INTRODUCTION
In August 2013, Mercer surveyed Canadian and US organizations regarding their critical talent practices. As the economy cautiously rebounds, global investment in talent is rising and leaders recognize that talent is an essential element of every core business function. Yet, many leaders still cite the lack of adequate talent pipelines among their most critical business challenges.

To address this, many firms are turning their attention to ‘critical talent’ by investigating questions around:

- What specific talent groups will be necessary to achieving strategic business goals?
- What new kinds of talent will be needed?
- What’s changing about our workforce demographics and what is the impact on the business?
- How strong is our ‘bench’? As we compare the current workforce to future needs, where are the gaps in the talent pipeline?

This survey examines the strategies and tactics that organizations are using to manage ‘critical talent’ in today’s environment. A total of 124 organizations participated in the survey; 65% are from the US and 35% are from Canada. These organizations span a range of industries and include both the for-profit and not-for-profit sectors.

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SUMMARY OF SURVEY THEMES
Companies see critical workforce segmentation—whether based on position or individual—as worthwhile to execute their business and talent strategies. In fact, many companies believe effective talent management has a positive impact on their bottom line, and invest a significant amount of time and resources in identifying and rewarding those individuals identified as critical talent.

However, this study finds that many companies may not be fully capitalizing on their talent management programs to maximize program effectiveness. For example, nearly two-thirds (64%) of participating organizations report managing critical talent is imperative to executing their business and talent strategy, yet less than one-third (30%) say their programs are extremely effective in doing so. Likewise, approximately 40% say their approaches have impacted the organization significantly, particularly around business performance, employee engagement and retention. Yet, only half of firms (49%) notify critical talent of their status, and approximately one-third of firms track critical talent status in their HR systems.

What companies do in terms of identifying and managing critical talent is often retrospective and on an ad-hoc basis. Survey results show only about one-third of companies (34%) track the status of their critical talent in their HR systems, which could indicate they do not know much about how these individuals move in, out, or through the organization. Moreover, 33% do not forecast their critical talent needs illustrating that critical workforces are largely defined by what people have done in the past, rather than what the company needs in the future.

Another example of how companies use the past to guide the future in their talent management approach is identifying high-performing employees—which is the top criteria for defining critical talent, reported by 63% of respondents. Yet companies that consider this criteria alone may be overlooking employees for critical roles.
MERCER SURVEY PANEL

NORTH AMERICAN CRITICAL TALENT PRACTICES SURVEY

SUMMARY OF SURVEY THEMES
To be more effective, companies should consider:

- Spending more time in determining what roles will be critical in the future, rather than the present or past,
- Communicating more transparently with critical talent about their status,
- Creating or strengthening the “employment brand” geared to attract, retain and engage critical talent, and
- Improving future management of critical talent through more in-depth analytics and workforce planning to enable better returns on investments in critical workforce segments.

The detailed survey results follow the key findings that support the survey themes.
DEFINING CRITICAL TALENT

78% of firms employ processes to identify critical talent, with 2-5% of the workforce reported as the most common portion identified as critical. Firms are equally split on how critical talent is defined. Approximately half of the firms consider the “individual”, while the other half consider the “job function”.

Criteria for defining critical talent:

- High potentials: 73%
- High performers: 62%
- Job-based criteria (e.g., hot jobs, organization hierarchy, job family/function): 40-45%
- Competencies: 28%
62% describe critical talent sourcing/recruiting strategy as an even balance between “building internally” and “buying externally.”

Most prevalent approaches used to source or recruit critical talent: referrals from management/leadership, external job boards/advertising and targeted searches via search firms.

When selecting critical talent, firms often look beyond hiring manager input and consider behavioural assessment, specific job experiences via simulation and peer input.
BRANDING CRITICAL TALENT

56% of firms have an “employment brand” (formal or informal) geared to attract, retain and engage critical talent.

Non-cash rewards are often top components of the employment brand used to retain and engage critical talent such as ability to “make a difference” in the job function, career progression, healthy living/wellness and recognition. Leading market pay is less frequently used.

Among firms incorporating career progression, increased lateral progression opportunities are offered almost twice as much as accelerated vertical progression.

Among firms incorporating leading market pay, higher market positioning is the most common tactic used, followed by short-term incentive modifications and above average base salary increases.

Among firms using higher market positioning, there is greater tendency to target pay between median and 75th percentile for those identified as critical, compared to targeting pay closer to median for the general employee population.
CRITICAL TALENT MANAGEMENT AND EFFECTIVENESS

- 49% notify critical talent of their status
- 34% track critical talent status in their HR systems
- 68% update the critical talent list annually

- 64% report managing critical talent is required to execute business and talent strategy
- 33% do not forecast critical talent needs
- 30% or less feel their programs are extremely effective, particularly in the areas of retaining, defining, sourcing/recruiting, and rewarding critical talent
- 67% indicate approaches to managing critical talent have a moderate to significant impact on the company—largely on business performance, employee engagement and employee retention
DEFINING CRITICAL TALENT
THE WIDE MAJORITY OF FIRMS (78%) EMPLOY PROCESSES TO IDENTIFY CRITICAL TALENT

- Firms typically define up to 20% of the workforce as “critical”, with identification of 2-5% of the workforce as the most common target for defining critical talent.

NORTH AMERICAN CRITICAL TALENT PRACTICES SURVEY

Identify critical talent
Do not identify critical talent
N=124

< 2%
2-5%
6-10%
11-15%
16-20%
> 20%
N=89
FIRMS ARE EQUALLY SPLIT ON HOW CRITICAL TALENT IS DEFINED -- APPROXIMATELY HALF CONSIDER THE "INDIVIDUAL", WHILE THE OTHER HALF CONSIDER "JOB FUNCTION"

- This may reflect different talent management priorities within an organization—those that look at talent development around people (e.g., future CEOs) may focus on individual skills and capabilities, while those that care about certain roles (e.g., specific or emerging skills or functions) may take more of a job view. There is no "right" way—it depends on how an organization values developing critical employees, rather than simply hiring them to fill needed roles.
DEFINING CRITICAL TALENT
COMPANIES USE MULTIPLE APPROACHES TO DEFINE CRITICAL TALENT

- Top criteria for defining critical talent are those individuals identified as high potentials (e.g., future leaders), or high performers (e.g., highest rated employees in performance management). Where performance is used, most firms use historical multi-year performance as a key input.

- Approximately 40-45% of firms consider job-based criteria such as hot jobs, organization hierarchy, or job family function.

- Fewer firms (28%) use competencies to define critical talent. Where used, a blend of both behavioural and technical competencies are typically considered.

Organizations were allowed to select multiple responses.
DEFINING CRITICAL TALENT

HIGH PERFORMERS ARE MOST OFTEN IDENTIFIED BY THEIR HISTORICAL PERFORMANCE

- However, future potential and current performance also play a role.

N=58

Organizations were allowed to select multiple responses.
DEFINING CRITICAL TALENT
FOR FIRMS THAT DEFINE CRITICAL TALENT ON A HIERARCHICAL BASIS (47%), NEARLY HALF CONSIDER THE DIRECTOR LEVEL ROLES AND ABOVE AS CRITICAL.
DEFINING CRITICAL TALENT
FUNCTIONAL AREAS MOST OFTEN CITED AS CRITICAL

- Of the companies that define critical talent as hot jobs or job family/function, below are the most frequently cited jobs and job families considered critical.
  - Compliance
  - Engineering (including civil, technical, and nuclear safety)
  - Finance
  - Human Resources
  - Information Technology (including administration, development, security, software, and network)
  - Sales
  - Management (senior and middle tiers)

- When looking at the critical talent from a job family perspective, we often see organizations equating critical talent with families that may have high turnover, as opposed to specific roles that drive business success. This is a common issue, as the jobs that make the most “noise,” in the form of turnover often get the most attention. Organizations should use workforce analytic tools to determine which jobs are actually driving long-term business success.

COMPETENCIES MOST OFTEN CITED AS CRITICAL

- Of the companies that define critical talent on a competency basis, below is a summary of select behavioural and technical competencies which are considered critical.

<table>
<thead>
<tr>
<th>Behavioural</th>
<th>Technical</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication</td>
<td>Business acumen</td>
</tr>
<tr>
<td>Decision Making</td>
<td>Education</td>
</tr>
<tr>
<td>Leadership</td>
<td>Industry knowledge</td>
</tr>
<tr>
<td>Organizational awareness/insight</td>
<td>Innovative thinking</td>
</tr>
<tr>
<td>Relationship building</td>
<td>Strategic planning</td>
</tr>
</tbody>
</table>
CRITICAL TALENT PROGRAM STRATEGY

MOST COMPANIES USE A BLEND OF BUILDING AND BUYING TO SOURCE OR RECRUIT CRITICAL TALENT

- However there is a slight preference toward building internally.
- The buy-build approach is fairly consistent with talent strategies that we’ve seen reported in other studies as well. Mercer’s 2013/2014 Pay for Performance study reported 35% of companies tend to recruit critical talent from the outside and build other categories of talent internally, while 45% of companies tend to build certain key talent from within and hire/recruit other employees from the outside.
- Firms that do use an ‘internal build’ approach, either on its own or in combination, should ensure that processes and technology solutions are in place to enable identification, understanding and assessment of the internal pipeline and action plans to build the necessary talent and capabilities where gaps exist.

It is interesting that organizations are not more focused on primarily building capabilities from within to develop a pipeline for future critical talent. Organizations that develop critical talent pipelines, by building career paths, would seem to be in a better position to manage their growth. External hiring may be advisable where an organization needs to inject new thinking.
CRITICAL TALENT PROGRAM STRATEGY

THE MOST PREVALENT APPROACHES USED TO SOURCE OR RECRUIT CRITICAL TALENT INCLUDE: EXTERNAL JOB BOARDS/ADVERTISING, REFERRALS FROM MANAGEMENT/LEADERSHIP AND TARGETED SEARCHES

- External job boards/advertising: 63%
- Referrals from management/leadership: 63%
- Targeted searches via search firms: 53%
- Referrals from broader employee population: 38%
- Company websites/portals: 28%
- Social media: 27%
- Internal career portals: 25%
- Other: 4%

N=97
Organizations were allowed to select multiple responses.
WHEN SOURCING AND SELECTING CRITICAL TALENT, FIRMS OFTEN LOOK BEYOND HIRING MANAGER INPUT AND CONSIDER BEHAVIOURS, SPECIFIC JOB EXPERIENCES AND PEER INPUT

- While the wide majority of firms use interviews with hiring managers and interviews with peers as a means to help select critical talent, the most common approaches used specifically to help select critical talent (vs. general recruiting purpose) include behavioural assessments, job simulation and interviews with peers.

- These approaches can often help to better assess demonstration of skills and competencies needed for job success.

N=97

Organizations were allowed to select multiple responses.
CRITICAL TALENT PROGRAM STRATEGY
The following exhibit illustrates to what extent firms utilize recruiting techniques for general purposes compared to critical talent, as reported by firms that utilize at least one technique.

<table>
<thead>
<tr>
<th>Technique</th>
<th>Used for Recruiting Critical Talent</th>
<th>Used for General Recruiting Purposes</th>
<th>Used for Both Recruiting Critical Talent and General Recruiting Purposes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Behavioral Assessments</td>
<td>43%</td>
<td>9%</td>
<td>47%</td>
</tr>
<tr>
<td>Job Simulation</td>
<td>36%</td>
<td>24%</td>
<td>39%</td>
</tr>
<tr>
<td>Interviews w/ peers</td>
<td>31%</td>
<td>11%</td>
<td>58%</td>
</tr>
<tr>
<td>Networking/social events</td>
<td>23%</td>
<td>26%</td>
<td>51%</td>
</tr>
<tr>
<td>Behavioral event interviews</td>
<td>18%</td>
<td>11%</td>
<td>71%</td>
</tr>
<tr>
<td>Interviews w/ hiring managers</td>
<td>2% 4%</td>
<td>93%</td>
<td></td>
</tr>
</tbody>
</table>

N=91
CRITICAL TALENT BRANDING
OVER HALF OF SURVEYED FIRMS HAVE AN “EMPLOYMENT BRAND” – WHETHER FORMAL OR INFORMAL GEARED TO ATTRACT, RETAIN AND ENGAGE CRITICAL TALENT

N=95
CRITICAL TALENT BRANDING
NON-CASH REWARDS ARE OFTEN TOP COMPONENTS OF THE EMPLOYMENT BRAND USED TO RETAIN AND ENGAGE CRITICAL TALENT

- These include: ability to “make a difference” in the job function (59%), career progression (53%), healthy living/wellness (49%) and recognition (45%).
- Interestingly, fewer firms (27%) incorporate leading market pay.
- Over the past several years, prior Mercer studies have found enhanced use of non-cash rewards to foster employee retention and engagement.

N=51
Organizations were allowed to select multiple responses.
CRITICAL TALENT BRANDING
AMONG FIRMS INCORPORATING CAREER PROGRESSION INTO THE EMPLOYMENT BRAND TO RETAIN AND ENGAGE CRITICAL TALENT…

• Increased lateral progression opportunities (such as rotational program or mobility opportunities) are offered almost twice as much as accelerated vertical progression.

• Seeking ways to foster lateral, cross-functional and vertical career development can help to enhance the employee value proposition and boost attraction, engagement and retention of critical talent.

N=27

Organizations were allowed to select multiple responses.
CRITICAL TALENT BRANDING
AMONG FIRMS INCORPORATING WORKPLACE FLEXIBILITY INTO THE EMPLOYMENT BRAND TO RETAIN AND ENGAGE CRITICAL TALENT…

- 75% differentiate the provision of work-life programs (e.g., telecommuting, flexible schedules, etc.)

**Differentiate Provision of Work-life Programs**

- Yes, 75%
- No, 25%

N=16
CRITICAL TALENT BRANDING
AMONG FIRMS INCORPORATING LEADING MARKET PAY INTO THE EMPLOYMENT BRAND TO RETAIN AND ENGAGE CRITICAL TALENT…

- Higher market positioning is the most common tactic used (64%), followed by short-term incentive design modifications (50%) and above average base salary increases (50%).

N=14
Organizations were allowed to select multiple responses.
CRITICAL TALENT BRANDING
Among firms using higher market positioning there is greater tendency to target pay between median and 75th percentile for those identified as critical, compared to targeting pay closer to median for the general employee population.

Of the companies that include time off as a component of their employment brand, offering an unpaid sabbatical was reported by three companies; no company reported paid sabbaticals.
Critical Talent Management and Effectiveness

Mixed practices exist on whether firms notify critical talent of their status

- About half of the firms provide notification of critical talent status.
- Given the focus on critical talent “branding,” greater transparency in critical talent status may be worth considering to better differentiate the employee experience and enhance attraction/retention.
- However, this needs to be balanced against impact in motivating and retaining “middle performers.”
- Some organizations communicate a time horizon in defining their critical talent category (e.g., your role is considered critical and we reassess our critical talent definition every 18 months).

![Circle chart showing](image)

N=90
CRITICAL TALENT MANAGEMENT AND EFFECTIVENESS

TRACKING CRITICAL TALENT STATUS IN HRIS IS NOT A PREVALENT PRACTICE

- Almost two-thirds of companies do not track critical talent in their HR systems.

AN ANNUAL REVIEW OF CRITICAL TALENT IS THE MOST TYPICAL APPROACH

- Most companies (68%) update its list of critical talent on an annual basis.
MERCER SURVEY PANEL
NORTH AMERICAN CRITICAL TALENT PRACTICES SURVEY

CRITICAL TALENT MANAGEMENT AND EFFECTIVENESS
ALTHOUGH MOST COMPANIES REVIEW CRITICAL TALENT ON AN ANNUAL BASIS, ONE-THIRD OF FIRMS DO NOT FORECAST FUTURE CRITICAL TALENT NEEDS

No, we do not forecast future critical talent needs, 33%
Yes, we forecast future critical talent needs, 67%

N=91
CRITICAL TALENT MANAGEMENT AND EFFECTIVENESS

THE WIDE MAJORITY OF FIRMS (TWO-THIRDS) INDICATE THAT MANAGING CRITICAL TALENT IS CRITICAL AND REQUIRED TO EXECUTING THEIR BUSINESS AND TALENT STRATEGY

YET SUBSTANTIALLY FEWER FIRMS (30% OR LESS) FEEL THEIR PROGRAMS ARE EXTREMELY EFFECTIVE IN MANAGING CRITICAL TALENT

- Programs to retain and define critical talent are more often viewed as “extremely effective,” (compared to other areas such as sourcing/recruiting, rewarding, communicating with, and developing critical talent).

Importance of Managing Critical Talent

<table>
<thead>
<tr>
<th>Importance</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Critical and required, 64%</td>
<td>58%</td>
</tr>
<tr>
<td>Impactful, but not required, 34%</td>
<td>59%</td>
</tr>
<tr>
<td>Not impactful, 2%</td>
<td>11%</td>
</tr>
</tbody>
</table>

N=90

<table>
<thead>
<tr>
<th>Area</th>
<th>Extremely effective</th>
<th>Moderately effective</th>
<th>Least effective with opportunity to refine</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retaining</td>
<td>30%</td>
<td>58%</td>
<td>11%</td>
</tr>
<tr>
<td>Defining</td>
<td>23%</td>
<td>59%</td>
<td>18%</td>
</tr>
<tr>
<td>Sourcing/recruiting</td>
<td>17%</td>
<td>63%</td>
<td>20%</td>
</tr>
<tr>
<td>Rewarding</td>
<td>17%</td>
<td>56%</td>
<td>27%</td>
</tr>
<tr>
<td>Communicating with</td>
<td>16%</td>
<td>53%</td>
<td>31%</td>
</tr>
<tr>
<td>Developing</td>
<td>16%</td>
<td>49%</td>
<td>35%</td>
</tr>
</tbody>
</table>

N=90
CRITICAL TALENT MANAGEMENT AND EFFECTIVENESS
THE MAJORITY OF FIRMS (OVER 60%) INDICATE THAT THEIR APPROACHES TO MANAGING CRITICAL TALENT HAVE HAD A MODERATE TO SIGNIFICANT IMPACT ON THE COMPANY

- Overall, areas where critical talent impacts are viewed as most substantial include business performance (46%), employee engagement (44%), and employee retention (42%).
- Of the firms indicating their programs are extremely effective in managing critical talent, more of those firms report a significant impact on employee retention (63%), business performance (60%), and employee engagement (58%).

N=88
PARTICIPANT DEMOGRAPHICS

Country (N=124)

- US: 65%
- Canada: 35%

Ownership type (N=124)

- Publicly-traded: 38%
- Privately-held: 33%
- Private equity-owned: 25%
- Public sector or not-for-profit: 4%
PARTICIPANT DEMOGRAPHICS-REVENUE SIZE

Revenue size Canada (N=41)
- Less than 100 million: 2%
- 100 million < 500 million: 5%
- 500 million < 1 billion: 17%
- 1 billion < 5 billion: 29%
- 5 billion < 10 billion: 27%
- 10 billion or more: 20%

Revenue size US (N=78)
- Less than 500 million: 5%
- 500 million < 1 billion: 5%
- 1 billion < 2.5 billion: 13%
- 2.5 billion < 5 billion: 10%
- 5 billion < 10 billion: 26%
- 10 billion < 25 billion: 12%
- 25 billion or more: 29%
PARTICIPANT DEMOGRAPHICS-NUMBER OF EMPLOYEES

Number of employees Canada (N=44)
- Less than 100: 9%
- 100 < 500: 25%
- 500 < 1,000: 25%
- 1,000 < 5,000: 23%
- 5,000 or more: 18%

Number of employees US (N=79)
- Less than 500: 23%
- 500 < 1,000: 24%
- 1,000 < 5,000: 29%
- 5,000 < 20,000: 15%
- 20,000 or more: 9%
### Participant Demographics - Industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services - Not for Profit</td>
<td>15%</td>
</tr>
<tr>
<td>Durable - Manufacturing</td>
<td>14%</td>
</tr>
<tr>
<td>Energy/Mining/Utilities</td>
<td>12%</td>
</tr>
<tr>
<td>Retail/Wholesale</td>
<td>10%</td>
</tr>
<tr>
<td>Non-Durable Manufacturing</td>
<td>9%</td>
</tr>
<tr>
<td>Insurance</td>
<td>7%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>7%</td>
</tr>
<tr>
<td>High-Tech/Telecommunications</td>
<td>7%</td>
</tr>
<tr>
<td>Services - For Profit</td>
<td>7%</td>
</tr>
<tr>
<td>Transportation</td>
<td>3%</td>
</tr>
<tr>
<td>Entertainment/Hospitality</td>
<td>3%</td>
</tr>
<tr>
<td>Finance/Banking</td>
<td>3%</td>
</tr>
<tr>
<td>Construction/Real Estate</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
</tr>
</tbody>
</table>