficulties in retaining key people
7	Skills and capabilities required by the business in the near future are not developed	A lack of compelling development opportunities for top talent	A lack of clarity over which roles are 'critical' to deliver business value	A lack of compelling development opportunities for top talent	Skills and capabilities required by the business in the near future are not developed	Salary expectations of candidates with critical skills become too high
8	A lack of compelling development opportunities for top talent	Managers view performance management/talent reviews as processes to comply with, not business-critical activities	Difficulties in recruiting top talent	Business leaders' inability to engage with, motivate and nurture business-critical talent	A lack of compelling development opportunities for top talent	Business leaders' inability to engage with, motivate and nurture business-critical talent
9	Business leaders' inability to engage with, motivate and nurture business-critical talent	The cost of retaining top talent becomes unsustainable	Difficulties in retaining key people	Managers view performance management/talent reviews as processes to comply with, not business-critical activities	Business leaders' inability to engage with, motivate and nurture business-critical talent	Skills and capabilities required by the business in the near future are not developed
10	Managers view performance management/talent reviews as processes to comply with, not business-critical activities	Business leaders' inability to engage with, motivate and nurture business-critical talent	Skills and capabilities required by the business in the near future are not developed	Skills and capabilities required by the business in the near future are not developed	Business leaders' reluctance to share talent across the organization	Managers view performance management/talent reviews as processes to comply with, not business-critical activities

Source: KPMG International

## Managing talent in Africa

For businesses in every sector, Africa offers exciting prospects.

The past decade has seen slow and steady economic growth across the continent. And now, amid a backdrop of increased political stability, falling public debt and declining disease, aggregate annual growth is exceeding 5 percent—while the continent’s collective GDP forecast is US\$2.6 trillion by 2020. Boasting abundant natural resources, Africa’s 1 billion predominantly young consumers are expected to buy US\$1.4 trillion worth of goods and services in 2020.

Nevertheless, companies moving into the continent will increasingly come up against a severe shortage of skilled professionals. Neither the graduates from local universities nor the steadily increasing stream of returning expats will meet demand. In some of Africa’s most resource-rich countries, such as Angola, it is common for executives to last only months in a role before moving on to another company—at a multiple of their previous salary.

So what should businesses expanding into Africa be aware of when it comes to talent risk and talent management?

### Capacity and capability

Increasingly, businesses are attempting to counter the skills shortage by taking a homegrown approach to capacity and capability.

Specifically, some companies are developing their own talent by investing their corporate responsibility budgets into dedicated bespoke education programs. Offering a win-win, these programs train young local people in the skills—engineering and fitting, for example—most required by the company. Providing visible evidence of businesses’ commitment to Africa’s longer-term development, the programs are usually complemented by investments in schooling systems and universities—and support for carefully identified talented students before they even leave secondary school.

### Connection-related talent risks

Meanwhile, businesses using returning expats to fill their talent gaps should be sensitive to the fact that these professionals often experience some degree of culture shock when it comes to their new employer’s approach to talent management.

For example, professionals joining state-owned businesses—as opposed to the local branch of a multinational—can easily become disengaged in the face of unfamiliar remuneration regimes or approaches to succession planning. And irrespective of the employer, many returning professionals are often disturbed by poor societal safety standards or by substandard infrastructure such as schools.

### Compliance

Finally, Africa is sometimes characterized by much more tightly regulated labor markets than businesses may be used to operating in. South Africa offers a good example. Here, the law obliges all employers in no uncertain terms to comply with diversity-based hiring quotas—a stipulation that can leave less-diverse employees frustrated and disengaged.

**Nhlamu Dlomu**  
People & Change  
KPMG in South Africa



## How are talent risks perceived in each of these geographies?

### US

For the US, cost-related talent risks appear critical—with risks relating to insufficient budgets for talent management and concerns about critical candidates' salary expectations rising to the top.

Although US-based respondents saw leadership risks as critical, this risk did fall to third place in their priority list. We then saw recruiting and retaining risks take precedence over a concern for a lack of depth of internal candidates for critical roles. By contrast, the latter fell within the top three risks for each of the other four geographies.

### Brazil

Brazil was the only area to push 'difficulties in recruiting top talent' to the top of its list of identified risks.

### Asia Pacific (excluding India)

Asia Pacific was the only area to include four cost-related talent risks among its top 10 risks. It also was one of the few areas to not rank connection-or compliance-related talent risks within its top 10.

### India

Connection and compliance risks were generally not seen in the top five of all risks, a result that appears also in our geographic breakouts—except for in India, where the risk of 'managers viewing performance management only as a process to comply with, rather than a business-critical activity' was ranked as a higher risk than was the case in the other geographies.

Meanwhile, although 'business leaders' inability to engage with, motivate and nurture business-critical talent' fails to feature prominently within India's top 10 risks, this risk does appear within the top 10 for all of the other geographies.

## Managed risks

'A lack of depth of internal candidates' and 'an insufficient pipeline' were seen as top mitigated risks across the US and Asia Pacific—though not in Brazil, India and Western Europe.

In India and Brazil, respondents told us they were constantly concerned about risks relating to talent retention.

Difficulties in retaining key people had a higher risk mitigation than difficulties in recruiting, except in the US—where retaining key people was not mitigated as highly as it was in the other geographies and retention was not mitigated at all.

The 'total cost of the workforce' risk was regarded as high in Western Europe, but was also noted as number three on this region's list of top 10 mitigated risks. As in the previous section looking at geographies' *identification* of risks, connection and compliance were not generally in the top 10 for mitigation—with only India including a risk from both these categories within its top 10 mitigation risk. When we look further at whether or not countries use the 'total cost of workforce metric', there is a significant span across geographies—with almost 80 percent of Indian companies using this metric but less than 50 percent of US companies using it.

## Top 10 mitigated risks by country

Capacity Cost Capability Connection Compliance

	All	US	Asia Pacific excl. India	Brazil	India	Western Europe
1	A lack of depth of internal candidates for critical roles	A lack of depth of internal candidates for critical roles	An insufficient pipeline of future leaders	An insufficient pipeline of future leaders	Difficulties in retaining key people	A lack of depth of internal candidates for critical roles
2	An insufficient pipeline of future leaders	An insufficient pipeline of future leaders	A lack of depth of internal candidates for critical roles	Difficulties in retaining key people	An insufficient pipeline of future leaders	Skills and capabilities required by the business in the near future are not developed
3	Difficulties in retaining key people	A lack of clarity over which roles are 'critical' to deliver business value	A lack of clarity over which roles are 'critical' to deliver business value	A lack of depth of internal candidates for critical roles	A lack of depth of internal candidates for critical roles	The total cost of the workforce becomes unsustainable in relation to current revenues
4	A lack of clarity over which roles are 'critical' to deliver business value	Skills and capabilities required by the business in the near future are not developed	The cost of retaining top talent becomes unsustainable	A lack of clarity over which roles are 'critical' to deliver business value	Difficulties in recruiting top talent	Difficulties in retaining key people
5	The total cost of the workforce becomes unsustainable in relation to current revenues	A lack of compelling development opportunities for top talent	The total cost of the workforce becomes unsustainable in relation to current revenues	Difficulties in recruiting top talent	Skills and capabilities required by the business in the near future are not developed	An insufficient pipeline of future leaders
6	Skills and capabilities required by the business in the near future are not developed	The total cost of the workforce becomes unsustainable in relation to current revenues	An inability to define the new skills or capabilities that will be needed by the business in the near future	The total cost of the workforce becomes unsustainable in relation to current revenues	A lack of clarity over which roles are 'critical' to deliver business value	Difficulties in recruiting top talent
7	A lack of compelling development opportunities for top talent	Salary expectations of candidates with critical skills become too high	Difficulties in retaining key people	Skills and capabilities required by the business in the near future are not developed	Managers view performance management/talent reviews as processes to comply with, not business-critical activities	A lack of clarity over which roles are 'critical' to deliver business value
8	Difficulties in recruiting top talent	An insufficient budget for managing and developing talent	Salary expectations of candidates with critical skills become too high	A lack of compelling development opportunities for top talent	A lack of compelling development opportunities for top talent	A lack of compelling development opportunities for top talent
9	The cost of retaining top talent becomes unsustainable	The cost of retaining top talent becomes unsustainable	Difficulties in recruiting top talent	Salary expectations of candidates with critical skills become too high	Salary expectations of candidates with critical skills become too high	The cost of retaining top talent becomes unsustainable
10	Salary expectations of candidates with critical skills become too high	Difficulties in retaining key people	Skills and capabilities required by the business in the near future are not developed	An insufficient budget for managing and developing talent	Business leaders' inability to engage with, motivate and nurture business-critical talent	Salary expectations of candidates with critical skills become too high

Source: KPMG International



# Industry and sector comparisons

Does talent risk vary across industries?

Apparently so. In particular, a comparison of the way talent risk is perceived and identified within financial services, consumer goods, energy and life sciences makes for some interesting reading.

## Identified risks—a comparison of four sectors

The top two risks for all four of these industries were a lack of depth of internal candidates and an insufficient pipeline of future leaders.

Meanwhile, difficulties in recruiting top talent and difficulties in retaining key people were seen as the next most critical risks for three of the industries—with consumer goods the only industry to elevate candidate salary expectations for top talent above concerns regarding the recruitment of top talent, as well as top talent development opportunities. Respondents working in consumer goods were also less concerned about the risk of retaining top talent.

Furthermore, energy-based respondents stood out as being concerned about a potential failure to develop the skills and capabilities required by the business.

### Top individual risks by industry

Financial services (banking, insurance, investments)			Consumer goods			Energy			Life sciences		
Capacity	Internal candidate depth	3.29	Capacity	Internal candidate depth	3.39	Capacity	Internal candidate depth	3.45	Capacity	Pipeline of future leaders	3.44
Capacity	Pipeline of future leaders	3.28	Capacity	Pipeline of future leaders	3.38	Capacity	Pipeline of future leaders	3.39	Capacity	Internal candidate depth	3.35
Capability	Recruiting top talent	3.27	Cost	Candidate salary expectations	3.16	Capability	Recruiting top talent	3.38	Capability	Recruiting top talent	3.17
Capability	Retaining key people	3.26	Capability	Recruiting top talent	3.08	Capability	Retaining key people	3.14	Capability	Retaining key people	3.09
Cost	Candidate salary expectations	3.17	Capability	Top talent development opportunities	3.07	Capability	Developing required business skills	3.09	Capability	Top talent development opportunities	3.09

#### Scale:

- 1 = Not managing
- 2 = Identified, no plans to manage
- 3 = Plans to manage
- 4 = Managing and seeing progress
- 5 = Managing and mitigating risk

\* This data is based on averages to a five-point scale. Half a point difference is equivalent to a 10–20 percent difference in perception, given the sample group's distribution.

Source: KPMG International

While this risk was ranked as a top five concern within energy, none of the other industries ranked it as a top concern.

### Managed risks

When looking at the top managed risks, the results did begin to vary more between these four industries. Capacity risks, clarity of critical roles and an insufficient pipeline of future leaders were the only risks that fell within the top five managed risks across all four.

We also saw a higher-level focus on developing talent, providing development opportunities and

on talent retention across three industries—excluding life sciences. Life sciences was the only industry to not include a capability risk within its top five managed risks—although this industry ranked the capability category as a whole as its second best-managed category.

### An anomaly?

Recruiting top talent was ranked as one of the top five risks across all industries—yet none of them rated their management of this risk very high. In fact, the focus for three of the four fell on *retaining* top talent.

### Top individual mitigated risks by industry

Financial services (banking, insurance, investments)			Consumer goods			Energy			Life sciences		
Capability	Retaining key people	3.95	Capability	Retaining key people	4.06	Capacity	Internal candidate depth	4.00	Capacity	Pipeline of future leaders	4.15
Capacity	Internal candidate depth	3.91	Capacity	Clarity over critical roles	3.97	Capacity	Clarity over critical roles	3.97	Capacity	Internal candidate depth	3.91
Capacity	Pipeline of future leaders	3.85	Capability	Developing required business skills	3.96	Capacity	Pipeline of future leaders	3.97	Compliance	Managers view TM processes as Compliance	3.73
Capability	Lack of talent development	3.77	Capacity	Pipeline of future leaders	3.95	Capability	Developing required business skills	3.81	Cost	Cost of retaining top talent	3.73
Capacity	Clarity over critical roles	3.74	Cost	Sustainable cost of workforce	3.94	Capability	Retaining key people	3.80	Capacity	Clarity over critical roles	3.69

#### Scale:

- 1 = Not managing
- 2 = Identified, no plans to manage
- 3 = Plans to manage
- 4 = Managing and seeing progress
- 5 = Managing and mitigating risk

\* This data is based on averages to a five-point scale. Half a point difference is equivalent to a 10–20 percent difference in perception, given the sample group's distribution.

Source: KPMG International

### Talent risk by organizational size

When it comes to talent-related risk, is bigger better? Or is less (headcount) more?

Size-wise, our survey showed some interesting results.

Organizations with less than 3,000 employees felt that their capability and capacity risks were higher risks than any of the remaining three categories.

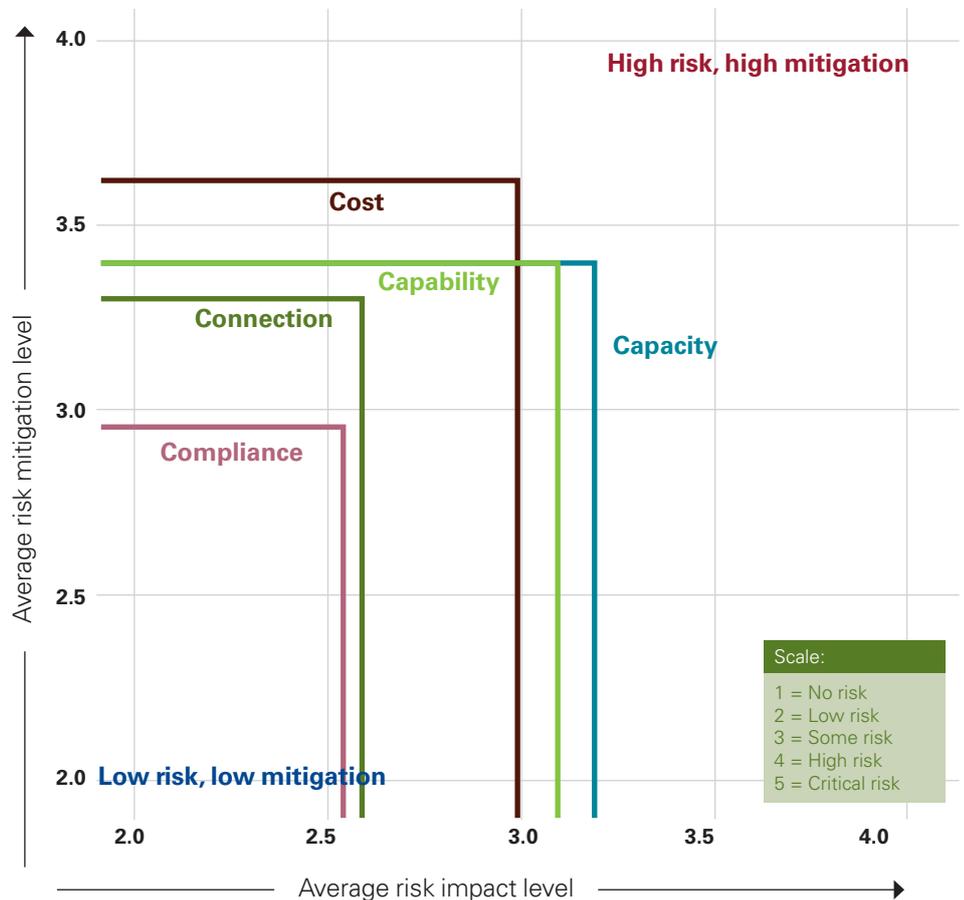
In addition, these organizations felt they were the least effective at mitigating those risks.

Furthermore, these smaller organizations were also struggling more with mitigating compliance risks.

On the other hand, they felt they were doing very well at mitigating risks associated with cost.

By contrast, mid-sized organizations (those with between 3,000 and 10,000 employees) felt they were less effective at mitigating cost issues—but were less worried about cost-related risks than small and large organizations.

#### Below 3,000 employees



\* This data is based on averages to a five-point scale. Half a point difference is equivalent to a 10–20 percent difference in perception, given the sample group's distribution.

Source: KPMG International

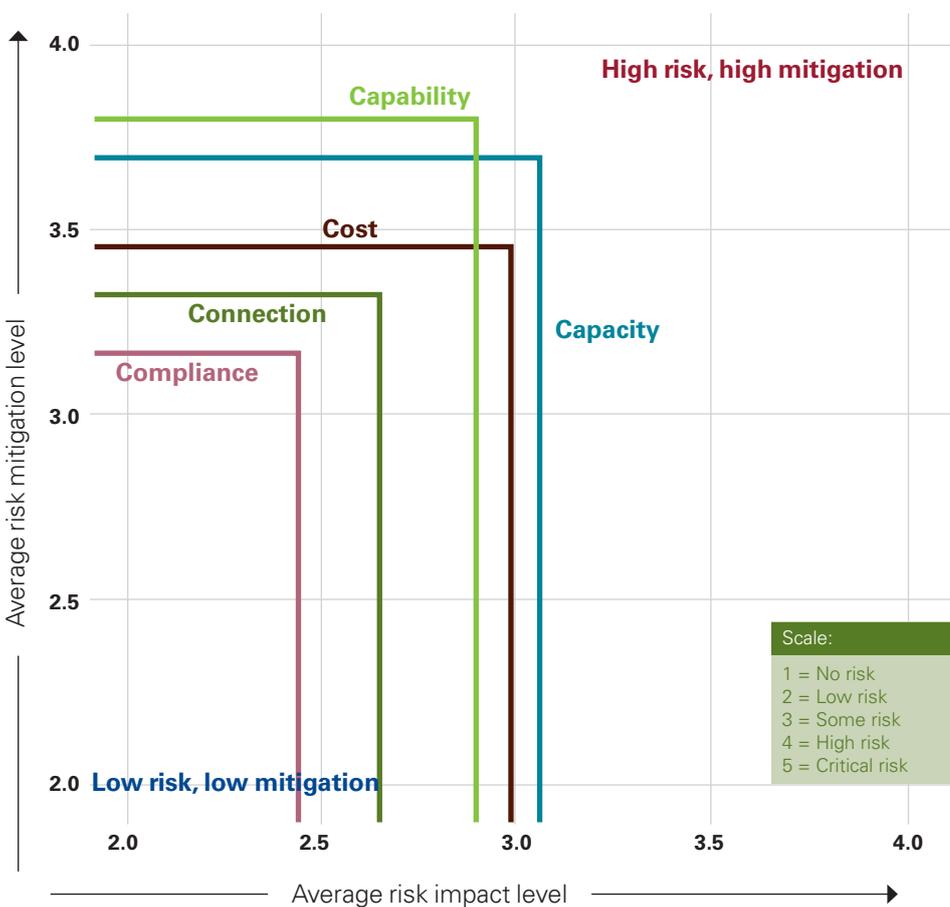


Large organizations, meanwhile, felt they were the most effective at mitigating capacity, capability and cost risks—risks they rated as critical. In addition, large organizations also felt that connection risks—those relating to employee engagement—were greater than any other group.

planning. Forty-six percent of them felt their succession planning efforts were not effective. In contrast, 36 percent of organizations with more than 10,000 employees felt their succession planning processes were very or extremely effective.

Perhaps unsurprisingly, organizations with less than 3,000 employees had the greatest difficulties with succession

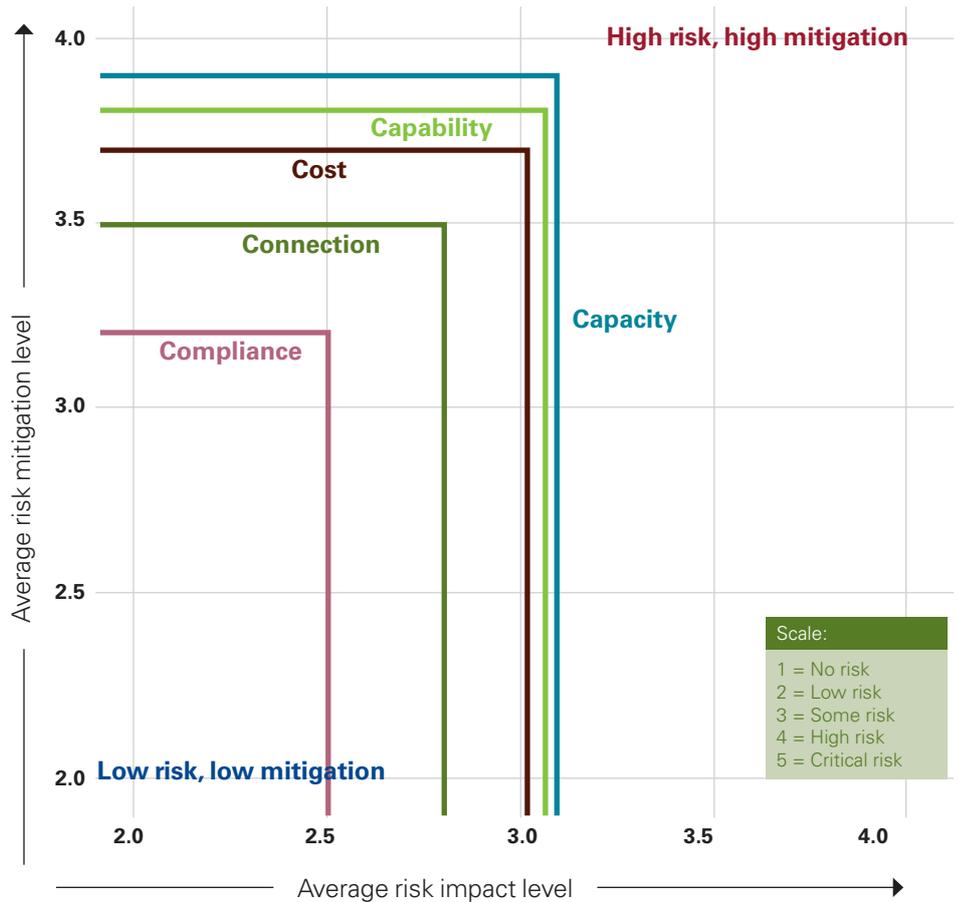
### 3,000–10,000 employees



\* This data is based on averages to a five-point scale. Half a point difference is equivalent to a 10–20 percent difference in perception, given the sample group's distribution.

Source: KPMG International

### Above 10,000 employees



\* This data is based on averages to a five-point scale. Half a point difference is equivalent to a 10–20 percent difference in perception, given the sample group's distribution.

Source: KPMG International

### Critical skills and capabilities

When we asked organizations about their effectiveness at assessing the critical skills and capabilities of their workforce, a key element of effective workforce planning, we saw significant differences when it came to size.

More than 28 percent of all organizations do not assess their employees on a regular basis for ongoing development. Yet for organizations with fewer than 3,000 employees, we see this jump to 34 percent.

Meanwhile, only 11 percent of organizations felt they were extremely effective at assessing critical skills and capabilities, assessing employees every six to 12 months. For small organizations, this fell to 4 percent.

Finally, only 53 percent of organizations with less than 3,000 employees felt their leadership took an active role in the coaching process—compared to 70 percent of respondents working at organizations with more than 10,000 employees.



# Call to action

## conclusion

### Time for a more holistic approach to talent management

Talent management is now a business-critical process for every organization.

So it is somewhat surprising then to see so many organizations persisting in managing their people in a flawed manner.

As our research clearly shows, talent managers continue to retain the 'War for Talent' as their dominant mental model, blindly adhering to a narrow need to hire and retain rock star high performers at all (and ever-increasing) cost. It has left talent managers irrationally preoccupied with the role of the individual (certain individuals in particular) at the expense of the wider workforce.

Yet evidence shows that a high performer's impact on an organization's success—when compared to a high-performing *workforce*—is much less significant. As long ago as 2001, the Stanford University professor Jeffrey Pfeffer published a paper, "Fighting the War for Talent Is Hazardous to Your Organization's Health," in which he pointed out that talent management professionals and their practices overvalued individuals at the expense of the team.

The war for talent fosters competition between employees. Yet common sense alone suggests that intense internal competition is unlikely to drive collaboration and agility. Pfeffer points out that companies that engaged in war for talent practices "set up competitive, zero-sum dynamics that make internal learning and knowledge transfer difficult ... and create an attitude of arrogance instead of an attitude of wisdom."

And perhaps most importantly, the war for talent has encouraged talent managers to ignore connectivity, compliance and, to a lesser extent, cost-related talent risks, leaving organizations vulnerable—at best—to disengaged employees.

#### Enlightened people management

Looking forward, talent managers must isolate and address a much broader array of talent risks, taking into account a critical need to connect their people to each other and to leadership; to forecast and manage costs and to move away from an approach to compliance that sees frontline managers simply ticking the box on performance reviews—or failing to conduct them at all.

And beyond these five Cs of capacity, capability, connection, cost and compliance, talent managers must also hardwire talent risk into their wider enterprise risk management frameworks—thereby placing it firm on the radar of the right people at the right level.

In addition, it is crucial that organizations begin to evaluate talent-related decisions for their return on investment, working in an evidence-based way. This means identifying the specific aspects of talent management that support their organization's priorities and measuring the right things in the right way. If it's targeted properly, this benefit-based analysis can provide a clear view of how best to tune into talent—and where to dial your talent management up or down.

In the workforce of the future, there'll be less of an obsession with a select few 'high-potentials', 'the top 200' and sorting individuals into nine boxes. Instead we'll talk about talented teams (as well as individuals) and organizations and talent ecosystems that promote organizational versatility and empower employees to work collaboratively. In short, we will focus on a holistic approach that generates successful leadership in every part of the business.

By contrast, the current, narrow approach leaves talent managers vulnerable to the preferences and preconceptions of the C-suite. This cannot be right for any business—now or in the future.

#### Robert Bolton

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# Appendix

## Which talent risks were respondents doing least about?

1

**Connection**

International mobility policies and processes make it difficult to transfer talent between countries.

2

**Compliance**

Talent management processes become non-compliant with local regulation, for example, data protection.

3

**Compliance**

Employee relations hinder rather than help talent management processes.

4

**Capacity**

A lack of workforce diversity.

5

**Connection**

Business leaders' reluctance to share talent across the organization.

6

**Connection**

Business leaders' and HR/talent teams' inability to work effectively together to manage talent.

7

**Compliance**

Managers view performance management and talent review processes merely as something to comply with, rather than a business-critical activity.

8

**Capability**

An inability to define the new skills or capabilities that will be needed by the business in the near future.

9

**Connection**

Business leaders' inability to engage with, motivate and nurture business-critical talent.

10

**Cost**

An insufficient budget for managing and developing talent.

Source: KPMG International



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