

# The New Reality 2.0: The Downturn and Its Impact on Talent Strategy

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## Executive Summary

Last year, we wrote a paper about The New Reality. Simply put, the New Reality characterized the contemporary North American workplace as one with shorter job tenures, changing generational values, a surplus of vacant positions and scarce talent. The thesis of the New Reality was based on a large number of Baby Boomers beginning to reach retirement age in 2010 and an impending shortage of members of younger generations who would be ready to fill the jobs left vacant. A consequence of this demographic imperative was that employers would be facing each other in the "War for Talent" that McKinsey & Co. predicted in 1998. Although many business leaders thought of it as a far off problem, we posited that organizations that wished to survive and thrive must accept the existence of the War for Talent and meet those challenges head on. Last year's report indicated that aspects of the New Reality were widely accepted by North American business leadership, but with varying degrees of preparation responsive to the situation.

Although the demographic time bomb is still ticking, the recession and financial crises of the past 12 months have distracted some from issues surrounding the New Reality. Our research indicates that many organizations have lost the sense of urgency to fight the War for Talent and are now dealing with what are perceived as more pressing business challenges. At the end of 2007, 42 percent said they were significantly or extremely concerned regarding the War for Talent and a year later, in 2008, only 33 percent indicated they were significantly or extremely concerned with it. Nonetheless, it is our view that rising unemployment statistics may obscure the fact that organizations that wish to succeed in the long term must still acquire and retain top talent.

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Key findings of this year's report include:

- Organizations are less concerned this year about a current and future shortage of quality leadership talent.
- Larger organizations (more than 5,000 employees) are slightly more likely to believe that the leadership of their organization is prepared to handle a downcycle and believe that their leadership is prepared to address their organization's top concerns.
- Large organizations are much less likely to believe there is a significant gap between Baby Boomers and younger generations.
- Respondents believe that a talent shortage is much more likely to impact the lower levels in their organizations - the middle management, professional and technical ranks - than it will the senior management and executive ranks.
- Large organizations are far more likely than smaller ones to anticipate downsizing in the next 12 months in a larger proportion than smaller ones. However, all organizations are most interested in retaining senior management, sales and marketing personnel, and technical personnel.
- Identifying potential leaders and developing them is considered the top talent challenge for most of the respondents from large organizations - 79 percent. Large organizations are also much more likely than small organizations to have a standardized process for identifying and developing future leaders.

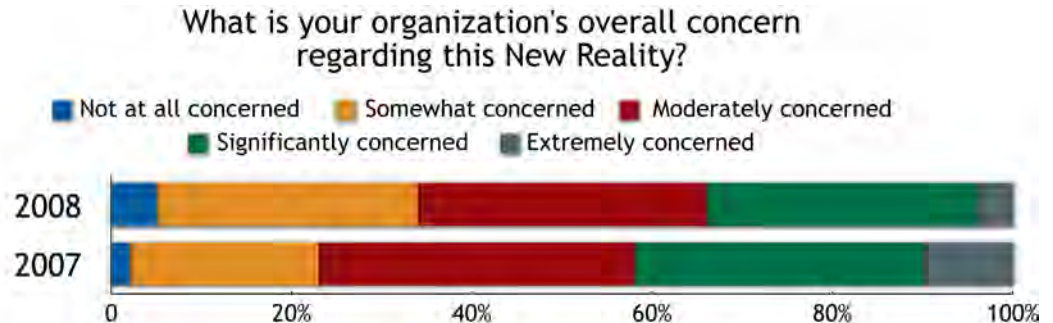
## Table of Contents

|                                     |    |
|-------------------------------------|----|
| Executive Summary.....              | 1  |
| Awareness and Understanding .....   | 3  |
| Readiness for a Down Economy .....  | 5  |
| Addressing the Issue .....          | 7  |
| Setting Priorities for 2009 .....   | 8  |
| Best Practices Recommendations..... | 10 |
| Methodology .....                   | 11 |
| Demographics.....                   | 11 |

## Awareness and Understanding

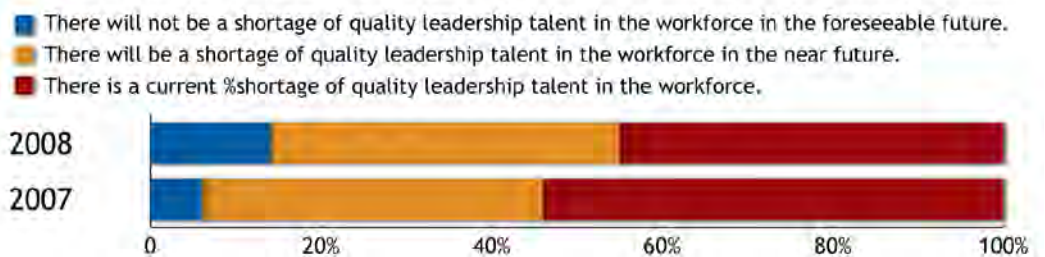
Even though last year's report indicated that aspects of the New Reality were widely accepted by North American business leadership, the most striking result of our 2008 research was the impact of the economic crisis that gripped the country in the fourth quarter of the year.

When asked about their level of concern regarding the New Reality, respondents clearly have other business concerns on their minds right now. As the table shows, a shift has occurred. In 2007, 10 percent of respondents were extremely concerned about the New Reality, but only 3 percent of 2008 respondents answered the same way. However, the clock has not shifted back to 1998. A third of all respondents are still extremely or significantly concerned about the New Reality.



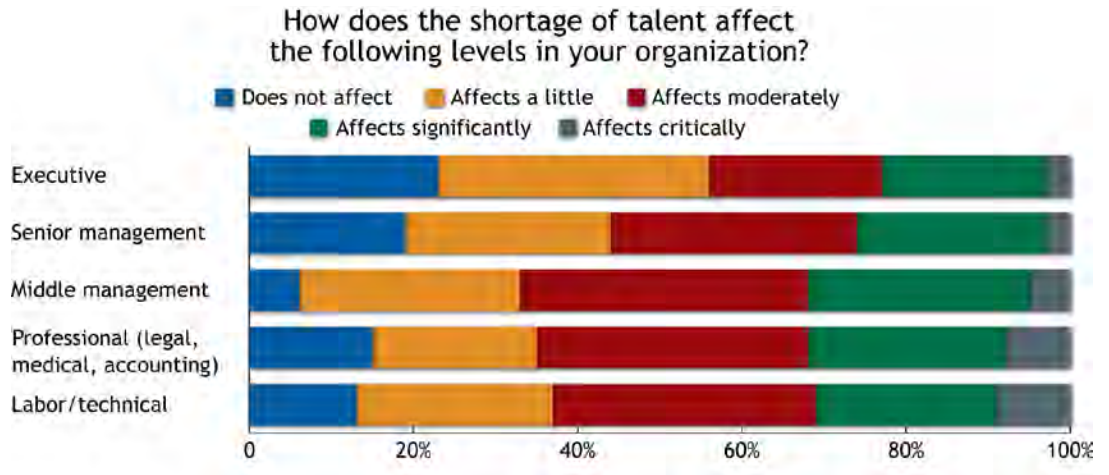
The distraction that the economy presents was visible in another area. When asked about their perceptions of the current or future shortage of quality talent in the workforce, respondents were also much less concerned about Leadership Development and Talent Gaps than in 2007. Only 46 percent of respondents said they believed that a shortage of quality leaders currently exists, down from 54 percent in 2007. Also, the number of respondents who believe there will *not* be a shortage of quality leaders in the foreseeable future more than doubled in 2008 to 15 percent, up from 6 percent in 2007.

### Which of the following best describes your perception of a current or future shortage of quality leadership talent in the workforce?

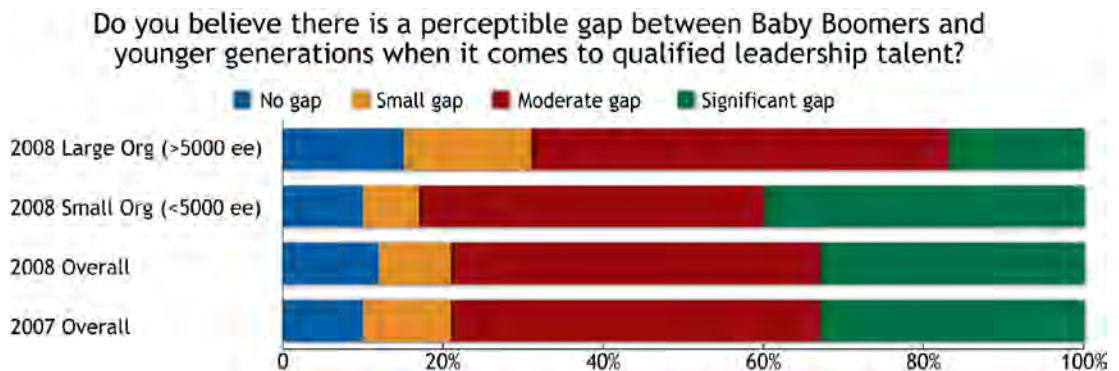


Although it seems that organizations have lost the sense of urgency regarding the New Reality, we believe that organizations are taking a very understandable break from the War for Talent to focus on immediate business concerns arising from the economic downturn. To strike a cautionary note, organizations that wish to remain competitive in the War for Talent should be careful to make this a short break and not an extended hiatus. The need to attract and develop top talent and the next generation of leaders hasn't gone away.

And organizations are still concerned about the talent shortage. When asked what areas of their organization a talent shortage would affect, respondents from all company sizes are more concerned about the lower levels of their organization - middle management, professional and technical talent - than executives and senior management.



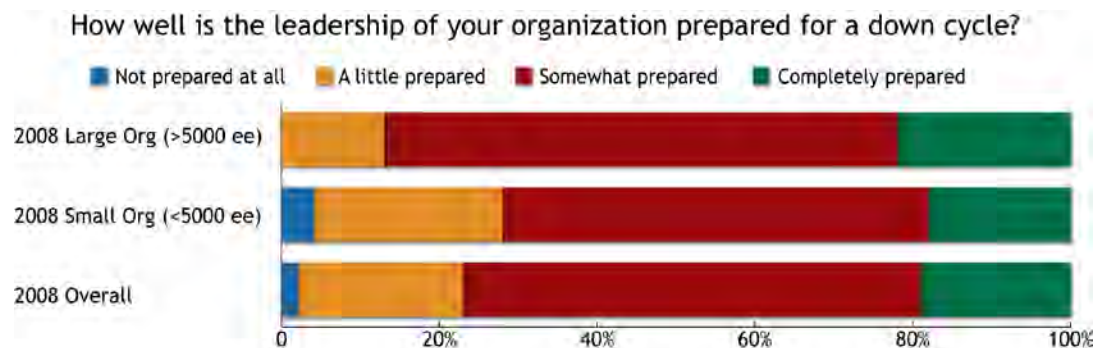
Another shift in attitudes regarding the talent shortage became clearer regarding the perceived leadership gap between Baby Boomers and younger generations. Although the 2008 results were very similar to 2007 with a third (33 percent) of respondents answering that a significant perceptible talent gap existed, an interesting difference became clear when we segmented the data by organization size. Respondents from large organizations - those with more than 5,000 employees - were much less likely to say there was a significant generation leadership gap - only 17 percent of respondents from large organization said a significant gap existed as opposed to 40 percent of respondents from organizations with less than 5,000 people.



## Readiness for a Down Economy

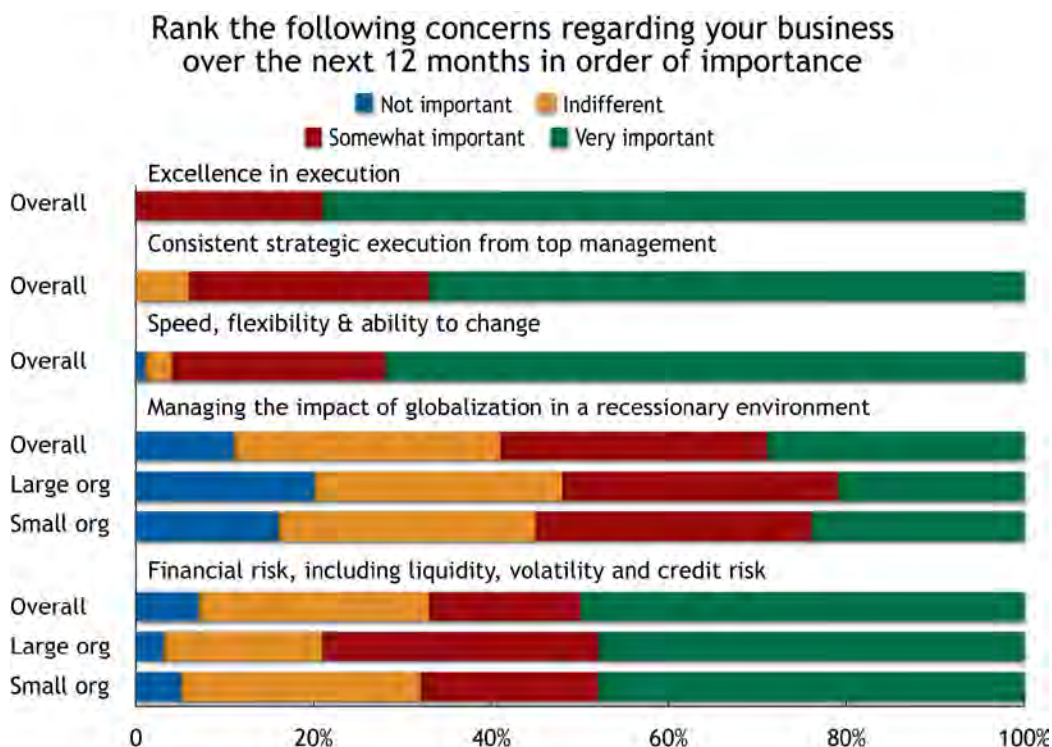
If a bright spot could be identified in the data, it would be regarding leadership readiness to handle the economic and business challenges that many are predicting for the coming year. Most respondents feel confident that their leaders have the skills to handle a tough year in 2009.

Overall, 77 percent of respondents believe their organizations are completely or somewhat prepared for a down cycle. That number went up to 87 percent among large organizations, and no one from a large organization described their leadership as not at all prepared. Smaller organizations were slightly less optimistic with 72 percent responding that they were somewhat or completely prepared. Still, only 4 percent of small organization respondents indicated that their leadership was not prepared for a difficult year.



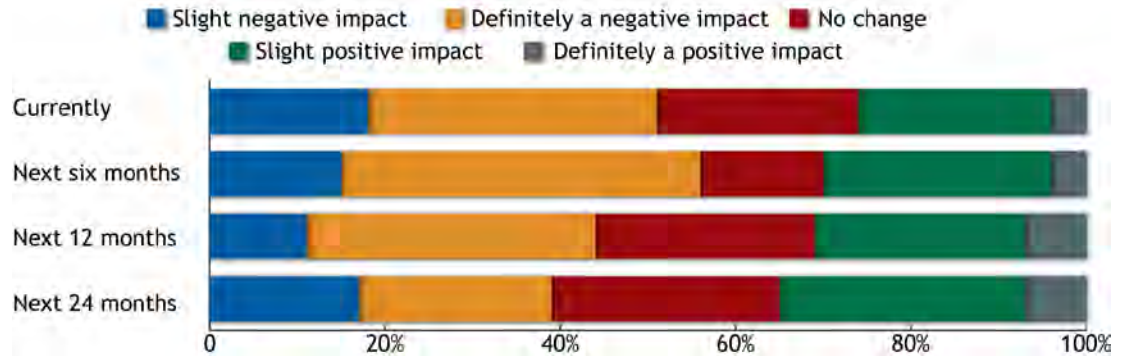
For the most part, respondents from large and small organizations had the same concerns, and they place the most importance over the next 12 months in excellence in execution, consistent strategic execution from top management and ability to change. Clearly, respondents express confidence in the ability of their respective managements. The only areas where respondents from large and small organizations differed:

- Respondents from large organizations are more concerned about managing the impact of globalism in a recessionary environment.
- Respondents from smaller organizations are more concerned about financial risk, including liquidity, volatility and credit risk.



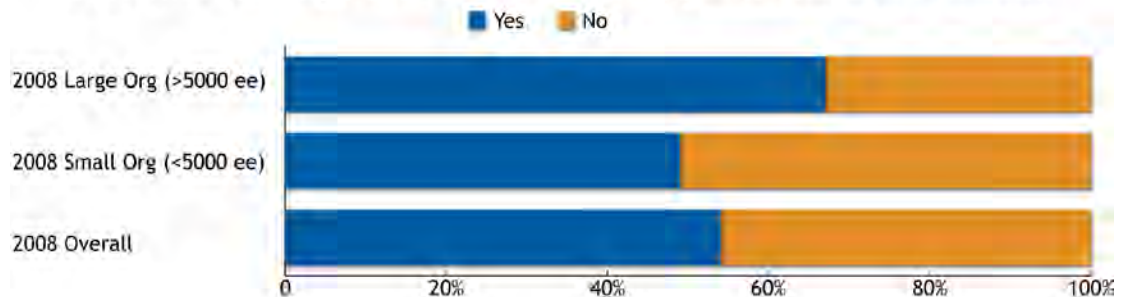
However, organizations definitely expect the economy to have a negative impact on managing talent in their industry, with a majority anticipating at least some negative impact over the next six months.

### How do you perceive that the current economic situation impacts managing talent in your industry?



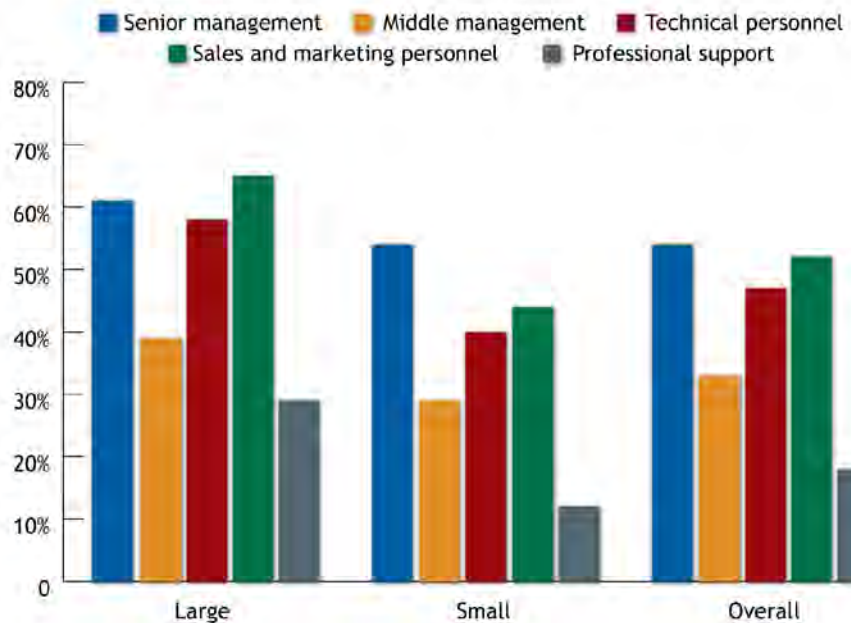
Furthermore, two-thirds (67 percent) of respondents from large organizations believe there is more downsizing to come in their organizations in the next 12 months.

### Do you think your organization will be downsizing within the next 12 months?



Although large organizations have more concerns about retaining key personnel than smaller ones, organizations of all sizes agree on the groups where their retention efforts need to focus: sales and marketing personnel, technical personnel and other professional support people.

### Which group or groups of employees are your organization most intent on retaining?



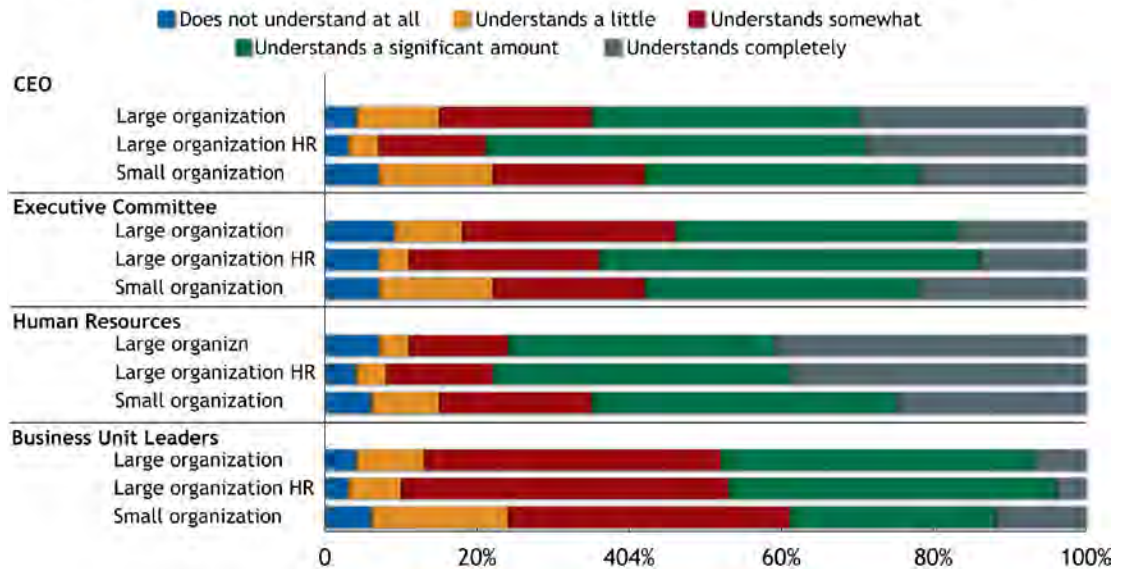
## Addressing the Issue

Although they are more focused on the economy, respondents from large firms express confidence that their leadership understands the implications of the New Reality. However, respondents from larger organizations and HR respondents from those large organizations overwhelmingly believe their CEOs and HR functions have a complete or significant understanding of this issue. Respondents from smaller don't express the same degree of understanding, but a clear majority of respondents believe their CEOs, Executive Committees and Human Resources understand what is at stake.

However, respondents don't believe that their business unit leaders, the people who are responsible for executing business strategy each day, have a strong understanding of the implications of the talent shortage. In a difficult year, business unit leaders may not believe that understanding the New Reality is critical to their work, but these leaders must understand their role in executing their organization's talent strategies going forward. Senior management and HR should take steps to educate these leaders about what's at stake and engage them in implementing a solution.

Larger organizations and their HR people think that their leadership team understands the implications of the talent shortage better than the rest of the market and therefore the need to focus on attracting and retaining top talent.

### Do leaders in your organization understand the implications of the talent shortage?



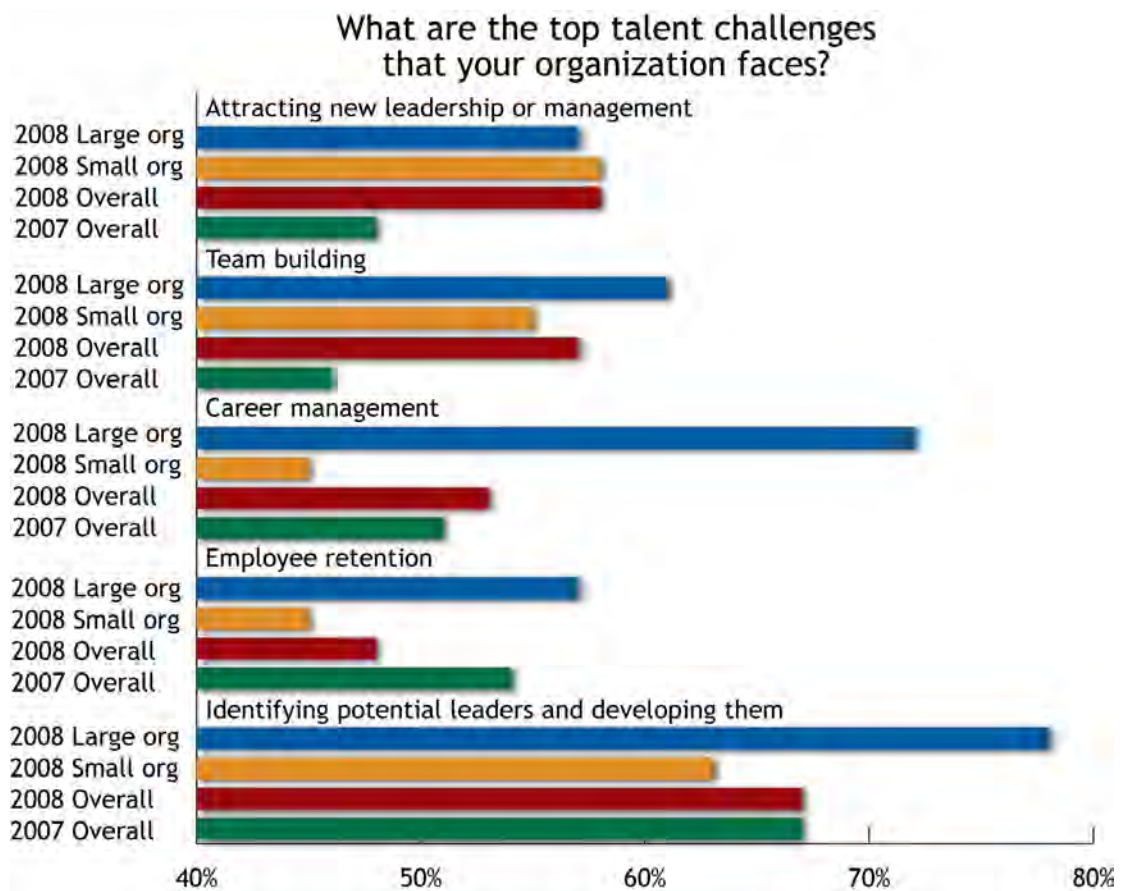
Large and small organizations alike also seem to enjoy the support from the CEO to embrace changes to compete in the War for Talent. A majority of all respondents believe that their CEO is willing to do what it takes to be competitive in the New Reality. When asked how willing their CEO were to embrace the necessary strategies to compete in the War for Talent, 16 percent said completely willing and 38 percent said very willing.

Even though the leadership is willing, respondents also believe that HR needs the resources to execute on initiatives to address the talent shortage. When asked how much more institutional help and CEO support were needed for HR to address the talent shortage, 22 percent of respondents said they needed significantly more and 26 percent said moderately more.

## Setting Priorities for 2009

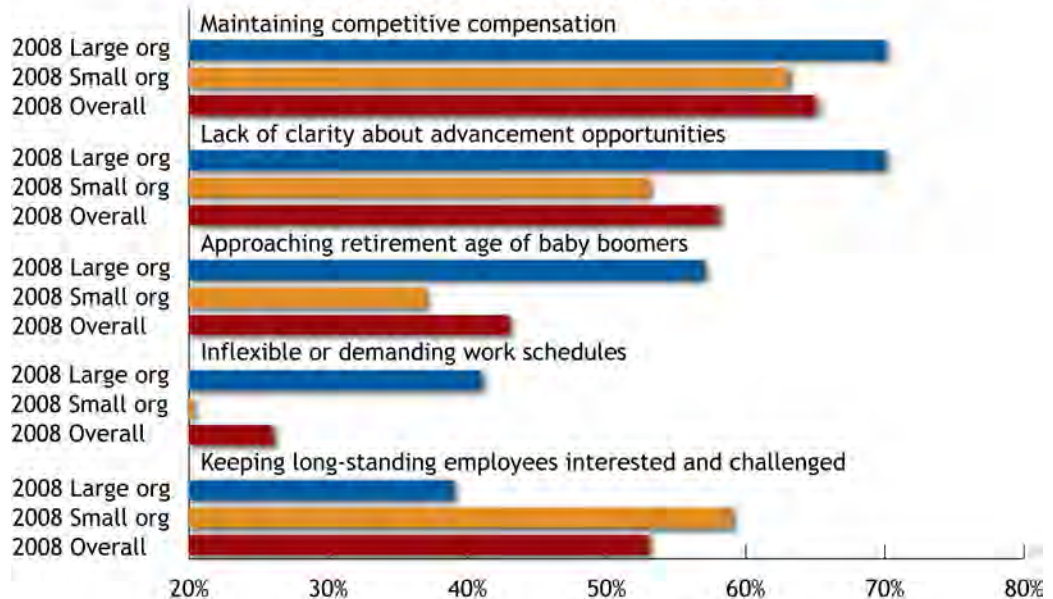
The difficult economy will monopolize the attention of many in 2009, but retention, development and talent acquisition will also present serious challenges. As clearly shown in the charts below, large and small organizations have vastly different priorities for 2009.

- **Top challenges for large organizations:** Many respondents from large organizations (78 percent) indicated that identifying potential leaders and developing them is the top challenge they face, with career management a close second (72 percent). Team building was third on their list of concerns (61 percent) and retention tied with attracting new leadership for fourth (57 percent).
- **Top challenges for small organizations:** For respondents from small organizations, identifying potential leaders and developing them also topped the list of concerns (63 percent), with attracting new leadership second (58 percent) and team building third (55 percent). Career management and employee retention were tied for fourth among their concerns with 45 percent.



**Retention:** Overall, employee retention was a lower concern than last year - 49 percent in 2008 vs. 54 percent in 2007. One possible reason for the discrepancy: retention was one of the main concerns in the results from 2007 and firms apparently acted on it. However, respondents from large organizations are much more concerned with retention issues than their small organization counterparts. It's possible that most small organizations believe they are finished with their downsizing and have addressed most of their retention needs. Because large organization respondents are anticipating more downsizing ahead in 2009, retention may be more of a concern. However, in most areas, respondents from large firms were more concerned about employee retention challenges than small firms with one notable exception - employee engagement. Keeping long-standing employees interested and challenged was considered a challenge by 59 percent of respondents from small organizations but only 39 percent of large organization respondents. However, only 51 percent have a retention plan in place or in development, and 49 percent have nothing at all.

### What challenges does your organization face in retaining productive employees?



**Attracting leadership talent:** The need to attract new leadership talent is up sharply since last year - 58 percent indicated it as a top need in 2008 versus 48 percent in 2007. Nonetheless, only 51 percent have a talent acquisition map in place or in development, and 49 percent have nothing at all. However, a majority of respondents (62 percent) think that an employment brand is a compelling reason to attract and retain top talent, and 74 percent of HR respondents said their employment brand was a compelling reason for job candidates to work for their organization.

**Leadership and performance development:** Leadership and performance development concerns are at the forefront for large organization respondents, and more organizations are taking steps to address these concerns. In the 2008 results, 53 percent of respondents said they implemented a leadership development plan, up from 40 percent in 2007. Also, 55 percent of respondents said their organizations had a standardized process to identify future leaders, and 53 percent said their organizations offer a leadership development program. These numbers are far greater in large organizations with 72 percent having a standardized process to identify future leaders and 80 percent having a leadership development program.

One statistic that didn't change between large and small organizations was use of a personality assessment - only 43 percent use one as part of the leadership development process. One area of opportunity for many organizations is in building efficient and effective teams. Only half of respondents say they have a team building program in place or planned for the next five years.

## Best Practices Recommendations

- **Develop a talent acquisition strategy for a down economy:** The need for top talent doesn't stop during a recession. Only 51 percent of organizations have a talent acquisition strategy, and in the current environment, opportunities exist to hire top performers who are out of work or are looking to change their current situation. A strategy, combined with careful hiring, can position your organization to thrive when the economy rebounds.
- **Focus on career development as a retention strategy:** Employees will remember how you treated them when the economy bounces back. Let your top performers know they are valued and show them how they fit into the future of your organization.
- **Build your brand:** If your organization doesn't have a clear vision of the value proposition its employer brand stands for, you can't expect prospective employees to want to work for you or expect your employees to align employee values and behaviors with those of the organization.
- **Use valid personality assessments to identify and develop leaders:** These tools can help your organization hire candidates who are a fit with your culture and develop employees so they can work together more effectively and productively, improve decision making and deal with inevitable change.
- **Consider team building initiatives:** Formal team building initiative can provide insights into dysfunctional behavior and offer insights that allow teams function more productively and effectively.

## Methodology

Because of the number of respondents who participated in this survey, we are 95 percent confident that the responses of the population to the survey questions would be +/- 8 percent from the figures stated herein.

Each respondent answered the questionnaire via an online survey tool and was assured of his or her confidentiality. Their responses will be used only in this aggregate analysis.

## Demographics

A third (33 percent) of respondents had the job title President, Partner, Owner, Member of the Board or C-level executive, and 35 percent were HR executives, director level or above. Most of the respondents (70 percent) represented companies of fewer than 5,000 employees. A majority of the respondents' companies (62 percent) had more than \$50 million in revenue. A wide variety of industries were represented. Our survey results were not able to determine material differences among industry groups in responses to the survey. The primary differentiator was size of client. For purposes of this report a small organization was one that had up to 5,000 and a large organization was one that had more than 5,000.

## About Stanton Chase

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