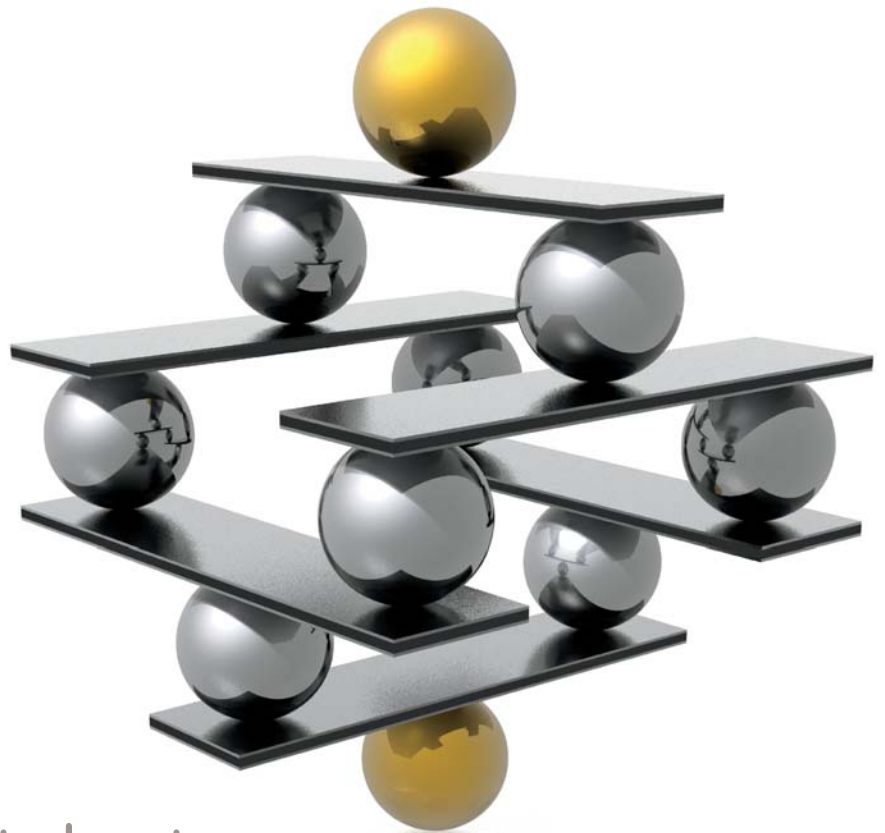


Adecco

better work, better life



# The new era of talent supply chain management.

A primer on mitigating strategic risks — and exploiting game-changing opportunities — by managing your enterprise's extended talent network.

# There's no doubt that talent management is at the top of the HR agenda.

The reason is simple:  
it's also at the top of the CEO and executive's list of concerns.

- > McKinsey & Co. interviewed CEOs and other business leaders around the world and found half worrying that their talent management practices were not aligned with business outcomes; more than half felt that there was insufficient commitment to developing talent among line managers and insufficient time spent on talent management in general.
- > A 2007 survey by SEI's Center for Corporate Futures found that concern about "difficulties in finding, retaining, and growing talent" ranked top in importance for international business respondents out of a list of business challenges, outpacing factors like the growing influence of China and India on business.

Failures in talent management may be more recognizable than the concept itself. The most obvious of these are having too many employees — leading to layoffs and restructurings on the one hand — and not enough talent — leading to talent crunches on the other.

At the moment, the most common approach to talent management in the U.S. is doing nothing — no anticipation of needs, no plans for addressing them. A recent survey reported that roughly two-thirds of U.S. employers do no planning of any kind for their talent needs. For such organizations, every new need for talent presents a serious disruption. Every employee who quits is a calamity, every new demand from the business for skills represents a crisis. A company that does no planning basically waits for a need to develop or current

employees to leave and then hunts around for a solution. Complaints about talent and skill shortages are driven by the fact that so many employers now are trying to meet their talent needs at the last minute.

My view of the way forward is to take the process of talent management seriously. That begins with trying to be responsive to changing demands. And doing so requires thinking about the supply of talent in a sophisticated way.

The arguments in this white paper offer a good framework for organizing solutions to the flow of new talent into an organization. The supply chain idea helps us conceptualize the choices that we have for finding talent and how to choose among those choices in a rational way.

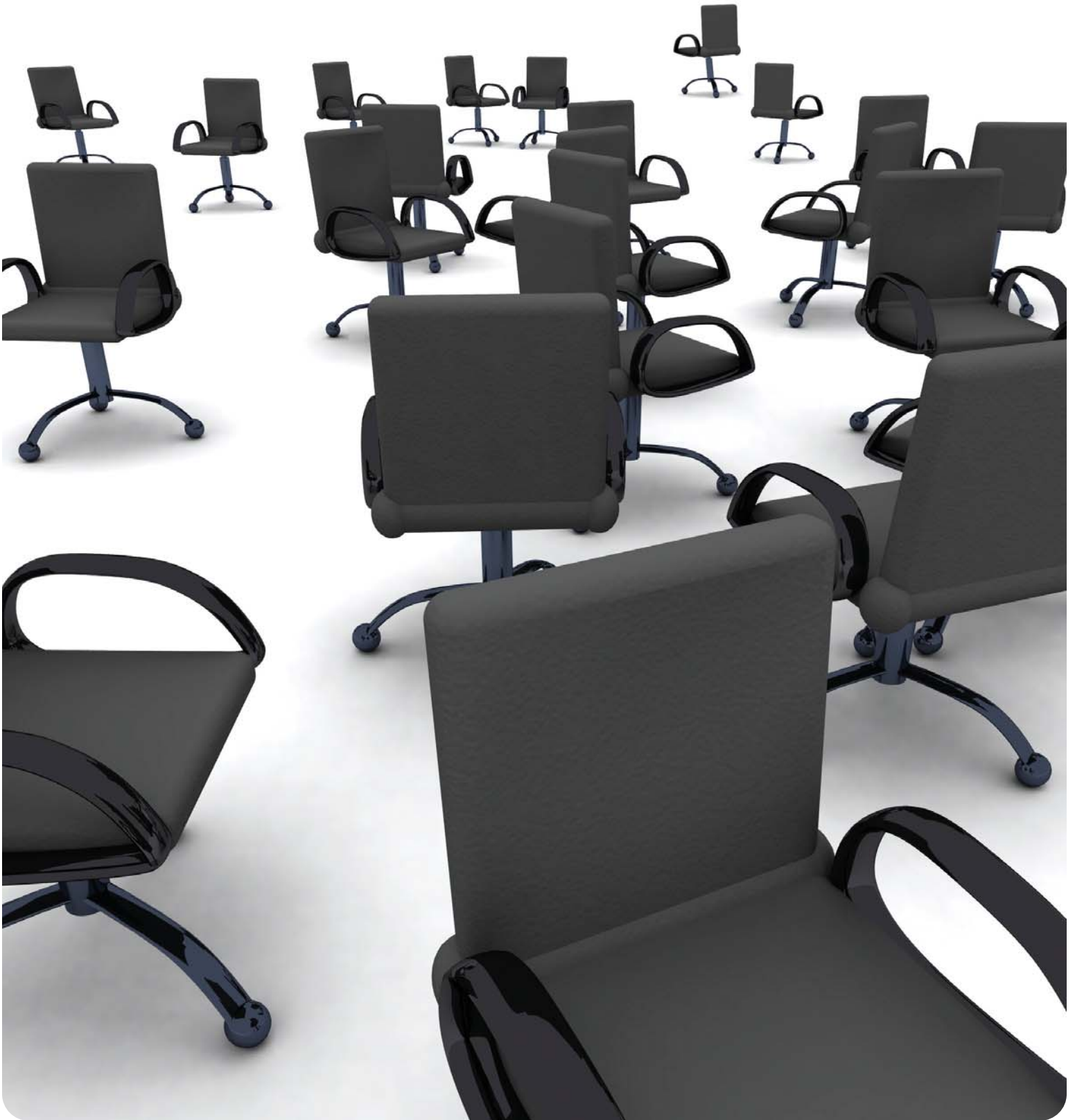
## Introduction by Peter Cappelli

George W. Taylor Professor of Management and author of  
*Talent on Demand: Managing Talent in an Age of Uncertainty*

[talentondemand.org](http://talentondemand.org)



The new era of TSCM.



# What is talent supply chain management?

**Talent supply chain management (TSCM) is the monitoring of talent trends and labor issues to enable the management of talent trends in the extended enterprise for the purpose of mitigating risks that might otherwise disrupt the supply chain.**

Relatively few companies have begun monitoring talent trends and labor issues that affect the talent beyond their own four walls. This approach — to proactively identify and mitigate risks that might otherwise disrupt the supply chain — is called talent supply chain management (TSCM). TSCM differs from traditional forms of talent management, which typically focus on more individual talent management rather than the macro landscape and taking a long-term view.

## **How do the following conditions affect your company's performance and value?**

- The science curriculum within Bulgarian schools;
- A U.S. federal judge's ruling on the Social Security Administration's "no-match" letters;
- Arizona's new immigration legislation;
- Changing state driver's license requirements;
- Labor strife in Mumbai;
- The aging Western European workforce;
- The sub-prime loan fallout;
- Current caps on H-1B visa; and
- The U.S. Securities and Exchange Commission's interpretation of the Sarbanes-Oxley Act.

## **Probably much more than you realize.**

Consider the recent sub-prime mortgage crisis and its impact on the financial services industry. During the industry's flush performance prior to the credit crunch, many firms departed from a more conservative full-time/contingent workforce ratio. As the industry's financial performance has taken a nosedive, firms must reduce costs and full-time workers represent their largest cost area. Yet, these reductions come at a steep price in terms of actual exit costs and lost productivity.

Had financial services firms maintained a larger portion of contingent or contract workers during their lengthy bull run, they would be much better equipped than their competitors to weather bearish conditions without incurring the costs, disruption and productivity hits that accompany large-scale layoffs. Furthermore, the industry's troubling conditions affect different talent pools differently. While banks confront a need to trim some areas of expertise, such as mortgage brokers, they have a growing need to add in other areas such as credit and collections professionals. As delinquent loans rise, banks that collect a greater amount of those loans will outperform competitors. TSCM helps companies identify and mitigate these and many other talent risks before negative impacts strike.

**The sizeable impact of numerous global talent issues intensifies every day.**

Scratch beneath the surface of costly supply chain disruptions, and human problems inevitably appear:

- Too few compliance executives and not enough nurses or chemical engineers;
- Too many mortgage brokers and too few credit and collections managers;
- Top finance, information technology (IT) and human resources (HR) executives flee the domestic auto-manufacturing industry;
- Supplies of licensed long-haul truckers, certified public accountants (CPAs), law school graduates and migrant workers suddenly drop;
- English-speaking call center talent dips in India but increases in Eastern Europe and the Philippines;
- IT salaries shoot through the roof;
- The cost of full-time equivalent hiring soars and productivity declines in reaction to a spike in business; or
- Full-time employee (FTE) exit costs soar and productivity plummets in reaction to an unexpected decline in business.

The list goes on. What's more, these far-flung fluctuations vary by industry, location and product line — even within the same corporation. The volume and complexity of these issues complicates an organization's ability to monitor and respond to these challenges on its own.





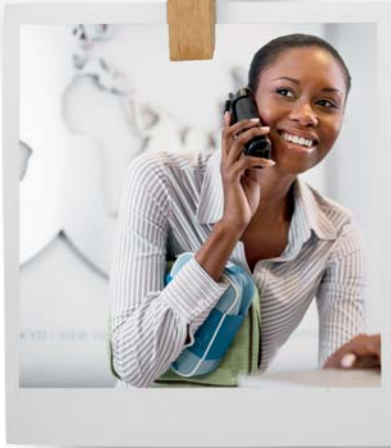
## Do you know what's happening in your extended talent network and how it can hurt, or help, your company?

While it's no secret that supply chain management capabilities emerged as a strategic differentiation a decade ago, most companies have yet to manage the underlying enabler of the supply chain: talent. The difficulty stems from the massive and ever-growing range of skills and capabilities that enable increasingly global product and service supply chains to operate effectively.

Business strategists and thinkers are only beginning to grasp the far-reaching implications of this challenge. "There have been many technology improvements for managing the materials side of the supply chain," notes a leading supply chain consultant, "but the marketplace has largely ignored the people supply chain."<sup>1</sup> They have done so at their own peril.

The ongoing mismanagement of talent exacts a steep price on the product and services supply chains, and the bottom line. The impacts of talent supply chain management problems include customer dissatisfaction, excessive inventories, product stock outs, the loss of market share and, as so many painful quarterly calls with Wall Street analysts illustrate, steep drops in shareholder value.

The immediate impact of ineffective talent management, as measured by turnover costs and the productivity hits linked to talent churn, can be significant, yet other costs are much larger. For example, a manufacturing company loses massive gross margin (up to 60 percent of its product's retail price) when stock outs related to talent shortages occur at any global node throughout its extended supply chain.



When talent supply issues struck the Los Angeles/Long Beach ports four years ago, crucial materials and products remained captive on container ships for days, costing companies waiting for their goods as much as 5 cents per share.<sup>2</sup>

**Which companies will anticipate the supply chain impact of the next U.S. port bottleneck or closure?** For that matter, which companies will anticipate the impacts of the next H-1B policy shift, truck driver's license requirement change, quality problem in an overseas factory, regulatory response to a financial crisis, or country-specific labor strife — before the problem wreaks havoc?

**The answer is straightforward: successful companies.**

Developing and maintaining visibility into the continuously expanding talent supply chain represents a strategic capability. Companies who respond sooner and more effectively to fluctuations in their extended talent supply chains will out perform their competitors in the 21st Century.

# Mitigating risk by monitoring the talent supply chain.

Achieving this competitive advantage requires an understanding of talent supply chain management along with its inherent risks and opportunities. When successfully executed, TSCM extends both vertically within the organization and horizontally beyond the organization.

Both horizontal and vertical perspectives are crucial to effective TSCM. For example, the reason you could not find the hottest selling video game console for your 10-year-old last December was not necessarily the result of talent problems within the electronics manufacturer. This shortage may well have stemmed from talent problems among the manufacturer's suppliers or distributors.

## **Forces vary widely in terms of the nature and scope of impact.**

For example, the corporate governance regulation created in response to the Enron debacle sparked a high demand for technical auditing and accounting skills. Publicly listed U.S. companies suddenly found themselves competing against their public accounting firms for a shrinking supply of auditors and accountants.

More recently, the new guidance from the U.S. Department of Homeland Security affected key skill pools for meat-packing, poultry-processing, janitorial services, construction companies and textile mills. The rules affect how companies respond when the Social Security Administration informs them that they may unknowingly employ undocumented workers. The issue — and its potential impact on a crucial supply of talent and, as a result, companies' financial performance — quickly grew more complex as a lawsuit and a federal judge's ruling halted, for the time being, the enactment of the new guidance.

Changes in other federal immigration-related rules affect the talent supply chains of a much larger collection of companies. Consider H-1B visas, which U.S. companies frequently use to access highly-skilled IT talent from overseas. When the total number of available H-1B visas fails to keep pace with economic growth, the rate for highly-skilled IT talent increases. Since technology has become an integral component of all companies large or small, this sort of shift affects a broad range of companies.

## **Vendors and suppliers feel the impact as well.**

From a horizontal perspective, TSCM involves understanding and observing the forces that affect the various talent categories that enable the extended supply chain to function. This sphere of influence extends to vendors and suppliers.

If a company outsources manufacturing to a firm with facilities in Guadalajara, Mexico, the labor environment in Guadalajara should be monitored. Just as a manufacturer's supply chain begins with the extraction of raw materials from the earth, so does the manufacturer's talent supply chain start with an understanding of the forces affecting a supplier's ability to supply the workforce necessary to continue to deliver the raw materials.

While issues that can affect the talent supply chain are numerous, they are also subtle. A truck drivers' strike, for example, would likely attract coverage from major media outlets and cripple numerous supply chains. However, numerous less newsworthy forces, such as a shortage of truck drivers or a change in trucker licensing requirements, regularly exert similarly debilitating effects on supply chains.



From a vertical perspective, TSCM involves understanding and observing the forces that affect the various talent categories most companies manage, including:

- Executive leadership
- Research and development
- Procurement
- Manufacturing
- Marketing
- Sales
- Distribution
- Service
- Finance and accounting
- Legal and compliance
- Risk management
- IT
- HR

# Anticipating pressures on the talent supply chain.

## **Can your company anticipate pressures on the talent supply chain before they occur?**

The answer for the vast majority of enterprises remains “no.” Even some of the most advanced examples of talent supply chain management in practice to date, tend to remain confined within the organization.

When IBM enters developing countries such as Indonesia, Vietnam and Bulgaria, one of its first moves involves helping school systems with “service-as-a-science” academic programs so that it can develop future supplies of skilled labor.<sup>3</sup> IBM also saved a reported \$500 million in 2004 as a result of CEO Sam Palmisano’s “labor supply chain” initiative. The effort also resulted in a 3 percent to 5 percent boost in the time IBM consultants spend with (and charge) clients “because it was able to gain better visibility into its talent.”<sup>4</sup>

Valero Energy Corp.’s implementation of a talent supply chain management model, which the company calls “X-treme Staffing,” delivered a reported 320 percent increase in its recruiting productivity while lowering labor acquisition costs by 76 percent and reducing the time required to fill positions by 55 percent.<sup>5</sup>

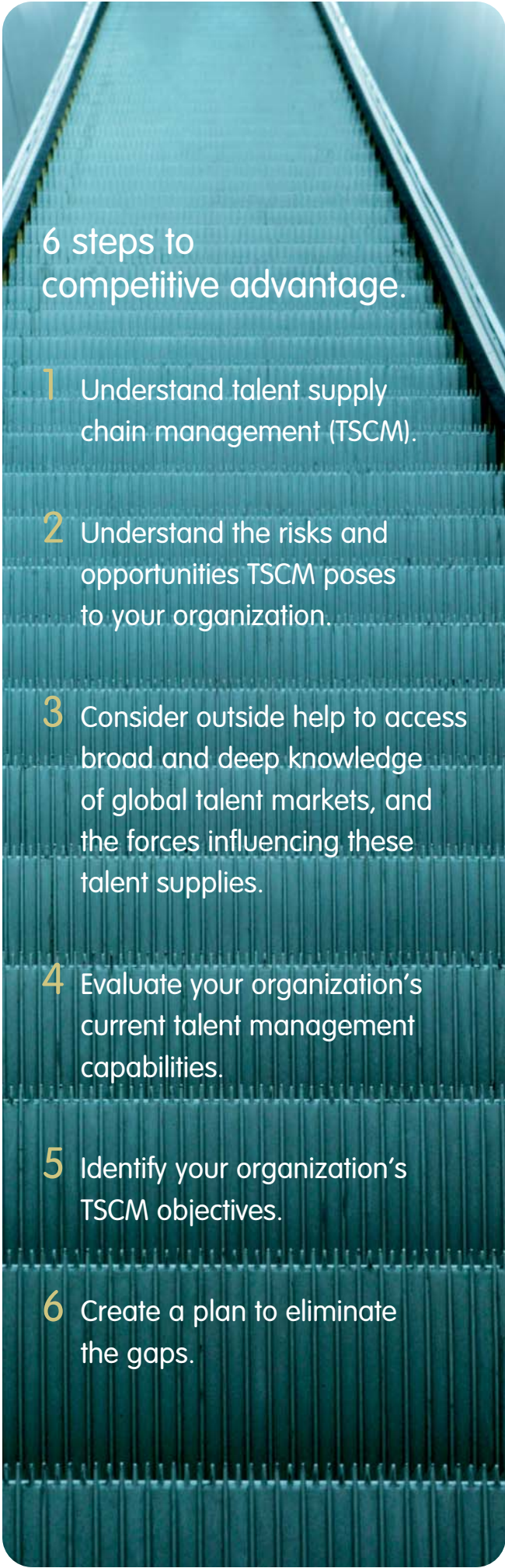
## Evaluating talent supply chain risk.

How do you know if your organization is ripe for talent management risk?

The answer lies inside and outside the organization. Managers who answer “no” to more than one of the following questions work within companies in need of additional talent supply chain management capabilities:

### **Do you know:**

- Which of your key suppliers face the greatest talent risks?
- What steps these suppliers are taking to reduce the risks?
- In which geographic locations your company, your suppliers and your outsourcing partners confront the most significant talent risks?
- What percentage of your workforce is full-time equivalent, independent contractors, contingent and outsourced?
- What is the optimal workforce breakdown — among the preceding qualities — for your company?
- What steps your company is taking to achieve that ideal ratio?



## 6 steps to competitive advantage.

- 1 Understand talent supply chain management (TSCM).
- 2 Understand the risks and opportunities TSCM poses to your organization.
- 3 Consider outside help to access broad and deep knowledge of global talent markets, and the forces influencing these talent supplies.
- 4 Evaluate your organization's current talent management capabilities.
- 5 Identify your organization's TSCM objectives.
- 6 Create a plan to eliminate the gaps.

As IBM and Valero demonstrate, TSCM capabilities can greatly reduce hiring and firing costs as well as the productivity drop-offs that accompany these activities. Simply by improving existing talent management capabilities, the average Fortune 500 company can net almost \$400 million annually.<sup>6</sup> The gains from vertical talent supply chain improvements are not insignificant, but they are only the beginning.

### **TSCM: the next competitive advantage.**

Successful TSCM occurs when organizations develop or access the capability to monitor the risks and opportunities in their vertical and horizontal talent supplies and respond to what they see by mitigating the risk and exploiting the opportunities.

TSCM follows on the heels of other major competitive differentiators such as Dell's supply chain management leaps and, before that, W. Edward Deming's quality and efficiency breakthroughs. Deming's groundbreaking analytical approach helped improve the productivity of U.S. companies in the 1940s and the productivity and quality of Japanese companies a decade later.<sup>7</sup>

# Do you want to exploit the next form of strategic differentiation or do you want to play catch-up to your competitors?

It is important to differentiate TSCM from related approaches, including those described by terms such as “workforce management,” “human capital management” (HCM) or “human capital planning” (HCP). These three approaches do not reflect true TSCM. Why? Because these approaches typically concentrate on talent needs within a single enterprise and rarely extend to monitoring the forces that affect the talent conditions of external supply chain partners.

“The reason why this matters so much to companies is that when you make mistakes, it’s really costly. You don’t have enough people to get the work done or, we’re seeing that more now, you have too many people and you are either losing them and losing the investments in them, or you have to lay them off, which is expensive and traumatic.”

PETER CAPPELLI, PROFESSOR OF MANAGEMENT, WHARTON

Monitoring those conditions is complex because of the pace of business change and the sheer volume and subtlety of forces that can affect, positively or negatively, any node of the extended supply chain. However, it is necessary because the fluid nature of the extended talent network, as well as the accelerating pace of business change, requires successful companies to respond quickly.

This response must be calibrated to address multi-dimensional challenges, such as the need to simultaneously increase and reduce talent pools. Companies no longer find themselves in cost-cutting mode or growth mode — both activities occur simultaneously, on a continual basis. The same holds true for talent; companies constantly increase and reduce full-time employees, contingent workers, contractors and outsourced workforce. At a given point in time, a U.S.-based company can eliminate full-time manufacturing jobs in the Midwest, add to its full-time risk-management and compliance ranks at corporate headquarters, increase its contingent workforce worldwide and lessen its reliance on Asian-based outsourcing partners (while increasing its use of Latin American outsourcing partners).

Managing this extended talent network in a highly responsive manner requires significant time as well as deep and broad expertise. That explains why leading organizations partner with TSCM firms that possess the expertise and reach required to monitor a vast array of changing talent dynamics in nearly every geography and skill area around the world.

Leveraging that talent supply visibility offers significant benefits. For example, the ideal ratio between full-time and contingent workers continually fluctuates within an industry and a company. The ability to monitor that ratio with regard to changing market conditions and continually calibrate the most effective balance is called “workforce modeling.”

The new era of TSCM.



# Do you know how to develop and build upon TSCM capabilities?

To optimize your organization's TSCM, you must first develop an effective TSCM strategy which will require involvement from HR, hiring managers, finance teams and executive level support.

At the onset, an organization should assess the three following elements:

## **1. Talent supply chain assessment**

What does our workforce look like today? Is it optimized for supporting our business today and into the future?

## **2. Environmental factors**

What external trends, issues and potential risks will impact our business in the near-term? What about in the long-term? How will these affect our human capital strategies?

## **3. Historical view**

How has our business been impacted by these types of events in the past? How did we react? What were the lessons learned and have we designed new ways of responding based on these lessons?

As you embark upon making these assessments, the following insights and considerations should be explored:

### **Workforce modeling.**

What percentage of your workforce consists of FTEs? What percentage consists of independent contractors? What percentage is contingent or temporary? What percentage is outsourced? What is the ideal mix in light of your company's current strategy and the competitive environment? What are your competitors' workforce model ratios? What qualifies as best-in-class?

### **Global labor arbitrage management.**

As the use of outsourcing grows and matures, companies with TSCM capabilities can better address an important question: should we move people to work or should we move the work to people? Rather than simply deciding whether or not to outsource or to move a shared services center overseas, leading companies address questions that are more closely linked with strategy: Why are we doing this? Where are we doing this? What are we doing there? Who are we partnering with? By understanding and monitoring the talent-supply fluctuations in different geographies around the world, companies can better align their outsourcing activities with their strategic plans.

### **Legislative and demographic response management.**

Whether it involves Fair Share for Healthcare, Right to Work or numerous other regulatory and demographic shifts, companies need to develop more sophisticated and agile responses to pending changes that affect their extended talent networks.

Once these assessments have been determined and analyzed, you can begin customizing a TSCM strategy for your business. What are the objectives of your organization's TSCM strategy? What kind of ROI can you expect by taking this type of broader, long-term view? How will it be executed and who will be involved? Once the strategy has been designed, securing executive level buy-in will be essential to help ensure the success of your TSCM for the long-term.

# Passing the test.

Ever-looming talent shortages and surpluses along the expanding global supply chain will test the resolve of more and more companies in the years ahead. Whether they pass or fail these trials by mitigating the risks and exploiting the opportunities will determine market leaders and market laggards.

To date, the competitive opportunities talent supply chain management promises have largely remained unrealized. As a supply chain expert notes, "it's surprising to me that the supply chain marketplace has not already jumped on the issue and applied the same principles to managing people that they apply to managing supply chains."

Those companies who jump first and most effectively will be leaps and bounds ahead of the competition.



## Adecco Worldwide

Adecco S.A. is a Fortune Global 500 company and the world leader in workforce solutions. Adecco connects over 700,000 associates with business clients each day through its network of over 33,000 employees and 6,600 offices in over 70 countries and territories around the world. Registered in Switzerland, and managed by a multinational team with expertise in markets spanning the globe, Adecco delivers an unparalleled range of flexible staffing and career resources to corporate clients and qualified associates.

## Adecco North America

Adecco is the workforce solutions leader in the United States and Canada, with a comprehensive service offering that includes temporary and contract staffing, permanent recruitment, outplacement and career services, recruitment process outsourcing, training and consulting.

In addition to its administrative, clerical and light industrial staffing services, Adecco operates the following specialty divisions:

- Engineering & Technical
- Finance & Accounting
- Information Technology
- Medical & Science
- Legal
- Human Capital Solutions
- Government Solutions
- Transportation

For more information, please contact us today.

## References

<sup>1</sup> Harrington, Lisa. "Defining Technology Trends," Inboundlogistics.com, April 2007.

<sup>2</sup> Stalk, George. "Five Future Strategies You Need Right Now," Harvard Business School Press, 2008. ©The Boston Consulting Group, 2008.

<sup>3</sup> Bulkeley, William M. "Spinning a Global Plan: Why IBM's Chief Is Betting Big on Developing Countries," The Wall Street Journal, February 14, 2008.

<sup>4</sup> Malykhina, Elena. "Supply Labor to Meet Demand," Information Week, March 21, 2005.

<sup>5</sup> Minton-Eversole, Theresa. "Supply Chain Model Helps Boost Staffing Performance," HR Magazine, October 2005. ©Society for Human Resources Management.

<sup>6</sup> "Companies Can Improve Earnings Nearly 15 Percent by Improving Talent Management Function," Research Alert, July 24, 2007. The Hackett Group, an Answerthink company.

<sup>7</sup> <http://www.deming.org/>

<sup>8</sup> Harrington, Lisa. "Defining Technology Trends," Inboundlogistics.com, April 2007.



better work, better life

877.8.adecco  
adeccousa.com