



Hot topics

# THE WAR ON TALENT?

**Talent management under threat  
in uncertain times**

**PART 1**



*'Our talent management initiatives are robust and believed to add value to the organisation. We therefore believe that the attraction and retention of talent is even more important in the current economic environment than it has been at any time in the past.'*

**Corporate HR Leader, Insurance,  
Banking and Financial Services Group**

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# VIEWPOINT

In the early part of 2009 there are signs everywhere of the economic downturn that has been gaining momentum since late 2007. It is impacting both our work and personal lives and is played out and reinforced on a daily basis by unrelenting media coverage of business closures, widescale redundancies and the threat of more to come. It is precisely because we have so many sources of information and media available to us now that we can't escape from all the depressing news of the negative impact on business and employment. The impact is clear to see on the well-being and psyche of the nation.

Rather than a 'war for talent' there currently seems to be a 'war on talent'. We wanted to find out how important organisations consider talent to be when times get tough. Our reason for surveying organisations about the impact of the downturn on talent management practices was not to further contribute to the negative press but rather to focus on some of the positive measures that can be taken to make the best of the situation, grasp any opportunities that present themselves and ensure through their continued focus on talent that organisations are able to bounce back faster and harder than competitors. We are therefore highlighting some of the practical steps that CEOs, HR professionals and all people managers can implement to fight against the likely 'war on talent', help lift us out of this current decline and ultimately contribute to the long-term success and sustainability of our organisations.

Indeed our findings show a number of surprising positives reported in relation to managing talent in a downturn:

- Organisations are focusing more of their time on engaging, motivating, retaining and fully using the skills of their existing workforce.
- There are increasing opportunities to recruit talent discarded by competitors.
- Greater scrutiny is being placed on talent management systems and processes – this seems to be both from a return on investment perspective and also by placing greater emphasis on more robust and transparent criteria for the selection and development of high-performing individuals – which can only be a good thing.
- Uncertain times, for the most part, have led to more honest and frequent communications between managers and employees, with individuals having a greater understanding of where the business is, for better or worse, and how their performance can make a difference to overall business success.
- Tighter margins are leading to greater scrutiny around pay and reward – the positive here is this might help to avoid some of the mistakes we have recently seen in the City, which some believe kick-started the decline.
- Companies are also thinking more creatively about approaches to non-financial rewards – small things that can have a big impact.

- A greater emphasis is being placed on ethical leaders who are able to motivate and lead in both the bad and the good times.

It is also worth highlighting that nearly three-quarters of the sample (74%) suggest their talent management strategies have not been affected by the downturn as yet. For some, there are signs that business might be affected in the coming months; however others are actually experiencing periods of growth.

As for some of the more negative findings relating to development and talent management freezes, it is essential that organisations avoid knee-jerk reactions and cost-cutting in the very areas that will make the biggest difference going forward. Now is not the time to halt employee development nor is it the time to postpone or scale back talent management strategies.

Ultimately, as many of our respondents emphasise, in a downturn managing, developing and motivating employees is even more important because it is the one thing that can differentiate their organisation and ensure that they not only survive the short term but thrive in the long term.

*'People and their development are the key to the success of any organisation, no matter what the economic climate...'*

This is the first in a topical two-part series examining talent management in uncertain times. The second report, 'Fighting Back Through Innovation', will be published in summer 2009 and examines in detail the creative talent management practices that organisations in different sectors are adopting in response to the economic downturn.

**Claire McCartney, CIPD, Organisation and Resourcing Adviser**

## SURVEY DETAILS

This survey was conducted throughout November 2008 and includes a sample of approximately 705 CIPD members who hold predominantly HR (78%), general management (11%) and operational roles (4%).

The respondents were drawn from a mixture of public (27%), private (65%) and not-for-profit organisations (8%) and come from a variety of small (38%), medium (32%) and large enterprises (30%).

Fifty-eight per cent of the sample are in senior positions (board directors, senior managers and

partners), 34% in middle management and 4% in junior management roles.

While definitions of talent management vary according to the needs of organisations, for the purposes of this survey we highlighted the CIPD's working definition. This is: 'the systematic attraction, identification, development, engagement, retention and deployment of those individuals with high potential who are of particular value to an organisation.'

Statistically significant relationships at the  $P < .05$  level will be indicated throughout the report by an \*. This survey achieved a 15% response rate.

# KEY FINDINGS

## The impact of the downturn

Just over a quarter (26%) report that their organisation has been forced to change its approach to talent management as a result of the current climate, with private service organisations most likely to be affected. For those organisations whose talent strategies have been affected by the current climate, the top four reasons given are:

*'Our learning and development budget has been cut.'*

*'We are placing an even greater focus on talent management.'*

*'We are shifting our efforts to focus on employee retention.'*

*'We are reviewing our current systems and talent processes for their cost-effectiveness.'*

Those organisations whose talent strategies have not been affected by the downturn give four main reasons for this:

*'Talent management remains a priority despite the uncertain climate.'*

*'My business has not currently been affected by the economic downturn.'*

*'Investing in talent provides a key way of investing in the future.'*

*'Businesses should place even more value on developing talent in the current climate.'*

## Talent management and reward budgets cut for almost a quarter of organisations

Almost a quarter of respondents (24%) work for organisations that have had their overall talent management budget reduced because of the economic downturn.

A similar number (24%) maintain that the downturn has affected their general approach to reward across the business and for those specifically identified as talent.

Changes made to reward strategies include:

- restricted pay increases
- bonus reductions or freezes
- more focus on rewarding top performers only
- a move to performance-related pay
- development cuts/greater targeting of resources.

### Managers need more support in managing talent

While 51% feel that managers are equipped to tackle the challenges of managing talent in a downturn to some extent, only 6% suggest they are equipped to a great extent and 13% feel they are not at all equipped.

Sector differences show that line managers within manufacturing and production and private services are more likely to be viewed as being equipped than those in the public and not-for-profit sectors.

Measures introduced to support managers to effectively manage talent in the downturn include:

- a greater emphasis on leadership and management development
- extra and targeted support provided by HR
- coaching and mentoring
- a greater emphasis on communication and open discussion.

### The silver lining: positive practices adopted

Finally: our results show a silver lining, on the whole, organisations appear to be adopting some positive talent management practices in response to the downturn, including:

- developing more talent in-house (55%)
- focusing on essential development (45%)
- continuing to recruit key talent (43%)
- placing an increasing focus on employee retention (35%).

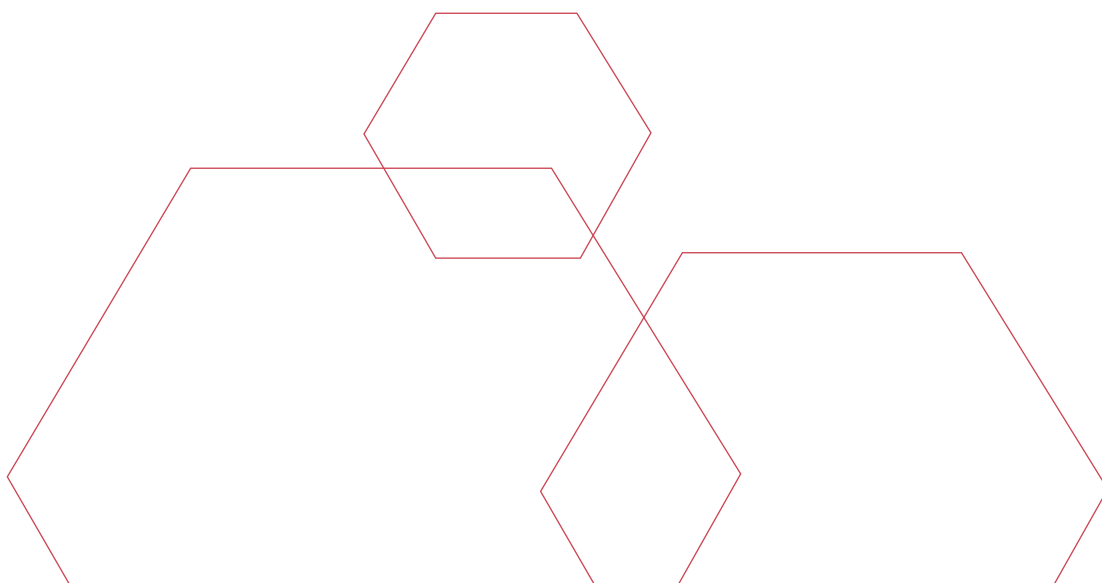
### Our conclusions

While it is encouraging that many organisations are maintaining their focus or placing even greater focus on talent management activities because of the downturn, others have clearly been affected (particularly private service sectors) and have put initiatives on hold.

Some organisations are clearly developing strategic approaches to talent management and see this as a key way of investing in the future; others have taken more of a piecemeal approach.

We are advocating that organisations adopt a joined-up approach to talent management and that HR seizes this opportunity to make a difference in uncertain times.

The next four sections of this report explore the findings summarised here in greater detail.



# THE IMPACT OF THE DOWNTURN: TWO DIFFERENT EXPERIENCES

A key objective of this research was to find out whether the current economic climate has affected organisational talent management approaches and strategies.

Just over a quarter (26%) of respondents have been forced to change their approach as a result of the current climate. The results show some significant differences across the sectors, with private service sector organisations (32%)\* especially likely to be affected (not for profit 20%, public 19% and manufacturing and production 19%).

The findings clearly show two different experiences – those whose approach has been affected by the downturn (for better or worse) and those who feel their strategies have remained the same regardless. Interestingly, respondents from both groups believe that talent management has become more important.

## A change of direction

For those organisations whose talent management strategies have been affected, this has resulted in both positive and negative practices. Positively, for some, the current economic circumstances have further prioritised the need for effective talent management processes. Organisations also seem to be focusing their efforts on the retention of high-performers and reviewing systems to ensure their effectiveness to maximise return on investment.

On the downside, many are experiencing cuts to learning and development budgets, some are initiating recruitment freezes and others are frustrated because talent management programmes have either been put on hold or cancelled altogether. Interestingly, only 3% are considering or have implemented redundancies. Is this an indication that organisations are keen to hang on to staff at least for the time being, even if they have to scale back development activities? Perhaps the messages of the ‘war for talent’ have stuck.

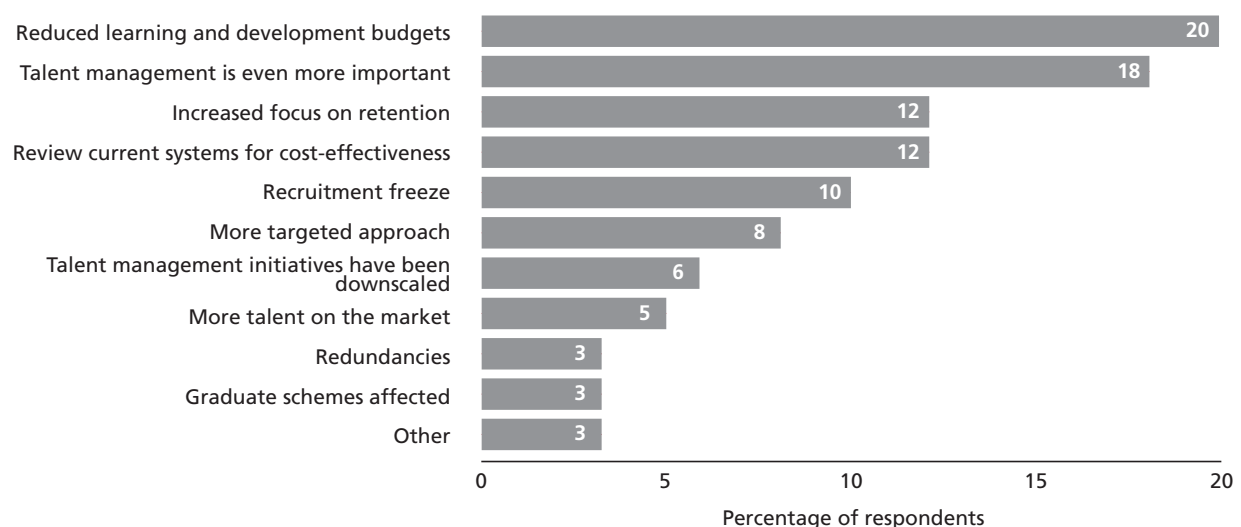
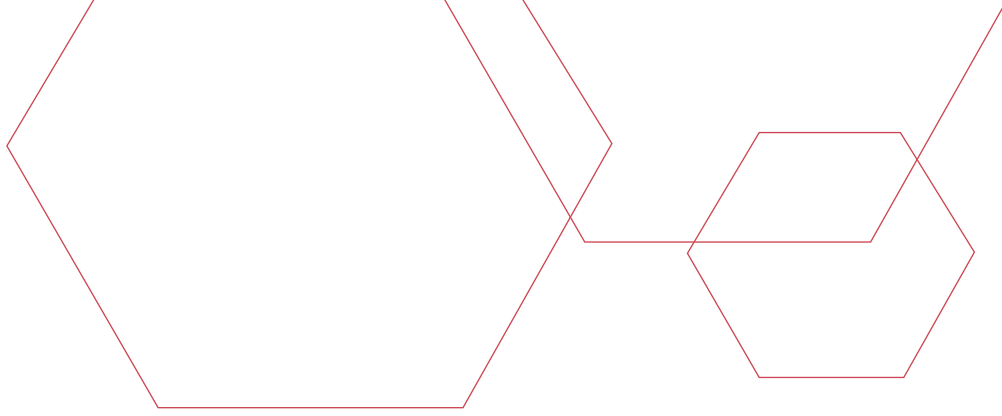


Figure 1: Impact of the downturn on talent management strategies



### **Our learning and development budgets have been reduced and are under threat**

A number of respondents are frustrated that learning and development budgets are currently under attack. Understandably this feels like a step backwards for those who have spent their time and effort designing programmes to develop and advance talented employees. There are concerns that this will either stop people from progressing or, worse still, see people being promoted without the skills, experience or exposure to perform roles effectively:

*'We do not have the funds to recruit new or train existing staff. It means that sometimes employees are in jobs by default but the company has neither the money nor resources to support them. All in all a lethal combination.'*

However, for others, increased scrutiny on the learning and development budget has made them focus on achieving greater value by doing things differently:

*'We have less budget to spend on coaching and development. We are looking at ways of delivering internally rather than using external providers.'*

*'We are reviewing our current systems and talent processes for their cost-effectiveness.'*

Another positive effect of the downturn is a move by some to review and evaluate current talent management processes to ensure they are producing as much value and return on investment (ROI) as possible:

*'With less cash to spend we have to make sure we get the best return for any investment in talent development. We are less speculative about additional resource for possible roles going forward. We are analysing data more to identify who gives best ROI.'*

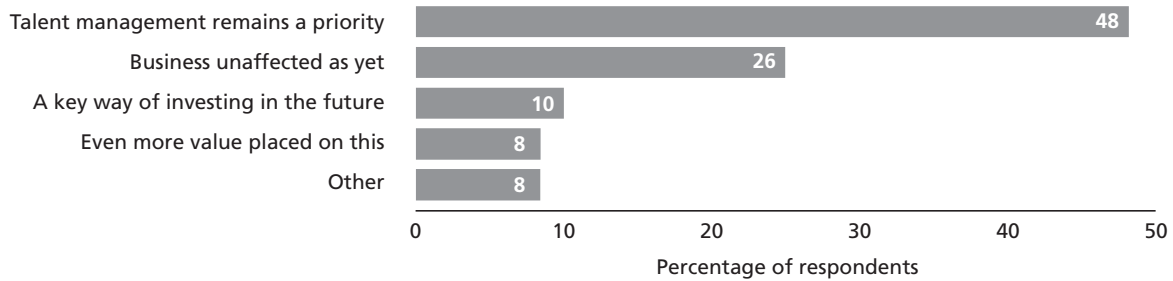
*'The impact from economic conditions requires a more holistic approach to talent management in ensuring both internally and externally systems are robust enough. This is required to spot, nurture and retain existing talent and also ensure that externally you have the correct attractive employment packages to interest external candidates and allow the opportunity for competitive or market advantage.'*

### **We are placing an even greater focus on talent management**

A positive effect of the wider economic uncertainty is a move by some to place even greater importance on talent management strategies. Many believe this will push them ahead of their competitors when the economy recovers and are holding on to a long-term view of the benefits a strategic approach can bring to their business:

*'Talent management has become more important; as we are reducing recruitment levels, we need to know who we can move to our critical roles should they become vacant.'*

Part 2 of this series on talent management will explore such positive and innovative responses in more detail.



**Figure 2: Why talent management strategies have not been affected by the downturn**

**We are shifting our effort to focus on employee retention**

There is also a move to focus more effort on retaining valued employees, especially as recruitment activity has been reduced or frozen by some. Organisations also seem keen to support employees in these uncertain times and help them to see a future with the business:

*‘Even more important to keep good people, so I think there is heightened awareness of keeping close to them and making sure they still get interventions to develop them.’*

*‘We realise we need to focus on building our organisational capability from within – and looking at offering career opportunities for our key staff in order to retain them through the difficult times.’*

*‘Increased pressure not to recruit additional people on permanent contracts actually makes us consider internal, developmental moves in a more open-minded way; that is, it challenges us to think more about offering opportunities to people who are not “perfect matches” but who have transferrable skills and who demonstrate the right behaviours that will help them to be successful in a new role or a more senior position.’*

**Business as usual but with a twist**

Those organisations whose talent strategies remain unaffected give a number of reasons for this, including the fact that talent management remains a priority regardless of the economic situation, becoming in some cases even more important and a way of investing in the future. Other industries and sectors are as yet unaffected by the downturn and some are even experiencing growth and expansion.

*‘Talent management remains a priority despite the uncertain climate.’*

For many organisations, talent shortages and talent management concerns supersede the ups and downs of the economy. Some organisations say they need to focus on talent to ensure survival, while others feel that they simply cannot afford to neglect the development of their staff.

*‘Still a priority to develop all staff in order to survive.’*

*‘We always face a scarcity of skills in our sector and we cannot afford to neglect the development of staff with potential.’*

*'Because ALL of our employees are talented in one way or another (or we wouldn't employ them!), they still need motivating, they still need ongoing development and they still deserve to be rewarded. Changing our strategy now would send the wrong message to our employees and we have taken a strategic decision to actively support our staff through this difficult time.'*

### **My business has not currently been affected by the downturn**

Some sectors and industries (such as pharmaceuticals, engineering, specialist healthcare, defence and security) have not yet been affected by the downturn and in particular it has not affected revenue targets. As such, talent management strategies have kept apace with some respondents suggesting their organisations are experiencing growth and expanding, but others are beginning to see signs that they could be affected in the coming months.

*'The economic downturn has not affected our business and we are still able to manage and promote development.'*

*'The current economic downturn has not yet impacted on the pharmaceutical industry.'*

### **Investing in talent is a key way of investing in the future**

Encouragingly many see talent management as a long-term growth strategy and a way of achieving future sustainability. Reducing effort now is seen to lead to serious repercussions in the long term:

*'If we reduce efforts on talent management we suffer the consequences years down the line, for example stopping graduate recruitment affects the talent pipeline in the future.'*

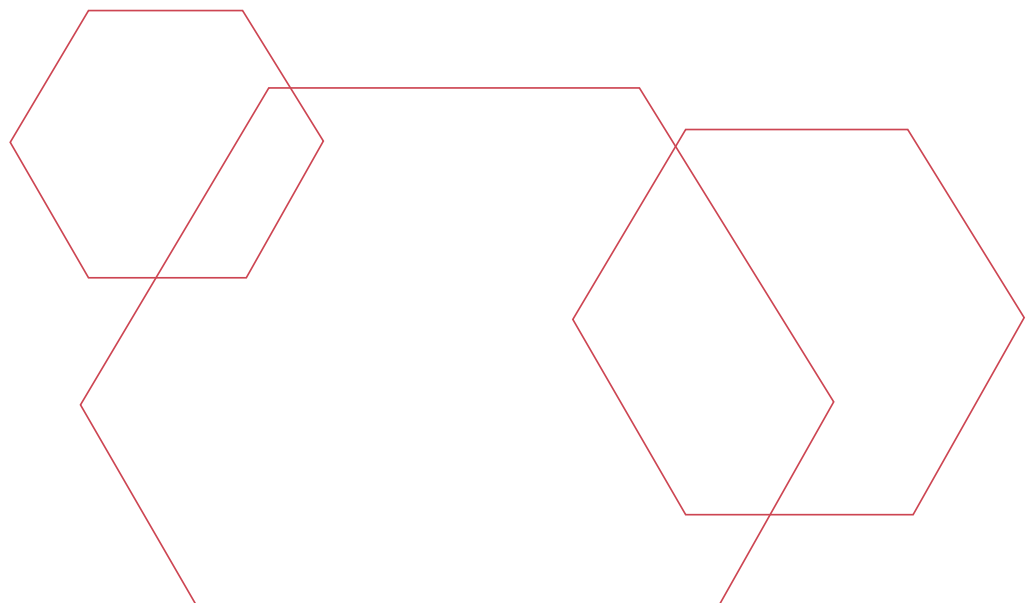
*'The company still needs the people of tomorrow with the necessary skills and knowledge.'*

*'We are placing even more value on developing talent in the current climate.'*

Finally, respondents again suggest that as a result of the downturn more importance should be placed on talent management planning. This suggests that their strategies have been affected by the climate but this has actually resulted in a positive impact.

*'Because development has always been important to us. If anything, it will become more important.'*

*'Because we have just launched a new process and feel that talent management is even more important than ever.'*



# TALENT MANAGEMENT SPEND AND REWARD BUDGETS CUT FOR ALMOST A QUARTER OF ORGANISATIONS

Almost a quarter of respondents (24%) work for organisations that have had their overall talent management budget reduced because of the economic downturn.

A similar number (24%) maintain that the downturn has affected their general approach to reward both across the business and for those specifically identified as talent. There are significant differences across the sectors, with private service organisations' approach to reward most likely to be affected (30%) and public sector organisations least likely to be affected (14%)\*. Additionally, larger organisations' (5,000+ – 18%) approach to reward is less likely to be affected across the board than smaller organisations\*.

### Restricted pay increases

A number of organisations have restricted or frozen pay increases altogether as a result of the downturn. Respondents also spoke of the delay or postponement of salary reviews and the fact that this and poor pay increases were likely to have a negative impact upon their recruitment and retention efforts:

*'Across the business we have restricted pay increases and some staff have not had a pay increase.'*

*'We are having to be very cautious about cost-of-living pay awards in light of the current economic challenges.'*

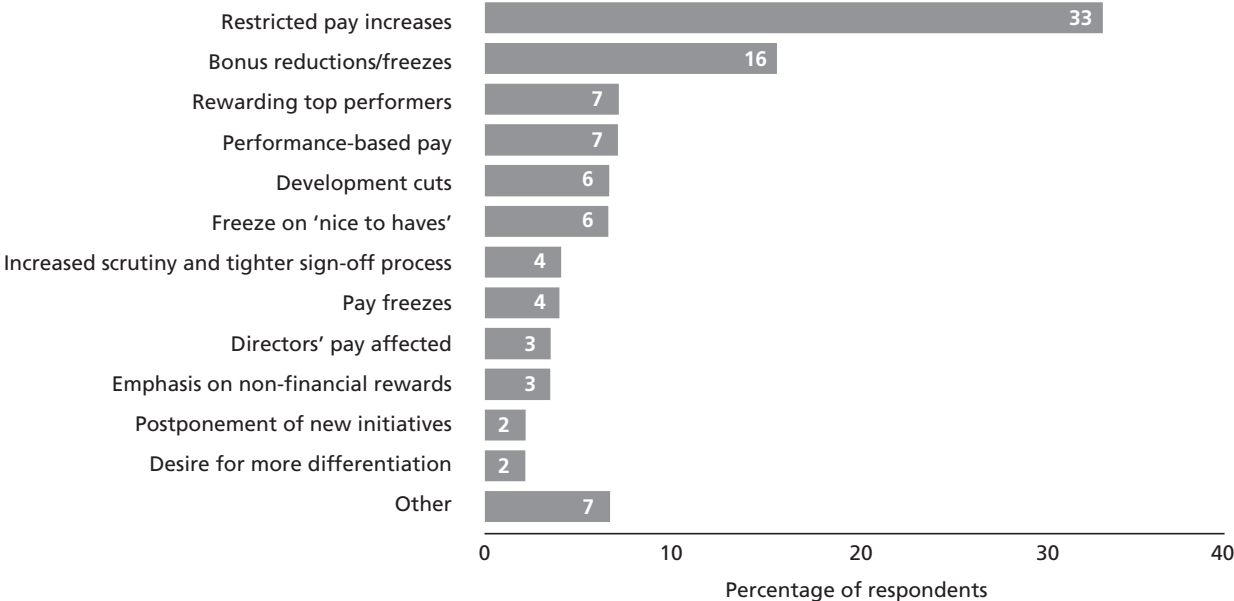
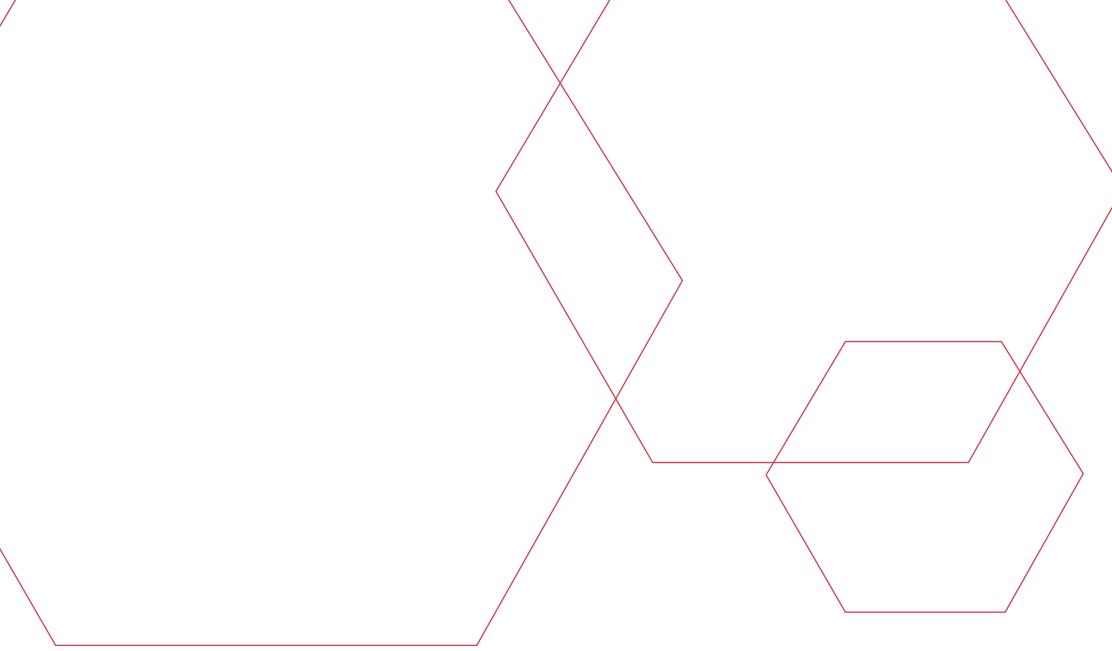


Figure 3: Changes to reward strategies



*'Reward has, sadly, become a case of "be glad you have a job" and the smallest reward possible taken as the more pragmatic route. This is a high-risk strategy by the leadership team as the environment indicates the high potential to lose key players.'*

#### **Bonus reductions/freezes**

Similarly, several organisations are reducing or freezing bonuses. Others have postponed new reward systems or have reworked old approaches:

*'Year-end bonus scheme reduced and middle managers bonus negotiated to a lower rate.'*

*'Potential new bonus systems curbed/stalled.'*

*'Change to how bonus system works for retail employees and no bonus for head office or senior managers.'*

#### **Rewarding top performers**

Some organisations are ensuring that top performers are not negatively affected when it comes to reward and are differentiating pay accordingly:

*'We have taken measures to ensure that our best performing staff have incentives to stay with the business and enhance their performance.'*

*'Promotions accelerated to further retain talent.'*

*'As the bonus pool may be reduced this year we will see a differentiation of the spend (for example, high-performing people will be extremely well rewarded and those who have made little contribution are likely to get nothing – previously they may have got something).'*

#### **Performance-based pay**

Some organisations are implementing performance-based pay systems in light of harder times. A number of respondents emphasised that their new performance-based pay systems were closely aligned to business performance. One respondent however suggested that as a result of the economic backdrop they had moved away from performance-related pay.

*'About to implement performance-based pay.'*

*'More focus on discriminating on good performance.'*

*'Looking to introduce a new, more cost effective performance-based reward scheme aimed to encourage the "right" behaviours.'*

The last comment here raises an interesting point. Could this be signalling a move to rewarding behaviours and values as much as current business targets?

# MANAGERS NEED MORE SUPPORT IN MANAGING TALENT

Our findings show that managers need greater support in spotting and developing talent and engaging and motivating employees in a downturn.

While 51% feel that managers are equipped to some extent, only 6% suggest managers are equipped to a great extent and 13% feel they are not at all equipped. Line managers within manufacturing and production and private services are more likely to be better equipped to tackle the challenges of managing talent in a downturn than those in the public and not-for-profit sectors\*. Those respondents who work for smaller organisations (500 or fewer) are also more positive about line managers' capability (61% to a great extent or some extent)\*.

## A greater emphasis on leadership and management development

Many respondents talked about the introduction of a variety of management and leadership development interventions to properly equip managers. While some spoke in general terms – 'launching leadership and management development programmes' – respondents also referred to specific training and development around particular themes, including:

- change management
- talent management and development
- people and performance management
- decision-making and difficult conversations.

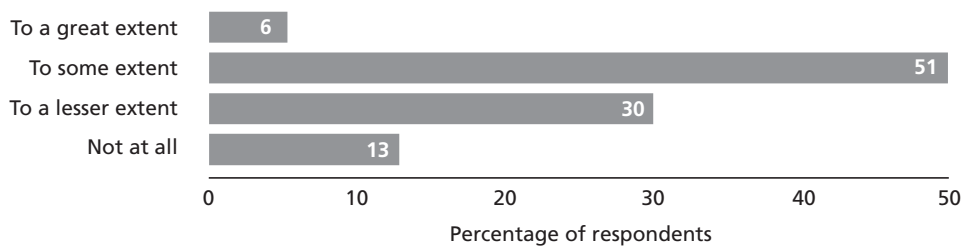


Figure 4: Extent to which managers are equipped to manage talent in a downturn

### Extra and targeted support provided by HR

A number of respondents referred to the extra support HR was personally providing to line managers, particularly through the role of the HR business partner. This support related to a number of areas, including:

- dedicated support during a downsize
- advice on talent and performance management and employee relations
- increased communication and information
- HR reorganisation to improve support.

### Coaching and mentoring

Coaching and mentoring was frequently mentioned as a more personal approach to developing line managers. This included coaching and mentoring line managers on a one-to-one basis and training managers to act as coaches to their teams.

*‘Coaching is being introduced as part of our managing change programme and this will give support in this area.’*

*‘Line managers are being provided with advice and guidance on being a coach and/or mentor. For those line managers that suggest improvements to the scheme or share lessons there is a bonus award scheme.’*

*‘Coaching line managers has been an effective way rather than general training. Depending on their business line, they have different challenges and one of them has been managing in a global environment. I have worked on team-building sessions where they work with their staff to redefine their vision and objectives. This has proved very effective.’*

### A greater emphasis on communication and open discussion

Finally, organisations are also increasingly being honest with managers about the current economic climate and its affect on the business and encouraging managers to have discussions and open communications with employees on this topic:

*‘Company-wide discussions, led by MD and board – consistent message.’*

*‘Our organisation’s culture means that we maintain a positive focus and identify opportunities in any given situation; we encourage clients to do the same. The focus is on “what can we gain from this experience?” rather than “what are we losing?”’*



**Figure 5: Practices introduced to support managers**

# THE SILVER LINING: POSITIVE PRACTICES ADOPTED

On the whole organisations appear to be adopting a number of positive practices in response to the downturn.

## Growing internal talent and focusing on essential development

Over half (55%) are developing more talent in-house. Organisations are also thinking about essential development activities, with 45% adopting a more targeted approach.

## Recruitment of talent continues for many but different methods are adopted

Organisations are still engaged in recruiting key talent (43%), although over a third (34%) are more likely to do the recruiting in-house and 22% are using new media as a cost-effective approach. However, 23% have initiated a blanket recruitment freeze and particularly those in the manufacturing and production sector (30%)\*.

## Greater focus on retention of good performers

There is a greater focus on the retention of existing employees (35%). A quarter of respondents (25%) have had to downsize but have consciously preserved key talent. This is especially likely in the manufacturing and production (32%)\* sector and larger organisations (33%)\*. Just 3% of those that are downsizing are having to let go of key talent.

## Private sector organisations are more likely to recruit talent discarded by competitors

Eleven per cent are actively recruiting talent discarded by competitors. Surprisingly, those from the private sector are more likely to be recruiting from competitors than those in the public and not-for-profit sectors. Finally, talent management practices have been unaffected for 30%.



Figure 6: Practices adopted in response to the downturn

# CONCLUSIONS AND RECOMMENDATION

Our research suggests that talent management becomes more, not less, important in an economic downturn. This is supported by other recent studies (see References). We are still in the early days of the downturn and we need to take care that the threat of a 'war on talent' does not progress from a phoney war to a real war. Unfortunately for some, the downturn has resulted in development cuts and recruitment freezes. We argue that now is not the time to cut development activity or to renege on carefully conceived talent management plans. However, more cost-effective solutions may need to be found and return on investment will come under greater scrutiny.

For others the downturn is providing an opportunity to review current systems for general effectiveness, to think creatively about doing things differently when resources are tight and to prioritise specific aspects of talent management, such as the retention of high-performers.

So, in other words, a number of positive practices have already been adopted as a result of these challenging circumstances. We suggest that these practices are likely to produce a positive return for organisations who maintain their talent management commitments. Below are some practical recommendations for good people performance in uncertain times for CEOs, HR professionals and all people managers, drawn largely from the research suggestions of their peers.

## Recommendations

- Make honest and frequent communications about the realities of your business performance and how individual contributions can make a difference.
- Rather than reducing development activity, think of ways of doing more for less – perhaps by taking some development in-house and involving senior managers in the assessment, development and progression of high performers.
- Focus on the engagement and retention of your current employees – make sure that they can see a future with the business and have clarity around career paths and work that is meaningful to them.
- Support managers to engage, develop and retain employees, particularly in uncertain times, through leadership development, coaching and mentoring and practical guidance from HR.
- Review the cost-effectiveness and impact of your talent management activities – this is something that you should be doing continually anyway but is often the bit that gets missed out or that organisations find most difficult.

## Part 2: Fighting back through innovation

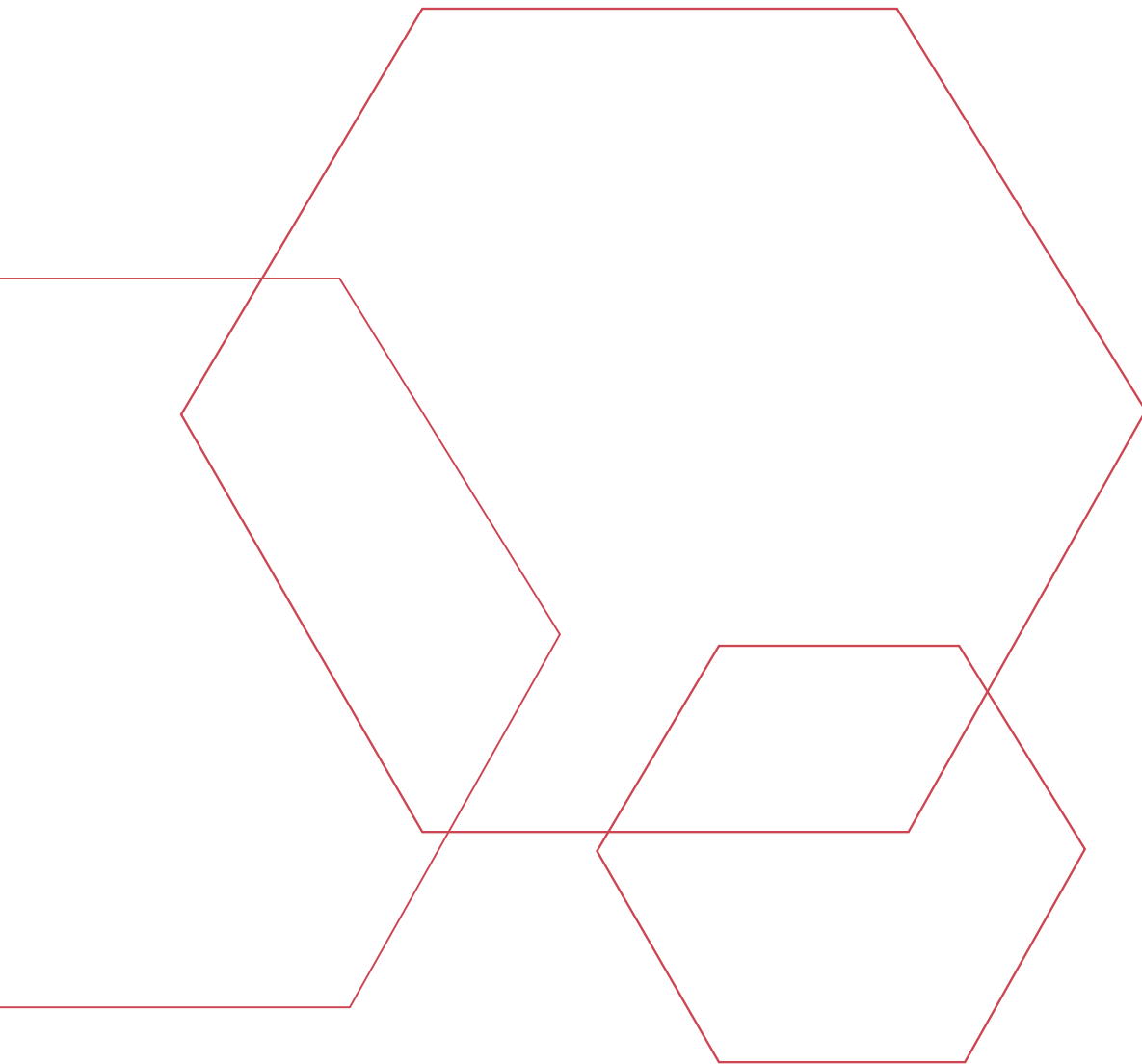
The *War on Talent* is the first in a two-part series looking at talent management in uncertain times. Part 2 *Fighting Back Through Innovation* will be published in summer 2009 and will highlight the innovative talent management practices that organisations in different sectors are adopting in response to the economic downturn. If you would like to be notified when this report is published, please email [research@cipd.co.uk](mailto:research@cipd.co.uk)

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