

As the war heats up

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The global financial crisis provided a brief respite in the war for talent. Janine Mace investigates how boards can assist as conditions on the battlefield heat up again.

Recruitment trends

With the GFC out of the way, directors will need to deal with:

- * Growing skills shortages
- * High staff churn
- * Negative emotions generated by past staff cuts
- * New staffing requirements to meet growth strategies
- * Tactics to keep staff

Don't get too comfortable. While many directors may think Australia has escaped the worst of the global financial crisis (GFC) and life is slowly returning to normal, the view from the recruitment front is not so relaxed.

Directors are likely to face some tricky challenges, according to Michael Page International national director executive search, Scott Mewing.

"This is a very interesting time for a lot of boards, as they need to second guess where companies and their markets will be growing, and whether they have the right staff and strategies in place to meet those challenges," he says.

While boards are getting ready to throw the switch for growth, organisations may find they lack the human resources to do so. Recruitment experts believe the powerful position enjoyed by employers during the GFC is ebbing away and staff could be headed for the doors.

"In 2010, we expect to see a real tightening of the labour market," observes Mewing.

Peter Giudes, a board member and founding director of IT solutions firm Artis Group, agrees it could be a tough year for boards. He believes directors need to think hard about the employment environment in which their organisations find themselves.

"I don't think there has been a more important time for boards, especially with all the different government changes occurring [in employment conditions], plus the changing economic circumstances," he says. "I think there will be quite a bit of movement this year."

Tough times for executives

These predictions seem a long way from the dark days of the GFC, when cost cutting was the top agenda item.

According to Mewing, the crisis forced organisations to carefully review their market and head count. "Many companies found the new conditions meant they could not justify their cost base," he says.

Peter Tulau AAICD, a partner with Chandler Macleod's executive search firm Luminary Search, agrees that the crisis forced companies to reassess their structures, operational plans and human resources.

"When the GFC first hit, recruitment volumes collapsed as organisations came to grips with truncated revenue streams. In some instances, targeted downsizing of executive ranks occurred and speculative business propositions were truncated across a range of fronts," he notes.

With head counts generally under the microscope, the executive suite has not been immune.

According to Hays Executive director Jason Vuddamalay, who specialises in executive recruitment for small to medium-sized enterprises (SMEs), the turnover level for CEOs and senior executives has been high.

"In 2008/09, we saw an increase in CEO and C-level candidates. We were surprised by the volume and that candidates were prepared to be geographically mobile," he says.

Mewing believes much of this turnover was driven by organisations re-evaluating their market strategy and whether they had the right people in place. "In some companies, this led to a reassessment of their executive teams and to replacing them where they were not a good fit with the new conditions."

Two-thirds of the work undertaken by Michael Page last year was for executive teams. "It was a big year for boards in relation to whether they had the right people to move forward," Mewing explains.

"Many boards found they wanted more management information to make tough decisions and it was not available from the CFO."

Tulau agrees that some senior executives found the going tough and were shown the door.

"The GFC highlighted the need for CEOs to traverse a broad spectrum," he says. "Some CEOs did not possess this range and/or did not want to operate in this way and were replaced."

Spoiled for choice

This created an environment where organisations could demand candidates with very specific skills and industry experience, Vuddamalay says.

"Employers were being very specific about industry background and they could pick and choose. It was a candidate-rich period."

Giudes believes this reflects how the leadership skills expected from CEOs have evolved.

"In 2008, the emphasis was on entrepreneurship. In 2009, it was management skills and now it is back to entrepreneurship, but still with close financial management," he says.

Although the tough times for CEOs and CFOs in big organisations are largely over, it may now be the turn of executives of SMEs.

"The cycle of boards evaluating the management team has come and gone from listed companies, but in the SME space many have not been forced to change as yet," Mewing says.

"For many SMEs, the hard decisions still need to be made and they need to ensure they have the right people on board."

Looking to the future

After a painful reassessment process, boards are now starting to think about growth.

“2009 was a year of looking in the rear-vision mirror,” Mewing explains. “This year will see a new focus on top-line growth, so boards need to think about whether they are ready to cope with that.”

This means asking the executive team hard questions about how ready the organisation is to cope with growth, particularly if employees start moving.

“Boards need to ask: ‘How will we grow with the remaining core staff?’ and ‘If we lose some of them, how will the organisation manage?’,” says Mewing.

Tulau agrees that this is vital. “Boards will need to work closely with senior management to ensure there is congruence between the medium and long-term strategy and the human capital required to execute that strategy.”

A shift in the employment environment is already starting to emerge. The December 2009 Michael Page Employment Index (which forecasts white-collar employment trends) found that 23 per cent of companies currently maintaining their staffing levels expected to increase their head count over the next three to six months, with a further 27 per cent likely to increase staff numbers in six to 12 months.

Vuddamalay is definitely seeing renewed interest in recruitment. “Companies are going to make hiring and investment decisions in 2010/11,” he says.

“Two-thirds of the CEOs we speak to expect revenue to grow and with that change there will be increasing demand for CEOs and C-suite executives.”

Fresh demand is likely to suit employees disillusioned by their treatment during the GFC.

“2009 was a year of basically ‘no love’ and it has been unfulfilling for mid to junior staff. Everyone is a bit sensitive and emotional and with a stronger recruitment market, it will lead to churn,” Mewing says.

Candidates who accepted lower-level roles to secure employment may also think about moving.

“There are people who are underemployed for their skills and those who are somewhat dissatisfied due to tight budgets and no salary increases,” Giudes says. “This will magnify the trend towards movement this year.”

Mewing believes these factors will create major challenges for boards.

“We have seen some examples of companies using the GFC as an excuse to implement staff-unfriendly practices and avoid increases, but if this continues, companies will see people vote with their feet,” he says.

“This is an issue for directors and if they are not addressing it already, then they are missing an important issue.”

Vuddamalay agrees that directors must get ready for the new environment. “Boards need to play an active role in having conversations with senior executives to ensure they have succession and contingency plans in place.”

An increase in employee “churn” may even foster rising salaries, Mewing predicts. “We will see a salary spike from this, but not as bad this time around.”

Winning the talent war

While concern about skill shortages abated during the GFC, the issue has not disappeared. As Giudes notes: "I believe there is always a skill shortage. Quality candidates are still hard to find. Really good people need digging out and they are often only passive candidates at the moment."

Some industries may find the going tough, Tulau says. "There will be obvious skill shortages in resources, mining, infrastructure, energy, utilities, telecommunications and industrial services."

The problem will be magnified by the relatively low level of professional unemployment, Mewing says. "In the 1990s, unemployment was over 10 per cent, but now professional unemployment is under six per cent."

Vuddamalay agrees boards may need to fight for top executives. "Competition for talent will increase," he says.

"Senior management positions are going to turn over as people have been biding their time over the period of the GFC. This will change and CEOs will need a talent-management paradigm to cope."

Competition for talent will make retaining existing staff even more essential, according to Giudes.

"Boards need to have a standing agenda item around staff retention. I think it is critical, especially for services-based businesses where intellectual capital is a vital component," he says.

Vuddamalay agrees: "Boards need to have a coherent talent-management strategy and succession needs to be openly discussed at senior levels."

In Tulau's view, the key elements in winning the war for talent are perennial. "They include paying attention to the ongoing development and maintenance of a positive culture, working with a CEO who takes culture seriously and staffing with strategic HR practitioners who are enabled to develop a sound medium and long-term talent-acquisition strategy."

Protecting what you have

Keeping valuable staff on board will also become increasingly important, particularly when expenditure remains an issue.

According to Giudes, an invaluable way to retain and attract the best talent is through employee share-ownership schemes. "They are a good way of rewarding key staff and aligning their interests with shareholders. They should be encouraged by government and embraced by boards," he says.

Even in tight financial environments, Giudes argues there are other retention strategies boards can implement.

"It is about considering the right use of outsourcing and automation. Boards should look at ways to remove the less interesting roles as this can be used as a way to reward staff. This is something boards should be looking at with their management teams as a way to assist with staff retention," he says.

Directors also need to determine whether their organisations have dealt effectively with the negative emotions generated by the crisis.

"Many companies have been so focused on survival, they have not done this well," Mewing says.

"Boards need to ensure management is communicating what the company has gone through and the opportunities that lie ahead. People need incentives and they need to get revved up and reconnected with their organisation. Boards need to be aware of the staff's views and the need for increased motivation."

For senior executives, boards need to ensure appropriate incentives are in place.

As Tulau explains: “Key to the engagement of CEOs will be the configuration of long-term incentives. The GFC will have diluted the value of many long-term incentive structures, which will in turn enhance the portability of senior candidates.

“Major businesses competing for talent on a global scale, particularly where there is scarcity of labour supply, will need to positively differentiate their organisations and develop competitive remuneration structures.”

Top trends for 2010

With organisations once again thinking about growth, the key employment issues have changed, according to Ken Gilbert GAICD, head of human capital at Mercer. He believes the top human capital issues in 2010 will be:

1. Fostering growth in a new workforce context
2. Being smarter with benefits as pay packets matter again
3. Restoring equilibrium in executive remuneration
4. Mitigating turnover risk and restoring employee engagement
5. Developing well-rounded leaders who can maintain momentum and/or pick up the pieces

Key questions for management

According to Peter Tulau, a partner at Chandler Macleod’s executive search business, boards have an important role to play in the current environment where the war for talent is poised to escalate. He says they should be asking the management team whether it is confident that:

- * The values of the organisation resonate widely and create an attractive culture;
- * The organisation positively differentiates itself during the candidate engagement process;
- * The sourcing strategy will deliver the business strategy now and into the future;
- * The succession plan will mitigate risk associated with loss of key executives; and
- * There is procedural rigour in the selection process to consistently deliver quality hires.