The financial crisis provided an opportunity for Chinese organizations to forge synergy and build competitiveness. As with computers, hardware is not enough. You need software, as well. A company’s “software” is its talent management system.
Economic reform, the opening up of markets, and accelerated business growth over the past 30 years have contributed to making the Chinese economy one of the world’s largest.

Chinese organizations have both contributed to and benefited from this robust, unprecedented growth; however, in the post-financial crisis era, both the Chinese economy and Chinese organizations are at a crossroads. The low-cost labor, resources, and capital that characterized past economic expansion no longer appear to be sustainable. A new economic development model defined by capital investment, upgrading industrial capability, and organizational transformation means new challenges—especially given the soaring costs of both raw materials (oil, iron ore, etc.) and labor caused in part by fluctuating currency exchange rates. This transformation marks an important and necessary change for China’s sustainable development and modernization.
The effectiveness of this transition and the key to future growth will depend largely upon the quality of talent. The financial crisis provided an opportunity for Chinese organizations to determine how to forge synergy and build competitiveness to minimize the effect of the changing macroeconomic environment on short- and long-term development. As with computers, hardware is not enough. You need software, as well. A company’s “software” is its talent management system. Therefore, improving talent management is of great and fundamental importance to the long-term viability and growth of Chinese organizations. In simple terms, economic growth has outpaced growth in the quality of talent. The future hinges upon closing this gap.
EXECUTIVE SUMMARY

The purpose of this report is to highlight the strategic role of talent management in driving business performance in China. We will also explore the effectiveness of current talent management practices and identify best practices in the execution of effective talent management. This report draws on a study of talent management in Chinese organizations. For this study we analyzed and explored how to build a competitive talent management system, one that aligns with the transition afoot in China today. We also discuss the proven ways in which talent management supports business strategy.

The research discussed here confirms that talent management leads to sustainable development and competitive advantage. At the same time, the research sheds light on the differences in approaches in talent management in Foreign-owned Enterprises, State-owned Enterprises, and Private-owned Enterprises, and the approaches required by leaders in these types of organizations to formulate a suitable talent management strategy for the future. Among the questions that define these approaches: What is required to formulate an effective talent management strategy? For Foreign-owned Enterprises, State-owned Enterprises, and Private-owned Enterprises, what are the differences in where they are now and where they need to go? What talent management practices are influential in business strategy execution?

In order to find the answers to these questions, DDI, together with HRoot, recently surveyed and interviewed leaders and HR professionals from hundreds of Chinese organizations. The findings of these surveys and interviews highlight both relevant issues and best practices. They also provide a basis for organizations as they strive to further improve their talent management practices. According to the study, the major talent management challenges facing Chinese organizations include:

- Frontline leaders in many organizations are not competent in applying talent management tools and processes (e.g., identifying future high-potential leaders, selecting new employees). Selecting and developing talent is the most critical job for leaders—and they are failing.
- Most organizations lack an accurately assessed pool of ready talent, which is critical to effectively promoting the right people into critical leadership positions.
- The majority of organizations fail to properly measure the outcomes of their HR development initiatives. Without metrics it is almost impossible to know which practices are working and how to improve them.
- Of greatest concern, organizations generally don't have a clear understanding about how talent management strategy supports business strategy.
Addressing these issues will prove imperative for Chinese organizations as they grapple with their business challenges and strive to formulate effective talent strategy.

The survey conducted as part of this study revealed the following as the top three talent-related priorities for Chinese organizations in 2010-2011. These challenges indicate that there are bottlenecks that are likely to impede the further growth and evolution of Chinese organizations:

• Developing leaders and employees for key future roles (3.5 years from now).
• Retaining top talent.
• Developing the leadership skills of existing managers.

The good news is that the majority of organizations are aware of the mounting difficulties and challenges but are uncertain about how to address the gap between their current talent management situation and their talent needs. But, while HR professionals may lack a clear roadmap regarding the improvement of talent management, they are open to change and are optimistic about the prospects for improvement.

Working with thousands of clients worldwide to address their talent challenges, DDI has accumulated rich experience and insights, and has developed sound, proven approaches to talent management. Through our work on this study, including analysis of both the qualitative and quantitative data, we have compiled the following key findings:

FINDING #1: Different types of Chinese organizations have different priorities for 2010-2011 and beyond.

FINDING #2: Organizations with greater talent management maturity outperform competitors compared to organizations with low talent management maturity.

FINDING #3: Developing leaders and employees is the greatest challenge facing Chinese organizations now and in the future.

FINDING #4: Organizations have more confidence in “hard power” than in “soft power.”

FINDING #5: Great organizations focus more on talent strategies; poor-performing companies focus more on performance management.

FINDING #6: Talent management impacts business performance.
METHOD
The survey cited in this study was conducted over a period of seven months, from December 2009 through June 2010. Using standardized questionnaires, we collected data from top management teams and HR managers from different regions, industries, and types of companies.

By using HRool’s online survey system, 603 questionnaires were collected, out of which 542 (89.88%) were deemed valid. More than three-quarters (75.82%) of respondents were HR professionals. One-third (33.63%) were from the top management ranks. Respondents were from a variety of different industries; 54.27% of the respondents were from Foreign-owned Enterprises, and 11% were from State-owned Enterprises. Twenty-six percent of the organizations represented have more than 10,000 employees.

The survey was analyzed along with 457 questionnaires from organizations with more than 200 employees. The report findings were compiled based upon analysis of the questionnaire responses as well as through several structured interviews.
KEY FINDINGS

FINDING #1: Different types of Chinese organizations have different priorities for 2010-2011 and beyond.

Against the backdrop of macro-environmental changes, focusing on the right future business priorities is particularly important and made the top-three lists for all types of organizations (see Table 1). All organizations agree upon the importance of improved execution of their strategies. Both Private-owned Enterprises and Foreign-owned Enterprises see managing change as a crucial priority.

<table>
<thead>
<tr>
<th>Rank</th>
<th>SOEs</th>
<th>POEs</th>
<th>FOEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Crafting the right strategies for future business growth</td>
<td>Improving execution of business strategies</td>
<td>Crafting the right strategies for future business growth</td>
</tr>
<tr>
<td>2</td>
<td>Fostering innovation</td>
<td>Crafting the right strategies for future business growth</td>
<td>Improving execution of business strategies</td>
</tr>
<tr>
<td>3</td>
<td>Improving execution of business strategies</td>
<td>Adapting to change quickly and effectively</td>
<td>Adapting to change quickly and effectively</td>
</tr>
</tbody>
</table>

Interesting, but not unexpected, is that “fostering innovation” is the second most important priority for State-owned Enterprises in 2010-2011, while ranking just sixth for both Private-owned Enterprises and Foreign-owned Enterprises. State-owned Enterprises have dominated China for a long time, but with the opening of the China market, there was a huge influx of foreign capital. This rise of Private-owned Enterprises resulted in an identity crisis for State-owned Enterprises. As a result, State-owned Enterprises now see innovation as a means to strengthen their leading position in the market.

Our research shows that Foreign-owned Enterprises place a higher priority on fostering innovation than do State-owned Enterprises, which fall more than 20 percentage points behind (see Figure 1). Clearly, innovation is also important to State-owned Enterprises. The State-owned Assets Supervision and Administration Commission of the State Council has been advocating for the scientific, measurement-driven management of State-owned
Enterprises. Changes such as these are likely to result in State-owned Enterprises having a deeper understanding of the value of innovation and in growing awareness of capital costs. Being creative has become a major approach for organizations to create higher levels of value.

All organizations surveyed plan to reduce operational costs in 2010-2011 (see Figure 2). But while the recession affected the West more than the East, foreign firms tend to trim across the board. Foreign-owned Enterprises, whose strategy must align with their parent organizations’ global strategy, care more about cost control than do State-owned Enterprises and Private-owned Enterprises. The medical industry is an exception. Almost all the Foreign-owned Enterprises in the medical field are expanding quickly and setting China as their investment destination, as China offers the prospect of huge and ever-growing demand for health care services.
FINDING #2: Organizations with greater talent management maturity outperform competitors compared to organizations with low talent management maturity.

We asked organizations to rate their talent management maturity in terms of the integration of their core HR systems, software capabilities, strategy currently in place, level of senior-level support, and skill levels of managers to support the strategy. The data shows that organizations with different levels of talent management maturity differed in the quality of their talent management practices (see Figure 3). The gap in performance levels between high talent maturity and low talent maturity was the smallest in employee satisfaction and the highest in quality of leadership.

FIGURE 3
TALENT MATURITY AFFECTS ORGANIZATIONAL PERFORMANCE

We interviewed companies with low talent management maturity and what we found was depressing. In these companies, top management does not support talent management. Meanwhile, HR managers and frontline managers lack talent management tools and processes. Frontline managers also don’t know how to retain people. Some turnover rates in manufacturing companies even exceed 100%, which means that the company loses all of its talent each year. Organizations with low maturity are also those with low added value and low profits. They fail to focus on enhancing leadership and on improving employee satisfaction. They rely on rigid methods to try to raise employee engagement. Companies such as these, with poor talent management initiatives, perform poorly in innovation and market responsiveness, too. Their profit depends upon scale and upon
the macro environment of the industry. It’s a vicious circle: High turnover rates lead to further neglect of talent management, and poor talent management leads to high turnover.

In interviews with companies with high maturity of talent management, we found that their core HR systems are marked by a long-term talent strategy, competency-based systems, and a whole set of employee-satisfaction and employee-engagement metrics. Also, they focus on retention of quality employees and on evaluation, development, and succession systems for leaders. These organizations enjoy high employee satisfaction and employee engagement, so that the organization can retain the best talent and build a talent pipeline. The use of these best practices helps explain the gap among companies with different levels of Talent Management Maturity.
FINDING #3: Developing leaders and employees is the greatest challenge facing Chinese organizations now and in the future.

Chinese organizations face a series of challenges, including a more globalized marketplace and fiercer competition, which in turn, require higher standards for talent management. And, as we discussed, most of the organizations regard crafting the right strategies for future business growth and improving execution of business strategies as critical priorities to better position them for future growth. Our research also explores the relationship between business challenges and corresponding talent priorities. Both the right strategies and the chance they will be successfully executed depend upon leadership. Developing leaders and employees for key future roles (3.5 years from now) and developing the leadership skills of existing managers are cited as two major priorities for China’s organizations now and in the future (see Figure 4). During our interviews, many HR directors said that strong leadership is a must if their company is to develop in a sustainable manner. At the same time, leaders have a direct impact on execution, because they can motivate staff and help improve engagement so that employees make greater contributions to the company’s success.

FIGURE 4  TOP THREE CHALLENGES FOR CHINESE ENTERPRISES

SOEs (State-owned)
- Developing leaders and employees for key future roles (3.5 years from now) 4.21
- Developing the leadership skills of existing managers 4.05
- Identifying high-potential talent 3.91

FOEs (Foreign-owned)
- Developing leaders and employees for key future roles (3.5 years from now) 3.89
- Retaining top talent 3.96
- Developing the leadership skills of existing managers 3.89

POEs (Private-owned)
- Developing leaders and employees for key future roles (3.5 years from now) 3.87
- Developing the leadership skills of existing managers 3.70
- Building a strong cultural set of values 3.68

Rating of Importance (5-pt. scale; 5=most important)
There are a few differences among types of organizations in terms of talent management priorities. Most State-owned Enterprises have a large number of employees. For example, Sinopec and State Grid each have millions of employees. Given the numbers, it is impossible for companies to train everyone. Therefore, it is important that companies focus on those employees with the most potential to move up the leadership ladder. This is a main reason why State-owned Enterprises chose identifying high-potential talent as one of the top three challenges for the future.

Also important to consider, Private-owned Enterprises in China emerged after the reform in the late 1990s, which means the history of Private-owned Enterprises in China goes back less than 10 years. Therefore, few Private-owned Enterprises have built a solid foundation for their corporate culture. But the history of State-owned Enterprises is longer than 10 years, and many Foreign-owned Enterprises even enjoy a 100-year history in China. They have a powerful organizational culture built on a strong foundation. Organizational culture is of great significance to the long-term development of a company; therefore, having a strong culture stands as a top-three talent management priority for Private-owned Enterprises.

Retaining top talent, especially the best management talent, is one of the top three talent management challenges facing Foreign-owned Enterprises but not the others. Furthermore, as most of the Foreign-owned Enterprises are from Europe and the U.S., there is a shortage of leaders who know about Western culture and business operations. Unfortunately for multinational corporations, the trend of talent flow has reversed. Now more and more top leaders are joining State-owned Enterprises and China-based private companies. The management turnover rate in Foreign-owned Enterprises, always high, has climbed to more than 25%1 above the global average.

The following are the major reasons for the reverse trend of talent flow back to State-owned Companies:

REASON 1: Private-owned Enterprises have enjoyed fast growth and gained power in recent years, which has put them in a better position to attract talent. More flexible and attractive compensation packages, which can include stock options as well as higher salaries, help to attract more management talent from Foreign-owned Enterprises. For instance, Wei Zhe (see Table 2), former president of B&Q Great China, ranked first in annual compensation among executives of Chinese companies listed on the Hong Kong exchange. His 56.97 million RMB annual salary doesn’t include the 1.2 million stock options that he also has received.

REASON 2: Some multinational corporations were severely battered by the global financial crisis. They laid off employees and reduced both expenditures and salaries worldwide. China avoided much of the worst of the financial crisis, yet these Foreign-owned Enterprises needed to adhere to the policies and practices of their parent companies, even if doing so affected the loyalty of their talent in China.

1Manpower China, 2008
REASON 3: Since the 2008 financial crisis, the Chinese government has injected capital into and provided subsidies to State-owned Enterprises, such as China Airlines, China Eastern, CNPC, and Sinopec. In addition, State-owned Enterprises were receiving their financing from national banks. Together, these advantages helped State-owned Enterprises weather the financial crisis and expand market share. At the same time, State-owned Enterprises adopted a no layoff policy, which allowed them to attract more talent who prefer job stability with an organization about which they feel confident.

REASON 4: In fast-growing industries, like medical supplies/pharmaceuticals, almost all of the Foreign-owned Enterprises are expanding employment quickly. Some organizations planned to double their number of employees in 2010. Thus, the demand for managers with a medical background is soaring, while the number of available managers remains relatively stable. Foreign-owned Enterprises are sparing no effort to attract talent from competitors, which raises the pressure on those organizations to retain their current management talent.

REASON 5: In talking to HR leaders, we learned that soaring housing costs have played a positive role in retaining talent for State-owned Enterprises. For historic reasons, some organizations have their own communities, hospitals, and shopping malls, and can provide free or low-cost housing. This is an attractive benefit to be able to offer employees, especially given that if those employees were to leave they would have to deal with ever-increasing housing prices. The high costs associated with such a move make people think twice before they leave.

TABLE 2: MIGRATION OF TOP MANAGEMENT FROM FOREIGN-OWNED ENTERPRISES

<table>
<thead>
<tr>
<th>Name</th>
<th>Previous company and position</th>
<th>Company and position after job-hopping</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wei Zhe</td>
<td>President of B&amp;Q, China</td>
<td>CEO of Alibaba</td>
</tr>
<tr>
<td>Zhang Hongli</td>
<td>Chairman of Deutsche Bank</td>
<td>VP of ICBC</td>
</tr>
<tr>
<td>Sun Fengju</td>
<td>VP of HP, China</td>
<td>President of Pu Yuan</td>
</tr>
<tr>
<td>Tang Jun</td>
<td>President of Microsoft, China</td>
<td>President of SND, President and CEO of New Huadu industrial group</td>
</tr>
<tr>
<td>Sun Zhenyao</td>
<td>President of HP, China</td>
<td>Chairman of Ali Corporation</td>
</tr>
</tbody>
</table>

“...the shortage of outstanding management talent is becoming more and more serious in China’s talent market and shows no signs of improvement.”
HR director of a Fortune 500 company
The concept of soft power was popularized by an American scholar, Joseph Nye, to describe the culture and value power of a country. Soft power, as defined by Nye, contrasts with hard power, which is defined by economic and military might.

For those who have worked for a State-owned Enterprise for more than 10 years, the engagement status and loyalty status are high. Also, the average age of employees in State-owned Enterprise is higher than in Foreign-owned Enterprises. This contributes to the low turnover rate, in that older employees are less likely to be hunting for new jobs. We found that State-owned Enterprises have more confidence in retaining top talent than do Foreign-owned Enterprises.

REASON 6: In China, most of the CEOs of Private-owned Enterprises are also the company founders. In State-owned Enterprises, meanwhile, it has been customary to appoint a CEO from within. Now, however, both groups of organizations openly recruit talent and are willing to hire senior talent away from Foreign-owned Enterprises. Not surprisingly, Private-owned Enterprises have the lowest CEO turnover rates while Foreign-owned Enterprises have the highest.

FINDING 4: Organizations have more confidence in “hard power” than in “soft power.”

According to the survey, we conclude that companies are more confident about hard-power outcomes—quality of products and services, financial performance, productivity—than they are about soft-power outcomes, including retention of quality employees, employee engagement, quality of leadership, and employee satisfaction. In particular, 17% of the companies admit that their leadership is worse than competitors’ while just one-third of this percentage—only 6.4% of organizations—report that the quality of their products and services is worse than their competitors’ (see Figure 5). Organizations seem to have focused more on hard power than on soft.

FIGURE 5 COMPANY’S PERFORMANCE IN THE PAST THREE YEARS COMPARED WITH COMPETITORS

<table>
<thead>
<tr>
<th>Category</th>
<th>Worse than competitors</th>
<th>About the same</th>
<th>Better than competitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of leadership</td>
<td>17%</td>
<td>44%</td>
<td>39%</td>
</tr>
<tr>
<td>Retention of quality employees</td>
<td>12%</td>
<td>47%</td>
<td>42%</td>
</tr>
<tr>
<td>Employee engagement</td>
<td>9%</td>
<td>52%</td>
<td>39%</td>
</tr>
<tr>
<td>Employee satisfaction</td>
<td>13%</td>
<td>52%</td>
<td>36%</td>
</tr>
<tr>
<td>Quality of product and services</td>
<td>3%</td>
<td>36%</td>
<td>54%</td>
</tr>
<tr>
<td>Productivity</td>
<td>13%</td>
<td>42%</td>
<td>45%</td>
</tr>
<tr>
<td>Financial performance</td>
<td>11%</td>
<td>36%</td>
<td>54%</td>
</tr>
</tbody>
</table>

*The concept of soft power was popularized by an American scholar, Joseph Nye, to describe the culture and value power of a country. Soft power, as defined by Nye, contrasts with hard power, which is defined by economic and military might.*
The survey shows that in terms of corporate leadership, Private-owned Enterprises are more confident than State-owned Enterprises and Foreign-owned Enterprises (see Figure 6). A major reason for this is that, as mentioned previously, in most cases the leaders of Private-owned Enterprises are the founders who started their companies from scratch. The charisma and leadership ability that enabled these entrepreneurs to make a success of their companies in the first place also enabled them to survive amid fierce competition. If these entrepreneurs fail, so do their companies. This does, however, leave open the question of what will happen to these companies when their founders retire.

Top leaders of State-owned Enterprises and Foreign-owned Enterprises are usually not the company founders and, therefore, their tenure is shorter than those in Private-owned Enterprises. As investors or the board of the parent company typically cares more about business performance in the short run, leaders are more likely to focus their attention on short-term goals instead of on the long term. This, in turn, can lessen employees’ confidence in quality of leadership.
FINDING 5: Great organizations focus more on talent strategies; poor-performing companies focus more on performance management.

We compared companies that performed well in terms of both workforce and talent outcomes (top 20%) with those that did not (bottom 20%; see Table 3). The top practice for top-performing companies in 2010-2011 is formulating effective talent strategy. Organizations with better performance are future-oriented and focus more on macro-strategic issues. Meanwhile, companies in the bottom 20% designate day-to-day performance management as their priority. They tend to focus more on the present, as opposed to dealing with more forward-looking talent issues.

<table>
<thead>
<tr>
<th>TABLE 3 2010-2011 TOP PRIORITY FOR TALENT MANAGEMENT PRACTICE FOR DIFFERENT TYPES OF ORGANIZATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average score of maturity level</td>
</tr>
<tr>
<td><strong>TOP 20%</strong></td>
</tr>
<tr>
<td>Organizations in business impact* 3.20</td>
</tr>
<tr>
<td>Organizations in workforce impact* 3.42</td>
</tr>
</tbody>
</table>

| **BOTTOM 20%**                                                                |
| Organizations in business impact* 2.78 | Performance Management  Strategy Execution  Talent Strategy            |
| Organizations in workforce impact* 2.48 | Performance Management  Talent Strategy  Strategy Execution |

*Business Impact*  
Quality of product and service  
Financial performance  
Productivity

*Workforce Impact*  
Retention of quality employees  
Employee engagement  
Quality of leadership  
Employee satisfaction
**FINDING 6:** Talent management impacts business performance.

Through our data analysis, we found that the maturity of talent management correlates not only with the talent management outcomes (see Figure 3 on page 9), but also with the business performance of the company. Figure 7 shows that when business impact (as defined by quality of products and services, financial performance, and productivity) is high, talent maturity is high, as well.

All the companies interviewed recognize that talent management is key to achieving and maintaining excellent business performance. Organizations with high maturity of talent management perform well in retaining best talent, engagement status, leadership, and staff satisfaction. These factors help drive higher efficiency, and better product and service quality. Ultimately, they also help drive successful financial performance.

In our interviews, we found that companies with great talent management benefited from collaboration between HR and senior leadership to better align talent strategies with business strategy. For those organizations that solely rely on HR to push talent strategies forward, while most of the top management and business managers understand the significance of talent management, they are unwilling to invest enough of their personal time. They believe that it’s HR’s responsibility. The majority of the companies with poor talent management have marginalized talent management within their business strategy. The lack of efficient internal coordination, an isolationist mindset, and sectarianism are barriers that keep a company from linking its talent strategy with its business strategy, which in turn hinders the company’s ability to achieve excellent performance.

**FIGURE 7 TALENT MATURITY IS RELATED TO BUSINESS IMPACT**

<table>
<thead>
<tr>
<th>Business Performance Index</th>
<th>Future Maturity</th>
<th>Current Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top (n=120)</td>
<td>3.27</td>
<td>4.4</td>
</tr>
<tr>
<td>Middle (n=227)</td>
<td>2.94</td>
<td>4.12</td>
</tr>
<tr>
<td>Bottom (n=63)</td>
<td>2.6</td>
<td>3.77</td>
</tr>
</tbody>
</table>

Level of maturity (5-pt. scale)
CONCLUSIONS AND RECOMMENDATIONS

This report presents a number of discrete findings around the business challenges driving investments in talent along with a picture of effectiveness of specific talent management practices and implementation factors. We compared and contrasted—for the first time—the state of talent management in State-owned Enterprises, Foreign-owned Enterprises, and Private-owned Enterprises.

Across all company segments we conclude that:

1. There are a range of top business priorities facing Chinese organizations that are “talent dependent.” Crafting the right strategies, adapting to constant change, improving execution of business priorities, and fostering innovation are directly linked to the ability of organizations to build a strong talent pipeline.

2. The current state of talent management in China is mediocre at best. Respondents are far more satisfied with their business performance (e.g., revenue, margins) than they are with the indicators of strong talent management systems (e.g., quality of leadership, employee engagement). Only a few talent management practices and implementation factors receive satisfactory effectiveness ratings. This perhaps suggests that many organizations are focused on short-term business performance at the expense of focusing on talent management.

3. Not surprisingly, the small group of organizations in our study that focus on effective implementation of their talent management systems benefit from stronger talent management practices. The key message here is that it’s not just about having a leading-edge system, it’s also about how that system is implemented and supported.

4. Finally, our data supports other global research that shows a strong link between effective talent management and business performance.1

One of the unique concepts we introduced in our study was an overall rating of talent management maturity, which correlates strongly with business performance. Yet, in spite of this relationship, only 22% of the responding organizations rate their current talent management maturity level as high or very high. That’s the bad news. However, the low maturity levels in China are not dramatically different from those captured in other similar global studies. China is not, contrary to the beliefs of some, way behind other Western and Asian countries. Everyone, it seems, is doing poorly.

There is some good news. The overwhelming majority of respondents (83%) expect their talent management maturity to reach the high or very high level over the next 36 months. It is here that China, and perhaps India, differ from many other regions of the world. The continued acceleration of business growth in China makes closing the maturity gap, and closing it quickly, an important strategic imperative.

1IBM, 2008; Di Romualdo, 2009
What Does Having “Talent Management Maturity” Really Mean?

Figure 8 visually represents the goal of high talent management maturity. Any organization has a set of business strategies (e.g., global expansion, acquiring new businesses, launching new business lines) and cultural priorities (e.g., focusing on the customer, innovation, collaboration/teamwork). Executing business strategies and “living the values” depend largely upon the quality of the organization’s talent. In the large majority of organizations there is often a gap between the left and right portions of the diagram, resulting in poor business performance. A “talent mature” organization is one in which the quantity and quality of talent and the behavior of that talent match what is needed to execute its strategies and reflect its desired cultural priorities.

For example, a large State-owned Enterprise we work with is facing an array of shifts in its business landscape: getting ready for an IPO, rapid growth within China, entry into select global markets, and a constant need for technological innovation. The organization also is trying to instill a change in leadership style from one that is highly bureaucratic to one that places a premium on accountability, customer orientation, and empowerment. Expected growth in the business will require the company to almost double the number of employees it currently has on board. In our interviews with the organization’s senior executives, they expressed serious concern about both the quality and quantity of current talent. And, for many critical positions, finding outside talent will not be an easy task. The bottom line: This company is in danger of lacking the capability to execute its business goals unless it rapidly invests in the quality of its talent management systems.
The Talent Management Maturity Journey

Achieving high levels of talent management maturity is a journey that can take several years. And, because businesses’ priorities are constantly shifting, ideal alignment is dynamic, not static.

Figure 9 below shows DDI’s Comprehensive Talent Management Model, our roadmap for achieving talent management maturity. Many global organizations have their own version of a talent management roadmap, but almost all have a number of common elements:

- Clearly connecting talent strategy with the long-term goals and requirements of the business.
- Workforce planning aimed at forecasting requirements for the upcoming type (quality) and number (quantity) of talent needed to run the business—this year and at least three to five years out.
- Identification of the biggest and most critical gaps in talent supply against anticipated demand.
- Deploying an integrated set of talent management practices that are built around competency models and designed to close the critical gap.
- Deciding on key metrics to continually gauge the business impact of talent management initiatives.
- Above all, these roadmaps and models take a systematic approach to building talent. They present “the big picture,” tying together all the key elements.
Best Practices for a Smoother Journey

Each of the essential talent practices (e.g., performance management, recruiting and selection) are critical in and of themselves. However, there are a number of points of view or overreaching principles that are crucial regardless of a specific practice.

1. **Strongly Connect Business Plans to Talent Plans** — Few organizations have a strategic talent management plan. If they do, it is a separate entity not tied to the organization’s long-term business plan. A better approach is to ensure HR and line managers are working together to maintain a strong link between business direction and workforce requirements. In other words, business planning and talent planning should be a single process. Another critical consideration: Finding and developing the talent for critical positions may take several years. Thus, it becomes imperative to take a longer-term look at both strategies and related talent requirements in order to stay ahead of the game. Again, this is especially true in China’s hyper-growth economy, where it is easier to fall behind.

2. **Link Competency Models to Business Drivers** — Competencies (e.g., behaviors, experiences, knowledge, and personality attributes required for successful performance) are prevalent in the great majority of global organizations, and their prevalence is growing in Chinese organizations. Yet, when HR takes on the task of defining competencies, it often is done without regard for the business context. More mature talent management organizations clarify business drivers first. Examples of drivers include revenue growth, product innovation, and/or building marketing share. Once the drivers are defined, competency models are then developed. The competencies for successful performance in one organization will likely vary considerably from those in another as determined by the nature of the business drivers. They also might differ by level and division. For example, if entering global markets and new product development are key business drivers, the competencies—at all levels—might be quite different than if the organization’s drivers are building customer loyalty and enhancing brand reputation.

3. **Build Integrated Talent Management Systems** — The third block in Figure 9 displays an integrated talent management approach, a strong factor in driving maturity.

Ensuring each practice is best-in-class is, of course, a given; however, great “stand-alone” components only get you half of the way. The key is how each system ties to others. Competency models serve as the foundation or “glue” that holds your systems together. For example, competencies are often used as the basis for a hiring decision. These same competencies should then serve as a guide for initial development. And, they should also form the basis of your performance evaluation system. This integration drives greater efficiency and provides the organization a “common vocabulary” for business managers and HR alike across all talent management systems. A recent global study conducted by DDI and the New Talent Management
Network actually showed that those companies that use an integrated approach enjoy a 20% to 35% advantage in the effectiveness of many individual talent management practices. In other words, a practice like succession management becomes more effective when a company integrates all of its practices.4

4. Evidence-based Talent Management – As with any other business investment, resources and budgets allocated to talent management need to be justified through the gathering of evidence that the investment is reaping rewards. This evidence can take two forms. First, organizations should be measuring the impact of their investment on improving the performance and skill levels of their workforce. These lead measures can include effective use of skills after training, the ability to fill more positions internally, or “time to productivity” of new hires. Second, and more difficult to prove, is the connection between changes in workforce performance and business results. These lag measures can include employee engagement, safety, and revenue growth. Research shows that only 5% of organizations collect evidence for either lead or lag measures.5 And, fewer than one in four Chinese organizations are formally measuring their initiatives. Measurement, however, is not just about offering proof. It provides a frame of reference for improvement. We can’t possibly get better at talent management without knowing what is working and what is not.

5. The Line-HR Relationship – The dynamics between line management and HR management are essential to driving talent management maturity. For decades there has been a divide. HR complains that senior managers are not committed to and involved in talent management, while senior managers are concerned that HR is too tactical and not business focused. No other factor can have more of an impact than a strong line management–HR relationship. What does a strong relationship look like?

- HR staff truly understand the business and serve as “advisors” to the line, ensuring they have the talent they need to drive their business today and to get business leaders thinking about possible talent gaps they may experience in the future. More than half of the organizations in this study are doing fair or poorly in this area.

- Line managers feel confident and skilled in the day-to-day use of their organization’s talent management systems (e.g., interviewing, high-potential identification, mentoring/coaching others, performance management). Only 18% feel line managers are capable in these critical skill areas.

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4 Wellins and Effron, 2010
5 O’Leonard, 2009
Senior leadership is committed to and involved in all strategic aspects of talent management. They provide resources; they take a key role in building a strong senior team, and they are constantly reviewing, watching, and coaching the next wave of high-potential leaders. Actually this is one of the highest-rated areas, with 59% of our sample agreeing/strongly agreeing that senior support is prevalent. But, there is still a high percentage (41%) that does not.

Over the past two decades, China’s rise as a global business power came largely from an export market fueled by lower-cost labor. But during the next decade, China’s business landscape will change considerably. Private- and State-owned Enterprises will compete with Western-based multinational corporations to serve both internal and global markets. They will move up the value chain, from a low-cost labor provider to a source of R&D, innovative technology, and strong products/services with reputable brands. Those organizations that are successful in making these shifts will be those that place a high premium on attracting and hiring the best talent, creating a high performance culture, and developing and engaging their workforces. They will succeed based on the strength of their soft power.

REFERENCES/FURTHER READINGS

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Di Romualdo, Tony; Joyce, Stephen; Bression, Nathalie. Key Findings from Hackett’s Performance Study on Talent Management Maturity, The Hackett Group, 2010
Integrated Talent Management, IBM/Human Capital Institute, 2008
APPENDIX

1. Categories of organizations

- 54% of the respondents are from Foreign-owned Enterprises.
- 11% of the respondents are from State-owned Enterprises.

2. Description of organizations

- More than ¼ (26%) of the organizations have more than 10,000 employees.
- Organizations with 1,001-5,000 people made up the largest portion of the sample.
3. Industry category

- 181 corporate respondents are in manufacturing-related industries, which rank the first.
- Corporate respondents are from the following three major industries: manufacturing, health care and drugs, and wholesale/retail/products.

**Figure 12** Business Classification

- Manufacturing—181
- Health care and drugs—49
- Other—49
- Wholesale/retail/distribution/product agent—39
- Finance/Investment—26
- Software and information systems/Internet—25
- Multi-corporation—23
- Telecom services—23
- Architecture and real estate—21
- Transportation/logistics—18
- Specialty service—9
- Biotechnology—7
- Hotel/travel—6
- Import and export trade—4
- Government public utility—3
- Non-profit organization—2
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For over 40 years, DDI has helped the most successful companies around the world close the gap between where their businesses need to go and the talent required to take them there. Our areas of expertise span every level, from individual contributors to the executive suite:
- Success Profile Management
- Selection & Assessment
- Leadership & Workforce Development
- Succession Management
- Performance Management
DDI’s comprehensive, yet practical approach to talent management starts by ensuring a close connection of our solutions to your business strategies, and ends only when we produce the results you require. You’ll find that DDI is an essential partner wherever you are on your journey to building extraordinary talent. We have been operating in China for over 20 years and have offices in Beijing and Shanghai.

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