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Cutting Through the Fog: Navigating the Messy Wars for Talent

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Contradictory voices are arguing about the war for talent. Some experts claim a worker shortage is looming, while others say the workforce is continuing to grow. Likewise, their prescriptions for how to build a strong talent pool are all over the map. What's a business person to make of this confusing debate?

As is often the case when experts disagree, there is some truth on all sides. As one of the authors of *The War for Talent* book, I feel some responsibility to make sense of the apparently conflicting advice. In the process, I will take my share of the blame for the confusion, while attempting to dispel the fog.

We can only make sense of the war for talent if we look at one type of worker at a time. There are many different kinds of workers, and each one has a distinct market with its own demand/supply dynamics. To craft an effective talent strategy, organizations need to understand these differences and design a talent management approach that is appropriate for each type.

Our original *War for Talent* research focused on business leadership talent - managers who lead companies, divisions, business units, or functions. In the late 90s, many organizations were shocked to see some of their talented business leaders jump ship to join dot-coms. At the same time, we watched the extraordinary gyrations in the market for IT talent. Collectively, we woke up to the emerging war for talent.

Obviously, business leaders and software designers are just two specific kinds of talent. What about nurses, scientists, industrial electricians, and so many others? Are the same forces affecting them? And what about flight attendants, retail sales staff, and hospital porters - do the same talent management approaches apply to them, too?

Different Kinds of Workers

In the broadest sense, there are three types of workers: those in talent-intensive roles, specialized-skill roles, and low-skilled roles. Granted, this framework is a simplification - there are many roles that don't fit neatly into one of these categories. However, it helps us see the different dynamics at play and understand a range of different people management strategies that might be appropriate. In other words, it can help us navigate the war for talent.

Let's start with those people in "talent-intensive roles" - portfolio managers, research scientists, museum curators, and the like. In these roles, there is a huge difference between the value creation of a high performer and an average performer. Performance differs widely because these are highly complex roles that require a high degree of creativity, judgment, and tacit knowledge, along with very sophisticated skills. The top investment bankers, best CEOs, and elite software designers achieve levels of performance that have twice, three times, even ten times the impact of average performers. In statistical terms, talent-intensive roles have fractal-like distributions, where the people at the top end of the distribution curve have many more times the output than those at the center of the curve. Bill Gates captured this concept when he said, "If it weren't for 20 key people, Microsoft wouldn't be the company it is today." Those 20 people probably performed at fractal-like levels—and as a result Microsoft outperformed the competition by the astonishing multiples we are all familiar with.

In these talent-intensive roles, one individual can have a huge influence on their organization's success. The quality of the fashion designers at an haute couture enterprise can make or break that business, for example. Likewise, the quality of the consultants is what makes strategy consulting firms successful. And the quality of the senior executives can mean the difference between winning and losing for most companies.

Talent-intensive professions require a high degree of innate talent and many years of education, development, and experience. There is also a high drop-out rate as people grow into the most senior levels of these professions. Only one in ten law students makes it to senior partner at the top tier law firms, and many high-potential business managers derail before they make it to the top executive ranks. Since relatively few people have the ability and desire to excel in these talent-intensive roles and it takes many years to grow them, the supply of talent-intensive workers is constrained - and the best are rare indeed.

At first glance, specialized-skill workers look a lot like talent-intensive workers. They are highly educated, talented professionals, after all. There are some important differences, however. Because these roles tend to follow more prescribed methods and require less creativity, there isn't as much performance difference between individuals. And the level of innate talent required isn't as high. With the right education and training, many people could become a capable nurse, librarian, or accountant. Specialized skill workers require several years of education or training, but since a vast array of experience isn't necessary, they can function very capably soon after graduation. Professional accreditation goes a long way in telling you who will perform capably in these specialized-skill roles, since the required knowledge and skills can be taught, tested, and verified.

At the other end of the spectrum are workers in low-skilled roles. Among this population, there is only a small difference in the performance of individuals in the same environment. Granted, there can be large differences in the performance of the workforce from one company to another or from one division to another, but that has more to do with the culture and management processes than with individual ability. It doesn't require high levels of innate talent to perform well as an assembly line worker, retail sales associate, or administrative assistant. A large portion of the workforce could be trained to do these roles relatively easily. And the training doesn't take long. After a few days or months, a new flight attendant, hospital porter, or call centre worker is ready to go.

Many Different Wars for Talent

At the heart of this entire issue lies one central question: is there or is there not a war for talent? To answer this question, we first need to understand the underlying forces that impact labor markets and how these forces affect each kind of worker. These forces include the rising value of intangibles, workforce demographics, increased mobility of workers, increasingly global talent pools, and fluctuations in demand forces for certain kinds of workers.

Many authors have described the rising value of intangibles in our economy. In recent decades, the main source of value creation has shifted from tangibles, such as capital, factories, and geography to intangibles, such as brands, relationships, and innovation. Of course, people - particularly talent-intensive workers - are the primary source of those intangibles. Thus, the high dependence on talent is not only true for professional service firms, but increasingly for all industries and sectors.

Workforce demographics are an often cited – and often misunderstood – factor in the mess we call the war for talent. Fortunately, Peter Cappelli has helped clear up some of the misconceptions.¹ He points out that the total workforce in the US and Canada will not be shrinking anytime soon, although it is growing at a much slower rate than it did over the past two decades. Therefore, the idea that a widespread worker shortage in these countries will lead to a widespread talent war is overplayed.¹ More significant than the total size of the workforce, however, will be the changing age mix within the workforce. For roles that are typically filled by a certain age group, the peaks and valleys of baby booms and busts can be a significant factor easing or exacerbating the competition for a specific type of talent.

The new deal between employee and employer has increased worker mobility and created new challenges for companies. Individuals are much more inclined to jump ship for a better opportunity than they were in the days of the loyalty-for-security deal. And the market mechanisms of Internet recruiting and search firms have oiled the gears to make the talent market more transparent and fluid. In this new environment, companies not only have to hire more people to replenish the pool, but they have to work harder than ever to continuously retain their best people.

Talent pools also are becoming more global. Of course, immigration has always been an important labor source for Canada and the US, and it will continue to be so. However, integrating the higher-skilled people employers need today is proving to be more difficult. Issues like accreditation, cultural differences, and language are more challenging for pharmacists and doctors than for brick layers and carpenters. In addition to importing workers, companies can now offshore jobs to markets with more abundant and less expensive talent. Granted, offshoring has been happening for many years with manufacturing jobs, but the Internet has opened the doors for many knowledge-based jobs to be offshored as well. As many employers have discovered, tapping foreign labor pools can quickly alleviate talent supply constraints.

Fluctuations in demand for workers can be sudden and substantial. Thus, demand forces often become the dominant factor in the dynamics of a particular labor market. Certainly the overall business cycle has a major impact on many labor markets, sometimes in very dramatic ways. The market for newly minted MBAs experienced a terrible boom-bust cycle as the consulting and investment firms faced unprecedented competition for the top half of the class. At the peak of the dot-com boom, afraid many students would rush to join the “new economy” companies, these consulting and investment firms made more than their usual number of offers. But the bubble burst before offers were accepted or declined, and these firms were stuck with large numbers of new recruits pouring in their doors just as the demand for their services softened with the overall economy. After two years of recruiting frenzy, many of these firms didn’t even go to campus the next two years.

These five factors come together in different ways to create a war for talent - or more precisely, many little wars for talent. A war for talent exists when the demand for a particular type of worker outstrips the supply. The greater the supply deficiency, the more intense the war for talent. The longer it takes to develop a particular type of worker, the longer lasting that war for talent will be. The more mission critical the role is for an organization, the more seriously a war for talent threatens that organization’s success.

¹ In the US and Canada the labor force grew 2-4% per year during the 60s and 70s. By 2010 the growth rate will be less than 1%. In many other developed countries such as Japan, Italy, and Finland the workforce has started shrinking. (Source: *The Economic Implications of Aging Societies*, Steven Nyce and Sylvester Schieber, Cambridge University Press 2005)

Talent-Intensive Workers: An Ongoing War

Talent-intensive workers always find themselves at the heart of the war because of the differential quality of performance, the rarity of the innate talent, and the long time it takes to develop a seasoned pro. And recent forces have only served to intensify it. We can see the impact that the rising value of intangibles and increased talent mobility has had on compensation levels. In his article "Capital vs. Talent: The Battle That's Reshaping Business,"ⁱⁱⁱ Roger Martin explores cases where owners have had to give a larger share of the economic profit to talented workers. One of the most striking examples can be found in Hollywood, where stars frequently walk away with tens of millions even as studio owners take a loss. All of the examples Martin cites are in talent-intensive roles, such as CEOs, investment bankers, and product developers. This big shift of wealth from capital to talent will not be occurring for low-skilled workers or even for specialized-skill workers because they don't have the same kind of differential impact that those in talent-intensive roles do. A film studio may have to pay a high rate to a makeup artist if they are in short supply, but it will never come close to what a star like Johnny Depp can command.

The battle for business leadership talent is shaped by these general forces, but there are other, more specific forces at work as well. The primary driver of the war for leadership talent is demand for higher quality leaders at all levels in organizations. Leading a company, division, or business unit has never been more challenging. Technological innovations, industry structural changes, globalization, and the demands of the capital markets for double-digit growth are putting enormous demands on today's leaders. Most companies are hungry to upgrade the quality of leadership talent deep in their organizations - not just the top ten executives, but the top 50, 100 or 500.

At the same time as demand for highly capable executives is increasing, there are challenges on the supply side as well. Companies have been riding the swell of baby boomers who are now 45- to 65-years-old, the typical age for senior leadership roles. A few years from now, however, these baby boomers will be retiring in large numbers - as many as 30-60% of senior managers in mature companies. Much to their dismay, many companies are finding that their internal pipeline hasn't been geared up to produce enough next generation leaders. Not only is the 25- to 40-year-old group less numerous in the external talent market, but this generation often grew up in organizations that had cut back entry-level intake, downsized and de-layered middle management ranks, and cut back (or eliminated) their leadership development programs.

The worst of the leadership talent crunch is coming over the next decade. It will hit some companies harder than others, but the whole pool will be affected as companies short on leadership talent recruit more heavily from those who have developed a stronger internal supply. And since business leaders are a mission-critical, talent-intensive role that are impossible to outsource or offshore, the stakes are high indeed.

Specialized-Skill Workers: Isolated Battles

The competition for specialized-skill workers varies greatly from one type to another - some have a severe war for talent, while others don't, depending on the specific demand/supply forces at play. Because these roles require very specific technical knowledge and because it takes a long time before new workers come on stream, they are very susceptible to supply constraints. Offshoring can be a good way to quickly tap additional supply of workers - lower cost workers at that - but this strategy only works for certain kinds of jobs (programmers, engineers, and accountants) and not for others (nurses, industrial electricians, and teachers).

Peter Cappelli postures that it is impossible to have a sustained disequilibrium in a specific talent pool. If demand outstrips supply, he argues, the “price” will go up, which will motivate more people to enter the field and more companies to reduce the number of people they need. This is true in the long term, but try telling your CEO that he or she need not worry because the talent they need today will become readily available in five or seven years. The companies that respond quickly and effectively to talent shortages will get a larger share of this scarce resource and - even more importantly - a larger share of the best people in this talent pool.

To illustrate how the demand/supply dynamics can vary from one field to another, let's look at four types of specialized skill workers: one with a deep long-lasting war for talent; one with an approaching war for talent; one with no war for talent; and one with wild gyrations in supply and demand.

The talent market for nurses has experienced both demand increases and supply constraints, causing a chronic long-term war for talent. The aging population is relentlessly increasing the demand for health care services at the same time as supply is weak. A generation ago, intelligent, career-minded women flocked to nursing and teaching. Now, they can just as easily become engineers, doctors, or scientists. The number of years a nurse works has gotten shorter, too, with most nurses now entering the workforce at 30 and retiring at 55. The natural mechanisms that would correct for such a long-lasting supply shortfall have been hampered by pressures on the public health system. Hospitals have been operating under crushing budget constraints for many years, causing them to constrain the number of positions and hold wages down. Absenteeism is high, people are dropping out of the profession, and too few new people are attracted to it. Sure, immigration is helping, but not enough. Canada has lost as many nurses to the US as it gained from the rest of the world in recent years. All this puts hospitals in a terrible bind, leaving them struggling to keep their heads above water.

Skilled trades people, such as tool-and-die makers and industrial electricians, are at the centre of an increasingly tight talent market in Canada, largely driven by a decrease in supply. As a greater percentage of young people go on to higher education, the number entering the skilled trades has declined. Even in high school, the number of technical courses has decreased from 20% to 5% of all courses. At the same time, immigration sources are declining, as entrance requirements have been shifted in favor of highly educated applicants. Thus, fewer skilled trades people are entering the country. As a result, oil exploration companies, manufacturers, and others are increasingly worried about the impact that the shortage of skilled tradespeople will have on their business.

Some talent markets are experiencing the opposite problem, as they find themselves with an over-supply of workers. That's the case with Masters of Library Science in Canada. Demand fell sharply as technology and the Internet displaced some of their functions and as educational and public libraries have gone through tight budget squeezes. Many professional service firms downsized or eliminated their research staffs, as consultants were able to access their own information. Others offshored their research staff to other locations. So while a war of talent may be raging for tradespeople, many newly minted Masters of Library Science are unable to find work in their field.

The market for IT professionals has gone through the wildest gyrations of all. In the late 90s, demand for IT talent soared just as smaller classes of electrical engineers and computer programmers were finishing the degrees they had started in the slow early 90s. Then we saw the whiplash forces roll in at the turn of the century. Demand nosedived when the tech sector crashed just as more supply was pouring into the market. Larger classes were graduating, lured by the lucrative market of the previous years, and global talent pools were coming online, literally. Thousands of programming jobs moved to India and Ireland as the Internet facilitated the offshoring of that work. Within that broad market, however, there are many sub-markets with their

own unique dynamics. Years ago, for example, COBOL programmers were a hot commodity, followed by SAP programmers. Currently, programmers in the Washington DC/Virginia areas are hot, since the growing military and intelligence sectors need security-clearable US citizens for that work. The highly specialized nature of IT work, quickly changing technologies, and the ability to do much of the work at a distance make this a highly volatile talent market.

Low-Skilled Roles: A Peaceful Front

Workers in low-skilled roles find themselves in a very different situation. Because of the speed with which more people can be trained, along with the small differences in individual performance, there won't be a war for talent in this part of the workforce. It must be frustrating for people who are in low-skilled roles or specialized skill roles that are not experiencing a shortage to read about the war for talent. They are not receiving multiple job offers, and their pay, benefits and other perks are not going up by leaps and bounds. That's not to suggest that the low-skilled workforce can't be a competitive advantage or that companies don't have to manage this part of the workforce effectively. It can and they do. But it does mean that supply won't run short and the competitive "price" won't be driven up.

Companies need to understand the particular challenges facing each type of worker in their organization so they can tailor their talent management strategies accordingly.

Strategies for Different Types of Workers

Just as there has been confusion about what is meant by talent and whether or not there is a war for talent, there has been confusion about what strategies are most effective for building a strong workforce. Some have gone so far as to say that fighting the war for talent is hazardous to your organization's health. Much of this confusion comes from lack of clarity about what kind of worker each author is talking about.

Many authors, such as Jeffrey Pfeffer, Jon Katzenbach, and Bruce Pfau, are looking at how to get the best performance from the bulk of the workforce.ⁱⁱⁱ They cite examples of high-performing workforces in companies such as Southwest Airlines, Toyota, Marriott Hotels, The Home Depot, and FedEx - companies where the performance of an army of workers in relatively low-skill jobs is critical to delivering value to customers.

Effectively managing the low-skilled workforce is primarily about engaging and energizing people so they give their best and perform the desired behaviors. Despite the fact that low-skilled workers can be trained up-to-speed relatively quickly, it's still important to keep turnover low. Recruiting for this workforce is a high-volume operation that should screen for the right attitude and cultural fit. Job security, better-than-average wages, and a supportive, fun environment create a value proposition that engenders commitment and attracts a large pool of applicants. Extensive training in company-specific processes and recognition programs are important, so employees know exactly what behaviors are expected. Most importantly, you need to create a culture that empowers and engages people and put in place great frontline supervisors who can bring out the best in every person.

Contrast this to the strategies needed for talent-intensive workers, where it is primarily a quality game. To build this talent pool, you have to attract, develop, and retain the very best people. Recruiting talent-intensive workers requires a laser-like focus to identify and assess those with the

right innate abilities and seasoned skills. To attract and retain these people, you need to offer exciting jobs, career advancement opportunities, and great colleagues. Once hired, you have to provide them with rich, individualized development throughout their careers, investing the best development opportunities in the highest potential people. You also have to pay the top performers significantly more than the average performers. If you don't recognize and reward them for the disproportionate value they create, some other organization will. Finally, you have to regularly weed out the lower performers to make room for other, more promising people to move up through the organization.

No wonder people argue against applying strategies prescribed for talent-intensive workers to low-skilled workers and vice versa. The primary strategies are so different.

That said, underlying these primary strategies are some universal elements of good people management that are needed for all kinds of talent in all kinds of organizations. Chief among them is a strong culture that fosters teamwork and integrity. Creating an attractive employee value proposition is important for all kinds of roles, and the common company culture will be the foundation for that. The specifics of the value proposition will be different for different types of talent, but as we've discovered, some of the key elements can be quite different.

Strategies for managing specialized-skill workers will depend on the demand/supply dynamics for each specific type. If there is a shortage of a specialized skill role - as there is for nurses, pharmacists, and industrial electricians - the fundamental challenge is how to get enough people to fill all the jobs. In this kind of situation, primary strategies include recruiting people from diverse pools; creating an attractive value proposition; tapping foreign labor pools through immigration and offshoring; training and certifying some of your own people; persuading more people to enter this career; and restructuring jobs to reduce the number of the people needed.

Companies need to identify the types of talent in their organization and apply different strategies to the different types. Painting all employees with the same brush will result in watered-down solutions for some and excessively costly solutions for others. When facing an especially tough war for talent, companies need to reach for bold, creative solutions. Everybody is going to be improving compensation and benefits and everyone is going to be recruiting more aggressively. What are you going to do that's different and better?

Conclusion

Perhaps the biggest mistake in our original work was to talk about "the war for talent." If we had said "the wars for talent," it might have been clearer. To tackle the wars for talent effectively, you need to understand the differences between talent-intensive, specialized-skill, and lower-skilled roles. In particular, you need to keep in mind the differences in how they create value and the different dynamics affecting supply and demand.

Navigating the messy wars for talent requires clear thinking, a keen sense of direction, and strategic focus. The biggest success of the original war for talent work is that it got senior managers interested in the issue. By paying heed to the concepts laid out in this chapter, they will be equipped to map out their strategy for tackling this critical task.

Different workers, different strategies

	Talent-intensive Roles	Specialized Skill Roles	Low Skilled Roles
Performance delta between average and top performers	<ul style="list-style-type: none"> • Huge difference 	<ul style="list-style-type: none"> • Modest difference 	<ul style="list-style-type: none"> • Little difference
Availability of people and time to develop	<ul style="list-style-type: none"> • High degree of innate talent required • Talent to be a top performer is rare • Takes many years of education, development and experience 	<ul style="list-style-type: none"> • Some innate talent is needed • Lots of people have the required innate talent • Takes several years of education or training, but ready upon graduation 	<ul style="list-style-type: none"> • Little innate talent needed • Widely available, huge pools to draw from • Takes a few days to a year of training
Examples	<ul style="list-style-type: none"> • Business leaders • Software designers • Portfolio managers • Museum curators • Strategy consultants • M&A lawyers • Top research scientists 	<ul style="list-style-type: none"> • Accountants • Programmers • Librarians • Nurses • Pharmacists • Tool-and-die makers • Mechanical engineers 	<ul style="list-style-type: none"> • Admin assistants • Call centre staff • Fast food workers • Flight attendants • Hospital porters • Assembly line workers • Retail sales staff
Fundamental challenge	<ul style="list-style-type: none"> • Quality – How to get the very best 	<ul style="list-style-type: none"> • Quantity – How to get enough of them (if there is a war for talent) 	<ul style="list-style-type: none"> • Engagement – How to elicit the right behaviors
Key people management strategies	<ul style="list-style-type: none"> • Laser-like recruiting to find and assess the very best • Rich individualized development throughout their career • Pay high performers significantly more than average performers • Regularly weed out the lower performers 	<ul style="list-style-type: none"> • Recruit from many diverse pools, including foreign workers • Start training some of your own • Encourage people to join this career • Restructure roles to reduce number of people needed 	<ul style="list-style-type: none"> • High-volume recruiting, screen for the right attitude • Train company-specific values, processes and procedures • Recognize and celebrate performance while minimizing status differences • Provide job security and keep turnover low

ⁱ “Will There Really Be a Labor Shortage”, Peter Cappelli , *Organization Dynamics* August 2003,

ⁱⁱ “Capital vs. Talent: The Battle That’s Reshaping Business”, Roger Martin, *Harvard Business Review* July 2003

ⁱⁱⁱ Jeffrey Pfeffer: *Competitive Advantage Through People*, Harvard Business School Press 1994; and *“Hidden Value: How Great Companies Achieve Extraordinary Results with Ordinary People”*, Harvard Business School Press 2000.

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Bruce Pfau: *The Human Capital Edge*, The McGraw-Hill Companies 2002