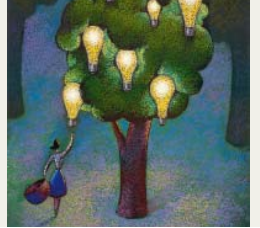




Talent strategies for innovation

A report from the Economist Intelligence Unit
Supported by the Government of Ontario, Canada

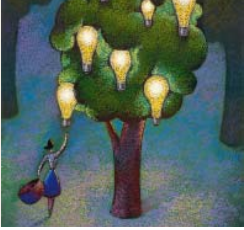


Preface

Talent strategies for innovation is an Economist Intelligence Unit research paper, supported by the Government of Ontario, Canada. The Economist Intelligence Unit's editorial team conducted the interviews, executed the survey and wrote the report. The findings and views expressed in the report do not necessarily reflect the views of the sponsor.

Kim Thomas was the author of the report and Katherine Dorr Abreu was the editor. Mike Kenny was responsible for layout and design. Our thanks go out to all survey respondents and interviewees for their time and insight.

September 2009



Executive summary

Talent strategies for innovation looks at how organisations approach the challenge of recruiting, nurturing and retaining talented people for innovation. The research found that the challenges of globalisation have turned talent management into a key strategic issue that, in many organisations, is now the responsibility of the C-suite. Although businesses have had to make major changes in their approach to talent management, many are still hindered by the existence of internal silos and a reluctance to look outside the organisation for skilled workers. If businesses are to maximise their capacity for innovation, they need to develop flexible policies that will enable them to recruit and retain talent in both their home and foreign markets.



Introduction

Two factors are essential to success in the marketplace, according to Padmasree Warrior, CTO of Cisco, the global technology company: the ability to innovate and the ability to bring products to market very quickly. “Talent management”, she adds, “is the piece that connects the two”. To maintain its competitive edge, she says, Cisco has provided training for its workforce so that staff can both take risks and accept the process and discipline needed to get things done in a large global company. This combination of skills can be challenging to find.

A new, more integrated world economy means that all companies, whether large or small, must have flexibility and creativity to remain competitive. Research conducted by the Economist Intelligence Unit confirms this finding. *Fertile ground: Cultivating a talent for innovation*, published in February 2009 with the support of the government of Ontario, Canada, showed that innovation is the single most important predictor of future growth, and that access to talented staff is critical for innovation. This paper, *Talent strategies for innovation*, based on interviews and a survey of 179 senior executives worldwide conducted in August 2009, delves more deeply into the link between talent management and innovation. It looks at the particular challenges of talent management in the new global landscape and the strategies being developed by companies to meet those challenges.

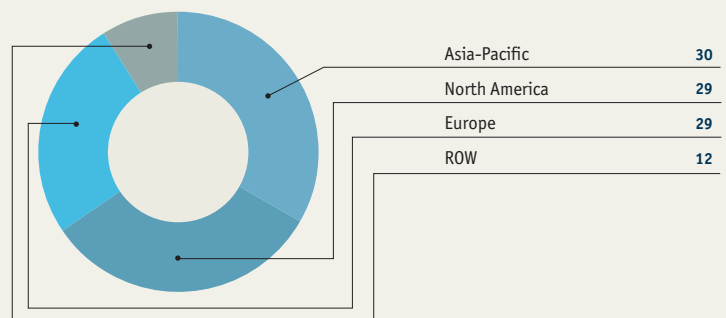
Who took the survey?

A total of 179 senior executives from around the world took part in the online survey. Thirty percent of respondents are located in the Asia-Pacific region, 29% in North America, 29% in Europe and 12% in other regions. Forty-six percent of respondents are C-level executives. They have a broad range of roles, with 36% responsible for general management, 36% for strategy and business development, 30% for finance, and 23% for marketing and sales.

Respondents represent a broad range of industries. Sixty percent work for organisations with annual revenue of more than US\$500m.

For further information, see the appendix at the end of this report.

Survey respondents are based worldwide
(% respondents)



Source: Economist Intelligence Unit survey, July 2009



Talent management: a C-suite issue for successful innovation

Executives worldwide overwhelmingly recognise talent management as integral to their ability to innovate: 75% of survey respondents say it is “very important” and just 1% say it is “not at all important”. To ensure access to talent, firms must have policies to attract and retain qualified professionals, according to more than three-quarters of respondents. And they should go where the talent is: more than one-half of the respondents say the availability of talent is the most important external factor for innovation— ahead of factors such as the business environment (41%) and financial or fiscal incentives (28%).

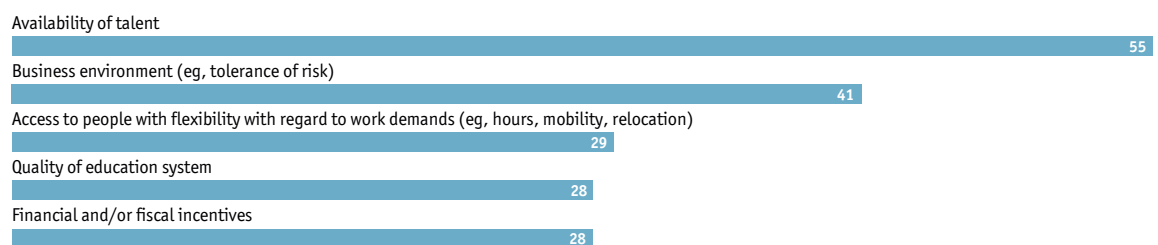
Good talent management is becoming even more important as it increasingly influences other strategic decision-making, such as where companies should locate their research and innovation centres. Just over one in five (22%) respondents say that their organisation currently locates innovation centres in areas where there is an abundance of talent, but 39% expect that to be the case within five years. “Having access to universities with well-trained people is a critical factor for us,” confirms Ms Warrior.

Because of its role in successful innovation, talent management has gained the attention of the C-suite. In 65% of organisations, the most senior executive with responsibility for formulating talent management strategy is a C-level executive, while in 49% of organisations, a senior vice-president, vice-president or director has responsibility. (Respondents could choose more than one executive.) C-level executives recognise that talent management is a critical issue and are working more closely on this area with their direct reports.

Execution of talent management strategy, however, is more usually the responsibility of managers at lower levels. As Ms Warrior says, “The tone and the culture are set at C-level, and that’s clearly the case at Cisco, but the absolute responsibility for talent management goes all the way to the individual level.”

The best place to innovate: where talent is available and the business environment favourable

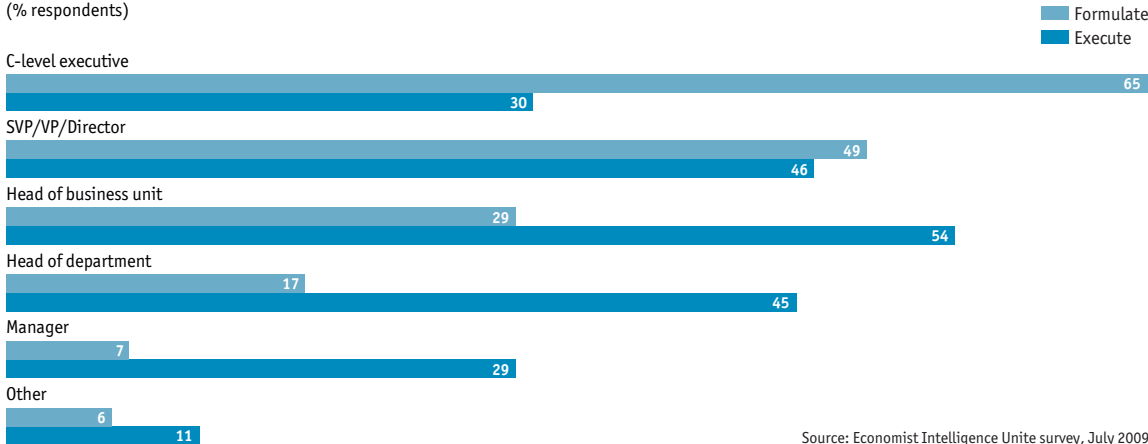
(Top five external factors that favour innovation, by % of respondents)



Source: Economist Intelligence Unite survey, July 2009



C-suite formulates talent strategy for innovation, but execution happens down the line
 (% respondents)



Source: Economist Intelligence Unite survey, July 2009

The survey shows that, as the importance of talent management grows, so does C-suite involvement in formulating strategy. One-half of the respondents say that the C-suite is more involved in talent management today than five years ago, and 39% say that the C-suite will be more involved within five years.

The increasing prominence of talent management at very senior levels is reflected in the experience of AstraZeneca, an Anglo-Swedish pharmaceutical firm with US\$32bn in sales in 2008. Five years ago, the company decided to construct a best practice approach to talent management that would be applied consistently throughout the organisation. Its strategy was developed after researching the approaches used in other organisations, and the company continues regularly to compare its practice to external benchmarks.

Talent management strategy is led from the top, says Lynn Tetrault, AstraZeneca’s executive vice-president for human resources and corporate affairs, and then integrated systematically throughout the organisation: “We have a process by which the management teams across the business look at their talent on a regular basis.” The company identifies pools of talent at the functional level as well as by region. It also looks for people with the highest potential to lead the organisation in the future. “The company’s future leadership pool is reviewed at the highest level of the company on an annual basis,” says Ms Tetrault, enabling the company to nurture a cadre of leaders.



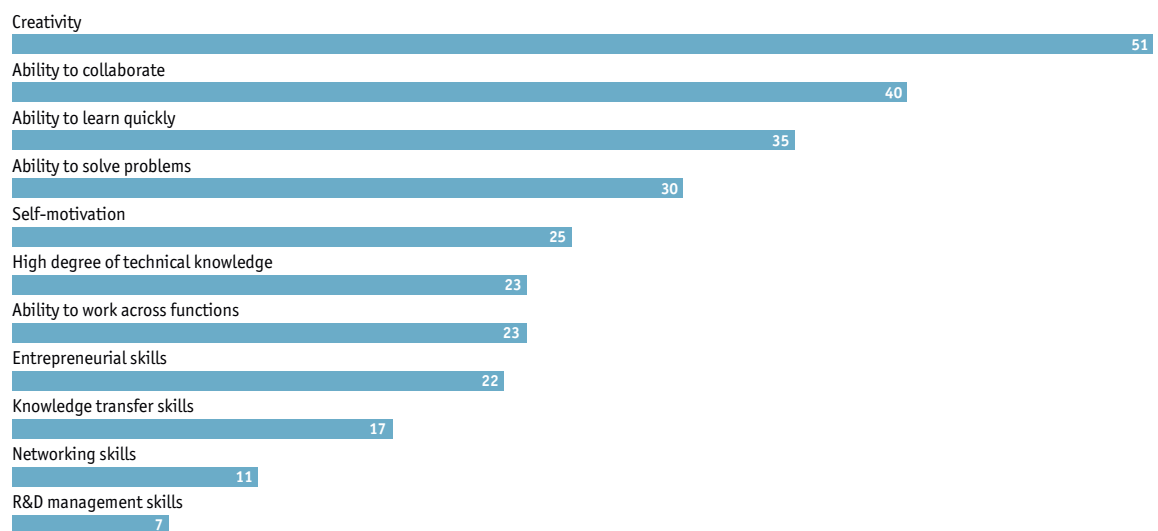
The challenges of talent management

An in-depth knowledge of a company's talent pool is especially necessary because of the rapid changes brought on by globalisation, which has increased competition and shortened times to market in most industries. Successful talent management is about finding people who can cope with the new and ever-changing landscape. Ms Warrior believes that it is important to bring in the best talent, wherever it is, but that companies must be prepared not only to recruit globally, but also to recruit and train people locally who can think and act globally.

Creativity and the ability to collaborate are particularly important for innovation, according to the results of our survey. Increasingly, organisations require employees to be able to collaborate, not just in internal teams, but across functions, across country boundaries and with external organisations, even competitors. Employees in today's organisations need to have a more outward-looking mindset that understands the pressures of the marketplace, notes Ms Tetrault. Traditionally, she adds, AstraZeneca's highly educated employees have excellent research skills, but have sometimes lacked this wider

Creativity and ability to collaborate are the most important skills for successful innovation

(% of respondents who ranked these skills as top 3)



Source: Economist Intelligence Unite survey, July 2009



Talent strategies face internal and external barriers

(% of respondents who selected this option)

Internal barriers to talent management		External barriers to recruiting and retaining talented staff	
Not enough collaboration and resource-sharing among different parts of the organisation	53	Greater competition from global marketplace	45
Talent strategy not effectively aligned with business strategy	44	Desire of employees to switch jobs frequently	43
Lack of relevant training opportunities for people within the organisation	36	Increasing labour costs	42
Lack of labour pool with appropriate skills	31	Lack of skilled graduates for entry-level jobs	36
C-suite executives are not involved enough in shaping talent strategy	31	Older employees retiring	27
Lack of resources in our community for developing workforce skills	28	Restrictive labour regulations	16
Reluctance to look outside the organisation for talent	26	Restrictive immigration laws	11

Source: Economist Intelligence Unite survey, July 2009

perspective. The company now looks for employees who not only have strong laboratory skills but also have the ability to understand customer requirements. It has created a cross functional project that specifically seeks to bring greater patient insight to the research and development of new drugs, an effort that has started to influence the design and marketing of products much earlier in the development process.

Talent management is becoming increasingly important to companies' capacity to innovate, but it is also becoming harder to do well. Asked to name the biggest external challenges to recruiting and retaining talented staff, survey respondents cite greater competition from the global marketplace, followed by the desire of employees to switch jobs frequently and increasing labour costs. In order to respond to these challenges effectively, organisations need to develop new approaches.

There can also be internal, organisational barriers to successful talent management for innovation. More than one-half of respondents cite a lack of collaboration and resource-sharing in their organisation as a barrier to talent management, and 44% say that business strategy and talent strategy are not successfully aligned in their organisation. If talent strategy is not keeping pace with a developing business strategy, organisations will find themselves stuck with a reactive approach to talent management instead of anticipating their talent needs and planning ahead.



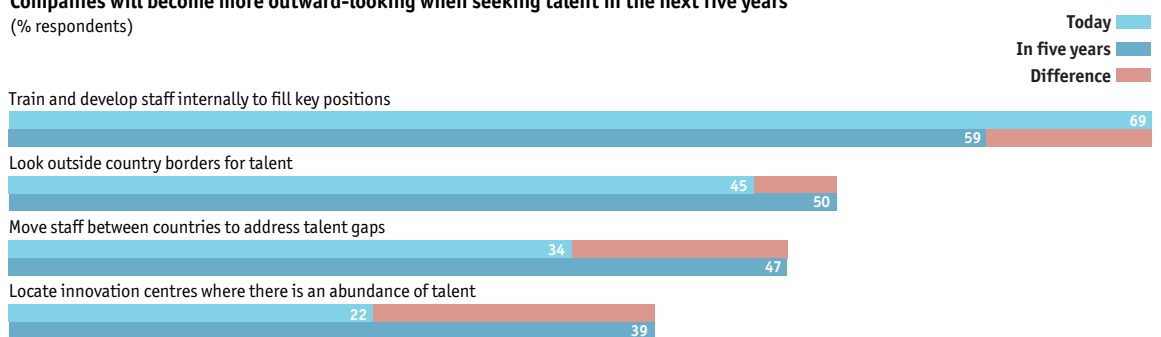
Changing strategies for talent management

The majority of respondents (69%) say that their organisations regard internal training and development of staff as the best way to fill key roles. Incentive schemes and individual coaching are regarded as key strategies for recruiting and retaining staff.

In the future, however, organisations will look further afield for quality workers. Although internal development of staff will remain the best way of filling key roles in five years, according to 59% of survey respondents, organisations increasingly face the problem of stagnation if they do not search for fresh talent. “The pharmaceutical industry is maturing later than many other sectors. Historically people would go into pharma and stay there for years, which meant that some approaches to work became too insular,” says Ms Tetrault. The solution has been to bring in outsiders who can inject new thinking, in addition to a change programme that encourages all employees to think differently, challenge the status quo and bring in ideas from outside the industry. Simon Lowth, for example, who became AstraZeneca’s CFO in 2007, was previously the finance director at Scottish Power, a UK-based utility that was acquired by Iberdrola, a Spanish utility, in April 2007.

The pace of change is so fast that organisations cannot completely rely on their own internal staff to fill the skills gaps. According to Ms Warrior, Cisco uses three questions to support its talent strategy: “What are the changes we will see in the market? What are the business model changes we have to make, and help our customers make? And what are the technology disruptions that will be happening?” The company asks these questions to identify the skill sets that are missing and then recruits from the outside to fill

Companies will become more outward-looking when seeking talent in the next five years
(% respondents)



Source: Economist Intelligence Unit survey, July 2009



AstraZeneca tackles the emerging markets

There is a growing consensus that emerging markets represent the biggest growth potential for the pharmaceutical sector. To be competitive in this arena, AstraZeneca, an Anglo-Swedish pharmaceutical firm, is planning to continue expanding its operations in Asia significantly, which will entail recruiting a large number of staff, including scientists and managers.

Developing a successful talent management approach in an emerging market requires considerable planning. AstraZeneca

has tackled the problem systematically, developing a strategic workforce plan for each country in which it operates. These plans outline the key skills the company will require and the number of employees it will need, as well as analysing the demographic profile and skills gaps in the local labour market. “Not many businesses are approaching it from this perspective,” says Lynn Tetrault, AstraZeneca’s executive vice-president for human resources and corporate affairs. The company is trying to take a proactive approach, instead of waiting for a need to become critical. “We’re thinking ahead over the next five to seven years,” she says.

The company’s approach includes

bringing Chinese citizens who have studied and worked abroad back to China to work for the firm, and offering additional scientific training and language coaching to local staff. But there is also a strong emphasis on local leadership: in 2008 the company appointed a Chinese national as company president for China, responsible for all but research and development (R&D), which reports into the global R&D group. “As a company, we believe that we will be most successful if our markets are led by individuals who come from that local environment rather than expats,” confirms Ms Tetrault. “That means we have to nurture and grow the talent within our organisation.”

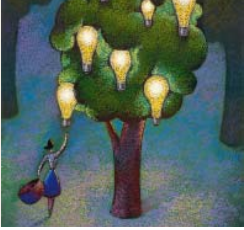
them. In some cases, it acquires another company to gain access to talent.

If a globalised market poses a challenge for recruitment and retention, it also presents an opportunity. Although 45% of respondents say their organisations already look outside country borders, 50% say they will be looking outside country borders in five years. Similarly, 34% say their organisation currently moves staff between countries to address talent gaps, but 47% expect that to be the case in five years.

As organisations recruit further afield, however, they will need to rethink their approach to talent management strategies. They will have to cope with higher attrition rates and ensure a consistency of approach in the opportunities offered to employees abroad and in the home market.

Many organisations may still be missing a trick—or several—when it comes to recruiting and retaining talented staff. Internal development is regarded as important, yet more than one-third of respondents say their organisations lack relevant training opportunities. The lack of collaboration within organisations suggests another problem: that internal silos prevent the necessary cross-pollination that enables innovation to happen.

More forward-looking organisations have found ways of addressing this problem. Cisco, for example, uses councils of employees from different functions to make important decisions, such as the future development of key products. At AstraZeneca, according to Ms Tetrault, the executive team is also tackling the problem of barriers between functions. It has established targets for the number of cross-functional moves within the company each year. In 2009 the human resources department has identified 15 individuals who should be moved between functions, and Ms Tetrault’s team has set up procedures to make sure those moves happen.



Conclusion

While organisations increasingly understand the importance of talent management for innovation, they need to develop more rigorous strategies if they are to implement talent management programmes successfully. To maintain an edge in a competitive, global marketplace, organisations will have to be prepared both to look further afield for talent and to break down internal barriers and silos.

Talent management strategy needs to be set at the highest level of the organisation. Only the C-suite can provide the direction necessary to align the organisation's approach to talent management with the constantly changing requirements of the business. By making sure that the approach is followed throughout the organisation, the executive team can guarantee a consistent methodology across functions and geographies. The inclusion of talent management metrics (such as attrition rates and cross-functional moves) on the executive scorecard can keep the entire business focused on the desired outcomes.

Organisations can no longer be insular. While it was once possible to have a talent management strategy that focused almost exclusively on nurturing people within the company, any organisation that does not look outside its own boundaries for talent is almost certain to fail. At the same time, a company may face very different challenges recruiting and retaining talent in its home country and in other markets, and corporate policies must be flexible enough to handle both scenarios.

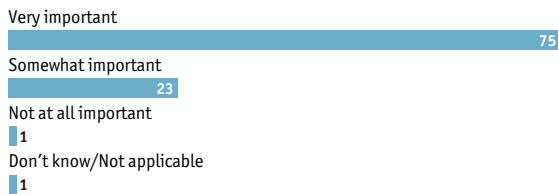
The greatest challenge for organisations is not to develop a talent management strategy, but to keep it alive and up to date. The global economy is changing rapidly, and the talent management strategy has to keep pace with business strategy. "A company must keep in mind that the skill sets that made it successful in the last ten years may not necessarily be the ones that will make it successful over the next ten years," says Ms Warrior.

Appendix: Survey results

Please note that totals may not equal 100% due to rounding.

How important is good talent management to your organisation's ability to innovate?

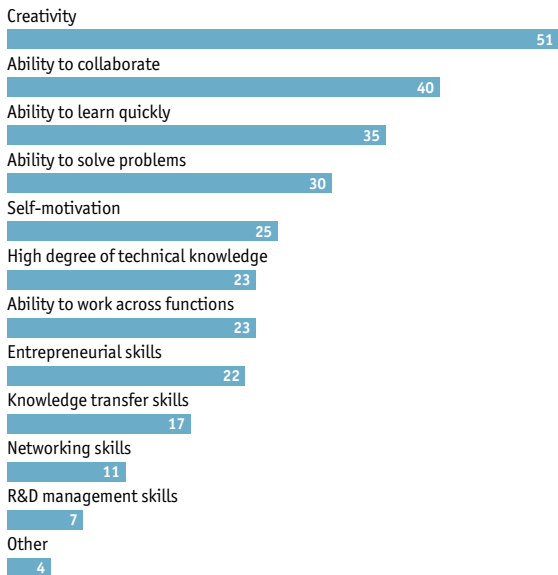
(% respondents)



What do you regard as the most important skills required for successful innovation in your organisation?

Please select up to three.

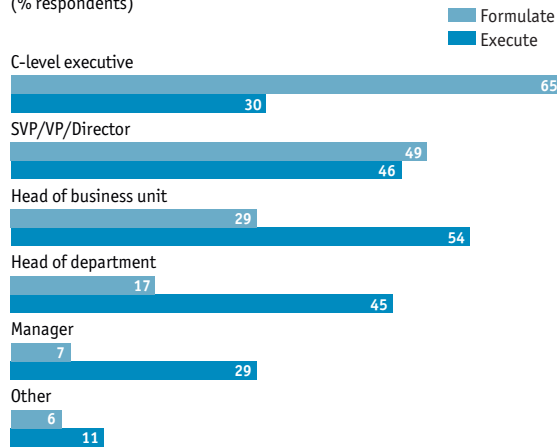
(% respondents)



Who is (are) the most senior executive(s) with responsibility to formulate and execute your organisation's talent strategy?

Please select all that apply.

(% respondents)



In developing a strategy for innovation, what external factors are most important for your organisation?

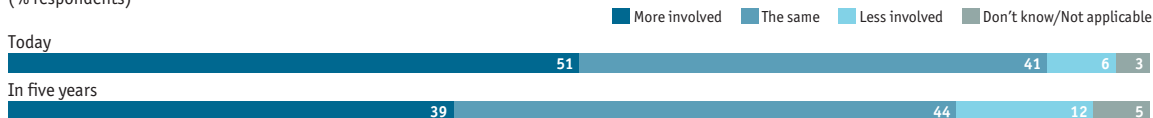
Please select up to three.

(% respondents)



Are C-level executives in your organisation more or less involved in defining talent strategy now than they were five years ago? How involved will they be in five years?

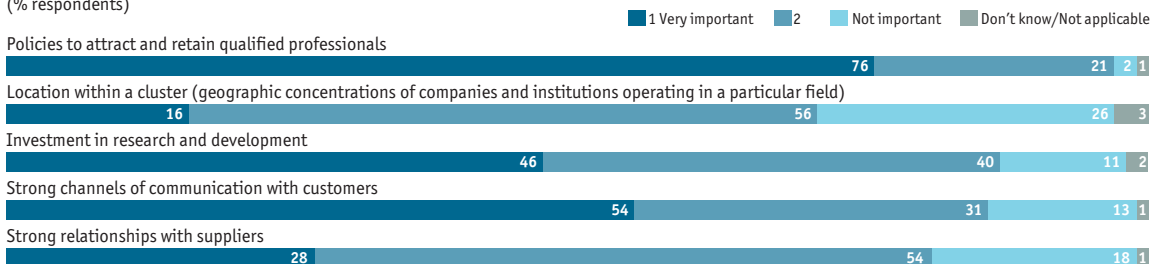
(% respondents)



In your opinion, how important are the following for innovation?

Please rate where 1=Very important and 3=Not important.

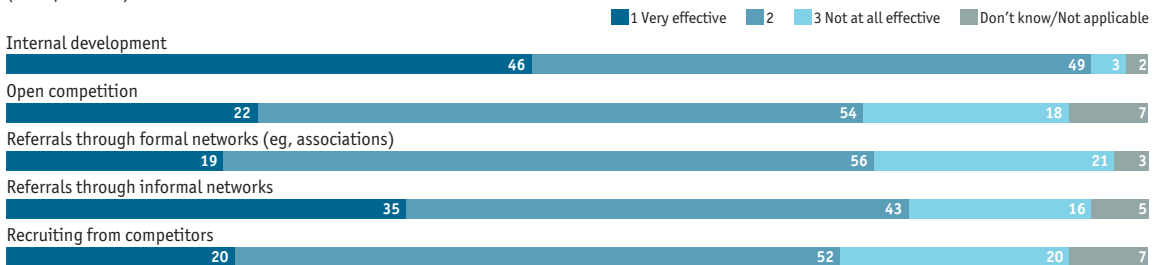
(% respondents)



In your opinion, which methods are most effective for your organisation in recruiting talent for innovation?

Please rate on a scale of 1 to 3 where 1=Very effective and 3=Not at all effective.

(% respondents)



What are the main internal barriers to successful talent management for innovation in your organisation?

Please select all that apply.

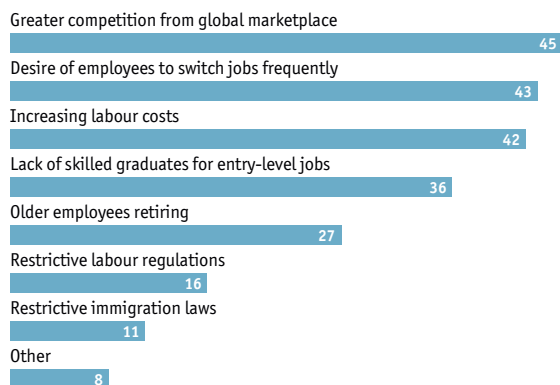
(% respondents)



Which of the following challenges does your organisation currently face in recruiting and retaining talented staff?

Please select all that apply.

(% respondents)



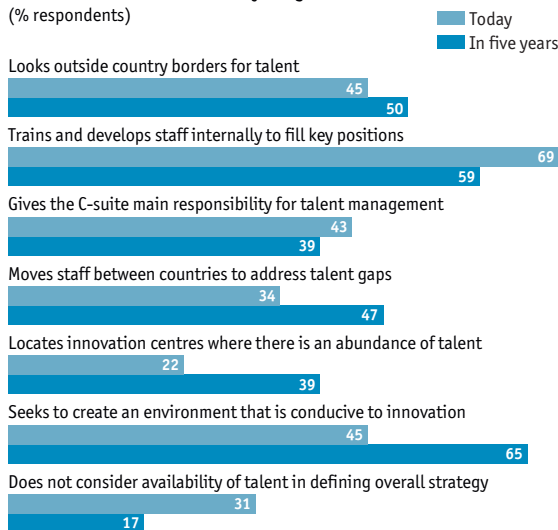
What strategies does your organisation use for attracting and retaining the most talented staff?

Please select all that apply.
(% respondents)



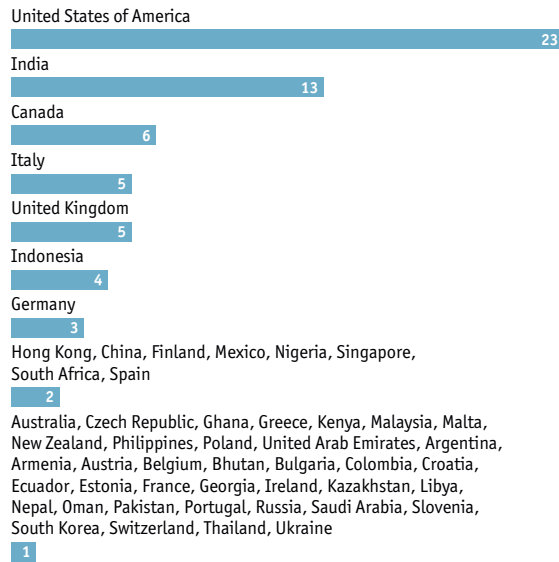
Which of the following statements are true about your organisation's talent management strategy now, and which will be true in the next five years? Our company:

Please select those with which you agree.
(% respondents)



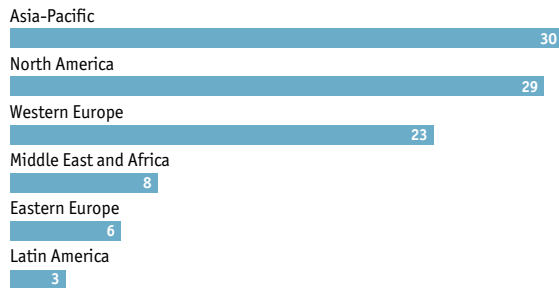
In which country are you personally located?

(% respondents)



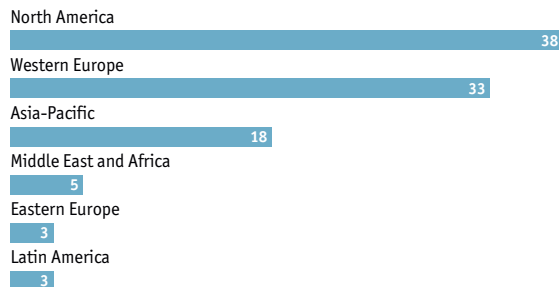
In which region are you personally based?

(% respondents)



In which region is your company headquartered?

(% respondents)



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