



Insights series
Talent Management in the finance profession

GLOBAL SURVEY REPORT 2006

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ABOUT ACCA

ACCA (the Association of Chartered Certified Accountants) is the largest and fastest-growing international accountancy body with 260,000 students and 110,000 members in 170 countries. We aim to offer the first choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management. ACCA works to achieve and promote the highest professional, ethical and governance standards and advance the public interest.

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Welcome to our Insights series. We recognise the importance you place in having an opportunity to explore, reflect and plan for managing the impacts of current and anticipated challenges and opportunities.

Our Insights series of reports are intended to provide you with that 'space' and an insight on the key issues for the profession and employers and how they are responding to them. Very often our reports will involve a survey of the profession plus a review of existing research, so as to ensure you are getting a balanced and comprehensive picture.

Our intention is that the series should reflect your challenges and your issues. So, we would be pleased to hear from you either specifically in response to this report or indeed, on any other key issues of interest. Happy reading and reflecting!

Best wishes

Stephen Heathcote
Director of Learning and Development

Executive summary

Previous research has concluded that people and their collective skills, knowledge and experience are a significant source of wealth competitiveness and value creation in organisations. It has shown that there is a direct relationship between the recruitment, development and retention of productive individuals, and the long term growth and performance of the organisation measured through profitability and shareholder return. This has led many organisations to focus resources on ensuring they are attracting, developing and retaining the most talented employees.

This paper shares worldwide research ACCA has recently conducted on Talent Management within the accountancy profession, to provide insights and share best practice. A number of key themes have emerged:

- Talent Management within the finance profession is increasingly important to organisations across all industries and geographic sectors. 85% of respondents believe that interest in Talent Management will continue to increase. 79% of respondents either agree or partly agree that there will be a shortage of talented finance professionals to meet the needs of business in the future.
- There is a continuing debate on the purpose of Talent Management programmes for finance professionals within organisations. Some see the purpose of such processes primarily to harness finance talent in order to directly influence business objectives. Other organisations adopt a broader approach, citing secondary purposes such as meeting future skills requirements and using it as a tool to recognise those individuals that contribute most. 74% of respondents believe a Talent Management strategy and the effective retention of talented people is critical to ensuring corporate strategic objectives are met.
- A sizeable minority, 41% of organisations, do not have Talent Management programmes in place for their finance community, and have no intention to implement such processes in the near future. Of this minority, 63% believed the failure to implement such programmes would have a negative impact on the ability of their organisations to develop or retain the financial skills they require.
- There is a wide spectrum of opinion as to whom Talent Management programmes should apply. A small minority of respondents, 10%, believe such processes should be aimed at senior management within organisations. However, the more commonly held belief was that Talent Management programmes should be available across all levels. Over half of the respondents held the view that Talent Management programmes could be demotivating for those staff not included on them. This is not to say necessarily that all employees should participate in such programmes. Many organisations make no practical distinction between Talent Management programmes and development programmes. Whilst it may be worthy to subscribe to the view that all people have talent which can be nurtured through such programmes, our view would be that organisations derive most from Talent Management programmes targeted mainly

at the highly talented individuals that can make a significant difference to an organisation's bottom line. We would argue that development programmes applicable to all employees should be quite separate processes. Likewise, when combined with an effective Performance Management system, Talent Management could be a way of preparing non-performing, low potential individuals for exit from the organisation.

- Organisational perceptions of what constitutes a Talent Management programme vary. Though there is a broad consensus on how such programmes may be conceptually defined and what the overall objectives are, there is less uniformity when translating such programmes into practice. The reality is that each business is unique – structures, geographies, competitive climates, financial resources – these factors impact on the development of talent programmes.
- New delivery methods, such as coaching and mentoring, are emerging to dominate the development aspects of Talent Management programmes. For instance, 71% of respondents indicated their organisation used coaching as a means of developing talent. Though traditional delivery methods such as appraisal processes and face-to-face courses are still used, they are deemed to be less effective. The most widely used delivery activities are not necessarily the most effective and organisations may wish to adopt blended approaches.
- There are regional variations in some aspects of Talent Management including perceptions of the degree of senior executive buy-in, the benefits of Talent Management programmes and who the programmes should apply to.

- In developing Talent Management programmes, organisations need to consider areas as diverse as business structures, geographical constraints and ownership and control issues. Obtaining executive buy-in, clearly defining the boundaries of such programmes, and ensuring transparency of ownership is critical in determining likely success. Organisations must clearly understand why they want to implement the programme and how it will be beneficial for their business. Issues such as the organisation's vision, strategy and culture also need to be considered.

These responses pose a challenge to the profession. We broadly agree on what the purpose of Talent Management is, and we understand why it is important. However, our survey suggests organisations are not doing enough about it. The biggest challenge is for organisations to commit to a process for managing and developing talent. Thereafter more practical challenges emerge such as translating Talent Management programmes into practice and understanding what effective Talent Management programmes would look like within their businesses. Organisations will not be able to overlay a standard approach to Talent Management – the complexities and diversities of businesses will require Talent Management principles to be adapted to meet individual business needs and fit organisational ethos and structures.

At ACCA we recognise the extent of this challenge and we will be developing the capability to advise and support businesses in harnessing best practice models to suit their organisations.

Talent Management in the finance profession

Talent Management is a relatively recent development. In 1997, McKinsey commissioned research on the global 'War for talent', reviewing the practices that many companies were adopting in procuring and retaining talented people. A key conclusion from the research was that organisations were aggressively competing to attract and retain key talented people, against a background of rising economic prosperity.

Economic circumstances alone, however, cannot account for this fairly recent phenomenon. The technological age has dramatically influenced how organisations generate profit and sustain competitive advantage. The transition from manufacturing to service based industries has diminished the traditional use of capital assets as the key to maximising return on investment. Instead, businesses are utilising their intangible assets as the source of competitive advantage. Critically, this includes the knowledge and skills that talented individuals can bring to organisations – human capital.

There is a growing economic, social and political interdependence of countries worldwide through widespread use of information and technology. This development has facilitated the easier transfer of intellectual capital across country borders and organisational boundaries. The demographic landscape is evolving – the first members of the baby boom generation are retiring from 2008 onwards, generating a potential crisis in the succession pipeline, particularly in western economies.

There are huge regional variations affecting regional workforce supply. According to recent research conducted by the International Labour Organisation, by 2015 3.48 billion people are expected to be economically active, of which 3 billion will be living in the developing world. Population projections by the United Nations up to 2050 show continuing growth

in the working age population almost entirely in the developing world. China is forecast to stabilise at a population of 1.5 billion only by 2030–35, and India's population is expected to continue growing until at least 2050. By contrast, according to Eurostat, by 2050, 40% of Europe's total population and 60% of the working age population will be over 60.

Traditional employment models are also changing. For many organisations, the balance of power has transferred from employer to employee. The attitudes and values that were previously held fail to apply in the new world. The workforce is more transient, more demanding, more mobile, more powerful and less loyal. Employers are recognising the need to be more flexible in their employment models, with virtual working, part-time working and increased use of short term contract staff becoming the norm. Changes in the external environment in many markets, such as new legislation on human rights, are requiring organisations to manage their employee relationships much more carefully.

THE FINANCE PROFESSION

The finance profession is fully exposed to these developments. The effect on the profession has been further exacerbated by a number of critical developments in recent years.

The emergence of increased regulatory requirements that organisations must comply with has placed businesses under pressure to respond quickly

and effectively to regulatory authorities. Measures have been passed to improve the transparency of organisational reporting in the wake of high profile instances of corporate collapse, most notably the Sarbanes Oxley Act. However, businesses are now expected to report on a much wider range of subjects including scrutiny of institutional shareholders, remuneration reporting, pension fund solvency, whistle-blowing policies, corporate and social responsibility reports, ethical policies and fraud avoidance policies.

The new requirements have placed significant demands on organisations to develop talent pools of finance professionals with the specialist skills to respond effectively to the changing legislative landscape and to restore confidence in an organisation's external reporting processes.

The finance profession and the supply of talent has been impacted by globalisation. Growing economic interdependence of countries through cross-border transactions in goods and services, free movement of international capital, and greater diffusion of technology, has created a competitive marketplace for the services of finance professionals, whose skills increasingly have wider and more valuable application. Enhanced global mobility has created a transient global finance workforce, putting pressure on organisation's recruitment and retention capabilities.

As a consequence of these developments, the nature of work assignments that finance professionals engage in is likely to undergo continuous change. New challenges will emerge to examine the knowledge and behavioural responses of accountants across all disciplines. But new opportunities will be created. Finance professionals will have greater expectations of career development, placing upward pressure on organisations to deliver effective recruitment and retention policies in the context of a more competitive and fluid marketplace.

DEFINING TALENT MANAGEMENT

Though definitions of Talent Management vary, in our recent survey, the majority of respondents (59%), consider Talent Management to be most closely defined as:

'a means of recruiting, developing and retaining people in an organisation who have high potential'.

In its simplest form, strategic Talent Management can be described as organisations ensuring they have the appropriate people holding the necessary skills and knowledge at the right time, aligned to achieving corporate objectives. This should not be seen merely as an operational process or short term HR initiative – Talent Management is about creating a talent culture that permeates throughout the organisation structure, reflected in its values and ethos.

Organisations seeking to develop Talent Management programmes for their finance professionals should give equal measure to each stage of the Talent Management cycle. Historically, Talent Management programmes have invested too much time on recruitment and retention strategies, and neglected internal development. This lesson is particularly relevant in the current market where supply shortages of accountants exist.

There are certain challenges in defining the concept more precisely. In reality there is no globally agreed standard definition of what Talent Management is, and what it is not. As a consequence, its translation in practice is variable, dependant on unique factors relevant to the organisation in question.

THE SIGNIFICANCE OF TALENT MANAGEMENT

According to our survey, Talent Management is highly significant to the accountancy profession.



Over 85% of respondents believe that interest in the concept of Talent Management will increase in the future, and 75% of respondents believe it will become more important for organisations in the future.

In practice organisations are experiencing a range of challenges conspiring to make the issue of finance talent critical. Many respondents cite the need for businesses to develop staff capabilities in response to the changing role of finance professionals – for example as specialists, general managers or business advisers. Other reasons suggested included:

- organisations facing increased competition for recruits

- a lack of experience or expertise in the marketplace
- increased staff retention and turnover problems
- the recognition that organisations need to develop staff leadership capabilities
- business or organisational change, such as mergers and acquisitions.

The results suggest a complex picture. It is not possible for businesses to redress talent concerns across their finance communities by simply isolating one causal factor. This makes the development of effective Talent Management programmes for finance staff potentially more difficult.

Talent Management programmes for finance

We have established that the Talent Management of finance professionals will become more important for organisations in the future. Organisations can clearly see the prevailing issues and how they manifest themselves in practice. The greater challenge is to understand what can be done about it. How should the profession respond to the challenges presented? What should effective Talent Management programmes for finance look like? What should their purpose be? What sort of companies should implement them? Who should the Talent Management programmes be targeted at?

These questions pose a considerable challenge. Whilst it is accepted that Talent Management programmes are needed, by contrast our survey suggests that the majority of organisations have no specific plans to introduce such programmes for their finance

professionals. Less than one quarter of respondents polled indicated that their organisations currently had a Talent Management strategy or programme in place for its finance community.



According to our survey this will have a detrimental effect on businesses. Finance professionals play an increasingly important role in the stewardship of organisations, a fact clearly evidenced by the number of CEOs of multinational companies with an accountancy background. There is a wide and growing recognition that the disciplines of finance professionals play a critical role in enhancing business performance and managing corporate risk. The results of our survey reveal that 63% of individuals felt that by not developing a Talent Management strategy, the organisation would suffer in its ability to develop or retain the financial skills it requires.

THE PURPOSE OF TALENT MANAGEMENT PROGRAMMES

Obtaining a clear insight into the purpose of Talent Management programmes is critical. Our survey indicates that some organisations have implemented programmes to address specific business imperatives such as the achievement of business objectives. This allows them to flex their programmes accordingly to ensure finance talent development is ultimately aligned to achieving strategic imperatives. 74% of the respondents in our survey agreed that a Talent Management strategy and the effective retention of talented people is critical to ensuring corporate objectives are met.

Other programmes appear to have a wider application. These include using Talent Management programmes within finance to:

- ensure effective recruitment
- aid effective retention
- develop future business leaders
- ensure effective succession planning
- meet future skills requirements
- recognise high contributing individuals

Some of these may be considered to be primary objectives, others secondary, though no particular consistent pattern emerges. The most successful organisations will directly link the development of their

top finance talent into the group finance strategy, align the finance strategy into the overall business strategy, and shape the talent programme accordingly. Many of the outcomes presented above will be beneficial by-products, rather than targeted objectives at the outset.

WHO SHOULD FINANCE TALENT MANAGEMENT PROGRAMMES APPLY TO?

A primary distinction can be made as to who can access the Talent Management programmes within the finance community. Many organisations adopt the view that the talent of all finance staff should be nurtured and developed by the organisation in equal measure, for example, through generic learning and development programmes across the employee spectrum.

This is a very praiseworthy approach. This strategy fosters a culture of support and enables all individuals to maximise their potential, and ACCA believes that continuing professional development for all finance professionals is highly valuable for individual development and for overall quality assurance within the organisation.

However, this approach does not necessarily serve the purpose of identifying and developing the critical talent and future leaders that businesses require. Some commentators suggest that Talent Management programmes will be much more effective if they are geared to a select number of high contributing individuals who drive a disproportionate share of corporate performance and shareholder value. This does not necessarily equate with only directing Talent Management programmes at those individuals who hold senior finance roles within organisations. Only 10% of respondents agreed that Talent Management strategies should be aimed exclusively at senior managers.

A targeted approach allows organisations to construct programmes to extract the talent and align to business needs more decisively. It could be seen as making better commercial sense and more cost effective.

From our survey, 48% of respondents agreed that all staff who were deemed to be high potential were the primary beneficiaries from their organisation's Talent Management programmes.

Identification of the talent pool is a critical objective to get right, and the process will depend on commercial priorities. Organisations may wish to tread carefully in this respect. The critical talent within an organisation may not be the usual suspects that initially spring to mind, such as the finance director. For example, in a retail business, those finance professionals in the retail industry who are responsible for driving key commercial decisions on supply chain management (to ensure effective inventory control and quality assurance) could be considered to be key in terms of value to the business.

Organisations should also be wary of treating this "high contribution" employee pool as a static state. The reality is that individuals progress at different times and pace, and will respond differently to processes designed to capitalise on their talent. A dynamic, constantly evolving, approach to Talent Management is required. Organisations should establish Talent Management programmes to constantly replenish the finance talent pool, both internally and externally.

DEVELOPING TALENT MANAGEMENT PROGRAMMES FOR FINANCE

The diversities of finance operations and intricacies of different businesses will require Talent Management processes to be implemented differently. Every business is unique, facing varying market pressures, operational priorities, competitive pressures and resource constraints. A formulaic approach to developing Talent Management programmes within finance communities is not practicable or desirable. The principles of sound Talent Management need to be adapted to meet individual business needs and fit organisational ethos and structures.

One particular problem is defining the boundaries of any finance Talent Management programme.

Organisations should consider:

- business structural complexities
- geographic constraints
- budgetary restrictions
- ownership and control issues
- resources
- participant profile

There is no generally accepted best practice standard or benchmark that could be routinely applied in developing programmes. However, a number of guiding principles that organisations should address in developing Talent Management programmes include:

- clarity of objectives
- transparency of ownership
- agreeing 'talent' definitions
- decide who the 'talent' is
- establish the boundaries of the Talent Management programme
- agree timescales
- identify critical success factors
- establish specific activities to identify, procure, develop and retain talent
- obtain senior management 'buy-in'
- establish supporting processes – talent forums, coaching and mentoring

Ownership of Talent Management policy and responsibility for operational benefits is a critical issue. Some organisations are now specifically employing Talent Management programme directors to ensure responsibility and transparency. However, our survey suggests that in the majority of organisations, ownership of Talent Management programmes for finance staff still rests most commonly either with human resources directors (41% of respondents) or financial directors/CFOs (40% of respondents).

The support of senior management in establishing such programmes is also essential. 85% of our respondents either partly agree or agree that senior executives are generally supportive of Talent Management programmes within their organisations.

TALENT MANAGEMENT ACTIVITIES

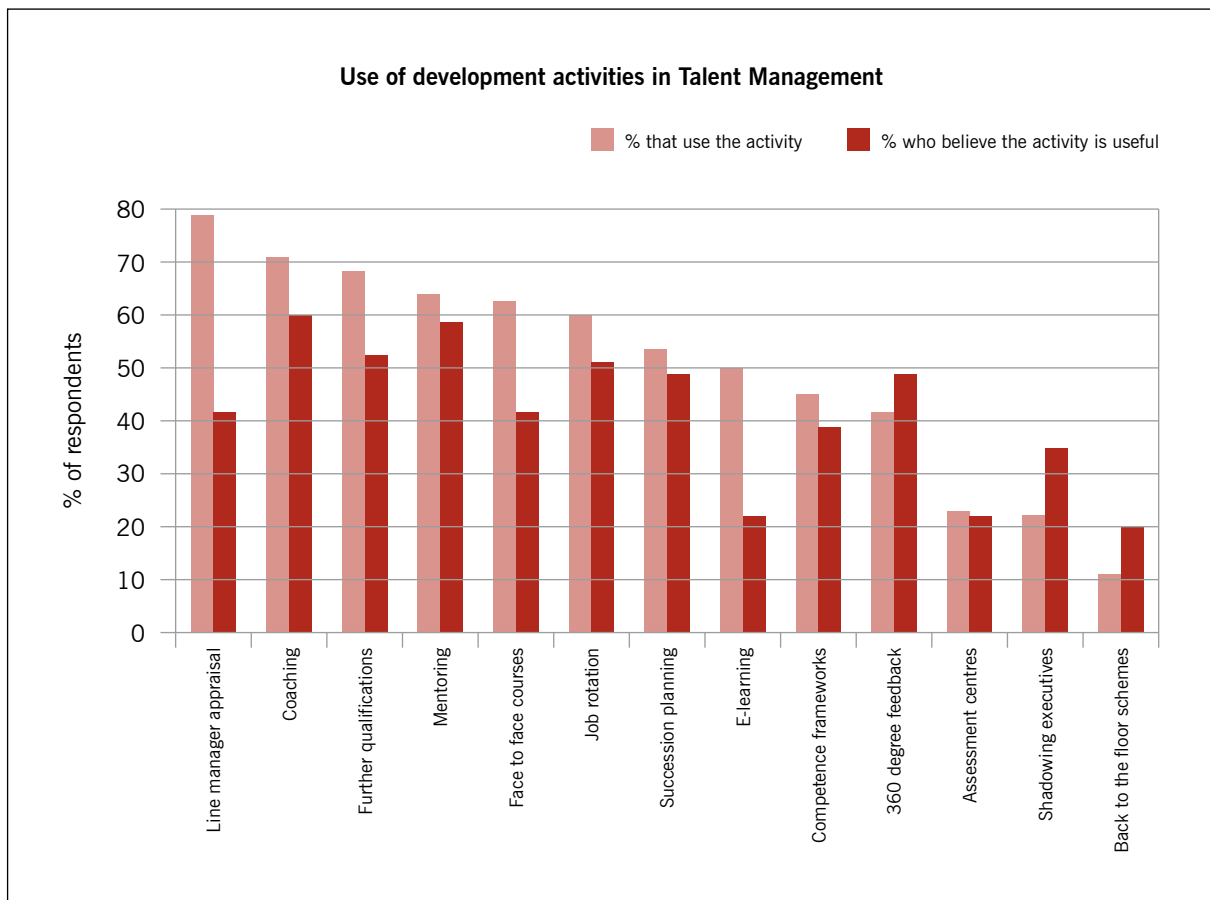
In establishing Talent Management programmes for finance professionals, our research finds that organisations use a wide variety of delivery methods to develop their Talent Management programmes.

Over 75% of organisations in the sample use a form of appraisal process to support their Talent Management programmes within finance. Coaching is almost equally popular, and is increasingly used as a method of developing individuals within organisations, alongside mentoring. Further qualifications appear to be more popular than face-to-face courses in harnessing talent.

Interestingly, there are marked variations in effectiveness ratings for these activities. The most used activities are not necessarily those that are the most effective. In developing Talent Management programmes, our results

would suggest that organisations may be better advised devoting time and resources to succession planning, job rotation programmes, coaching and mentoring programmes and further qualifications, perhaps controversially, at the expense of appraisals.

If an organisation has the resources available, a blended approach to Talent Management could be more effective. The talent that people possess is not a uniform commodity – organisations should learn to identify, extract and deploy talent in the most beneficial way for the organisation and the individual. Talent Management programmes ought to be sufficiently flexible so that they can respond quickly to changing business priorities, and adaptable to be beneficial for different people, in different financial roles, at different stages of their financial careers.

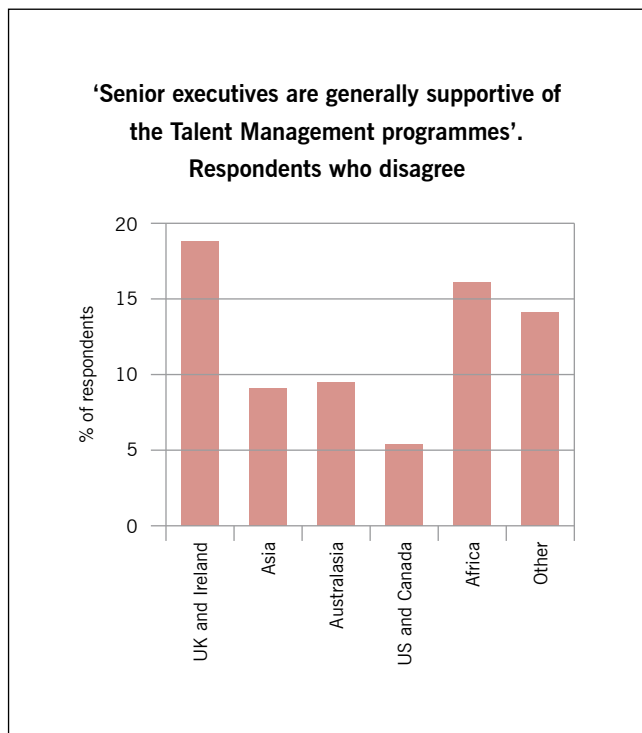


Regional perspectives

External influences such as globalisation, changing demographics and regulatory initiatives are macro trends affecting the profession in the context of a world economy whose power base is gradually shifting from west to east. Our research suggests the challenges and opportunities organisations face are broadly similar, regardless of where they are based in the world. In many respects, there is no marked difference in organisational approaches to recruiting, developing and retaining talented finance professionals. There is broad consensus on the purpose of talent programmes, its strategic importance to corporate objectives, and the development activities organisations are using to support their Talent Management programmes.

There are some differences however. In the UK and Ireland, it appears there is a greater perception that senior executives are not supportive of Talent Management programmes. Nearly 20% of UK and

Irish respondents indicated that their senior executives were not generally supportive of talent programmes compared to less than 10% in Asia and Australasia and 5% in the US and Canada.

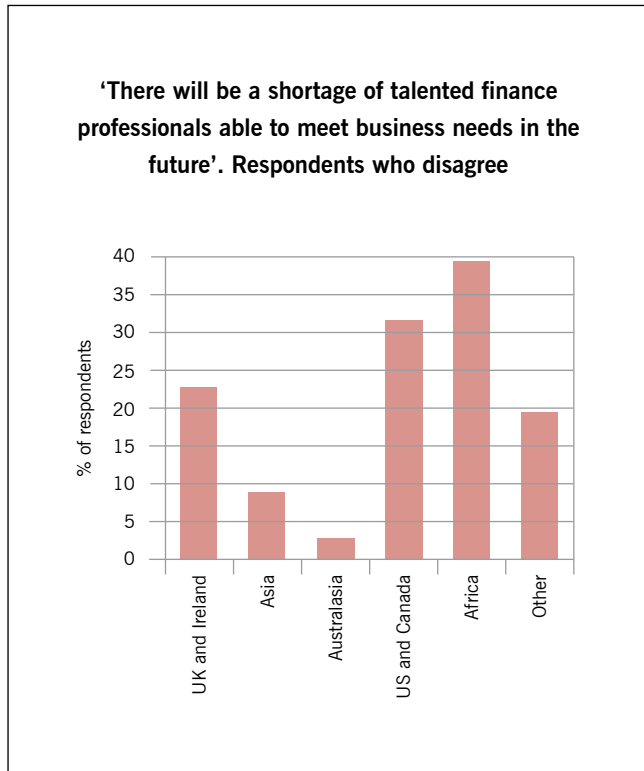


Respondents from Asia are more sceptical about the financial benefits of Talent Management programmes with only 34% agreeing that the benefit outweighed the cost compared to an average across the world of 47%.

Interesting differences emerge on who Talent Management programmes should be made available to. In Asia, 52% of respondents either agreed or partly agreed that talent programmes should only be offered to those individuals above a certain seniority level. This compares markedly with the UK and Ireland where the equivalent figure was only 29%.

It would appear that western economies are more optimistic when considering the shortage of future talented finance professionals. 23% of UK and Irish respondents and 32% of US and Canadian respondents do not agree that

there will be a shortage of talented finance professionals able to meet business needs in the future. This contrasts sharply with Asia where only 9% hold this view. This is a particularly interesting insight given the demographic time bomb that many western economies are facing.



Conclusion

In concluding our discussion on Talent Management, what may we infer? Talent Management is a subject that is continuing to generate a huge amount of interest and debate in the business world. There are a number of critical factors which make the issue particularly relevant to the accountancy profession. Increasing numbers of organisations who employ qualified finance professionals regardless of size, sector or country of operation are failing to bridge the demand and supply gap adequately. This is a significant problem.

The roles of accountants are changing, becoming more polarised. The growth of regulation, increasing harmonisation, sophistication of capital markets and financial reporting has led to a deluge in specialist roles. In contrast, there is an ever greater need for accountants to develop a wider skill base, to be at the heart of a businesses commercial and strategic operations. Managing this apparent conundrum for many organisations will be a considerable challenge.

The profession agrees that managing talent is important and there is a common understanding of why this is so. The greater challenge is to go beyond the rhetoric, to translate the hype in to practice, to make talent programmes for finance professionals work and contribute to the bottom line of organisations. To do this organisations must be disciplined in asking some fundamental questions – ‘What are the organisations objectives?’, ‘What do we expect our top finance people to contribute?’ ‘Who meets the criteria and what processes do we need to specifically put in place to pull out and capitalise on that talent?’

The successful recruitment, development and retention of finance professionals will be a key challenge for organisations in this century. Recruitment methodologies will change, sourcing candidates on a global, rather than local basis, to meet the talent needs of the organisation. The profile of individuals running organisations will have to more accurately reflect the

gender, ethnic and social mix prevalent in the wider population. Traditional development processes will evolve to stretch the highest performing individuals. Current retention strategies of bidding wars to attract the best candidates will ultimately be doomed to failure.

Globalisation, the information age, demographic disparities and technological growth will conspire to make businesses fundamentally rethink their approach to the management of human capital within finance, and in particular talent strategies. The world in many respects is becoming smaller, more integrated. Organisations must learn to adapt accordingly. This is a vital business imperative.

ACCA commissioned this research to understand the key influences and drivers affecting Talent Management in the global finance profession, to provide insights and share best practice.

Quantitative research was undertaken of ACCA members across key regions in the world in which ACCA holds a considerable strategic presence. The opinions of 870 ACCA members were recorded across 83 countries. In addition, ACCA also undertook qualitative research, conducting a series of telephone interviews with individuals holding positions in accounting and business to obtain their views and responses to a number of designated questions on Talent Management themes.

The organisations that have been represented by this research include national and multinational entities across all key industry sectors – accounting firms, the corporate sector, financial services and the public sector.

Finally, the work has been further supported by reference to other research conducted by leading consultancies and human resource institutes where appropriate.

ACCA wishes to extend its gratitude to all those individuals who responded to this survey.

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While every effort has been made to reflect the views of respondents accurately, ACCA takes no responsibility for and accepts no liability for the accuracy of this report.

