HEIDRICK & STRUGGLES

Knowing and understanding your Talent Management Pattern

Global Leadership Consulting Practice

During the first quarter of 2008, Heidrick & Struggles gathered data on attrition and internal replacement rates from twenty-one global companies. Each was a leader in its sector, operating in a minimum of forty countries with a head count of over 60,000 employees.

The aim was to discover how companies, knowingly or unknowingly, make the decision to nurture talent internally or attract executives from outside the organization. The information gathered on each company focused on:

- attrition within their "top population" (all executives, senior managers and top talents who are visible and managed at the corporate level: this represents 0.1% to 0.4% of the total head count)
- percentage of executives grown from within
- succession planning practices, governance and data
- onboarding and post-succession processes
- statistics on remuneration within the 'top population'

The findings reveal

- an average attrition rate within the "top population" of around 8%
- an internal replacement ratio ranging from 40% (meaning the company recruits externally in 60% of its succession cases) to close to 100% (the company has not recruited directly into the "top population" from external sources for the last five years); the average was around 75%
- no correlation between attrition and internal replacement rates
- companies with attrition below 3% continuing to recruit, on average, between 50% and 60% of their top talent externally
- at the opposite end of the spectrum, we found some companies coping with an attrition rate greater than 15% but still able to manage most successions internally
- the sector of the company had no influence on attrition or internal replacement rates, neither did geography
- high-growth does not automatically lead to high levels of external recruitment into the top team

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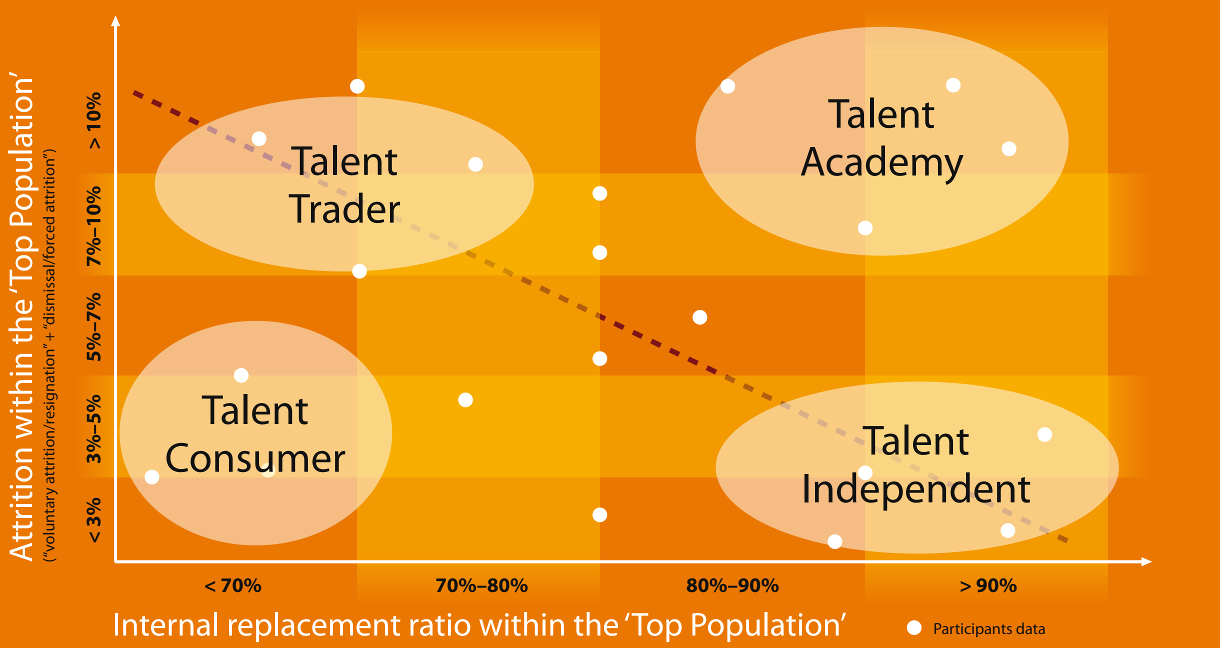
By plotting the internal replacement ratio and the attrition rates we were able to give a name to each of the extreme positions found in the survey:



Talent Independent

These companies are independent in the sense that they do not provide/train executives for other companies, and never poach executives from other companies. They have a very strong corporate culture, are not predominated by performance management, and are often an employer of choice (repeatedly voted in business publications as an employer many would wish to work for), and even perceived as an employer for life. Many Talent Independents manage their executives by function with a high number of individuals remaining in the same function for their entire career. Sometimes each function produces its own talent and does not feed the rest of the organization – exhibiting its own Talent Independent approach, within the broader model.

Pros

- low recruitment costs for senior positions
- team stability

Cons

- lack of agility and flexibility requires heavy manpower planning practices
- may lose a sense of international leadership standards and promote leaders who are not competitive in the market place
- can become a political organization, promoting 'apparatchik' leaders

Talent Management Requirements

- strong assessment programmes involving external benchmarking; particularly when individuals are being considered for succession and/or promotion

Talent Trader

These companies are 'traders' because they both provide executives to the industry and recruit experienced managers from outside. Their attrition rate is high and the proportion of forced departures represents up to 40% of their total attrition rate. As a consequence salaries tend to be higher than the market average (up to 20% according to our survey participants) with strong internal and external competition on staffing. There is a strong performance management culture with an up and out model.

Pros

- strong agility and capacity to change the business model

Cons

- higher salaries
- higher recruitment costs
- high levels of recruitment mean a higher chance of recruits failing

Talent Management Requirements

- identification of established external talent pools to speed up external recruitment when required
- strong onboarding programmes combining external coaching with mentoring by senior executives, to help recruits quickly understand the systems and unwritten rules of the organization

Talent Academy

The name of this group purposely mimics the label given by Executive Search consultants to companies that are viewed as good at developing great managers. The attrition rate is high in these companies and more than 50% are dismissals; they do not hesitate to remove executives and managers who fail to perform. As opposed to Talent Traders, Talent Academies pay between 10% and 20% less than the market average. They are an employer of choice with strong diversity: this could be because they need to constantly identify future leaders (to replace those who are dismissed or hunted by other companies) and so must expand their internal talent pools. The career of the "top population" is managed at the corporate level and there is a strong tendency to move people around the organization. Most Talent Academies have a strong managerial culture based on performance.

Pros

- low recruitment costs for senior positions
- attracts high (and junior) performers with relatively low compensation packages
- good at taking risks on people internally; this demands strong consensus at the top and use of a common language to assess people and risks

Cons

- high training, mobility and career management costs

Talent Management Requirements

- multi-dimensional people reviews conducted year after year to build up excellent knowledge of individuals
- CEO needs to act as the Chief Talent Officer spending a significant proportion of their time reviewing and meeting key people
- strong post-succession support needed to mitigate business risk

Talent Consumer

These companies actually consume talent: although they do not face high attrition (which is significantly lower than the rest of the panel) these companies continue to recruit executives outside the company over time. This makes us wonder what becomes of the talent recruited some years ago. These companies often exhibit a 'silo model' with business units or geographies 'owning' their people. They tend to have a multi-local organization with even the "top population" managed locally in their own business unit or geography. None of the Talent Consumer companies from the survey are perceived to be an employer of choice.

Which is the best model to follow?

The **Talent Consumer** model is difficult to defend and has few advantages; it can lead to a vicious circle where its talent is under-utilised and the company becomes renowned on the talent market as unable to nurture and develop talent.

None of the remaining three models can be seen as the best, but it is important that you know which model your organization conforms to.

In summary

- understand which Talent Management Pattern your company follows
- understand its implications and accept its consequences
- maintain the status quo for as long as you have a good command of your model – for example, as long as you are recruiting executives externally because you want to, not because you have no other choice

HEIDRICK & STRUGGLES

Heidrick & Struggles is the leadership advisory firm providing senior-level executive search and leadership consulting services. For almost 60 years, we have been building deep relationships with the world's most talented individuals on behalf of the world's most successful companies. Through the strategic acquisition, development, and retention of talent we help our clients – from the most established market giants to the newest market disruptors – build winning leadership teams.

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