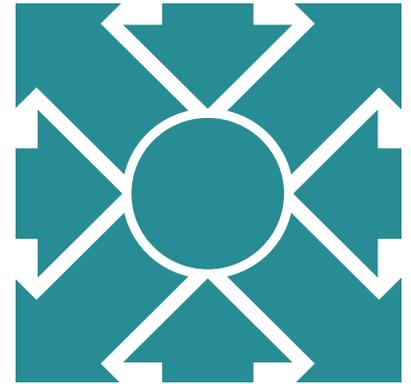




SEARCH



EDITORIAL

N° 25

Management of Firms and Demography

It is well known that there will be an acceleration of the number of retiring managers in the next ten years, both in the private and the public sectors. This trend is largely due to the high number of births (baby boom) during the decade following WWII, which now translates into an equivalent number of retirees in a rather short period.

In the context of legal stability, observations clearly show that European countries are going to experience a very important and unprecedented renewal of their managerial and executive ranks. The large number of people retiring will have several consequences, among them:

- A loss of knowledge, skills and habits, which have become rules over time.
- A possible disorganisation of structures and managers' jobs that have been based largely on tacit regulations rather than on written rules.

In a number of organisations, we will witness a renewal that could reach up to 50% of the managers. Year after year, firms will face huge difficul-

ties to replace the people departing and to develop new talents, who expect modern organisational structures and processes. Large and small companies will have to do more than just replace the retiring managers in order to keep their culture and the tacit knowledge held by these key people.

Some international companies have already made plans to recruit and train over the next ten years. Besides recruitment and training, it becomes crucial for firms to reorganise their structures and processes in order to keep the memory of their tacit knowledge, habits and methods that have been developed over time and have brought success. Companies will be required to seriously prepare for

a future that is rather uncertain. This is a key responsibility of top management and other stakeholders (line managers, employees, unions, external consultants...) who will be evaluated on their ability to conduct the needed changes and meet the challenges of this new demographic situation.



Christian Coffinet

*Managing Partner CPM Search
Alexander Hughes Group*

Talent Shortage After 2005: Some Strategies to Overcome It

CHARLES - HENRI BEYSSERE DES HORTS is Associate Professor of Human Resources Management (HEC Graduate School of Management)

The shortage of talents in the second half of the present decade has become a rather popular topic in the western economies largely because everyone acknowledges that the working population is becoming older. Demographic trends show, for instance, that the median age of the world general population will grow from 26.5 years in 2000 to 32 years in 2025 ¹. These trends are even worse for the developed countries when considering the available statistics regarding the workforce average age in the USA: from 37 years in 1990 to 41 years in 2025 ². Moreover, the impact of these demographic trends is seen by many observers as being very different when comparing industries: the lack of available talents in the high-tech industry during the years 1999-2001 is an illustration of the situation that will seriously affect, in the coming years, the development of some business sectors such as insurance and banking that will, in France, lack 6000 to 8000 managers every year ³.

THE REASONS FOR THE SHORTAGE OF TALENTED PEOPLE

How can one explain the development of such a structural issue that will concern most - public or private, large or small - organisations in our western economies? The following factors are often cited as the clues to understand the upcoming shortage of talents ⁴:

- The baby boom generation (born between 1946 and 1964) is now entering the age range in which retirement becomes a viable option. At the same time, the generation that follows the boomers - the so-called "baby bust" - is proportionately much smaller and therefore unable to quantitatively replace the departing talents,

- The downsizing and minimal recruitment strategies adopted by most

organisations during the 1990s have dramatically reduced the number of potential replacements from within. Moreover, and particularly in Europe, the low level of turnover among managerial ranks has increased the age pyramid unbalance creating a situation in which access to top management positions was seen as impossible by potential talented incumbents.

The lack of strategic view in the management of human resources has led many organisations to adopt quick fix solutions when facing talents shortage problems. The dominance of expectations for high financial returns, despite the recent change due to the consequences of the Enron case, has reduced the people dimension to a short-term and "adjustment" variable. As an illustration, talent management is perceived,

"The experience of seniors may be a real competitive advantage."

in a study recently conducted in the United Kingdom ⁵, as important or very important by only 55% of Senior Management Team and 31% of Finance Directors/Managers but also, fortunately enough, by 85% of Human Resources Directors/Managers.

Other reasons may be identified to explain the growing shortage of talents including some deep sociological trends mostly found in talented people who give far more importance to issues such as "recognition" (not only through financial rewards) and "work-life balance" ⁶: organisations unable to satisfy these expectations will experience even more difficulties to attract and retain the talent they badly need.

The identification of these reasons that explain the upcoming shortage of talents is a first step to understand the situation facing many organisations in the coming years. The second step is to develop strategies that may constitute possible answers to overcome this critical problem.

TWO ORGANISATIONAL STRATEGIES TO OVERCOME THE SHORTAGE OF TALENTS

There is unfortunately not a "miracle" solution, but some strategies may, however, be proposed to allow organisations to overcome the upcoming shortage of talents in order to achieve their business objectives. Thus, organisations may use one or several of the following strategies besides relocating their activities in emerging countries: retention of talents and valorisation of seniors.

RETAINING TALENTS:

One of the best strategies to overcome the shortage of talents is

to increase the retention level of those talents within the organisation. In order to get talented people to stay a number of actions may be undertaken beyond the implementation of competitive financial packages ⁷: (1) make talent retention issue a top management priority: without top management real involvement, there will be a gap between knowing and doing (2) change the psychological contract to the concept of self-career: talented people must be treated like adults responsible for their own development (3) develop corporate image to reinforce sense of being proud: talents are very sensitive to their self-image through the organisation they belong to, (4) make line managers

accountable for the people they lead: managers should be evaluated partly on their ability to retain their talented people (5) provide opportunities for learning and development: talents are eager to grow both professionally and personally, it is important to satisfy these needs (6) create challenging and career enhancing work experiences: commitment and loyalty of the key people largely depends upon opportunities they have to express and use their talents.

VALORISING SENIORS:

This strategy to overcome the shortage of talents has recently gained far more interest despite the long-standing negative stereotypes against seniors: more expensive, less flexible, less energetic, and less motivated. Among the actions that are likely to be undertaken to valorise seniors, the following ones may

be chosen ⁸: (1) communicate about the importance of seniors in the organisation: top management must emphasise that the skills of the seniors are critical for the success of the business, (2) provide challenging work assignments that make a difference to the organisation: the experience of seniors may be a real competitive advantage, (3) give considerable autonomy and latitude in completing a mission: seniors are very sensitive to real opportunities to use their accumulated skills and experience, (4) provide mentoring opportunities towards younger employees: transmission of their accumulated experience and coaching others generally are highly valued by seniors, (5) design a work environment that is both stimulating and fun: motivation of seniors comes more from the quality of their work environment than from the level

of financial rewards, (6) offer diverse work situations (flexible schedules, part-time work, phased retirement...): this diversity may discourage seniors to take early retirement. ■

BIBLIOGRAPHY

- L. MARTEL: *High Performers: how the best companies find and keep them?*, San Francisco: Jossey-Bass, 2002
C. O'REILLY III & J. PFEFFER: *Hidden Value: how great companies achieve extraordinary results with ordinary people*, Boston: Harvard Business School Press, 2000
S. GUERIN: *Le grand retour des seniors*, Paris: Editions d'Organisation 2002

INTERVIEW

Shortage of Talents: Myth and Reality

Interview by C-H. Besseyre des Horts, January 6, 2003

Dominique Vignon is President of Gemplus

What are the challenges that you see facing organisations in order to renew their talent pool within the next few years?

There is not a single answer to this question. In my own case, I have known two very different companies. The first, Framatome, where I was before Gemplus, had recruited a lot of young engineers and managers during the 70's who are now retiring in an industry - nuclear energy - that is far less attractive to young people. There is a big challenge for this organisation to renew its talent pool. The second company, Gemplus, where I am today, is in the high-tech industry with a much younger staff (post baby boom) and does not have the same difficulties as Framatome to renew

talents. More generally, within the next few years, the demand for talent is likely to exceed the offer but I am not sure that this scarcity will ever be felt. Indeed we have to consider the effect of two main factors: productivity and globalisation. Companies that cannot find local talents will de-localise their activities as demonstrated by the software industry in India, where you can find many talented computer specialists at a much lower cost than in western countries. Besides, I believe that the generations following us will be as good as us: young people will do very well in the future with better education and strong motivation. They are more international and entrepreneurial than those who are from the baby boom generation. Organisations have to take this important factor into account.

So, in your opinion the shortage of talents as described by many specialists is not a real issue?

In fact, there are two kinds of industries: global and local. The first ones opened to international competition require development and production of new products, and more and more often these activities can be done anywhere in the world using, in particular, Internet technologies. So, these industries will find their talents anywhere they need them. The second type of industries, that serve the local market, will always be able to find their talents locally because the talent pool, left open by others will be large enough for these local industries. Having said that, we must recognise that a number of activities such as commerce and service cannot be easily de-localised. But we have to take into account the impact

of productivity in these last activities; we will need less people to do the same job. In short, the main reason why I believe that the shortage of talents will not be as severe as many expect is due to the flexibility of a global economy: for instance, Singapore is able to attract research centres and facilitate patent development. I am more worried not by the shortage of French talents but by the abundance of foreign talents particularly in emerging countries. Of course, it may have an overall negative impact on French wealth.

You have mentioned, several times since the beginning of this interview, the importance of productivity, can you elaborate more on that issue?

Yes indeed, our information-based economies have strongly benefited from new technologies and systems to process data and information. There are many studies that show that the economic growth in the USA is largely due to the development of these technologies. Take the example of retail activities: before, you needed many people to check the product inventory, place orders, process the invoices, etc. Today a barcode on the product tells the computer that one product has been taken out of the inventory, then edits orders, pays the invoices, etc. The supply chain has been deeply changed with a sharp increase of productivity but I do not see the future evolution of this productivity very clearly.

Despite your doubts about this shortage of talents, what can we do to overcome a potential imbalance between the available talents and the needed talents?

First, for the companies open to international competition, there will be transfers of research,

production and decision centres so they will suffer less from the shortage of talents. These organisations will be able to adapt quickly if needed. Second, for the other companies, the demographic issue can be solved by internal processes, such as more active promotion policies for young talents and retention policies to keep those people we need. Besides, companies have the possibility to maintain competencies they have and to recruit the few talents they need. We have a paradox, companies want to develop specific competencies to retain their managers who, therefore, cannot be employed easily elsewhere. How to solve the dilemma between retention and flexibility? That is an important question. Beyond this, I want to insist on one important trend: CEOs and top managers are younger, like the new CEO of General Electric or the new CEO of France Telecom. All of these presidents are in their forties and will only hire young managers around them. A lot of discernment is needed, as these younger managers will lack experience. We can think however of ad-hoc management development programs, where networking is very important.

Companies are spending huge amounts of money to have "seniors" leave their jobs

In this context, many specialists consider the use of senior managers as one potential solution: what do you think about this idea?

Honestly, I do not see this solution as a real one when I observe the real world. There is still a big gap between what politicians recommend and what companies can do. Politicians suggest keeping senior managers, since the professional life must be longer because of retirement

issues, but at the same time companies do not hesitate to eliminate their staff over 55 years of age with very costly packages. In spite of the growing legal and cultural constraints, companies are still often using pre-retirement strategies, at the request of their senior managers. Companies are spending huge amounts of money to have these "seniors" leave their jobs, but how long will they be able to do that? Having said that, I think that organisations are not very good at using their senior managers, especially if CEOs and top managers are becoming younger. Here we have another paradox: since the company cannot efficiently use the high cost seniors any longer, it gets rid of them with expensive retirement packages. The idea of reducing the compensation of these individuals is not feasible in our economy except if these "seniors" change companies and accept lower-paid jobs; but because of both the companies and the employees, flexibility and opportunities are lacking.

As a conclusion, do you think that the shortage of talents is a myth or a reality?

The shortage of talents is both a myth and a reality. A myth, from the standpoint of an international company like Gemplus that is able to work and find talents everywhere in the world, and a reality if we agree with predictions of scientists such as population specialists. One key element that will increase flexibility is the decrease of importance of the diploma; recruitment will take into account experience and success more often. French talents will have to compete more and more with foreign talents coming, in particular, from Eastern Europe. Companies are likely to become global even for very local services such as fast food restaurants or commercial cleaning. No activity or industry is really protected. Competition will, on the grounds of "best practices" come sooner or later. ■

Alexander Hughes

EXECUTIVE SEARCH CONSULTANTS
Founding member of **AEA** International Search