



CGMA REPORT

TALENT PIPELINE
DRAINING GROWTH

Connecting human capital to
the growth agenda



Two of the world's most prestigious accounting bodies, AICPA and CIMA, have formed a joint venture to establish the Chartered Global Management Accountant (CGMA) designation to elevate and build recognition of the profession of management accounting. This international designation recognises the most talented and committed management accountants with the discipline and skill to drive strong business performance. CGMAs are either CPAs with qualifying management accounting experience or associate or fellow members of the Chartered Institute of Management Accountants.

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Jehan Perinpanayagam FCMA, CGMA, CEO, InfoMate (Sri Lanka)

Phil Sheridan, Managing Director, Robert Half UK

Nikki Walker FCMA, CGMA, Managing Director Inclusion Diversity & Sustainability EMEAR, CISCO Systems

Valerie Rainey CPA, CGMA, CFO, INTTRA (USA)

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CONNECTING HUMAN CAPITAL TO THE GROWTH AGENDA

Traditionally, many executives believed that the key drivers for competitive advantage were the cost and quality of the organisation's products and services and the technologies it used. The contribution of human capital was also valued. However, it was not always seen as decisive.

As the world of business becomes ever more international, competitive and volatile, building a successful company that is ready for tomorrow is becoming more and more challenging. In this increasingly complex environment, reliance on product or technology attributes may only provide short-term and first-mover advantages, as they can be easily replicated. To thrive in the long-term, organisations must constantly innovate, evolve and transform. Two of the most critical factors that determine an organisation's fate in this environment are the quality of its human capital and the way it manages its talent pipeline.

The global financial crisis has rewritten the rules of business. In the distressed economic backdrop in which companies operate today, the skills, experience, development and job satisfaction levels of their employees are emerging as major sources of competitive advantage or disadvantage. A recent study by the Boston Consulting Group¹, a management consultancy, found that companies that are 'highly skilled' in core HR practices achieve up to 3.5 times the revenue growth and as much as twice the profit margins of less capable companies. A PwC² study of today's most successful companies also makes it quite clear that for organisations intent on pursuing a sustainable growth agenda, the management of human capital needs to be embedded at the centre of its business strategy.

However, a new survey of more than 300 senior executives (CEOs, CFOs and HR directors) conducted by the Economist Intelligence Unit, with the aim of equipping Chartered Global Management Accountants (CGMAs) with information and insight on this key topic, shows that businesses are missing out on performance targets and growth opportunities because of inadequate human capital management. A significant number of respondents cite missing financial targets and failing to innovate due to ineffective human capital management, which suggests that many firms worldwide are not fulfilling their growth potential because they are failing to effectively manage and harness the skills and experience of their workforce. This is mainly due to the lack of information to support decision making, strategy development and investment evaluation.

Our survey shows that while most companies understand the importance of human capital, they do not appear to have the right systems, processes and information in place to manage talent effectively. Only 41% of firms are confident that their human capital strategy is truly embedded in their organisation's strategy. A particularly worrying finding from the study reveals that the most senior business leaders – C-level executives – do not just disagree with each other on critical aspects of talent management, but they also are unclear who should bear responsibility for these issues in their organisations.

1. *People Management Translated into Superior Economics Performance*, Boston Consulting Group, August 2012.
2. *15th Annual Global CEO Survey 2012*, PwC, 2012.

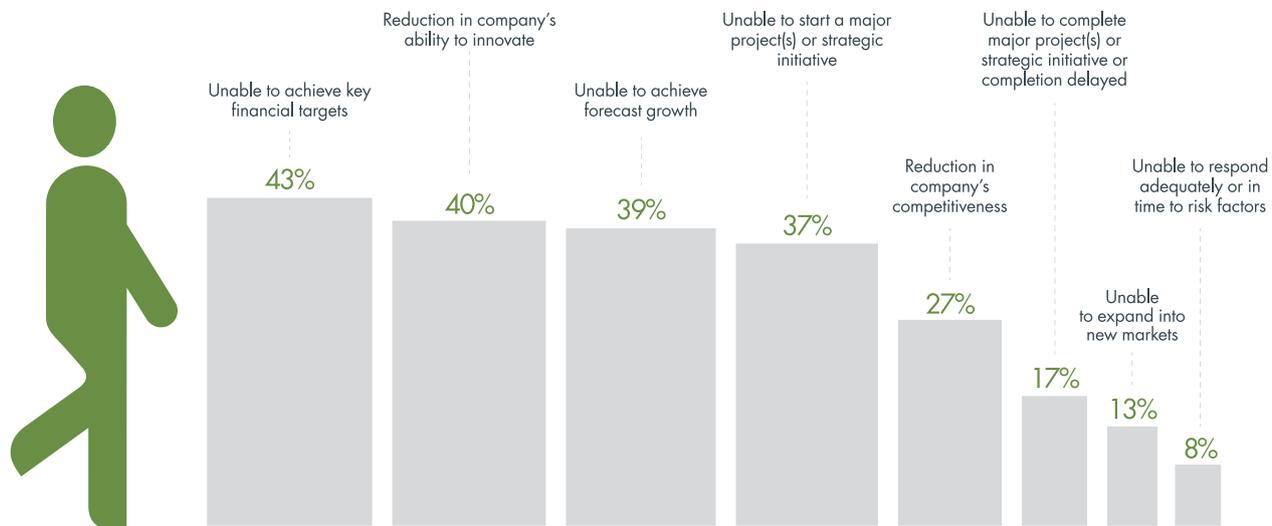
Key findings from the survey, outlined in detail later, include:

1. Inadequacies in talent management are hurting the competitiveness and financial performance of firms.
2. There is disagreement and a disconnect at the C-level on strategies for talent development, particularly in relation to succession planning and training and development investments.
3. The majority of companies do not seem to be paying adequate attention to succession planning.
4. Many of the talent management tools employed by organisations are ineffective.
5. There is a lack of clarity on who has the responsibility for measuring the effectiveness of talent management.
6. Business leaders are concerned about the quality of data and analytics they receive on human capital.

In response to these findings, CIMA and AICPA propose that business leaders take these four key steps to reconnect human capital to the growth agenda:

1. Embed human capital strategy within the wider overall business strategy.
2. Focus on getting the right information and translating it into actionable insight.
3. Leverage the relevant skill set to bring credibility to the data, insights and subsequent actions.
4. Structure the organisation to encourage collaboration and partnering.

Figure 1: Have any of the following occurred at your company in the past 18 months as a result of inadequacies in human capital management? Select all that apply.



1. Inadequacies in talent management are hurting the competitiveness and financial performance of firms

The growth prospects of many firms are being blighted by their failure to make the most of their human capital. Over two-fifths (43%) of respondents in the survey partially attribute the failure of their firms to achieve key financial targets to ineffective human capital management, and two in five (40%) say it has also reduced their company's ability to innovate.

Many respondents in the survey say they are not confident about the quality and usefulness of data on human capital, and the analysis of that data by their firms. Without the right information and insight, companies cannot make effective decisions on human capital management. Short-sighted human capital policies appear to be hitting many companies where it hurts: their growth agenda.

The correlation between talent management and performance is particularly strong in the financial services and energy sectors: nearly three-fifths of financial services executives (58%) say their firm has been unable to start a major project or achieve key financial targets because of poor human capital management, while over half of executives from the energy sector (53%) say they have missed forecasted growth. North American firms generally report more difficulties as a result of poor talent management than their European and Asia-Pacific counterparts. This may be a result of gaps in human and talent management strategies: only 16% of North Americans say their organisations have personal development programmes in place, compared to respectively 45% and 35% of European and Asia-Pacific respondents.

The CEO perspective

"HR and finance jointly presenting their analysis to the CEO provides a balanced viewpoint and is best practice. My company InfoMate (Private) Limited, like all John Keells Group companies, employs a triple bottom line approach, which considers economic, environmental and societal impacts to the company and all its stakeholders in its decision making. In this context employees, who are inseparable from the company, play a vital role in decision making. Input from HR professionals, finance professionals and that of other disciplines are given equal importance in making decisions in the best interests of the organisation. The operating structure of the group is such that businesses are encouraged to and structured in a manner that requires the businesses to consult with HR and take a long-term view on aspects relating to HR, and not just look at short-term cost implications. A rigorous set of KPIs have been set around training spend, employee engagement, etc., which enhance the long-term value of our human capital."

– Jehan Perinpanayagam, CEO, InfoMate (John Keells Group)

2. There is disagreement and a disconnect at the C-level on strategies for talent development

Organisations need to have aligned understanding of the key competencies required for senior roles to drive their business forward effectively.

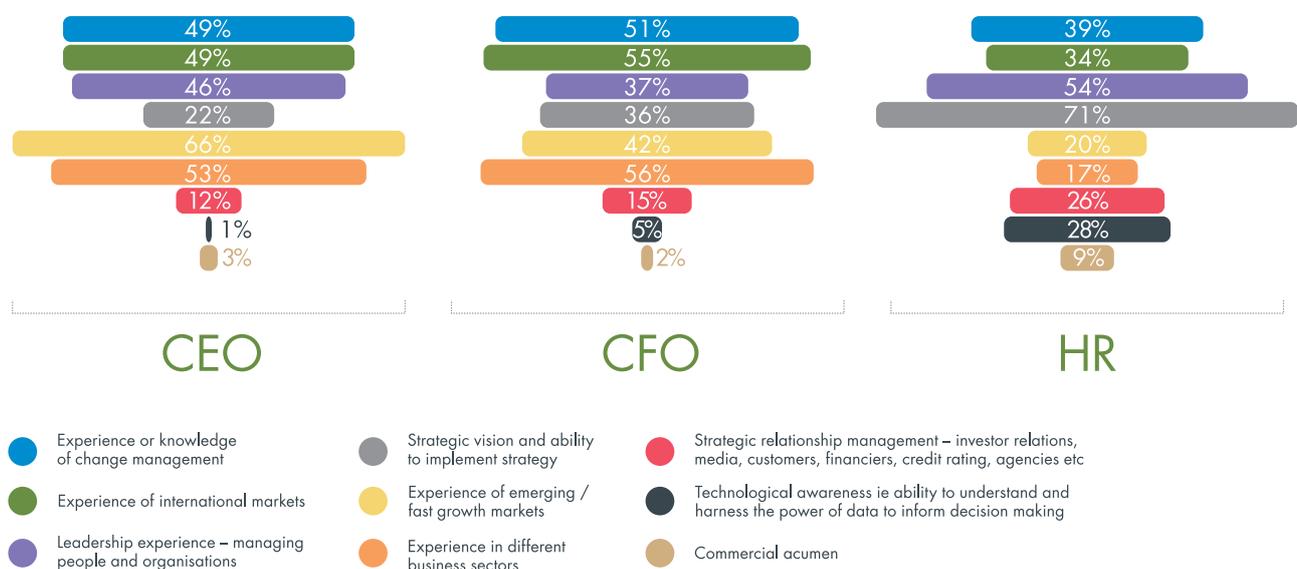
Our survey illustrates that there is general alignment for the CEO and CFO in this area, yet this differs to the views of the HR directors. The requirement for a diverse base of experience in terms of business sector and market – international and at different levels of maturity – is evident, wrapped in with the need for change management expertise.

This perhaps reflects the diversifying business agenda for many organisations, in a period of rapid change given the highly competitive and volatile business environment.

In other reports, both CIMA and AICPA have often cited the move towards finance partnering with the wider business to better help drive business success and support decision making. This effective partnering between the CEO and CFO appears to be underlined here in the survey; there appears to be a good common understanding and agreement on many human capital issues between the CEO and CFO. They show high agreement in the top skills needed:

- experience of emerging/fast growth markets
- experience of different business sectors
- experience of international markets
- experience of change management.

Figure 2: Which of the following skills and experience are most important for C-level executives in your company to possess in general? Please select three options.



Note: Percentages do not sum to 100% as respondents were allowed to select more than one option

In some organisations, this level of effective partnering is also reflected in the HR function. However the survey shows that HR directors are slightly out of kilter with the rest of the executive team where critical skills and experience requirements are concerned. While agreeing on the need for change management expertise, for HR directors their top C-level skills and experience requirements are strategic vision and ability to implement strategy (71%), followed by leadership experience (54%). It must be noted that the views of C-level executives are a reflection not only of their own role and experience, but also the size and scope of their organisations.

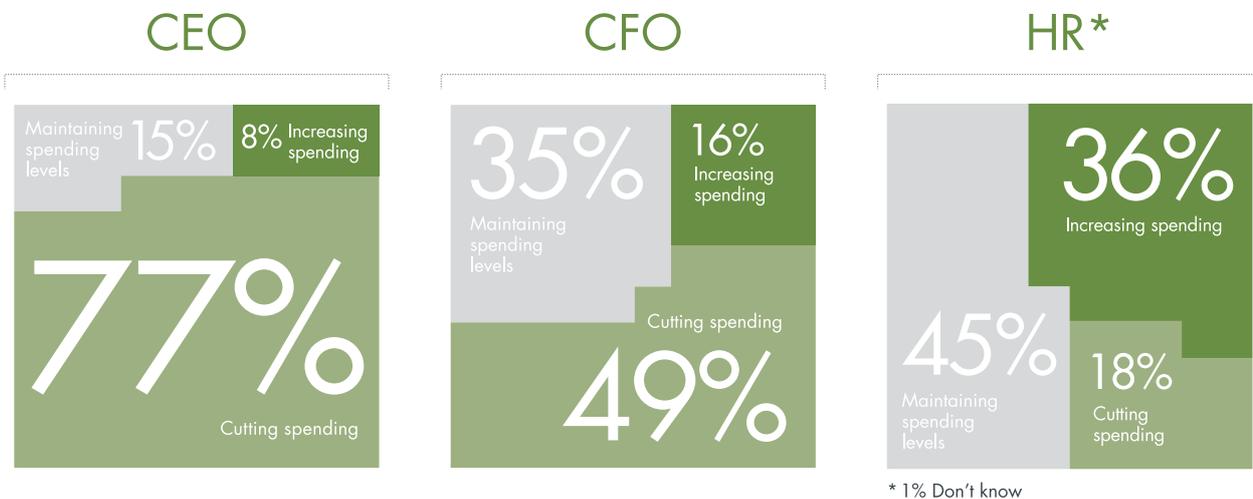
Leadership experience is higher up on the agenda for smaller firms than it is for larger organisations. Over half of the respondents from firms with global annual revenue of less than US\$1 billion identify leadership experience as a key skill to possess as they seek to expand their operations, compared to only two-fifths of respondents from

larger firms. Instead, the latter pick experience of international and emerging markets as a key criterion as multinationals focus on growth and entry opportunities in global markets at different levels of maturity.

From a regional perspective, European respondents think experience of change management (51%) is more important, while North American respondents prioritise experience of international markets (61%) and Asia-Pacific respondents, leadership experience (51%).

The disconnect between the senior executive team continues in other critical areas such as the firm's investment plans on human capital. Over three-quarters of CEOs (77%) believe that cutting spending on workforce skills, training and qualifications is part of their company's policy over the next 18 months. While 49% of CFOs see a similar picture, only 18% of HR directors agree.

Figure 3: What is your company's policy on workforce training, skills and qualifications over the next 18 months?



This gap in perception between CEOs and the rest of the C-suite suggests that on key issues related to talent management, the C-level team are often singing from different hymn sheets, and advocates an immediate call to action, as outlined in the conclusion of this report.

It is also worrying that two in five firms claim to have missed performance targets or delayed initiatives because of human capital issues, yet over the next 18 months 77% of CEOs plan to cut spending on training and development.

Figure 4: 77% of CEOs say their firm will cut spend in next 18 months but only 18% of HR directors agree.



The CFO perspective

“Generally speaking HR and finance should partner in determining both the cost and value of human capital. It is not surprising to me that there are differing views of who has primary responsibility and this is an area that organisations should improve to ensure clarity and accountability. Misalignment on training and development investments can often happen, and are generally resolved in the budget process. However, for me, credibility of the management information on human capital is essential. In my experience the organisation views human capital analytics as more credible when they are jointly developed by HR and finance. In this way the organisation can maximise the expertise and skills that the management accountant can bring to this area.”

– Valerie Rainey, CFO, INTRA

3. The majority of companies do not seem to be paying adequate attention to succession planning

Over a third of respondents agree that the ability to effectively attract, retain and deploy the right talent is the main competitive advantage for their organisation. A similar proportion of respondents think talent management is truly embedded in their company's business strategy.

A good example of best practice in this regard is the German car maker BMW, which has boosted its productivity by adapting its talent strategy to the challenges posed by an ageing workforce in Europe. It chose a new production plant for a pilot project and specifically targeted older workers when recruiting for the plant to ensure a well-balanced age structure. After one year, the plant's productivity had increased by 7%.

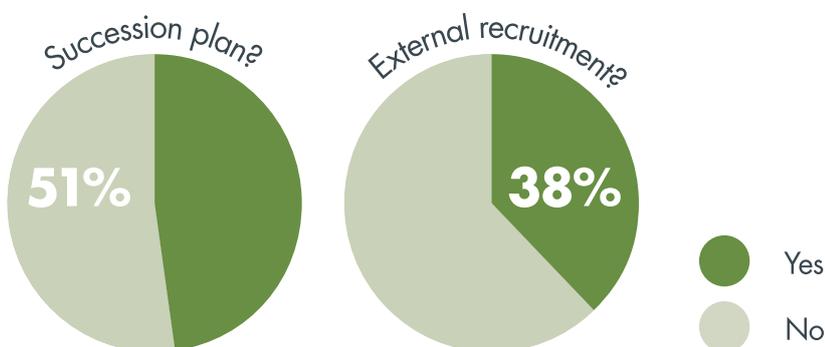
But for those firms that fail to adapt and update, the impact of poor human capital management goes right up the organisational ladder. Over half (51%) of executives said their firms do not have a formal succession planning process for C-level roles such as CEO, CFO and COO. This potentially leaves the 49% without one open to market and stakeholder confidence issues. HR directors are most confident about the strength of the talent pipeline at their

firms, while senior executives from other functions are somewhat more concerned: three in four HR directors think their firms have a formal succession planning process in place, compared to only 57% of CEOs and 12% of CFOs.

But the key question is not necessarily whether firms have such strategies in place. It is about how effective an organisation is at deploying skills development investment to nurture the right talent internally. Worryingly, 38% of respondents believe it is likely they will need to go externally to recruit for C-level posts in the next 12 months. This indicates a lack of confidence in being able to recruit from the internal pool, bringing into question the effectiveness of the organisations' existing human capital development strategies, including succession planning, for such roles.

Furthermore, we continue to see a significant disconnect at the senior management level. While nearly 36% of HR directors are confident that their firm will not need to go externally to recruit for senior roles, less than 10% of CEOs and CFOs agree. The CEO's and CFO's significant lack of confidence in their organisation's ability to nurture home-grown talent, indicates that existing structures and investment in human capital may not be fit for purpose.

Figure 5: 51% of organisations do not have a formal succession plan for C-level roles and 38% of firms anticipate they will need to recruit externally for C-level roles in the next 12 months.



4. Many of the talent management tools employed by organisations are ineffective

Current talent development tools and activities used in organisations overall are not effective, as rated by survey respondents. We have already seen that many firms do not have a strong internal pipeline for senior and key roles, and this would seem to be supported by a lack of effectiveness in both talent development activities and current succession planning.

Among the methods that companies commonly employ to boost the skills of their employees, only training and education offered by external providers is rated as effective by half of the respondents in the survey and is on offer at a majority of firms. Among the incentives and tools that seem to work less well are performance-based bonuses and personal development programmes, deemed to be effective by only a third of respondents.

Are organisations making investments into human capital development activities half-blind at times, without a clear understanding of their performance or effectiveness? A lack of confidence in the human capital data available, and lack of insight for better investment planning/decisions, would point to this. Furthermore, the lack of clarity on ownership and accountability for measuring and tracking the performance of human capital strategies will also have an impact.

The HR perspective

“Talent management needs to be central to an organisation’s strategy. HR can add significant value to a business, through enabling the execution of strategy and building organisational capability. It comes from an intimate knowledge of a business’s strategy and the existing capabilities of the organisation.

The great advantage that HR has in this area is that, ultimately, all strategy is executed by people – people who need to be supported, trained and equipped to fulfil the strategic vision. This is the real role of HR, and even though some people remain sceptical of its bottom-line importance, in fact its relevance cannot be underestimated. Too many organisations still dismiss talent management as a short-term, tactical problem rather than an integral part of a long-term business strategy, requiring the attention of top-level management and substantial resources. With this as an ethos, responsibility for measurement sits firmly with the CEO and board. However the actual mechanics would require a partnership between HR and finance.”

– Nikki Walker, Managing Director Inclusion Diversity & Sustainability EMEAR, CISCO Systems

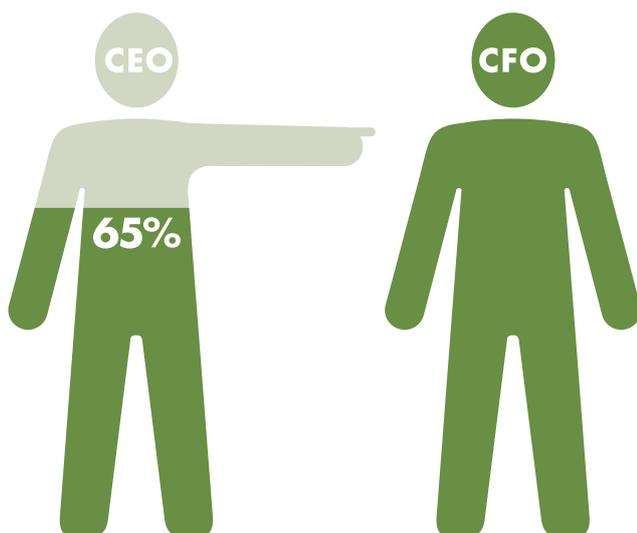
5. There is a lack of clarity on who has the responsibility for measuring the effectiveness of talent management

Who holds responsibility for measuring the effectiveness of a firm's talent management strategy is unclear. Over three-fifths of CEOs and CFOs agree that the head of finance has the mandate, but less than a fifth of HR directors seem to agree. Instead, an overwhelming proportion of HR directors (83%) say that oversight on talent is, in fact, their own responsibility, a view that is supported by less

than 30% of CEOs and CFOs in the survey. The divergence of views makes it quite clear that in most organisations there is room to improve the division of responsibility and accountability on human capital.

From the survey findings the majority of CEOs identify the CFO, and therefore finance, as the natural lead in this area. CFOs in turn should look to the management accountants in their organisations that are able to combine financial and management skill sets to interpret information and data in a way that will assist decision making, strategy development and investment evaluation.

Figure 6: Who is responsible for talent management performance? 65% Of CEOs see the CFO as the natural lead.



The recruiter perspective

"Financial business partnering has become more highly recognised in recent years, with the large majority of CFOs from both SME and large companies indicating they have an established business partnering function as well as a positive influence over human resources. The HR leadership can leverage finance's ability to extract the most relevant data, aligning human capital to overall organisational strategy while also more accurately measuring performance management, succession planning and investment decisions. With an overall goal of improving corporate performance, the majority of finance executives expect business partnering to increase in the next three years, and we anticipate additional demand from companies looking for management accountants who can deliver business growth and strategy."

– Phil Sheridan, Managing Director,
Robert Half UK

6. Business leaders are concerned about the quality of data and analytics they receive on human capital

We have already seen that issues in human capital have severely impacted on organisations' growth agenda. We have also seen a low confidence within the senior executive team on the effectiveness of succession planning and talent development strategies in their companies. Organisations striving for sustainable performance and success therefore need to work smart, ensuring effective investment in human development provides the expected ROI and supports the business strategy.

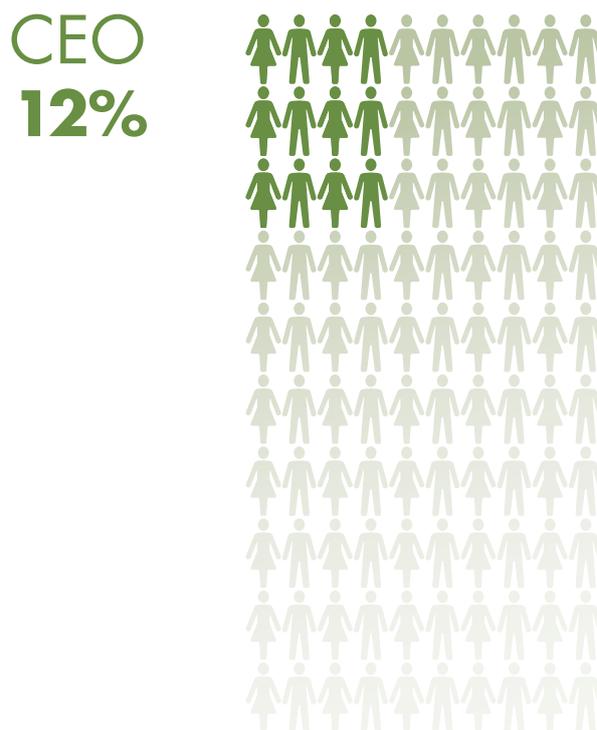
Firms require accurate data on relevant metrics to be able to make effective decisions and investments across all areas, including talent management. Critically, they need that data translated into actionable insights. The results of the survey point to a staggering area of weakness where management information on human capital is concerned. If this area is weak, it follows that decision making will be less effective.

Only 12% of CEOs are confident about the quality of metrics that senior management receives on human capital. They are also highly sceptical of data on retention of talent and workforce analytics. This is reinforced by HR directors: 38% claim that their organisation struggles to get accurate data and metrics on human capital costs, productivity, value and ROI.

Furthermore, a large number, 34% of CEOs and 40% of CFOs, state that while their firm has a lot of data in relation to human capital, its usefulness is questionable and they do not receive enough data-based insights or analysis to help their firm with human resource planning.

This leaves a big gap for companies to fill, particularly in ensuring that C-level executives are presented with relevant and high-quality information to support a unifying talent management strategy and decision making. Productivity and labour costs are important measurements, but companies will also need to look at leadership development and employee engagement metrics to fill any gaps in human capital.

Figure 7: Only 12% of CEOs are confident on the quality of the metrics they receive on human capital.



CONCLUSION

The results of this study confirm that firms around the world are finding it hard to manage their talent base in the most effective manner. This is preventing organisations from undertaking important projects or initiatives, and from innovating and meeting performance and growth targets. Simply, many firms cannot effectively fulfil their strategy due to human capital related issues.

Some of the shortcomings seem to be systemic or a fall-out of organisation structures: for instance, the lack of a coherent strategy as a result of the divergence of views at the C-level, specifically the apparent misalignment of the HR function in some areas. Other challenges include a lack of trusted and useful information and insight in this area, and a lack of clarity on the ownership and effective leadership in measuring the effectiveness of a firm's human capital strategy.

Given the adverse impact these drawbacks in talent management are having on the performance and competitiveness of organisations, the message to business leaders from this survey is clear. To stay competitive and grow in today's challenging and volatile business environment, CIMA and AICPA propose that business leaders must:

1. Embed human capital strategy within the overall business strategy

Organisations need to develop relevant human capital metrics and KPIs aligned to support and implement the wider strategy. The measurement and performance management of such metrics need to come under the same level of scrutiny, focus and controls of both accuracy and relevancy as other key data, eg financials.

2. Focus on getting the right information and translating it into actionable insight

Firms must trust the data. Human capital information needs to be credible and accurate. But data alone will not ensure it is useful or relevant when it comes to implementing the organisation strategy. It needs to be analysed and translated into relevant and actionable information and insight to provide more effective decision support.

3. Leverage the relevant skill set to bring credibility to the data and subsequent actions

Organisations must ensure there is clarity on responsibility, accountability and ownership for human capital performance management. The research findings have already highlighted that, for the most part, the CFO has the mandate from the CEO to take responsibility for measuring and managing human capital performance. Firms should look to use the CGMA's unique skills in uniting financial facts and non-financial information to provide insight from a base of independence and objectivity.

4. Structure the organisation to encourage collaboration and partnering

Restructure for closer collaboration at the executive and operational levels, encouraging in particular partnering between the finance function and HR. Finance has a helicopter view of the organisation and can therefore 'connect the dots' across different units and functions. The CGMA, as an objective and independent professional, is often best placed to partner with and support HR in gaining a better understanding of the wider organisation strategy and its impact on cross-organisational changes and needs. In this partnering role, management accountants can support HR and the firm in making credible human capital investment proposals and decisions based on robust management information. Many HR directors would clearly welcome and benefit from such closer partnering and support, given the lack of confidence in the current data.

Understand the cost and value of the human dimension

Can your company measure the cost of losing and also replacing an individual talent? Given normal attrition rates, costs are staggering but largely unknown.

- A third of HR directors believe that their organisation is good at understanding the cost of human capital, but not the value that the skills and experience of employees provides to the firm.
- Respectively 87% and 83% of CEOs and CFOs in the organisations that struggle to understand the full cost and value of losing and replacing talent claim that the information is too difficult to obtain.

CIMA and AICPA recognise the critical nature of understanding both the cost and value of human

capital to enable organisations to make more effective decisions, development and investment in its human capital, and thus be better able to fulfil their strategy.

CIMA and AICPA are developing two new models to support HR and finance functions to measure these costs company-wide. Find out more via this web-based tool application which allows organisations access to an interactive model of the COLT[®] and CORT[®] tools.

www.cgma.org/talent

Cost of Losing Talent[®] (COLT[®])

Cost of Replacing Talent[®] (CORT[®])

CGMAs – partnering for insight and decision support

Management accountants are well placed to support the growth agenda, help embed a human capital strategy within the wider business strategy and return confidence in its implementation and performance management:

✓ CGMAs combine accounting expertise and business acumen to help the business achieve sustainable success. They analyse non-financial information alongside financials to provide actionable insights and support effective decision making. Returning credibility and usefulness to human capital information allows the C-suite to develop a more effective human capital strategy.

✓ CGMAs excel in management competencies. They can communicate and translate the strategy and business model to other teams and functions. They can negotiate, partner and lead, and are therefore ideally placed to help address the apparent disconnect at C-level. They can connect the dots across the different functions because they understand value drivers and how the different parts of the business need to come together to create this value.

✓ CGMAs provide this support from a base of independence and objectivity, helping to translate the business strategy and partner with the different functions to help implement and deliver the strategy.

Appendix

Survey methodology and demographics

The Economist Intelligence Unit, on behalf of the Chartered Institute of Management Accountants and the American Institute of Certified Public Accountants, conducted a global survey of 313 senior executives (CEOs, CFOs and HR directors) in July 2012 to understand the importance of talent management in business strategy and assess whether firms have the right systems, processes and information in place to manage that talent effectively.

Demographics

Respondents to the survey represent the following sectors: manufacturing, retail, energy and utilities, financial services, telecommunications, healthcare, pharmaceuticals, media and consumer goods. Nearly a third of respondents (31%) are CEOs, 34% are group, divisional or departmental CFOs and 35% are HR directors. Nearly half of respondents (45%) are from firms with US\$1 billion or more in global annual revenue. The executives participating in the survey are based worldwide: Europe (27%), US (24%), Asia-Pacific (25%), and the rest of the world (24%).

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Africa

Office address:

1st Floor, South West Wing
198 Oxford Road, Illovo 2196
South Africa

Postal address:

PO Box 745, Northlands 2116

T. +27 (0)11 788 8723

F. +27 (0)11 788 8724

johannesburg@cimaglobal.com

Europe

26 Chapter Street
London SW1P 4NP

United Kingdom

T. +44 (0)20 8849 2251

F. +44 (0)20 8849 2250

cima.contact@cimaglobal.com

**Middle East, South Asia
and North Africa**

356 Elvitigala Mawatha
Colombo 5

Sri Lanka

T. +94 (0)11 250 3880

F. +94 (0)11 250 3881

colombo@cimaglobal.com

North Asia

1508A, 15th floor, AZIA Center

1233 Lujiazui Ring Road

Pudong Shanghai, 200120

China

T. +86 (0)21 6160 1558

F. +86 (0)21 6160 1568

infochina@cimaglobal.com

South East Asia and Australasia

Level 1, Lot 1.05

KPMG Tower, 8 First Avenue

Bandar Utama

47800 Petaling Jaya

Selangor Darul Ehsan

Malaysia

T. +60 (0) 3 77 230 230/232

F. +60 (0) 3 77 230 231

kualalumpur@cimaglobal.com

CIMA has offices in the following locations: Australia, Bangladesh, Botswana, China, Ghana, Hong Kong SAR, India, Ireland, Malaysia, Nigeria, Pakistan, Poland, Russia, Singapore, South Africa, Sri Lanka, UAE, UK, Zambia, Zimbabwe.

American Institute of CPAs

1211 Avenue of the Americas

New York, NY 10036-8775

T. +1 2125966200

F. +1 2125966213

Chartered Institute of
Management Accountants

26 Chapter Street

London SW1P 4NP

United Kingdom

T. +44 (0)20 7663 5441

F. +44 (0)20 7663 5442

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www.cgma.org

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