

Taleo Research White Paper

Talent Management in a Down Economy

Table of Contents

| | |
|---|---|
| Executive Summary..... | 1 |
| Talent is Key | 1 |
| Changing Economic Climates | 2 |
| Job Creation During a Recession | 2 |
| Job Functions in Demand | 3 |
| Turnover Concerns Top of Mind | 4 |
| Managing Application Flow | 4 |
| Demographics Driving the War for Talent..... | 4 |
| Performance Management..... | 5 |
| Unified Recruiting + Performance Advantages | 6 |
| Global Need for Talent..... | 6 |
| Constantly Changing Skill Sets | 7 |
| Opportunities to Gain Advantage..... | 8 |
| Talent Management Drives Performance | 8 |

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Executive Summary

Talent management has risen to the forefront as a central issue for today's organizations worldwide and established itself as a key business strategy in any economic season. Regardless of market conditions, companies need to hire and manage their talent to fill positions and manage performance. Even in recessionary times, history has shown that gross job creation does not significantly decrease. Successful talent management strategies deliver the twin benefits of lowered costs and increased productivity—which are especially welcome in a constrained business climate.

This paper explores the relationship between talent management strategies, processes and practices, and the advantages that can be gained by talent management for organizations coping with an economic downturn. It discusses the value of talent management in a low growth economy and outlines the aspects of talent management—especially internal mobility, performance management, and quality of hire—that can deliver significant business performance benefits in the midst of financial constraints.

Based on historical data and demographic trends, it dispels misconceptions that organizational focus is confined to compliance and audit trails, budget limitations, and downsizing when the broader markets decline.

Talent is Key

An Accenture survey of more than 850 top executives from the US, UK, Italy, France, Germany, Spain, Japan, and China found that two-thirds of executives put the inability to attract and retain the best talent second only behind competition as the key threat to business success. Compared to a similar 2005 survey, talent is the only issue that increased in importance.

A survey of 1,350 European executives from 27 countries conducted by The Boston Consulting Group (BCG) and the European Association for Personnel Management (EAPM) concluded that managing talent is the most critical challenge today.

Hans Böhm, general secretary of EAPM, remarked: *“Human resources has never played a more important role in business than it does today...HR executives must face these challenges to draw on human capital as a major source of competitive advantage.”*

The study, *The Future of HR: Key Challenges Through 2015*, lists talent management as the primary concern with this foreboding statement: *“Talent shortages loom, both in Europe and in new markets abroad, and companies must take steps now if they hope to address these shortages—and avert disaster.”*

Executives are increasingly realizing—and appreciating—the positive impact of successful talent strategies and practices on the organization. One study of executives found:

- 82% believe that human capital has an impact on profitability.
- 92% think that human capital has a significant effect on customer satisfaction.
- 72% believe that human capital has an impact on innovation and new product development.¹

Talent practices are evident throughout the full lifecycle of talent management including recruiting, onboarding, internal mobility, performance and goals management, career and succession planning, learning, and compensation. Notably, these practices are increasingly being viewed holistically as the sum of the parts.



¹ *Human Capital Management: The CFO's Perspective*, CFO Research Service Report.

Successful talent management is a key driver of business performance. Accordingly, the returns from talent management are not confined to the benefits derived during a robust, high growth business cycle. Rather, at the core of the value of talent management is the appreciation of its power to drive organizational performance in all business climates.

Since talent management practices have such broad reach throughout the organization and talent lifecycle, particular components of the process rise in significance at different times. This may be caused by the dynamics of alignment with internal business goals, external pressures from the market environment, and even the global economy.

Changing Economic Climates

Hot and cold economic climates may not both support overall business growth, but they both certainly fuel gross job creation and require talent management to guide hiring and performance processes. Net job creation may go down, unemployment may go up, and other key indicators can point to economic slowdown. The simple fact is that companies continue to hire—even in a recession. While net job creation might go to zero, or even become a negative number, gross job creation still occurs as the workforce shifts from sectors that are hardest hit to areas that continue to grow.

For example, the US economy had been growing steadily since 2003. But by the end of 2007, events cast doubts on this forward momentum. The collapse of the housing market and revaluation of subprime loans cut the net worth of some of the largest financial institutions and tightened global liquidity. Record high energy prices threatened to slow growth and resurrect inflation. The US Department of Labor reported that unemployment reached a two-year high of five percent. Collectively, these events led many economists to predict slow economic growth or a possible recession, perhaps extending to the global economy.

On the heels of the World Economic Forum in Davos, PriceWaterhouse Coopers's 11th Annual Global CEO Survey found "...for the first time since the survey began, CEO's ranked the potential downturn in major world economies as the top threat to their business growth." Business executives factored these economic forecasts into their plans for 2008 and beyond. Some question HR and hiring technology investments with the rationale that a down economy means reduced hiring. They also mistakenly assume retention will become less of an issue in a downturn.

For many organizations, a slow economy could force staffing reductions and hiring freezes. But past economic shifts have also been viewed as opportunities to drive growth in new business ventures or capitalize on incremental business opportunities. In fact, there are compelling reasons why this may be an optimal time to explore opportunities. Not only can a surplus of workers with skills and experience staff potential growth areas and drive performance, but an economic downturn also presents an opportunity to improve the overall strength of the talent already in place.

Job Creation During a Recession

One misconception about the labor supply and demand equation is that hiring ceases during a recession. An analysis of the data proves otherwise. The US Bureau of Labor Statistics (BLS) regularly publishes a Jobs Report stating the job creation rate which rises or falls depending on whether businesses hire or shed employees. This reported number is Net Job Growth: equal to the number of jobs created minus the number of jobs eliminated.

The net number does not tell the complete story. Gross jobs created—the total number of new jobs created—is a better barometer of the amount of hiring.

In Q1 2000—during the hiring peak of the last expansion—8.8 million gross jobs were created.

Likewise, in Q3 2003 during the economic recovery, 7.4 million gross jobs were created. (Figure 1).

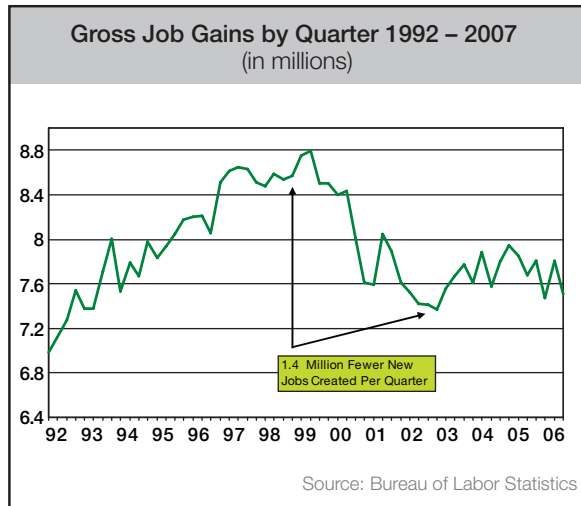


Figure 1: 8.8 million jobs were created during the hiring peak. Comparatively, 7.4 million jobs were created during the recovery.

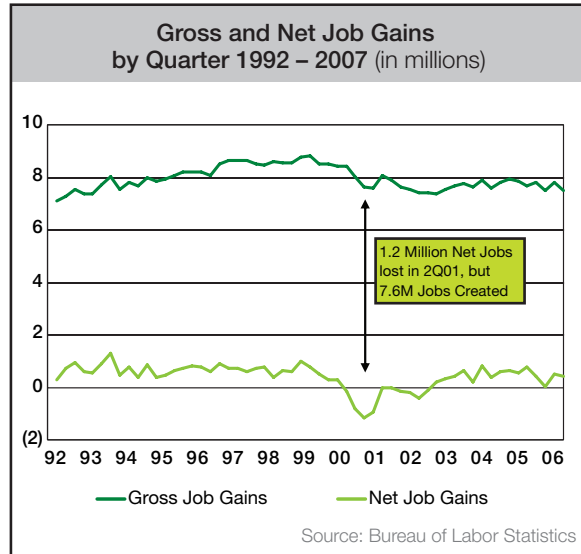


Figure 2: The Bureau of Labor Statistics reported in Q201 7.6M jobs were actually created.

So, hiring continues even when the economy slows; new jobs are created by growth areas. In Q2 2001, as the dotcom bubble burst, 1.2 million net jobs were lost. During the same period 7.6 million gross jobs were actually created (Figure 2) and 92 million gross jobs were created during the last economic downturn in 2001–2003 (Figure 3).

| Job Creation | | | | | |
|--------------|------|------|------|------|-------|
| Year | Q1 | Q2 | Q3 | Q4 | Total |
| 1997 | 8214 | 8055 | 8515 | 8617 | 33401 |
| 1998 | 8648 | 8629 | 8508 | 8475 | 34260 |
| 1999 | 8585 | 8539 | 8571 | 8749 | 34444 |
| 2000 | 8792 | 8499 | 8506 | 8400 | 34197 |
| 2001 | 8439 | 8009 | 7608 | 7591 | 31647 |
| 2002 | 8049 | 7890 | 7608 | 7522 | 31069 |
| 2003 | 7423 | 7415 | 7369 | 7560 | 29767 |
| 2004 | 7423 | 7415 | 7369 | 7560 | 29767 |
| 2005 | 7578 | 7796 | 7943 | 7846 | 31163 |
| 2006 | 7679 | 7811 | 7473 | 7809 | 30772 |
| 2007 | 7509 | | | | |

Figure 3: The Bureau of Labor Statistics reported that 34 million jobs were created in 2000. By comparison, 31.6 million jobs were created the subsequent year.

Job Functions in Demand

Even if the pace of hiring flattens, there are strong economic, social, financial, and political conditions that drive shifts in the kinds of available jobs. According to the December 2007 jobs report published by the BLS, certain industries such as services experience growth while others such as financial services shrink. Employment is up in professional, technical, and food services.

Fluctuations in the job market may reduce the workforce in certain segments but advance job growth in other industries. According to the *The Wall Street Journal*: “While consumer-products manufacturers and retailers are usually the hardest hit in a downturn, along with travel and hospitality businesses, hiring generally remains robust during a recession in industries that serve consumers’ critical needs such as health care and energy.”² Clearly, the need for identifying and hiring the highest quality talent remains critical.

2 How to Recession-Proof Your Career. *The Wall Street Journal*, January 29, 2008.

Turnover Concerns Top of Mind

Voluntary turnover is of perennial concern and especially significant in a recession. In December 2007, the BLS reported 146.2 million non-farm payroll jobs in the US with voluntary attrition hovering at 23 percent. During the most recent recession of 2001 and 2002, voluntary attrition only declined to 22 percent.

In the UK, the overall employee turnover rate is 18.1 percent with average job tenure remaining fairly stable over the last five years.³ Notably, during the thriving economy of 2000, the aggregate labor turnover in the UK was up to 26.6 percent.⁴ These are clear illustrations that voluntary turnover does not evaporate in a downturn.

Consequently, most companies will rehire between 20 percent and 25 percent of their company's workforce every year regardless of economic conditions. Hiring workers is far from a binary activity; full on in a robust economy and full off in a harsh economic environment.

Hiring new employees—whether for new positions created through growth or to backfill existing positions due to churn—continues. In these circumstances, a strategic hiring process that captures best fit talent quickly is essential to mitigate the financial drain from open positions and poor productivity.

Managing Application Flow

In a declining economy, organizations receive high volumes of resumes as an increased supply of candidates applies for vacant positions. The ubiquitous adoption of the Internet and corporate career sites as the main method for job posting and accepting applications can be a boon if an automated recruiting platform is in use or a burden if the corporation is buried under an avalanche of applications without the ability to find quality talent among the quantity.

An optimized recruiting solution can mean the difference between sifting through thousands of resumes and rapidly hiring the best candidate before the competition. Companies that sort through large numbers of applicants quickly and easily based on pre-defined criteria can automatically identify top performers and match their skills to open positions. Through a web-based sourcing solution, candidates can be acquired from around the world with the requisite levels of experience, education, and competencies.

Demographics Driving the War for Talent

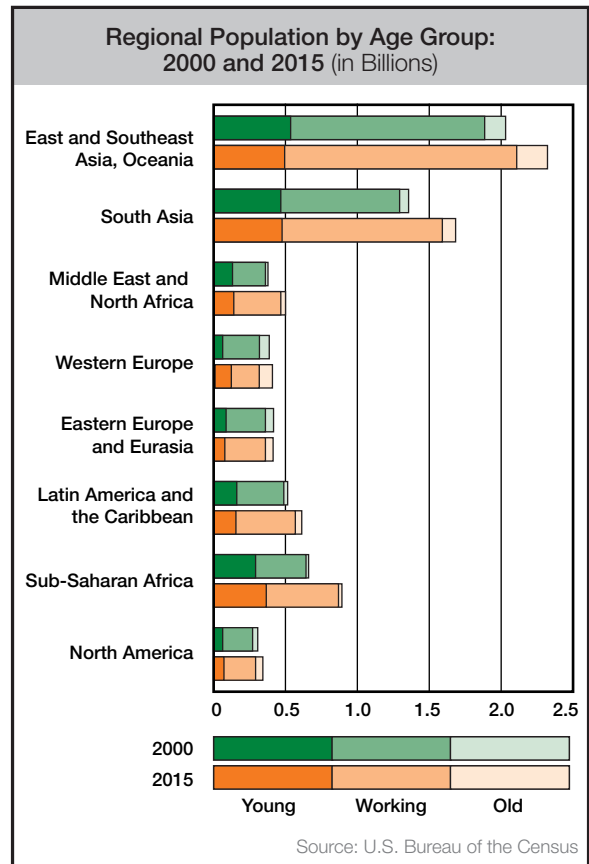
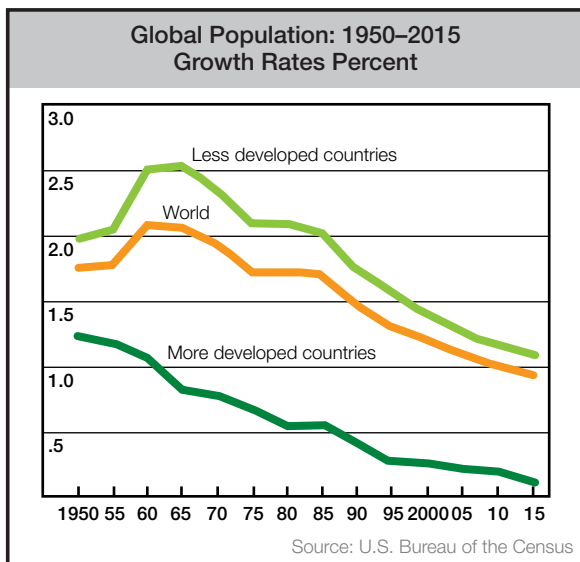
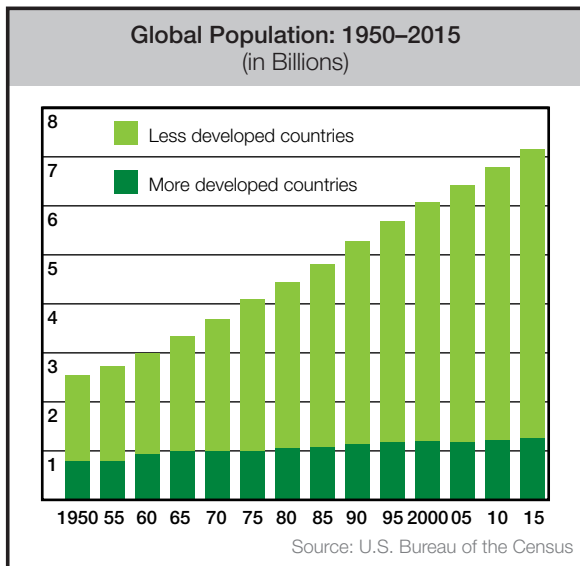
Although it may seem counterintuitive that the war for talent will persist during an economic downturn, the demographic data indicates otherwise. The converging forces of baby boomers retiring in large numbers and Generation Y or Millennials entering the workforce in much fewer numbers will produce a labor shortage. In the US, only 47 million Millennials stand ready to replace the 76 million baby boomers now facing retirement.

Worldwide demographics are similar, especially among developed nations with high percentages of skilled workers. One analysis: *"In the advanced economies—and a growing number of emerging market countries—declining birthrates and aging will combine to increase health care and pension costs while reducing the relative size of the working population, straining the social contract, and leaving significant shortfalls in the size and capacity of the work force."*⁵

³ Recruitment, retention and turnover survey 2007, Chartered Institute of Personnel and Development (CIPD).

⁴ Labour Turnover 2003, Chartered Institute Of Personnel and Development (CIPD).

⁵ Global Trends 2015, approved for publication by the National Foreign Intelligence Board under the authority of the Director of Central Intelligence.



When a declining economy meets a hotspot in the war for talent, companies need optimized talent management to gain competitive advantage through talent. Additionally, considering for example, that the average American changes jobs every four years (Millennials even more frequently), employee retention—cultivated through rewards programs, training, and career development—should always be a primary goal. Strategic talent management dictates that employers recruit and retain “A” players whenever and wherever they can be found.

Performance Management

A performance management system which objectively evaluates the contributions of all performers ensures that the best are identified and rewarded accordingly. In a poor economy there are usually

fewer available bonus funds. Without effective performance management, employers will spread fewer funds across a larger number of people and try to reward everyone instead of just the top performers. Unsatisfied top performers whose talent is always in demand may look elsewhere.

Rewards, though, are only one aspect of retention. Declining economies can compel more objective evaluation and harder decision making about the business. Some business units are closed; others receive investments to yield productivity improvements and incremental efficiencies. What if the current staff is unable to reinvent itself to meet future business opportunities?

While one area’s headcount may be reduced, it is not always possible to redeploy all of those employees to new jobs. More often, new business opportunities require new teams, new skills, and new management to fuel future growth. In effect, this business imperative to evolve the workforce makes talent management more—not less—important in a down economy. Talent management provides the workforce mobility tools to retain your best people by placing them in more strategic positions while sourcing and hiring top talent to fill the gaps created by new initiatives.

Unified Recruiting + Performance Advantages

Talent management strategies—with unified processes for managing recruitment, performance, and succession planning—respond in a slowing economy as companies restructure to meet changing market conditions. Visibility into employee talents and aspirations—through ongoing career planning—provides the key to efficient redeployment of talent in a restructuring.

A unified talent management process provides even greater returns than do isolated activities. Together, recruiting and performance deliver benefits from establishing a single talent system

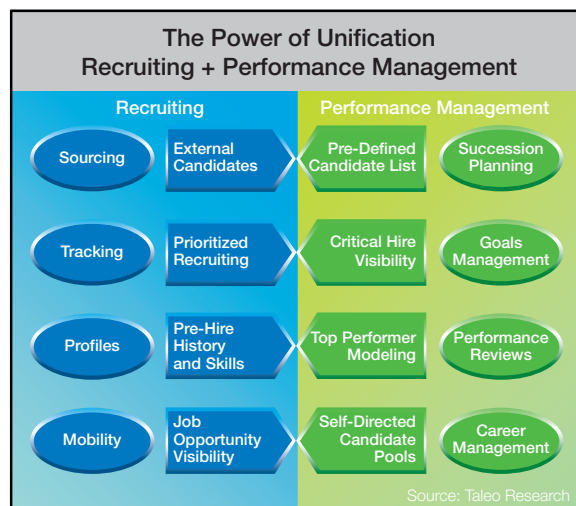
of record that are more holistically substantial for business performance.

Recruiting helps performance through:

- Identification of external succession candidates.
- Pre-employment history and skills.
- Finding skills to meet corporate goals.

Performance helps recruiting through:

- Top performer modeling.
- Proactive sourcing.
- Visibility into internal talent.
- Job profiles and competencies.



Global Need for Talent

Some economists view a bearish global stock market as a warning sign that international markets could be dragged down by a US recession. Yet most agree that high growth economies elsewhere such as China and India are unlikely to be impacted by US events, effectively opening a door of opportunity overseas. That view contends that European economies are also less affected by US business speed bumps.

For instance Springboard Research, based in Singapore, outlined the trends IT vendors expect to see across Asia in 2008. CIOs and IT decision makers foresee *“Skill shortages will hit vendors, IT management and the investment plans of many organizations.”*

Furthermore, experts generally agree that even when the US experiences a recession, a global recession is unlikely. Consider these characteristics of the global economy in 2008:

- Wal-Mart is currently opening its 3,000th international store and growing international sales to a \$77.1 billion dollar business.⁶
- McDonald’s recently announced that European sales rose 10.8% in November and APMEA increased 12.0% while domestic sales grew by just 4.4% for the month.⁷
- Other large retailers including The Home Depot and Best Buy are deploying an acquisition strategy in a rush to tap the potential of burgeoning international markets.⁸

Goldman Sachs Global Investment Research reports: *“Our checks through the broader technology channel outside the United States continue to indicate a considerably more robust outlook for spending in 2008 than domestically — in the emerging economies, as well as in EMEA and Asia (particularly outside of Japan).”*⁹ Some American companies may decide to trim expenses. But growth in Europe, and particularly India and China is projected to be strong.

Talent management becomes an even more important priority with the burgeoning global economy as the macro economic context. *BusinessWeek’s* article, *Managing the Global Workforce* asserts,

*“Today, global corporations are transforming themselves into transnationals, moving work to the places with the talent to handle the job and the time to do it at the right cost. The threat of a U.S. recession only makes such efforts at lowering expenses and grabbing the best talent even more urgent.”*¹⁰

Constantly Changing Skill Sets

Another trend adds to the effects of economic slowdowns, the persistent war for talent, and a perpetually competitive business environment. Work itself and the skills needed for it are changing. Good examples are evident in high technology and IT.

In 2001 and 2002, following the dotcom slowdown, there were fewer technology jobs. But many new types of jobs were created in financial services and business consulting as companies tackled new compliance mandates. While employers no longer needed COBOL developers, they competed for SARBOX experts. Now many want to recruit programmers savvy on Web 2.0 development, Java, XML, AJAX, Flash, and Flex.

The manufacturing sector of the US economy expects to experience substantial job losses—shedding 30,000 jobs between 2004 and 2014. However, the service sector is expected to create 18.7 million jobs during the same period. Workers who adapt to shifts in employment by updating or learning new skills will be better poised to win in a down economy.¹¹

The potential growth of on demand SaaS (software-as-a-service) technology companies provides another case in point. SaaS companies such as Taleo deliver software over the Internet. According to RBC Capital Markets, there are now *“16 public pure-play SaaS companies, with a combined market capitalization of \$17.5 billion, however, an expected series of IPOs during the next few years could result in 34 public*

6 Wal-Mart 2007 Annual Report, pg 36 http://walmartstores.com/Files/2007_annual_report.pdf

7 McDonalds Press Release, December 20, 2007 http://mcdonalds.com/corp/news/fnpr/2007/fpr_121007.html

8 The Home Depot 2006 Annual Report, page 19 http://ir.homedepot.com/downloads/HD_2006_AR.pdf. Best-Buy 2007 Annual Report http://media.corporate-ir.net/media_files/irol/83/83192/root/international.htm

9 Goldman Sachs Global Investment Research, Independent Insight, US Technology Strategy, James Covello, Sarah Friar, Derek Bingham, January 3, 2008

10 *Managing the Global Workforce*, *BusinessWeek*, January 17, 2008.

11 Bureau of Labor Statistics

*pure-play SaaS companies by 2010 with a combined market capitalization of approximately \$32 billion.*¹²

Whether or not these predictions come true, these technology companies must continue to operate competitively and grow as large as the market dictates. SaaS companies must recruit candidates who have or can develop expertise in building a SaaS business including architecting, developing, and delivering these specialized products, as well as selling and marketing to this new breed of customers.

Going green is another example of adding forward-thinking skill sets. *“Half a million new jobs in ecologically responsible trades will blossom in the next three years alone”* reports a study by the Cleantech Network, a venture capital firm for green business. Clean energy has become a \$55-billion-a-year industry worldwide and the rapid growth is fueling a shortage of workers in emerging hubs like California’s Bay Area. Germany’s clean energy effort resulted in 235,600 jobs in 2006.¹³

According to Bracken Hendricks, a senior fellow at the Center for American Progress, *“The growth in green careers will be like the Internet boom, which not only created new jobs, but also significantly impacted the overall economy.”*¹⁴

Opportunities to Gain Advantage

All economic climates provide successful companies with new opportunities including the exploration of new markets or the development of eco-friendly products or services. Doing so successfully may require recruiting new talent or retraining top performers. Aligning new corporate objectives with a retrained staff leverages employee retention and decreases the high costs of recruitment.

¹² RBC Capital Markets, “SaaS Primer - An Emerging Asset Class”, November 2007 <http://www.ebizq.net/news/8641.html>

¹³ Engine of growth: clean-tech jobs, *The Christian Science Monitor*, January 24, 2008.

¹⁴ Larry Buhl, Yahoo HotJobs, ‘Green Collar’ Jobs Are Poised for Growth <http://hotjobs.yahoo.com/career-articles-green-collar-jobs-are-poised-for-growth-229>

Studies show that the cost of losing an employee can range from one to five times annual compensation. This includes lost business performance, customer satisfaction, cost of acquisition, and the cost of developing new employees to the level of performance of their predecessors.

Career planning, employee development, and training programs that enable employees to expand their capabilities and grow within an organization correlate with high employee satisfaction and retention. Instead of losing top talent and idling the workforce while waiting for an up tick in the business cycle, smart companies can use downturns to upgrade talent and emerge stronger.

Talent Management Drives Performance

To the unenlightened, talent management investments during cold economies may seem incongruous. But demanding economic times actually present new opportunities for success. Businesses can:

- Redeploy existing resources to expand into new markets.
- Align employee performance to corporate goals.
- Focus on bringing new skills in-house.
- Implement employee development and retention programs.

Changing business conditions may also drive mergers and acquisitions in a consolidation strategy which requires an internal mobility approach to align key players with business goals. Workforce mobility offers a smarter way to shift resources and retain top performers by redeploying them into new strategic initiatives. Otherwise, without use of talent profile information that includes an inventory of skills, abilities, and performance histories, companies can lose key contributors to the competition.

A talent management solution provides unique visibility into a workforce. This insight can:

- Reveal top performers.
- Identify who to reward.
- Pinpoint skill sets.
- Intelligently guide deployment and a reduction in force.

Successful organizations know that exceptional business performance is driven by superior talent. Talent management is a critical business function in any economic climate; the acquisition and retention of top talent should be an ongoing process.

A talent management system that aligns your workforce with shifting corporate objectives can mean the difference between merely surviving downturns and using economic slowdowns to create competitive advantage.

No business is completely recession-proof; economic cycles ebb and flow. During a down cycle, it is proven that developing, redeploying, and retaining top talent will ultimately fuel higher levels of business performance.

Talent Management Lowers Costs

- ▼ Job board fees
- ▼ Headhunter fees
- ▼ Time to hire
- ▼ Cost of hire
- ▼ Employee turnover
- ▼ HR administration
- ▲ Quality of hire

Talent Management Increases Productivity

- ✓ System of record
 - ✓ Metrics and reporting
 - ✓ Performance benchmarks
 - ✓ Goals communication
 - ✓ HR productivity
-

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ABOUT TALEO

Leading organizations worldwide use Taleo on demand talent management solutions to assess, acquire, develop, and align their workforce for improved business performance.

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