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The Upcoming Crisis in Talent Management

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A crisis of shortages and gaps in talent at U.S. companies is gathering on the horizon. The coming wave of retiring business executives at companies in the developed world, extreme shortages in the numbers of their replacements, looming gaps in the talent and skills of these replacements, global competition for talent and falling birthrates in the developed world are some of the key forces acting together. This crisis is powerful; it will radically change companies and the effects will be felt for a very long time.

The looming gap in business talent is not simply an issue of the talent disciplines — talent management, HR, succession planning and training — but is a fundamental, far-reaching strategic business challenge. Companies that respond quickly in the short term and intelligently over the long term as they manage their knowledge workers will enjoy a substantial competitive advantage. Companies that don't respond may not even realize their misstep until it's too late, as sales, margins, efficiencies and other competitive advantages quickly erode due to the inadequate decision making of poorly prepared managers and leaders. Leadership at companies has always eventually changed, and retirement is not a new phenomenon. However, understanding the roots of the crisis in talent lies in understanding that while in the past this process occurred over a manageable period

of time, allowing for planning and smooth transitions between leaders, the current crisis involves an unusually large number of leaders retiring in a wave over a short period of time.

A Surge of Retirements of Current Leaders

Consider these alarming statistics: 40 percent of the U.S. labor force is currently made up of baby boomers (born between 1946 and 1964), according to the U.S. Bureau of Labor Statistics and "Business Executives' Attitudes Toward the Aging Workforce: Aware But Not Prepared?" — a survey conducted by BusinessWeek Research Services for AARP. However, by 2010, there will be a 52 percent increase in workers in the 55-to-64 age bracket compared with 2005, and 40 percent of the U.S. workforce will be considering retirement, according to "Talent Management: The New Business Imperative" by BusinessWeek Research Services. The first wave of executive retirements will begin in the next four years, according to "Workforce Analytics: Driving Talent Management Strategies Through Workforce Data."

Clearly, not all baby boomers will retire exactly when expected. In a 2007 McKinsey & Co. study titled "Serving Aging Baby Boomers," roughly half of boomers surveyed were anxious about their financial preparedness for retirement, a sentiment further aggravated by the current financial crisis and by an unemployment rate of 9.5 percent in July 2009, according to the U.S. Bureau of Labor Statistics.

While current leaders may work a few extra years before retirement due to the financial crisis, this will not significantly lessen the



impact of the near-term surge in leadership vacancies at U.S. companies.

Short Supply of Emerging Leaders to Replace Retiring Leaders

Retirees will take with them millions of years of on-the-job experience. Yet there are far too few emerging leaders to replace them.

The U.S. Bureau of Labor Statistics projects a shortfall of 10 million qualified employees beginning in 2010, with a gulf likely to increase in following years.

According to Deloitte Consulting LLP, by 2012, the U.S. labor force will be short 6 million college graduates to fill new jobs and to replace retired workers. By then, according to The Conference Board, workers from ages 35 to 44 – the subset of the workforce that fills the majority of senior management ranks – will decline by 19 percent.

Seventy-four percent of U.S. business executives surveyed agreed the U.S. will experience a shortage of skilled workers over the next decade, according to BusinessWeek Research Services for AARP.

Emerging Leaders Lack Needed Business Skills

Further compounding the crisis in talent, the business skills of emerging Generation Y or millennial leaders appear insufficient for the high-level roles they will soon be taking on. More than 50 percent of respondents in a 2006 study by the American Society for Training & Development (ASTD) said executive-level and managerial skills represent the most important skills gaps in their organizations. Yet only one-fifth of

companies surveyed in a 2006 high-performing workforce study by Accenture said their employees understand the company's strategy.

Research from PriSim, a provider of custom business simulations, shows a need for emerging leaders to develop both basic financial understanding and strategic knowledge of their company. Over a three-year period, live surveys were conducted of participants in PriSim business training courses with an average of 14 years of experience. Results indicated that prior to the course, participants' knowledge of finance was low. Thirty-six percent did not know the difference between an income statement and a balance sheet. Meanwhile, participants' basic knowledge of their company was lacking. Only 52 percent knew the size of their company as measured by total revenues.

New and emerging leaders are generally well aware they have learning gaps that need to be filled. From questionnaires completed prior to the courses, attendees from across all major departments within companies defined their current competency level on a 100-point scale in several areas:

- Strategic thinking: 65.1
- Business planning: 64.3
- Financial statements: 64.7
- Financial metrics: 62.6
- Leadership: 72.8

These scores equate to a very low D grade in all areas except leadership, which scored only a low C grade.

It is imperative that the emerging leaders



slated to fill senior leadership positions quickly develop the critical business skills to adequately fill these vacancies. However, a 2008 study by McKinsey & Co. found most companies were as unprepared for the challenge of finding, motivating, training and retaining leaders as they were a decade ago.

The Challenges of a Gen Y Workforce

Gen Y's numbers are swelling and already represent 12 percent of today's workforce, according to "Making Talent a Strategic Priority" by McKinsey & Co. Talent disciplines are on the front lines to motivate and develop this generation.

Gen Y seeks a much greater work-life balance. Paradoxically, they also are demanding higher rewards, according to "The Next 20 Years: How Customer and Workforce Attitudes Will Evolve" by Harvard Business Review. And, according to McKinsey & Co., Gen Y job-hops; companies face a risk of higher attrition if Gen Y's expectations aren't met.

Yet Harvard Business Review indicates Gen Y can perform well when given clear goals and objectives and allowed to work in groups, and its members are dedicated to civic duty and volunteerism.

Skills in strategic thinking and finance are critical for these new emerging leaders, and the goal should be to exceed the skills of current leaders, not just meet them.

A 2006 to 2008 Harvard Business School study — published in Harvard Business Review as "Can You Say What Your Strategy Is?" — found that most current executives cannot articulate the mission and strategy of

their business in a simple statement. And 68.4 percent of experienced chief financial officers polled by PriSim at a recent industry CFO conference did not know the basic definition of the term "profit margin."

The acceleration of the crisis in talent in the next five to 10 years will catalyze radical change within U.S. companies. Businesses' ability to respond to this challenge will solidify their place on the competitive field, positively or negatively, for decades beyond.

Navigating Through the Crisis in Talent

In spite of the distressing warning signs, the crisis in talent can be navigated by taking the following actions:

- Closely align talent management and succession planning with business strategy. Development must tie to strategy, yet a 2006 McKinsey & Co. study showed that more than half of their senior management interviewees felt that talent management strategies did not align with business strategies.
- Train like the future depends on it. Invest in high-impact leadership and business skills training, including strategic thinking, financial acumen and leadership skills.
- Ensure the talent disciplines learn the business. To be credible as change leaders, staff within the talent disciplines must individually gain a deeper knowledge of the business, including finance.
- Make training an enriching experience instead of a painful one. Training departments must work to combat the negative emotions that



attendees often feel toward training courses.

- Utilize business simulations and experiential learning. Incorporate computerized team-based business simulations into training curricula. Simulations are an evolving training tool uniquely suited to Gen Y learners.
- Become an employer of choice. Transform the organization into an employer of choice by establishing compensation plans, training programs, remote work arrangements and the scope of job responsibilities so that emerging talent is inspired and motivated.
- Learn from the ones doing it right.
- Learn from the approaches of smaller companies – not just large companies – that are successfully dealing with the crisis in talent.

About the Author:

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