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EPOCHSM White Paper: **Bridging the Coming Executive Talent Gap
With the Growing Pool of Accomplished Professionals
As Free Agents in Interim Engagements**

Executive Summary

There's no question that a talent shortage is coming in the executive labor market in the very near future. With the baby-boom generation beginning to reach age 60 and the younger generation X fewer in number, three-quarters of managers expect a talent shortage to emerge in the next three to four years, leaving businesses with many more executive roles to fill than seasoned top-level managers to fill them. A rapidly-growing marketplace is emerging to address this need. Executives and accomplished professionals are becoming independently employed. Acting as free agents, they are offering their services through project-based work that allows them to deliver strong business advantages for the companies that hire them and to begin to make work life choices that are appropriate for them. Rather than continuing to rely on traditional high fixed-cost executive staff, forward-thinking companies are engaging experienced, variable-cost executives for short-term strategic assignments, enabling them to afford top talent that would be unavailable to them otherwise. Companies that need experienced talent to meet strategic business objectives can turn to these independently employed executives for limited time engagements. Matching senior executives and accomplished professionals with the companies that need them is the business of firms offering interim executive placement services.

Overview: The Emerging Talent Gap for Senior Executives

Powerful demographic forces are converging to produce a talent shortage in the executive labor market sooner rather than later. Across the financial services industry, as well as many others, organizations will soon have many more executive roles to fill than seasoned top-level managers to fill them. Consider the numbers:

With the baby-boom generation beginning to reach traditional retirement age and the younger X generation fewer in number, three-quarters of managers expect a talent shortage to emerge in the next two to four years, according to research by Deloitte. In fact, RHR International claims that America's top 500 biggest companies will lose half their senior managers within the next five years or so, when the ranks of next generation leaders have already been decimated by downsizing, off-shoring and re-engineering.

The National Bureau of Labor Statistics (BLS) says a shortfall of 10 million skilled workers is projected by 2010, and that the coming shortage of executive talent will widen at an accelerated

pace through 2030. The Commerce Department says that 60 percent of new jobs in the 21st century will require skills currently possessed by only 22 percent of U.S. workers. And according to the Computing Technology Industry Association Inc. (CompTIA), by 2012, there could be as many as 21 million vacant jobs but only 17 million workers to fill those posts.

Given this rapidly-approaching talent gap, it's surprising that less than one in five companies is well positioned to attract and retain top talent and some 60 percent of organizations do not account for workforce aging demographic trends in their long term staffing and hiring planning.

So where are the accomplished professionals who will fill those jobs? Contrary to popular assumptions, much of the answer will come not from foreign workers off-shore, but from the ranks of the boomer generation itself. How is this possible? That is the other side of the demographic coin ... through innovative and non-traditional recruiting practices.

Life expectancy is increasing and the National Center for Health Statistics says that Americans who blew out 50 candles on the cake in 2003 will on average live to see their 80th birthday, leaving a lot of potentially productive time after leaving full-time employment. Boomers in between full-time employment and full-time retirement are offering their services in a new type of strategically-targeted interim engagement that delivers strong business advantages for the companies that engage them. As Daphne Merkin wrote in the *New York Times*, "...Ours is a generation bred on the notion of doing it our way, right up to our method of retirement."

"Hiring and keeping good employees is not only important to business – it's essential. The workforce is aging and there are fewer men and women in the younger generation to take the place of experienced, retiring Baby Boomers. For HR professionals, this means **the race to locate, hire and retain qualified employees is on.**"

– **"Top 10 Best Practices in HR Management 2007"**

A Special Report for the *HR Daily Advisor*

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Some 80 percent of baby boomers expect to continue to work in some form after they reach age 65, according to AARP. The BLS says that the labor force participation rate for American men aged 65 to 69 rose substantially over a 10 year-period ending in 2006, from 27.5 percent to 34.4 percent. And for women in that age group, the proportional increase was even greater, from 17.2 percent to 24.2 percent. In addition, second careers and flexible work schedules are becoming more acceptable in the workplace. And the combination of increasing competition and more rapid cycles of innovation has accelerated everything, including the need for just-in-time executive talent.

With most companies ill-prepared to meet their business challenges by relying on traditional recruitment models, a high-growth marketplace of independently employed executives and accomplished professionals is emerging. These are C-level executives with significant track records who can meet the needs of companies facing the senior executive talent gap – but far more cost effectively than under full-time, fixed-cost employment.

Today, increasing numbers of senior executives are looking for the flexibility of being a free agent, enabling them to make more satisfying work/life choices. This makes them a high-value, variable-cost asset, ideal for short-term strategic engagements, such as opening a new division, launching a product or service, guiding start-up businesses through initial hurdles or

ensuring operational success through temporary transitions such as mergers, acquisitions or successions, or opening a new country or region.

Just as professional sports teams leverage a pool of free agents to fill key slots and address shortages in talent coming out of the farm system or draft, savvy companies consider free agents when they need specialized skills for a specific project or time period. By engaging accomplished senior professionals in these new ways, forward-thinking companies can acquire the services of top executive talent that have successfully completed similar projects around the world.

The Evolving Work/Talent Marketplace

Today’s new engagement market for accomplished professionals is the result of a gradual evolution in employer-employee relations that’s been taking place since the 1920’s (see







Evolution of Employer-Worker Relationships			
<u>Era</u>	<u>Years</u>	<u>Relative Cost</u>	<u>Value of People</u>
Manufacturing and Industrial Focus	1945-1990		
Transition to Services Focus, Cost Cutting	1990-2006		
The New Engagement Model	2007-		

Figure 1 – Since the early 20th century, the employer-employee relationship has been marked by three main eras. In the first, the model was full-time company employment, which placed high value on people but carried a high cost. In the second, the 1990s period of corporate downsizing, reengineering and outsourcing greatly reduced personnel expenses, but had a devaluing effect on the contributions of employees. We are now at the dawn of a third era in which a new “engagement” model will spread rapidly. Interim executive engagements offer variable rather than fixed costs and limited times vs. “permanency.” They also will help companies meet the coming talent gap as millions of baby boomer executives and professionals approach and re-invent traditional retirement.

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Figure 1). Following WWII, companies were the central focus in the economy with high fixed business costs. Full-time employment was the dominant model for non-farm workers and a high value was placed on the people who were needed mostly to manufacture goods. During the post-war period leading up to the 1960s, the shift of large segments of the population from farm to manufacturing work that had begun in the late 19th and early 20th centuries grew to become the dominant employment type. This employment paradigm was perhaps best represented by William H. Whyte’s 1956 best-selling business book, “The Organization Man.”

In the 1980's a significant transition took place, marked by profit pressures and corporate scandals. These were responded to by corporate re-engineering, downsizing, off-shoring, outsourcing and relocation. Often business costs were cut to the bone and people were no longer highly valued – it was an era in which nearly everyone was seen as expendable. Neither of these economic models were sustainable, and so today we've seen the emergence of a new globalized marketplace seeking to put people to work where and when needed, and focused on adaptability and flexibility to meet rapid, frequent changes in business needs. Coincident with this era of cost cutting was a new shift, at least for western economies, away from manufacturing and toward many types of service and knowledge work.

In today's model, costs need to remain low but people need to be more highly valued. But, value itself has been redefined. Today's value is about relevance, cost-effectiveness and business agility – people today deliver value and then move on to other projects or opportunities. This is the foundation of the new engagement marketplace, in which the security of lifetime employment with a single company has been replaced by a different kind of security, that of providing value to many companies in order to avoid business downturn from a single source of work. By spreading their efforts among multiple companies, people working in interim engagements reduce their overall risk of ever being totally out of work.

The old economic models were based on high fixed personnel costs. In today's economy, to manage profit margins, personnel costs need to be more variable. Companies continue to invest in people, but can no longer afford the permanent fixed costs of a large core staff. Rather, companies are seeking to maintain smaller core staffs, and leveraging a variable cost, project-based model that guarantees agility and flexibility. With this new type of interim engagements, companies gain the lower costs of right-sizing senior executive talent combined with an approach that highly values people and their contributions.



Figure 2 – The trend toward interim executive engagements offers companies the best of both worlds. In the product-based economy everyone was employed by the company which, ideally if not in fact, strived to meet all their needs. In the transitional period we saw increasing stratification, with a core group of full-time employees supplemented by offshore employees and a cadre of administrative and clerical temps. In today's new engagement model the numbers of core employees, offshore and temps have continued to shrink while the numbers of engaged project managers and executive free agents have grown.

Source: © 2007 Epoch Partners, LLC.

The marketplace is already showing significant movement toward this new way of working. The mix of employees to freelancers/consultants is shifting. The *contingent* workforce – consisting of temporary, interim and project workers – is expected to grow by three to four times the rate of the traditional workforce, making up 25 percent of the workforce within the next five years. In the 90's alone, nearly 50,000 freelance independent consultants entered the market, and today million of U.S. workers are either self-employed free agents or members of the contingent labor force.

In the product-based economy everyone was employed by the company which, ideally if not in fact, strived to meet all their needs. In the transitional period we saw increasing stratification, with a core group of full-time employees supplemented by offshore employees and a cadre of administrative and clerical temps. In today's new engagement model the numbers of core employees has continued to shrink while the number of engaged project managers and executive free agents has grown. This is particularly true as the number of small and medium size businesses has grown, accounting now for more than 60 percent of worldwide employment.

This shifting market is illustrated in *Figure 2*. This new model allows companies of all sizes to reassign executive talent quickly and frequently to meet changing business conditions. In fact, the structure of today's corporate organization mirrors our increasingly collaborative style of work, in which teams are formed quickly just-in-time and disbanded at a project's completion, enabling specialists to move on to other opportunities and challenges that require their skills and expertise.

It will require a major mind-shift for traditional organizations accustomed to entrusting strategic work only to executives who are full-time employees to consider the new way. Given the rising demand for executive talent and the demographic trends that are taking place, the companies that succeed will be the ones that move aggressively to tap the skills and experience of senior executives who prefer the engagement approach and just aren't available any other way.

The Free Agent Phenomenon

In today's engagement marketplace they are called by many names: free agents, freelancers, e-lancers, consultants or independent professionals – virtually anyone who works on a project basis for multiple clients. While most people are familiar with self-employed, graphic designers, computer programmers, publicists, owners of micro-businesses or even temp workers, today the real growth market is for highly skilled, accomplished senior corporate leaders needed to fill the executive talent gap, those that are choosing free agency as an alternative to traditional retirement.

Daniel H. Pink examined free agents in his groundbreaking book *Free Agent Nation: How America's New Independent Workers are Transforming the Way We Live*. These workers are "free from the bonds of a large institution, and agents of their own futures. They are the new archetypes of work in America," he said. "It used to be that the bargain between employee and

"Companies looking for talented executives to drive creativity and innovation may soon find them in new, interim packages. When hunting down this kind of leadership talent, it's not about the tenure – it's all about the match. Recruiters will ignore these people at their peril. Chances are pretty good their competitors won't."

– **Juli Ann Reynolds, President and CEO
The Tom Peters Company**

employer was that the employee gave loyalty and the employer gave security...The bargain now is that the individual gives talent and the organization provides opportunities.” This is exactly the arrangement preferred by today’s free-agent executives.

Cristina Simón, professor at the Instituto de Empresa in Madrid, put it this way, “...It is impossible for companies to continue to offer job security. The corporation then replaces stability with ‘employability.’ That changes the motivational focus of professionals away from the corporation and towards themselves.”

This is not to say that free agents aren’t loyal – in fact, they tend to be more loyal. They look for companies that provide better work conditions, higher degrees of satisfaction and personal gratification, greater recognition for their efforts, different kinds of compensation and balance and variety in their lives. In addition, they know that they need current references. They are only as good as their performance on their last assignment. Therefore, the quality of their work must always be their best. These reasons for being loyal are all factors that can be difficult to find in traditional employment situations.

As free agents become increasingly important, companies that cling exclusively to traditional full-time employment models will fail to recruit from the highly skilled and rapidly growing pool of independently employed executive talent. Both business and personal outcomes are at stake, and enterprises that can successfully exploit the free-agent market to solve key strategic problems will enjoy a significant competitive advantage in the years ahead.

For Progressive Companies: Interim Engagements – The Next Way to Hire

“In the next 15 years, 30 million Americans will reach traditional retirement age, but many of them will not choose a traditional retirement. Highly-talented, experienced and healthy people in this generation will be looking for new ways to engage with work that could include interim projects, part-time employment or non-profit work.”

– **David D. Corbett**

Founder of New Directions, a Boston-based provider of career transition services, and author of “Portfolio Life: The New Path to Work, Purpose and Passion After 50.”

Increasingly, seasoned executives and accomplished professionals are seeking out new ways – such as free agency – to remain engaged with the work they love, yet also allow more time for family, leisure, physical and spiritual health, avocational passions, philanthropy or volunteering. As the talent gap grows, companies will face intense competition for these top executives. The power will shift to the talent in short supply, and highly desirable professionals will demand more control over the way in which they work.

In her book *Leap: What Will We Do With the Rest of Our Lives*, Sara Davidson points out that the boomer generation “...is not one culture or even one generation. It includes people turning 60 and considering retirement and others who’ve just hit 40 and are having babies. Of those born during those years, 52 percent voted red in the last presidential election and 47 percent voted blue.” It is a diverse population, continually making new rules to fit their evolving lifestyles and the corporations that succeed will be the ones that offer flexible, interim work opportunities that meet both company and individual needs.

Under the interim engagement model, hiring companies gain access to talent unavailable any other way, executives and accomplished professionals who offer their services under variable-cost project contracts, as opposed to the enormous fixed costs of a traditional full time hire with full benefits. The company gains the skillset, flexibility, agility and cost-effectiveness it needs, while free agents make the work-life choices they desire.

It's important to note that executives working on this upper-level are hired for their skills and experience, rather than company-specific historical knowledge. For example, an organization may not want the CEO tied up for a year or two supervising the nuances of a merger. By engaging a free agent for an interim assignment, the merger receives the detailed attention it

“The confluence of a bulging aged population and a shrinking supply of youth are unlike anything that has happened since the dying centuries of the Roman Empire.”

– **The late management guru
Peter Drucker**

requires, while the CEO is free to keep the entire company running and responding to new business challenges. Organizations large and small can benefit from interim recruiting, in which non-permanent personnel provide the best fit based on limited engagements and variable cost. In the years to come interim engagement will become an ever more crucial way to gain just-in-time sourcing of qualified executive talent.

Forget Early Retirement – Think “Pretirement”

Another way to understand the growing numbers of free agents is to see many of them as entering the “pretirement” stage of their lives, the interim phase in an executive’s work life that lies between full-time employment and full retirement. This is the ideal time to seek short-term engagements that allow executives to apply their hard-won skills on a project basis, and fulfill their individual preferences for non-work activities.

According to a March 2007 report for the Center for Retirement Research at Boston College written by Leora Friedberg, an assistant professor of economics at the University of Virginia, “The trend towards earlier retirement has not just leveled off, but has apparently reversed.” As boomers live longer and more active lives, these senior careerists are looking for a way to reinvent their lives without having to reinvent themselves.

Pretirement is not a new idea. It's also been called phased retirement or simply "contract work" and some notable companies have created internal programs to structure this kind of work arrangement for senior people they wish to retain. “In the height of the knowledge management boom, we created an employee-emeritus program,” says Dan Rasmus, director of information work vision in Microsoft’s information worker group. “This way, when we have an employee retire, we can rehire that employee at a pay scale worked out ahead of time or put in place a scenario where that employee works one day a week.”

Structured plans such as Microsoft's have not proliferated, according to MSNBC, due to long-standing legal difficulties that denied older workers the ability to continue employment while also getting their pension checks. The Pension Protection Act of 2006 promises to address these issues, and help to make pretirement a valuable option for companies that want to leverage senior talent, whether from within the company, or recruited from the free-agent talent pool.

For Accomplished Execs: The Next Way to WorkSM

Accomplished executives working in the free-agent, interim engagement market are seeking an alternative life style that is not offered in the traditional workplace. They are compelled by the opportunity to leverage their skills, participate in challenging projects, help transfer their knowledge and talents to the next level of management within organizations, help companies grow, and earn income while making new work-life choices.

Many of these executives say they want more from life. As noted in the Condé Nast *Portfolio* magazine report, *The Valuable Life: The New Reality of Business Success*, "... individuals are balancing the pursuit of traditional success symbols with a desire for more meaning and significance in their lives." Looking to the business class, the report sees "higher levels of involvement in helping others and in using power as consumers to effect positive change. This suggests a new level of engagement with the world around them..." It's not surprising then to find free agent executives participating in mentoring, philanthropy, family, spirituality and other pursuits not based on the office.

Free agents are also interested in making the hours that they do work more productive. Most executives employed full-time spend 20 percent of their time doing the work they love and 80 percent in routine meetings, conducting performance reviews or slogging through budgets – administrative work that, although it may be beneficial to the organization, isn't personally fulfilling.

The interim engagement market also allows these high profile, accomplished executives to choose assignments which enrich them, materially as well as personally, with flexible compensation arrangements. After all, once retirement is financially feasible, any additional earnings go directly to wealth accumulation. The combination of personal and financial benefits and the unprecedented degree of control over life, work and compensation makes interim engagement, "The Next Way

Quicker Path to Productivity

One point that quickly becomes obvious to companies facing fundamental changes in the labor market is the need to shorten recruitment times, particularly when dealing with free agents hired for short-term projects. Companies simply can't remain competitive by spending four, six or more months to recruit an executive whose primary duty will be to lead a six-month project.

It is also becoming increasingly wise to view most senior executive hires as temporary.

"The massive exodus of baby boomers doesn't represent a mere changing of the guard. Both younger IT workers and seasoned executives can ride a tidal wave of opportunity, as long as they think strategically. Seasoned IT workers will be able to leverage their experience big time."

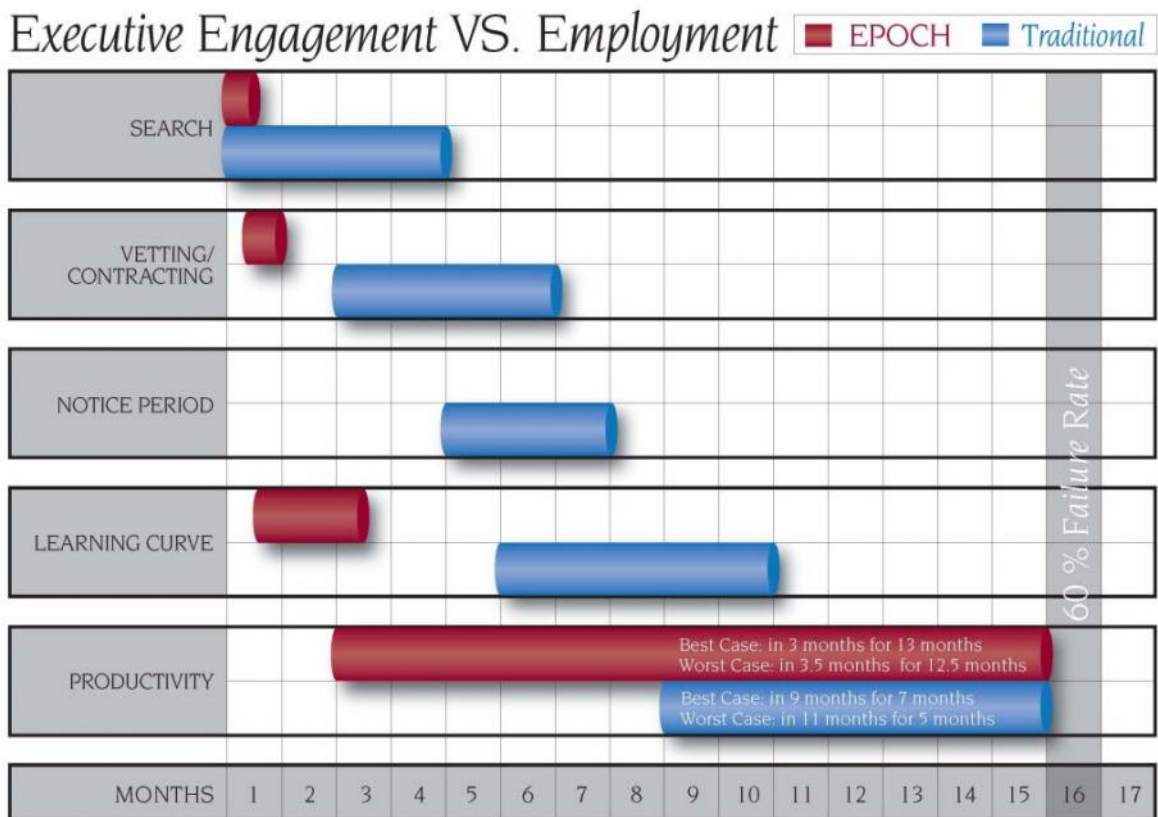
– **"Boomers Bid Farewell,"**
by Jennifer McAdams
Computerworld, July 17, 2006

Recent studies have shown that over 60 percent of C-level executives introduced to companies fail within 16 months, and it takes up to nine months to fill a permanent CEO position when all of the necessary steps in the process are taken into account. That yields only seven months of actual executive productivity. Clearly, a quicker ramp-up is needed in recruiting to maximize the productivity gained in any executive hire, especially if it's short-term.

Companies are already concerned about today's lengthy recruitment cycles. According to the Association of Executive Search Consultants, only 46 percent of companies using executive search firms are fully satisfied. The average time to fill an executive vacancy has increased at a time when resources are needed faster. According to the Corporate Executive Board, more than one-third of HR managers say they hire below-average candidates “just to fill positions quickly.”

Figure 3 illustrates the dramatic differences in the timeline for traditional executive hiring versus the shorter ramp-up time needed to accommodate the free-agent market. As shown, shortening the hire cycle from nine months to three can improve productivity by up to 50 percent.

Writing in *Chief Executive* magazine, Aon Consulting CEO Andrew Appel says that companies must assess their talent gap and react accordingly. “A systematic work force audit and planning initiative reveals where gaps will occur and their impact on customers, and shareholders. From



Productivity Improvement: Best - 8 months = 50% Worst - 5.5 months = 34%

Figure 3 – Interim engagements can bring dramatic improvements in executive productivity. Because of shorter lead times associated with all phases of the recruitment cycle – including search, vetting/contracting, notice period and learning curve – companies that fulfill their senior talent needs with interim engagements can expect on average to see productivity gains of 34 to as high as 50 percent. Best of all, the total elapsed time between day one of search to being productive and on board can be reduced by as much as six months.

Source: © 2007 Epoch Partners, LLC.

there, the talent pipeline should be managed to ensure that the supply of qualified talent will meet the demand forecast for critical growth positions. These efforts can bring millions of dollars of savings through improved employee selection, reduced turnover, and training time.'

In today's dynamic market, executive placement services are beginning to focus on developing the new recruiting tools and processes needed to shrink recruitment times and fully leverage the benefits of free-agent interim engagements.

Matching Opportunities and Talent

As the talent gap widens and the independently employed free-agent market continues to grow, companies will need assistance in finding the right senior level people for the right assignment at the right time. "It's much more like an open market; you need intermediaries in the middle to help the markets operate. And the intermediaries are the people who can help match workers to jobs," explains Peter Cappelli, Director of the Center for Human Resources at the Wharton School of Business

The key here is not to find a traditional search agency, but an executive recruiting service that handles interim engagements at the CEO and top corporate level and provides access to the top talent available.

Companies looking for help in recruiting executive free agents should shop for innovative, high-quality workforce services that match accomplished professionals with both the needs of the project and the hiring company's culture. To accomplish this, interim engagement agencies must provide candidate achievement summaries, behavioral assessments, extensive background checks, ongoing performance evaluations and references, all of which ensure that the experience is effective for both candidates and companies.

To take full advantage of this engagement model, companies must make a significant institutional leap by learning to trust accomplished free-agent executives with important strategic assignments. Operationally, they must learn to assemble the right team for each task and then disband it, confident that executive talent will be available for future interim projects at a price they are willing to pay. The interim executive recruiting service simplifies this process by acting as the key intermediary, providing specific talent to companies when they need it and opportunities to free-agent executives when they are available.

The looming gap in executive talent presents companies not only with an obstacle, but also with opportunity. Those that embrace the interim engagement model will be much better prepared to weather the powerful demographic forces now converging to generate an executive talent shortage as the baby boom generation ages. In addition, by leveraging the growing ranks of independently employed executive free agents, organizations will gain the competitive advantages that will come with tapping a vast new talent pool of professionals in the pre-retirement phase of life. By finding the senior executives and accomplished professionals they need for limited time and variable cost engagements, forward-thinking companies can drive business results and deliver shareholder value by accelerating the completion of critical business initiatives.

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More information at <http://www.epochworkforce.com>.