The Dailies
Retiring Workforce, Widening Skills Gap
By Editorial Staff

Exodus of critical talent threaten U.S. companies: Deloitte Consulting survey

New York   February 16, 2005   Impending Baby Boomer retirements, a widening skills gap driven by declining educational standards, and outdated and ineffective approaches to talent management are combining forces to produce a "perfect storm" that threatens the global business economy, according to new research conducted by the Human Capital practice of Deloitte Consulting and Deloitte Research, a part of Deloitte Services.

In a recent U.S. survey of human resources executives nationwide conducted by Deloitte Consulting, more than 70 percent of the 123 respondents say incoming workers with inadequate skills pose the greatest threat to business performance over the next three years, followed by Baby Boomer retirement (61 percent), and the inability to retain key talent (55 percent). These survey findings are underscored in Deloitte Research's report, "It's 2008: Do You Know Where Your Talent Is? Why Acquisition and Retention Strategies Don't Work."

"The overwhelming accumulation of data, including Deloitte Consulting's new research, points to an inescapable conclusion: the widening skills gap, particularly among the categories of workers who disproportionately drive companies' growth and performance, is a global phenomenon that will create unprecedented challenges for businesses," said Ainar Aijala, vice chairman of Deloitte Consulting and global service area leader of Deloitte Consulting's Human Capital practice. "The confluence of demographic and social trends   the full force of which will begin to be felt in as little as three years   will leave behind companies that do not begin to rethink and redesign their approach to managing human capital."

Draining of the Global Labor Pool

In only three years, the first wave of Baby Boomers will turn 62, the average retirement age in North America, Europe and Asia. According to the Deloitte Consulting survey, one-third of U.S. companies expect to lose 11 percent or more of their current workforce to retirements by 2008.

"While the 'greying' of the workforce will independently create large vacancies across industries, additional factors, such as low birth and immigration rates in Europe and the single-child policy in China, present further perils to companies worldwide," explained Aijala. "Companies will also continue to face inadequate skills among an increasingly diverse, virtual, global, and disengaged workforce."

Story continues below

Story continuation

Life sciences, energy and the public sector will be the hardest hit with manufacturing, consumer business and financial services industries close behind. For example, Canada, Australia and the United States could lose more than a third of their government employees by 2010. The National Association of Manufacturers revealed in a recent survey that more than 80 percent of U.S. manufacturers face a shortage of skilled machinists, craft workers and technicians. Further, the U.S. Department of Education predicts that 60 percent of new jobs in the 21st century will require skills possessed by only 20 percent of the current workforce.

The Critical Talent Factor

Among the many threats affecting the global workforce over the next few years, the exit of "critical talent" could be the most damaging. Deloitte Consulting defines "critical talent" as the individuals and groups who drive a disproportionate share of their company's business performance and generate greater-than-average value for customers and shareholders. These individuals are "critical" to their company's ability to meet strategic goals and objectives.

"When we talk about critical talent, we are not necessarily referring to the 'A players' or senior executives," explained Mike Fucci, principal and U.S. leader of Deloitte Consulting's Human Capital practice. "Critical talent represents those individuals who possess highly developed skills and deep knowledge of not just the work itself, but of how to make things happen within a company, such as the couriers within package delivery companies who have daily client contact and direct knowledge of the supply chain, or researchers and clinicians within drug companies."

Unfortunately, few organizations have talent management processes in place to address the impending workforce shifts that will negatively impact critical talent segments. In fact, only half of the organizations surveyed by Deloitte Consulting have identified a list of the critical skills they need for future growth. Even more alarming, more than a quarter of respondents say defining critical skills as a workforce tool is "unimportant."

"Employers need to focus quickly on understanding which skills will make or break their business, where those skilled individuals will come from, and how to keep these workers engaged and committed within the organization," Fucci cautioned. "Only those organizations that respond swiftly and plan effectively will find themselves on top of these new challenges."

Talent Management Shortcomings

Traditional approaches to talent management frequently focus on acquisition and retention. When the talent pool tightened in the 1990s, companies responded by offering rich compensation packages and "hot skills" bonuses. The end result, however, was often disappointing recruiting costs soared while investments in training languished. In addition, such compensation packages were often matched by competitors, contributing to high attrition rates of talented personnel.

Despite the changing landscape, organizations still plan to increase their investment in traditional talent solutions for 2005. Approximately 60 percent of survey respondents plan to increase experienced employee recruitment, while 42 percent plan to increase campus recruitment. Additional investment will also be given to rewards packages for experienced employees (39 percent) and new recruits (30 percent).

"Acquisition and retention strategies remain important parts of talent management. Such strategies, however, attend to the 'end-points' of the process and only offer a quick fix to these new workforce challenges," said William Chafetz, national practice leader of Deloitte Consulting's Organization and People Performance

Services. "To survive the changing labor landscape, organizations must employ more comprehensive talent management strategies that reflect an understanding of critical workforce segments and satisfy the conditions those employees need to succeed."

Getting to the Heart of Talent Management

According to Deloitte Research, talent-savvy organizations build strategies around what matters most to their critical talent their personal growth or development, their need to be deployed in positions and assignments that engage their interests and curiosities, and their connection to others in ways that drive performance for the company as a whole.

Many of the companies Deloitte Consulting surveyed seem to understand the importance of development and training their employees, with more than two-thirds (70 percent) of respondents planning to increase investments for mentoring and coaching in 2005, e-learning (64 percent) and classroom training (49 percent).

"It is a great sign that most organizations are committed to strengthening the skills and knowledge of their workforce, but they need to do more," said Chafetz. "No single part of the talent management process can sustain an organization or generate superior business performance on its own. Organizations must adapt a new way of thinking and use critical talent as a competitive advantage and a long-term investment."

"Develop-Deploy-Connect"

Deloitte is using the survey results to promote its "Develop-Deploy-Connect" model for talent management strategies, which focuses on the development, deployment and connection of critical talent. Combined with supporting programs, organizations that build strategies to develop, deploy and connect their critical talent generate the workforce contributions for superior business performance, the consultancy said, and when this happens, attraction and retention largely take care of themselves.

"Companies can avoid sustaining a direct hit from the looming talent crisis, and in fact convert these challenges into an opportunity, by rethinking and reinventing their talent management processes into a well-designed talent strategy that truly utilizes critical workforce as a competitive advantage and, therefore, differentiates a company from its competitors," Deloitte said.

The Deloitte Consulting/Deloitte Research report provides examples from various organizations that are adapting to this new talent environment. The report is the first in a series of talent management points of view dedicated to analyzing the forthcoming workforce challenges and providing a solution through Deloitte's "Develop-Deploy-Connect" model.

A copy of "It's 2008: Do you Know Where Your Talent Is? Why Acquisition and Retention Strategies Don't Work" can be found on Deloitte's Web site at http://www.deloitte.com/us/talentpov.

The electronic survey of 123 U.S. human resources executives nationwide was conducted in late December 2004 and early January 2005.

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