Everybody's doing it

Companies of all stripes have become aware of the need to gather talent

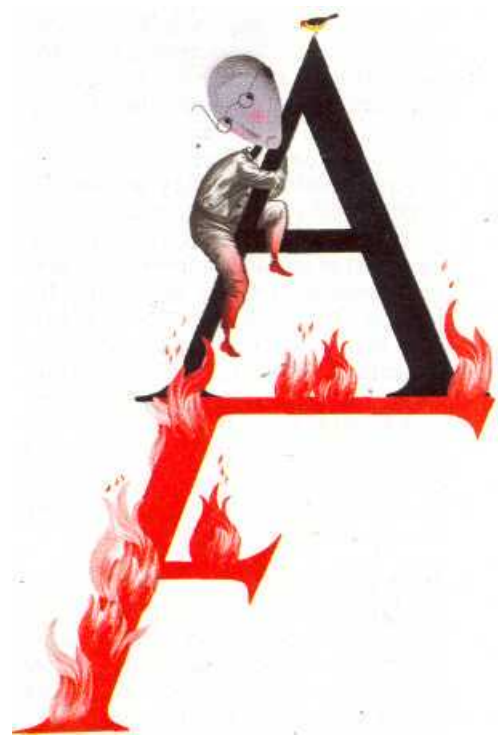
THERE is nothing new about companies wanting to secure the best talent. The East India Company, founded in 1600, used competitive examinations to recruit alpha minds. The company's employees included James and John Stuart Mill, two of Britain's greatest intellectuals, and Thomas Love Peacock, one of its wittier writers. General Electric (GE) carefully ranks its employees, with the best groomed for leading positions and the weakest eased out. In the mid-1950s it launched its corporate university at Crotonville near New York, often dubbed Harvard-on-the-Hudson. Jack Welch, the company's legendary boss, spent half his time on "people development" and visited Crotonville every two weeks. As for investment banks and consultancies, they have to be obsessive about talent: what else are they selling?

But now something new is in the air. Thanks to a hyper-competitive labour market, professional-service firms have become more preoccupied with talent than ever; and even companies in more mundane businesses have begun to think that they cannot manage without it.

The 1990s were a time of galloping growth for professional-service firms. Jay Lorsch, of Harvard Business School, and Thomas Tierney, head of the Bridgespan Group, have produced some striking figures, showing that global revenue across the industry leapt from $390 billion in 1990 to $911 billion in 2000. Companies became both much bigger and much more global: by 2000 PricewaterhouseCoopers had over 9,000 partners, and McKinsey had 81 offices worldwide. There was a frenzy of mergers and acquisitions: America alone saw 7,638 of them in 1995-2000, worth a total of $471 billion. And lots of newcomers entered the market in the 1990s-2,300 advertising firms, 2,600 accounting firms and nearly 50,000 freelance consultants. This rapid growth faltered a bit when the dotcom bubble burst, but is now resuming.

Headlong expansion has created serious problems for professional-service firms. They have to work harder to woo potential recruits, particularly potential stars, not just from each other but also from high-tech companies. And they have" to turn their recruits into company men in double-quick time. This has led them to pay even more attention to talent.

Goldman Sachs, for example, underwent a wide-ranging internal review in 1999, complete with benchmarking against industry leaders. It increased its emphasis on formal training, setting up a Goldman Sachs University, and encouraged senior partners to put more effort into developing talent. McKinsey's People Committee has spent the past two years fine-tuning its talent machine. It has boosted its training budget to $100m, diversified its sources of recruitment and rejigged its internal organisation to appeal to well-qualified young people.



The triumph of the HR department

Managing talent has become more important to a much wider range of companies than it used to be. One result has been that human-resources departments, which used to be quiet backwaters, have gained in status. A survey by Aon, a consultancy, identified 172 HR executives who were among the five best-paid managers in their companies. That would have been unheard of *a* few years ago. The biggest earners among them worked for some surprising companies, such as Black & Decker, Home Depot, Pulte Homes, Viacom and Timberland. Companies are also trying to give their people-managers better tools. The Yankee Group estimates that last year over 2,300 companies worldwide adopted some form of talent-management technology and predicts that the market for such

• technology will nearly double by 2009.

Talent-intensive companies have provided both a model and a training school for the corporate world. GE is America's CEO factory: when Mr Welch chose Jeffrey Immelt to succeed him in 2001, two of his disappointed rivals, Bob Nardelli and Jim McNerney, were immediately snapped up by Home Depot and 3M respectively. It is also an inspiration: there are now 1,600 corporate universities loosely modelled on Crotonville. Consultancies and investment banks have become finishing schools for future corporate leaders: Lou Gerstner at IBM, Ken Chenault at American Express, Meg Whitman at eBay and Chuck Conaway at K-Mart all started out in consultancies (as do 65% of the products of top business schools).

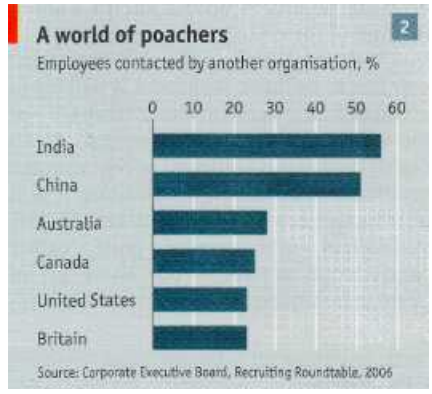
Capital One, a credit-card company, shows what a difference the application of talent can make to a sleepy market. The company's headquarters, in McLean, Virginia, looks more like a consultancy than a bank. The atmosphere is informal. The staff is young and "data-centric". The formula seems to work: founded in 1995, Capital One is now number four in the American credit-card market.'Last year it doubled its number of employees to 20,000.

The company's success is due to the deployment of lots of brainpower in a business generally seen as unexciting. The founders, Rich Fairbank and Nigel Morris, were both products of MBA programmes and consultancies. They decided that they could use mass customisation to compete with financial giants such as American Express, recruited a high-powered team of former consultants and used sophisticated statistical techniques to slice the credit-card market into tiny segments.

To-do list

Companies are now beginning to gain insights into managing talent that should allow them to tackle the problem in a more organised way. The first rule is to think more carefully about their critical talent. Deloitte, a consultancy, offers a useful example of how UPS reduced the turnover rate among the people who drive its trucks and deliver its packages. Big Brown had found that even though it selected its drivers with great care, turnover was uncomfortably high, mainly because drivers hated the back-breaking work of loading the trucks in the morning. So the company contracted out this job to part-timers who are much easier to find than drivers.

Second, it is essential to plan ahead. EDS, a giant technology company, has



built a global skills inventory of its 100,000-strong workforce. The company compared the workforce's current skills with its future needs and set about filling the gaps by encouraging workers to acquire the relevant skills. Schlumberger, a Franco-American oil-services group, is preparing for an expected skills shortage in the next few years by asking its managers to cultivate successors, and holding rigorous inquests when a high-flyer jumps ship.

Third, companies need to be more imaginative about recruiting and retaining talent. That includes paying more attention to "passive candidates"-those who are not actively looking for a job but might be open to seduction (see chart 2). Popular techniques include going through lists of people attending conferences in order to buttonhole stars, buying information about competing firms (including names of key workers) and searching the web for people who have created new patents.

High attrition rates in the first few months have also persuaded companies to pay more attention to keeping new recruits on board. In the late 1990s American Express found that far too many of its new managers were leaving within the first two years. It now gives them a chance to work on projects that are overseen by the CEO, as well as providing them with "assimilation coaches". Companies are also cultivating relations with former alumni. Ernst & Young, a consultancy, fills about a quarter of its vacancies from this source.

The fourth rule is to create internal markets for talent. Many HR departments instinctively look outside. Deloitte calculates that the typical American company spends nearly 50 times more to recruit a professional on $100,000 than it spends on his or her further training every year. Moreover, new recruits can take more than a year to learn a job. One solution is to establish an internal market, encouraging workers to apply for jobs across the company. Schlumberger encourages its employees to post detailed cvs on the company intranet; McKinsey allows consultants from all over the world to apply for any project within the company.

One difficulty with implementing these ideas is that there is no consensus about who is responsible for managing talent. If the CEO is in charge, he may well be distracted by too many other responsibilities; if it is the head of HR, he may lack the institutional heft to get much done.

Herding cats

Nor, indeed, is there a consensus on the best way to manage talent. Part of the problem is that HR as a discipline has not achieved anything like the level of sophistication of, say, finance. But more importantly, the more valuable the talent, the more difficult it is to manage. In business, as everywhere else, world-class talent sometimes comes in unexpected guises. Ray Kroc sold milkshake machines to restaurants before starting to build McDonald's at the age of 52. David Ogilvy was a chef, a farmer and a spy before becoming an advertising genius.

And solutions that have proved successful in one place do not necessarily work in another. On arriving at Home Depot in 2000, Mr Nardelli was determined to apply the lessons he had learned at GE to reinvigorate the DIY giant. He appointed a colleague from GE, Dennis Donovan, to run the HR side, and boosted his credentials by paying him the second-highest salary in the company. He replaced the company's ad hoc talent-management system with a much more formal one, creating a leadership development institute, employing more human-resource managers and imposing an elaborate system of performance measurement. But the results have been mixed. Home Depot's share price is now somewhat lower than it was when Mr Nardelli took over. Wal-Mart and Lowe's are providing stiff competition. And there is widespread disgruntlement about Mr Nardelli's giant pay package. Demoralised employees have taken to calling the company "Home Despot".

Still, Mr Nardelli's record is unlikely to discourage other companies from trying to find ways to get on top of the problem. They are motivated by a powerful combination of fear and hope: fear of talent shortages and hope that they can be turned into a source of competitive advantage. Those hopes often involve shopping for talent in the developing world. •

Fonte: The Economist, v.381, n.8498, p.5-6, 7 Oct. 2006.