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*Hewitt's
Human Capital
Consulting*

The State of
Talent Management:
Today's Challenges, Tomorrow's Opportunities

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Human Capital Institute

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Research Highlights: Talent Challenges of Today

Companies today face formidable talent challenges. The ability to sustain a steady supply of critical talent is a challenge facing all organizations — worldwide. Among the issues impacting the "next generation" workforce are impending skill shortages, an increasingly cross-generational and diverse workforce, the need for knowledge transfer from retiring baby boomers, and significant leadership gaps. Intense cost pressure from both traditional and emerging competitors, new markets, and more demanding customers are additional elements that give a new sense of urgency to the concept of talent management.

At a time when organizations need to optimize their workforces, most agree that talent management is of strategic importance. To evaluate the extent to which companies act on that belief, Hewitt Associates and the Human Capital Institute undertook a comprehensive study seeking to assess the state of talent management practices in companies today.

About the Study

The research provides results from both a quantitative survey and qualitative interviews. The survey was designed to gauge the maturity level of a comprehensive set of talent practices; that is, the extent to which an organization's practices are sophisticated, progressive, practical and well executed. This enabled us to identify strength and challenges in talent management and key areas of focus for the future. Nearly 700 senior-level talent leaders (both HR and non-HR) participated in the study. Through supplemental in-depth interviews, we captured innovative practices at select companies with more developed talent management practices. This combination of quantitative survey data and qualitative interview results helped shape a better understanding of the complex issues surrounding talent management today.

The growing recognition that the quality talent is a sustainable competitive advantage, coupled with a realistic view of the complexity and scope of changes in the global workforce, has led to a renewed focus and urgency around talent management. Based on nearly 700 responses, human resources (HR) and business leaders overwhelmingly identified "attracting and retaining skilled and professional workers" as the workforce challenge most impacting their organizational strategy. "Developing manager capability," "retaining high performers," "developing succession pool depth," and "addressing shortages of management or leadership talent" closely followed.

Top 5 Workforce Challenges

1. Attracting and retaining skilled professional workers
2. Developing manager capability
3. Retaining high performers
4. Developing succession pool depth
5. Addressing shortages of management or leadership talent

In today's uncertain economic environment, it's important that organizations address talent issues promptly, but it's equally important that they get them right — the first time. There's little room for trial and error, as all initiatives are expected to produce solid financial results. Unfortunately, most companies are still struggling to institutionalize effective talent management practices and programs.

Positive Results

Based on the results of this research, our collective experience, and prior research findings, we believe that organizations are indeed improving their talent management capabilities. The skills, performance, engagement, adaptability, and continuity of an organization's workforce are indisputably a core competitive advantage and prerequisite for sustained financial success. Increasingly, organization leaders, starting with top officers, understand the business payback of focusing on getting these things right. As a result, the advances being made in talent management can be attributed to the following:

- **Senior Leaders Recognize Superior Talent as a Business Advantage:** Senior leaders do "get it." In nine out of ten organizations, they believe superior talent provides a vital competitive advantage. They increasingly recognize the critical linkage between effective talent management and business success.

- **Focus on Talent Management:** The pressure to attract and retain key talent has led organizations to expend increased energy and resources on talent-related initiatives over the past half-decade. Significant progress has been made on a variety of talent management fronts — from getting foundational programs in place to creating and deploying new programs, such as high potential development, leadership development, and succession planning. However, most of the progress has been made in the executive ranks, with less focus beyond the highest management levels.

- **Leadership Involvement:** The need for more leadership involvement in talent management is driven by the criticality of talent strategy development, articulation, and execution. Some business leaders are starting to play an increasingly visible and active role in talent management, understanding that their practices must be aligned with these talent strategies in order to have a direct impact on workforce engagement and performance.

Opportunities for Improvement

Although organizations have made significant progress raising awareness and attention to talent management and implementing foundational programs, these efforts have not led to well-executed talent management programs that are aligned with business priorities. Organizations still lag in their ability to integrate talent management programs and evaluate the return on their talent investments. The reasons are many, including:

- **Human Capital is Not Sufficiently Aligned With Business Strategy:** While senior leaders clearly recognize the importance of human capital, a number of companies struggle to connect their people practices with their business imperatives. Only 17% of respondents say their workforce strategy is consistently aligned with their business strategy across the organization, while even fewer (7%) report consistently utilizing a specific quantitative framework in which investments in talent management are aligned with business results.

- **Lack of Accountability and Capability for Talent Development:** While most organizations hold their executives and managers accountable for achieving business results, they are not being held accountable for talent development. Few organizations consistently hold managers (7%) or senior executives (10%) accountable for developing their direct reports. Furthermore, most managers lack the basic capability to develop talent effectively. Just 5% of organizations say their managers have the skills to grow people in their jobs or to provide the constructive feedback that supports and encourages employee development consistently across the organization.

- **Inconsistent Execution and Integration of Talent Programs:** The majority of companies report having fundamental processes for talent management in place, such as basic workforce planning, development programs for high potential employees, and succession planning. However, few consistently execute these programs across the entire organization. While slightly more than two-thirds (69%) of companies say they conduct workforce planning across all divisions and business units, fewer than one-fifth (15%) do so consistently. Furthermore, only 21% of companies consistently integrate talent practices across the organization (e.g., rewards are tied to performance; performance is tied to development).

- **Limited Use of Meaningful Talent Analytics:** Data and analysis have long played a role in driving business decisions; yet when it comes to talent analytics, most organizations have a long way to go. Mired in tracking traditional workforce measures, such as headcount, turnover, and cost-based metrics, few have graduated to tracking the metrics that matter. Fewer than 10% of responding companies measure the effectiveness of talent management programs, track the quality of talent, or use specific quantitative frameworks to align human capital investments with their business strategy.

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Select Companies are Leading the Way

There are exceptions, of course. Despite the monumental challenges facing organizations, a few select companies have made significant strides in managing talent. What sets them apart is their dedication and commitment to talent management and the creative, comprehensive approach they take to developing their people in the following ways:

- **Depth and Consistency of Practices:** Talent management is given top priority at these companies — and it shows. Specific programs, such as talent reviews and succession planning, are institutionalized throughout the organization, ensuring they are implemented and integrated consistently across businesses, geographies, and employee segments. Managers are taught how to develop employees, and talent programs are pushed deeper into the organization to reach a broader group of employees.

- **Higher Commitment and Accountability for Talent Development:** Abandoning the belief that talent management is solely HR's domain, these organizations consider it a shared business and HR responsibility requiring active engagement, commitment, and accountability from leaders and managers. From the CEO down, these business leaders not only emphasize the importance of talent management, but are also actively engaged in the processes. Additionally, they hold themselves responsible and accountable in tangible ways for developing the next generation of talent across the entire organization — not just at the leadership level.

- **Progressive and Innovative Practices:** Never satisfied with the status quo, these organizations are consistently investing in new ways to manage talent. Approaches vary widely, but examples include progressive approaches to workforce planning, innovative employer branding strategies, and more comprehensive efforts related to onboarding and development of high potential employees. Some leading organizations are using sophisticated predictive analytics to help drive strategic human capital decisions and ensure that those decisions are aligned with the business strategy.

While most organizations still struggle to manage their talent effectively, select employers are leading the way. They serve as role models to those who are struggling to build core talent management capability by holding leaders and managers accountable for talent initiatives, driving greater consistency in talent programs globally, and continually seeking new and progressive ways to manage talent. The increased adoption of these approaches to talent management point to an evolutionary trend toward better practices overall.

This report identifies the talent challenges that exist today, summarizes key findings from the research, and draws examples of innovative talent practices from select companies. Recommendations based on the research provide a foundation upon which companies can build and strengthen their talent management capability to meet the business challenges of the future.

The State of Talent Management

Today's fast-paced, global business environment, coupled with the ever-growing challenge of a rapidly changing workforce, requires a well-planned, rigorous approach to talent management. Fortunately, both HR and business leaders recognize that talent is a critical driver of business performance. It comes as no surprise then that talent management practices are often cited as a key strategic priority. However, the execution of these practices is where companies often fall short.

To gain a better understanding of the state of talent management, we examined current practices in five specific areas: Talent Strategy; Workforce Planning and Talent Acquisition; Capability Development & Performance; Leadership and High Potential Development; and Talent Analytics.

Talent Strategy		
Workforce Planning & Talent Acquisition	Capability Development & Performance	Leadership & High Potential Development
Talent Analytics		

Using this framework, we examined talent management practices holistically — from initial strategy through measurement practices. We looked at all major areas related to how organizations acquire, develop, retain, and reward employees. Beyond *prevalence*, we examined the *sophistication* of such programs and the *effectiveness* of their execution. Finally, we analyzed the extent of *alignment*; that is, how an organization's talent management strategy aligns with its business goals and how individual talent management programs and processes connect to one another.

Talent Strategy

> ### Key Findings in Talent Strategy and Planning
>
> - Senior leaders value talent, but there is limited alignment with business strategy
> - Consistent execution and integration of talent practices continues to fall short
> - Organizations are building stronger employment brands as part of their talent strategy

Talent management is a complex discipline, encompassing a wide array of programs and processes. For such initiatives to be successful, a concrete talent strategy must serve as a constant guide, providing direction for how the organization will acquire, develop, and retain employees, while always reflecting the key business goals of the organization. Successful companies embed their talent strategy into the overall strategic planning process, integrating individual programs and practices to ensure they are all driving toward the same set of objectives.

Senior leaders value talent, but there is limited alignment with business strategy

No strategy can be effective without the support of senior leadership — and talent management is certainly no exception. In the past, HR struggled to convince business leaders to invest their time and money in talent management. Today, the challenge is not just whether to invest resources in talent management, but also how to identify what talent practices provide the greatest return; where leaders can most effectively spend their time developing people; and how to drive greater consistency, integration, and alignment of talent practices with the business strategy.

Without a doubt, senior leadership plays a key role in creating a culture that supports talent development. This belief was strongly echoed by our survey respondents, with 92% agreeing that their senior leaders see superior talent as providing a vital competitive advantage. At **Humana**, for example, CEO Michael McCallister clearly demonstrates the importance of aligning the company's consumerism strategy with human capital. He is credited with fostering a culture of growth and development. By providing visible support and commitment, he instills a "talent mindset" throughout the organization — that is, a deep conviction that the best and brightest will create shareholder value.

Many more CEOs today are active champions for talent management and they and their leadership teams try to foster talent cultures within their organizations. At **McDonalds**, a Hewitt *Top Companies for Leaders* winner, CEO Jim Skinner has designated talent management and leadership development as one of his top three priorities. It's a commitment he embraces in his everyday actions. At every opportunity, he espouses the importance of talent and leadership development, both in regular communications and when speaking publicly.

In these select companies, the alignment and integration of workforce strategies with business strategy underscores the high priority that companies are placing on talent management. Granted, not all organizations have managed to successfully translate leadership's belief in talent management into concrete actions that are linked to the business. While over three-quarters (78%) of companies report aligning and integrating workforce strategies with their overall business strategy to some or a considerable degree, just 17% say they are doing so consistently across the organization.

Figure 5: *Degree of Alignment and Integration of Workforce Strategy with Business Strategy*
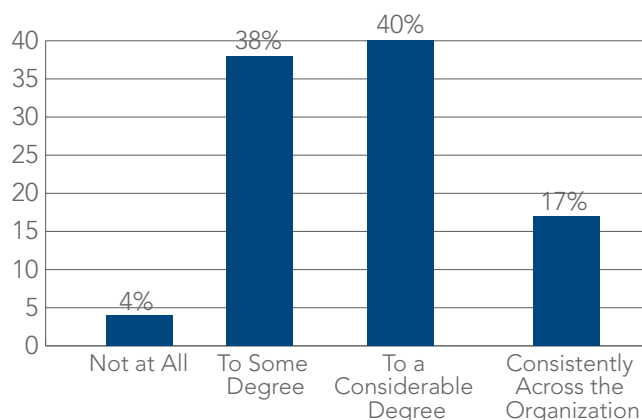
Some attention is being placed on the identification of critical roles as part of this alignment process. More companies today recognize that they have limited dollars to spend on talent management and are looking for ways to get the highest value from their investment. One way of doing this is to identify future critical roles that will have the greatest impact on business success and focus planning efforts more heavily on these roles. Today, 42% of companies are identifying critical roles and capabilities to a considerable degree within their organizations, but only 17% are doing this consistently across the organization. This inability to consistently identify future skill requirements creates challenges for organizations trying to build capability.

Figure 6: *Degree to Which Critical Roles and Capabilities are Identified*

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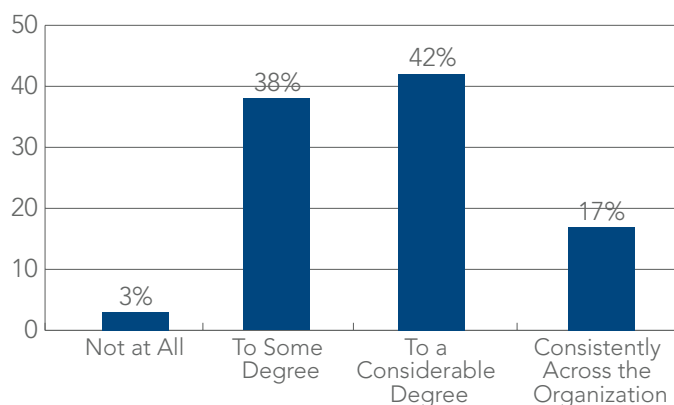
Consistent execution and integration of talent practices continues to fall short

While most companies have fundamental talent management processes in place, few have managed to consistently execute and integrate such capabilities across the organization. Just 13% report consistent execution of talent management practices across all regions in which they operate. In addition, little is being done to integrate talent practices with other talent initiatives (e.g., tying rewards to performance). According to our survey, only 21% of companies do so consistently.

Figure 7: *Degree to Which Organizations Execute and Align Talent Practices*

|	Not at All	To Some Degree	To a Considerable Degree	Consistently Across the Organization
Execute consistent talent management practices across all regions in which you operate	11%	45%	31%	13%
Integrate talent practices (e.g., rewards are tied to performance; performance is tied to development)	6%	38%	35%	21%

Through our broader research, we have found that companies with more mature talent practices are driving better integration and consistency through a combination of approaches including:

1) Investing in robust talent management technology solutions coupled with process redesign;

2) More clearly defining corporate and field HR roles for designing and delivering talent solutions, including greater use of talent specialists (in some cases business partners) in the field to help improve integration; and

3) Implementing global centers of excellence for talent management to improve the coordination and consistency of practices across regions and businesses.

Organizations are building stronger employment brands as part of their talent strategy

Leading organizations have clearly defined employment brands that include a strong focus on diversity and corporate social responsibility. As part of their brands, these companies also clearly define the values and behaviors that they expect from people in the organization. Recognizing that a compelling employment brand is critical to becoming an employer of choice, organizations are building employment brands as a long-term solution for attracting the best quality applicants. More than one-half (60%) of survey participants report having a clearly established and well-defined employment brand, and 50% say they believe their employment brand provides a clearly differentiated competitive advantage that attracts and retains the best talent. In a sign that employment branding is working, nearly one-half (46%) of respondents report that their leaders and managers can describe the brand in consistent terms.

Figure 8: *Employment Brand*
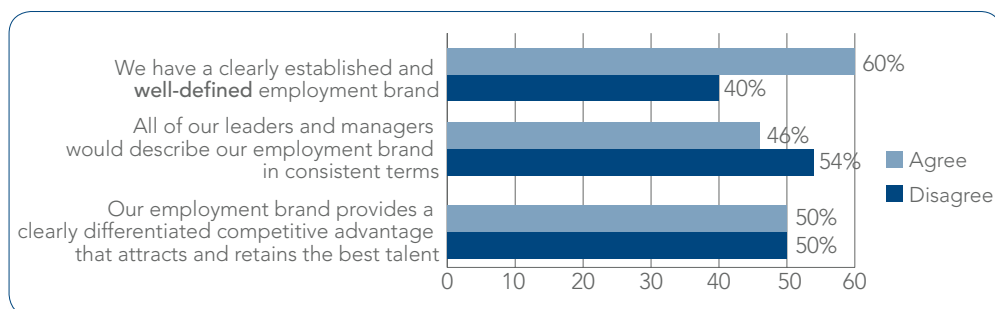
Closely linked to a strong employment brand is a clearly defined set of values that signal what an organization considers important. Here, the majority of organizations (88%) report having a clearly articulated set of values. Increasingly, these values include cultivating an inclusive work environment, an endeavor that has been embraced by the vast majority of organizations. Two-thirds (67%) of companies are actively working to develop and sustain a culture of diversity and inclusion, while 24% report doing so consistently across the organization.

Increasingly, employers are coming to understand that a winning strategy includes a compelling employment brand, an inclusive work environment, and the foundation of strong values. Without these key components, it will be nearly impossible to succeed in today's talent market.

Workforce Planning and Talent Acquisition

Key Findings in Workforce Planning and Talent Acquisition

- Workforce planning in most companies is short-term focused, although some companies are becoming more strategic
- Talent Acquisition fundamentals are in place but there is plenty of room for improvement
- Despite challenges, most companies report being able to attract the talent they need

Both workforce planning and talent acquisition are critical links in an organization's talent supply chain. Some companies are using increasingly sophisticated approaches to workforce planning and talent acquisition as part of their strategic business planning process. Successful workforce planning and talent acquisition initiatives focus on meeting both the short- and long-term workforce needs. These areas are often the most visible services that HR provides, yet many HR organizations struggle with developing an effective approach that meets business needs.

Some companies are investing heavily in building workforce planning and talent acquisition capability, but most organizations approach these areas in limited ways — focusing primarily on meeting the talent needs of today, with very little emphasis on tomorrow. While most organizations have foundational recruiting programs and processes in place, workforce planning and talent acquisition processes are often not integrated and technology is underutilized. Despite these challenges, most organizations report being able to attract the talent they need.
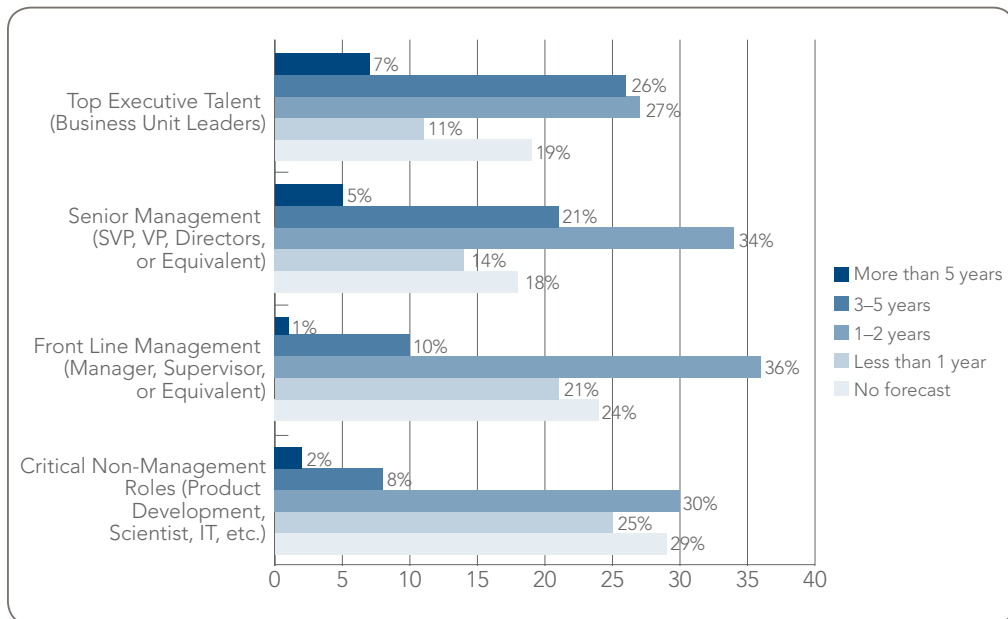
Workforce planning in most organizations is short-term focused, although some companies are becoming more strategic

Effective workforce planning requires a clear understanding of what talent is currently in place and what is required to be successful in the future. By matching future demand to current supply, organizations can effectively identify their hiring needs and use these projections to inform their sourcing efforts. While 69% of companies say they conduct workforce planning broadly across all divisions and business units to some or a considerable degree, only 15% report doing so consistently throughout the organization.

Most workforce planning efforts focus on top executive, management, and critical roles. Thirty to forty percent of the companies surveyed report using workforce planning to forecast the supply and demand of talent in these roles for one to two years in advance, and 33% of companies report forecasting top executive talent needs three or more years in advance. However, below the senior leadership level, few companies are looking out beyond two years to identify the kind of skills and capabilities needed to support the business long-term. Only one out of ten companies forecasts its

talent requirements for front line management and critical non-management roles three or more years into the future. Remarkably, at least one-fifth of all companies do not forecast supply and demand for *any* employee segment.

Figure 9: *Forecasting the Supply and Demand for Skills (Years in Advance)*

While these findings show limited use of workforce planning, a small, but innovative group of organizations are using more advanced workforce planning techniques, such as leveraging predictive workforce analytics to anticipate both supply and demand for key skills and capabilities. **John Deere**, for example, has adopted a sophisticated forecasting process for projecting its internal supply of talent in key areas. Employing simulation software adapted from its engineering group, the company factors in historical trends with retirements and resignations, using an algorithm to project retirement patterns. Drilling down relatively deeply into the organization, John Deere is able to more accurately project supply, particularly for specific critical skill sets. This process has proven to be an effective means of forecasting which skills and capabilities will be needed to meet business requirements up to five years into the future.

Talent acquisition fundamentals are in place, but there is plenty of room for improvement

Most organizations have the fundamental aspects of talent acquisition firmly in place, including processes to ensure compliance, incentives for employee referrals, and internal job posting mechanisms.

Figure 10: Fundamental Talent Acquisition Practices
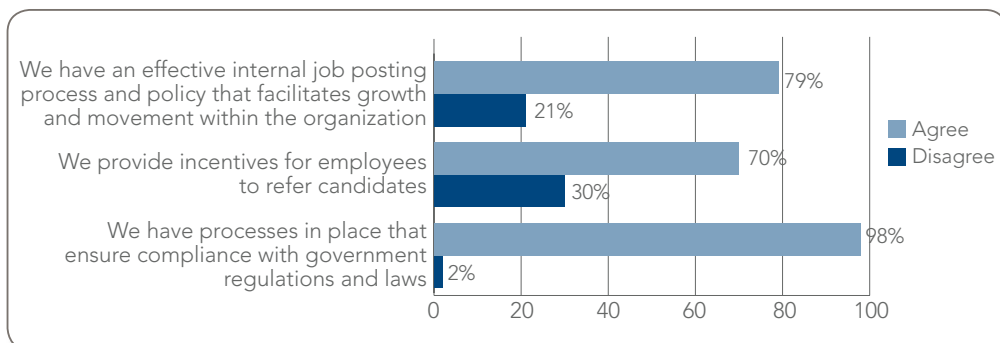
However, few organizations have well-integrated talent acquisition processes or are effectively leveraging technology. A mere 16% of organizations consistently use technology to automate their recruiting processes. Their shortcomings don't stop there, as little is being done to integrate talent acquisition practices with other talent initiatives. While 68% of organizations make considerable use of competency-based hiring, just 12% of organizations consistently link candidate screening criteria to other talent management processes, such as performance management, development, and succession planning.

Despite challenges, most companies report being able to attract the talent they need

Nonetheless, most organizations believe their talent acquisition efforts are paying off. The majority (73%) feel they are successful in consistently attracting high-quality candidates. Even more encouraging, 82% report that these candidates typically accept their job offers. Organizations are less certain that their future supply of candidates will meet their stated diversity goals. However, these findings indicate a high degree of satisfaction with the outcomes of their talent acquisition processes.

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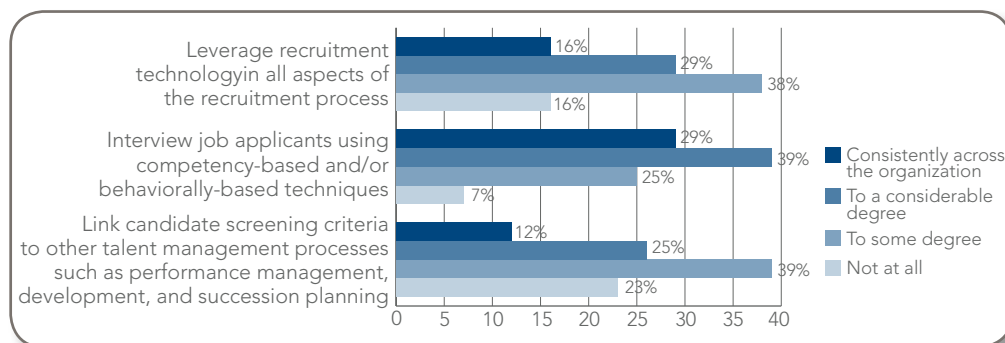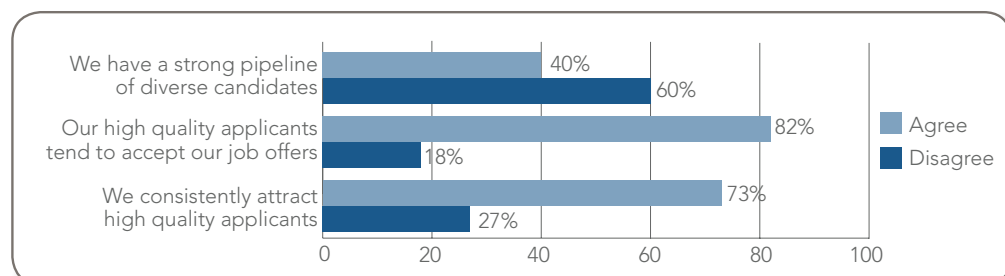Figure 11: *Use of Technology and Integration*

Figure 12: *Attracting Quality Candidates*

This is certainly good news, but it is important to note that the talent acquisition process does not end with attracting quality candidates. It is equally critical to have a comprehensive approach to assimilating new hires. Unfortunately, this is an area where we have discovered companies to be faltering:

- Only 20% consistently use a systematic onboarding process for new hires across the entire organization.

- 54% do **not** offer networking, mentoring, or job support for the first 6- to 12- months of employment.

- 45% of organizations report an inability to maintain a high level of engagement with new hires during their first year.

Given the importance of having the right talent in place — as well as the high cost of recruiting new employees — it is critical for organizations to place significant emphasis on their onboarding and assimilation efforts to ensure retention during the first 12 months and beyond.

While most organizations struggle in this area, select organizations are applying more proactive approaches to improve onboarding and assimilation. One company we interviewed recently launched an onboarding Web site designed to introduce new hires to the organization. In addition to a welcome message from the CEO, it provides information about the company's history and leadership principles. New hires can take a virtual tour of the office and access information about the orientation process, as well as a set of checklists for the first 90 days. The site also features corresponding manager checklists to ensure that managers are clear about their role in the onboarding process. Seeking feedback on the onboarding experience, they ask new hires to complete an evaluation after one month and then again after four months. That information is then used to make improvements to the program. The company reports very limited turnover during the first year of employment, an accomplishment which it attributes in large part to the effectiveness of the onboarding program.

Capability Development and Performance

Achieving sustained organizational performance through the development of a capable workforce lies at the very heart of talent management. Unfortunately, most companies aren't very good at it. More than one-half (56%) of the respondents in our study do not feel their organization is effective at developing the capability of their employees. Outside of the leadership ranks, capability development occurs sporadically — and with limited accountability. Further, most organizations do not believe that their managers have the capabilities needed to manage and develop talent. Employees are not getting sufficient guidance on how to develop their skills and grow in the organization. The lack of accountability for developing talent below executive levels, coupled with managers' lack of capability to develop talent, are key drivers of the struggle many organizations have effectively and consistently executing talent management practices.

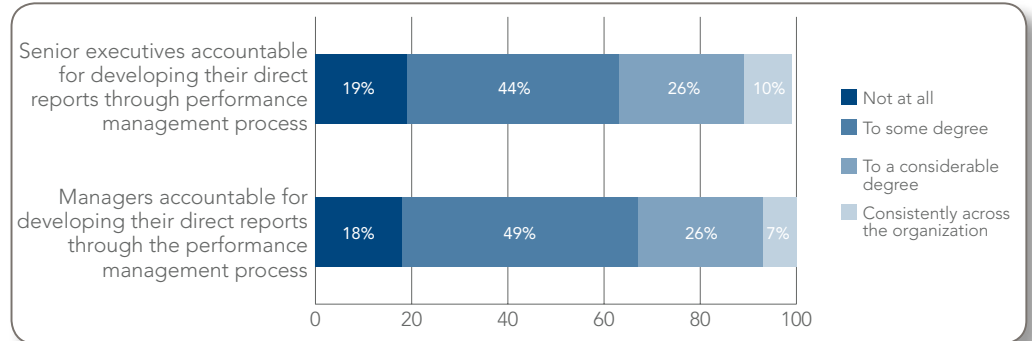## Lack of accountability and capability for workforce development

Organizations successful at building capability and bench strength demonstrate the value of employee development. Commitment starts at the top and permeates all management levels. These leading organizations are truly on the front lines of talent development — guiding, rewarding, inspiring, and growing their talent pools. According to Hewitt's *Top Companies for Leaders* study[1], leaders and managers in Top Companies spend significant amounts of time on talent development. In the vast majority of Top Companies, leaders (including the CEO and Board) spend at least 20% of their time developing talent. Granted, much of this focus is driven by a sense of accountability, as 70% of Top Companies hold their leaders *formally* accountable for developing talent. At **American Express**, for example, 25% of the senior leadership team's annual incentive is based on their performance against specific talent and employee objectives.

Here, our research reveals some interesting differences in the focus on accountability for results versus accountability for development. The vast majority of organizations agreed that senior executives and managers are held accountable for achieving business results (88% and 87%, respectively). However, this focus on results does not extend to the workforce capability development needed to support organizational priorities. Only 10% of organizations consistently hold senior executives accountable for developing

[1] Hewitt Associates, *Top Companies for Leaders 2007: North American Highlights*, October 2007

their direct reports, and just 7% do so with managers. Organizations may be *saying* that developing talent is important, but they fail to follow through with visible actions, rewards, or consequences.

Figure 13: *Leadership and Manager Accountability*

This lack of accountability for talent development is compounded by significant shortfalls in managerial capability. Just 26% of organizations believe their managers have the skills and capabilities to grow people in their jobs to a considerable degree, and only 5% believe their managers demonstrate this ability consistently across their organization. When asked if managers provide ongoing developmental feedback to employees, respondents reported similar results.

Figure 14: *Manager Capability to Develop Employees*
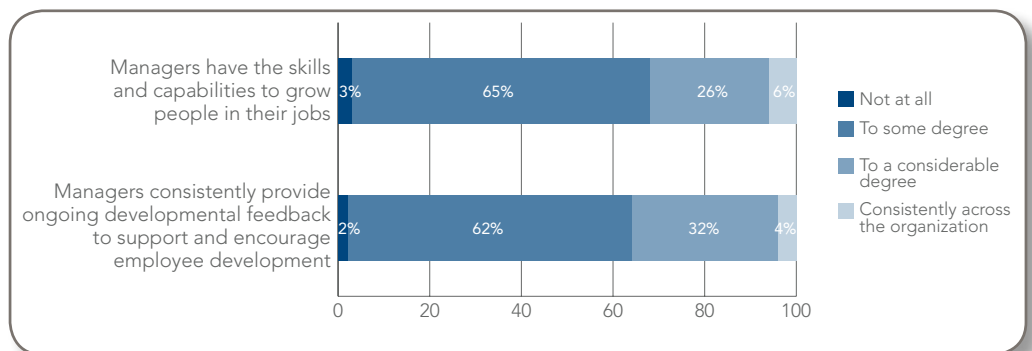
In most organizations, the responsibility for employee development is shared between employees and managers. While companies are making it easier for employees to take charge of their own development, they are under-investing in manager capability and resources to develop employee capability. Fewer than one-half (49%) of companies indicate that every employee has an individual development plan, and just 48% feel that employees have a clear picture of the skills they should build to support business growth. In addition, many organizations struggle with providing

internal mobility opportunities to employees. Only 35% claim to offer a considerable number of opportunities, and just 11% report moving people around consistently across the organization.

Figure 15: *Employee Development*
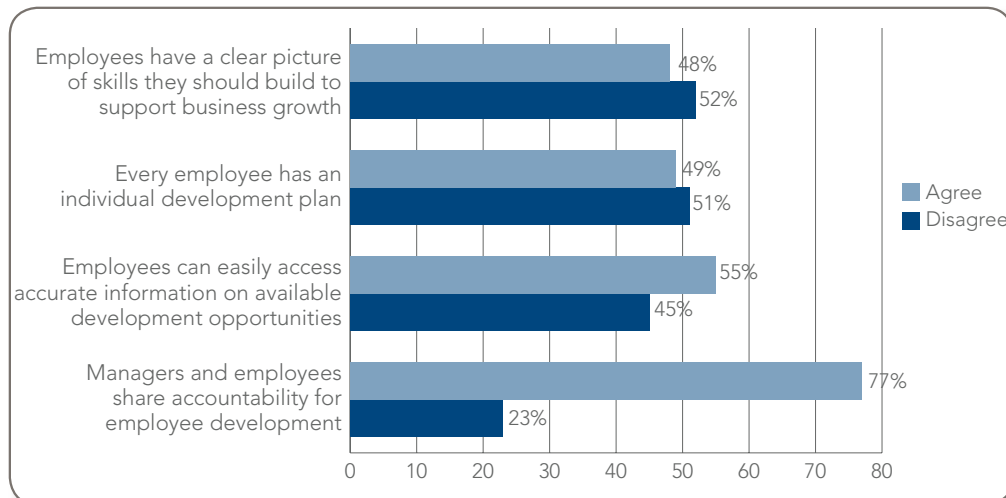
Based on Hewitt's extensive research on employee engagement and retention, we know the top three levers that motivate and engage employees are: 1) a sense of job fulfillment; 2) career advancement opportunities; and 3) the right mix of rewards that recognize contributions. Given the pivotal role managers' play in supporting employees in each of these areas, this lack of capability can have serious ramifications for retaining top talent.

Select organizations directly tackle capability development challenges
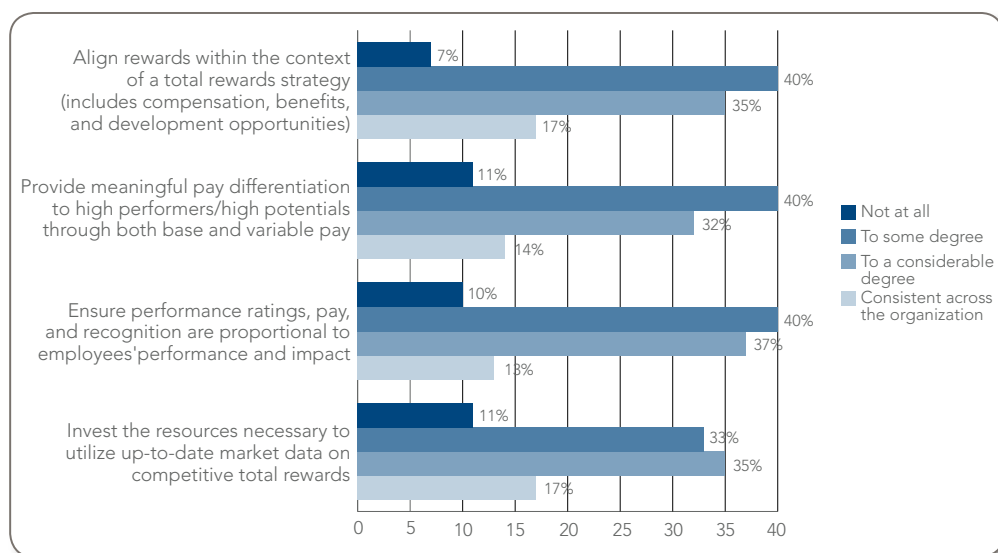
While the majority of companies are struggling, a few select organizations are way ahead of the pack, confronting these challenges by implementing manager development programs, holding managers accountable for talent development and engagement through the incentive process, and better defining career paths and capabilities needed to develop employees. At **FedEx Express**, for example, a development initiative called the "Aspire Program" helps prepare managers for their role. It consists of three levels: 1) understanding management as a concept and a role; 2) management certification through a specific set of courses; and 3) practicing management before becoming a manager. This kind of development ensures that managers are equipped to conduct evaluations, feedback discussions, and other critical interactions with their employees.

Kellogg is another leading organization that has taken a proactive approach to workforce development. Through rigorous job analysis, the company identified key competencies for every position within the organization. Kellogg created a career development model for everyone from individual contributors to senior executives, with specific competencies for every level. Managers and employees are clear on what it takes to progress, and Kellogg puts significant emphasis on rotating people into various roles throughout the organization to help them develop key skills.

Reward differentiation is still more of a concept than a reality

While organizations report making efforts toward aligning performance with rewards, only 14% consistently provide meaningful pay differentiation to high performers or high-potential employees through both base and variable pay. And, just 13% consistently ensure performance ratings, pay, and recognition are proportional to employees' performance and impact. In addition, many companies may be missing the opportunity to communicate a "total rewards" picture to employees which includes non-cash drivers, such as benefits and development opportunities.

Figure 16: *Rewarding Performance*

Despite their shortcomings, many organizations are taking steps in the right direction. As we've already discussed, the majority of companies are imposing high levels of accountability for driving business results. This extends not only to leaders and managers, but to employees as well. Eighty-two percent of survey respondents affirmed that employees are held accountable for achieving results in their organization, but without a consistent pay-for-performance system, it is difficult to motivate and align employees' efforts toward specific business results. The implications of this finding are clear — only 11% of respondents feel employees understand organizational priorities and align their individual performance goals with them consistently across the organization.

To have a truly high performance workforce, *accountability* for results and *opportunity* for rewards and advancement must be clearly aligned. Leaders and managers play a key role in connecting the two.

Leadership and High Potential Development

### Key Findings in Leadership Development

- Significant progress has been made in building leadership capability

- Opportunities exist to better align and execute leadership programs

- High potential development is a priority for many organizations, but consistent execution falls short

In today's uncertain business environment, strong leadership is more important than ever before. Heightened financial pressures, intense competition, and complex global challenges have increased the demand for crucial skills, such as innovation and the ability to manage change. The ability to develop leaders who can effectively face tomorrow's global business challenges is critical to an organization's success. But it won't be easy. Demographic changes over the next five to ten years will make the competition for leaders even fiercer. Thus, many organizations have come to realize the only way to ensure a strong pipeline of leadership talent is to develop it themselves — an undertaking that has become increasingly challenging.

Significant progress has been made in building leadership capability

Today's organizations are placing a significant amount of attention on leadership development — more than any other talent discipline surveyed. More than one-half (60%) of respondents report active involvement of the CEO and Board of Directors in leadership development activities, with 64% saying their organization's current leaders teach and develop new leaders. At almost three-quarters (73%) of organizations, senior leaders are viewed as corporate assets, rather than business unit or geographic assets. Clearly, the responsibility for developing the leadership team is being taken very seriously.

Figure 17: Executive Involvement in Leadership Development
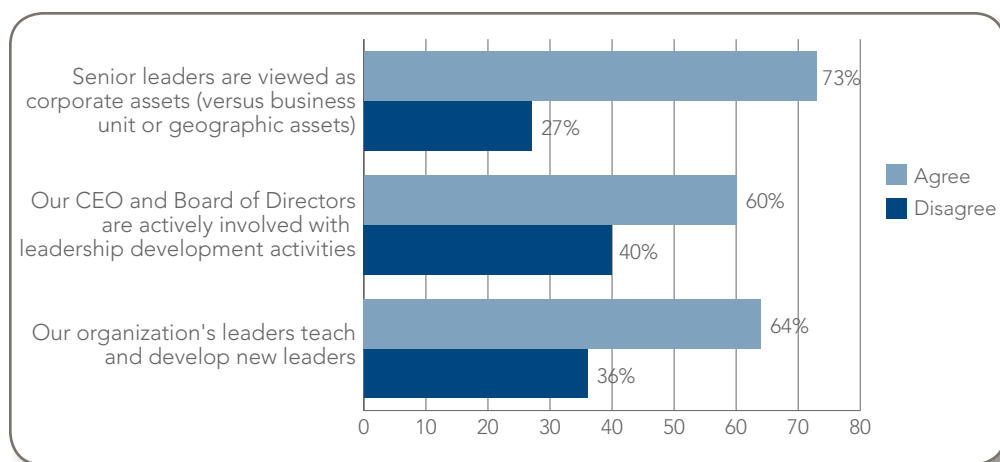
A number of companies have made significant strides in building strong leadership capability. That fact is evident in Hewitt's *Top Companies for Leaders* study. From its inception in 2002 to 2007, the study found marked improvement in both the amount of attention paid to leadership development and the quality of leadership programs. Even more encouraging is the finding that leadership development is becoming more interwoven with other talent management systems, particularly succession planning and performance management. Apparently, organizations have discovered that focusing on the quality and integration of leadership development can have a positive impact on business growth.

## Opportunities exist to better align and execute leadership programs

While progress has been made with regard to the emphasis placed on leadership development, significant shortfalls still exist. To effectively build bench strength, for example, companies must align leadership development with their overall business processes. Unfortunately, our research shows most organizations are lagging on this front.

Even the best-designed leadership development efforts may not meet the ever-evolving needs of the business if the organization's strategic business planning process fails to include a review of existing and future leadership needs. When asked if such a review takes place within their organizations, just 27% of respondents said it is done "to a considerable degree." A mere 14% claimed such a review takes place consistently throughout the organization.

Organizations also have plenty of room for improvement in terms of how they execute leadership programs. By all accounts, they appear to be struggling with "growing their own" leaders. Just 23% conduct semi-annual talent reviews "to a considerable degree," while 17% perform such reviews consistently. Their struggles don't end there, as they also express difficulties in using formal succession management processes to fill executive positions and conducting performance reviews based on a clear set of leadership competencies.

Of particular concern is the lack of special assignments designed to grow leaders. Only 8% of companies said they consistently use developmental assignments to address specific leader development needs. Likewise, just 9% of respondents consistently use global assignments as a training ground for developing global management capability.

Figure 18: *Leadership Development Activities*
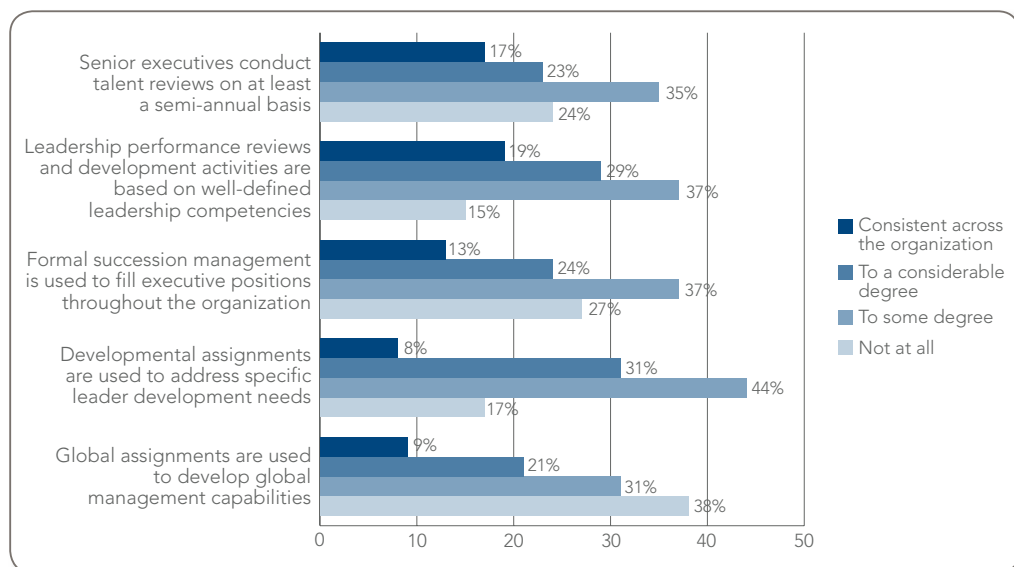
Fortunately, not all companies are wrestling with these areas. Select organizations are demonstrating strength in leader assessment and development. Health insurance company **Humana** believes that successful development evolves from aligning strategy execution with a combination of on-the-job and formal training that aligns active learning and business simulations to create experiential learning by doing. Through its succession process, Humana has identified its top 150 future leaders and is actively developing them. Meanwhile, **Lockheed Martin** offers a series of leadership development programs that start at entry level and build on one another through the ranks of senior leadership. Elements include rotational assignments, courses at major universities, and task forces focused on solving real-life business problems.

At **Whirlpool**, one of Hewitt's *Top Companies for Leaders*, the culture is not one in which "the cream rises to the top"; instead, individuals are proactively developed for future leadership roles through specific success plans. Leaders identify key developmental roles in the organization, and give high

potentials access to critical experiences through these roles. Some of these roles focus on global operations, others innovation, and still others running a P&L. Senior leadership regularly reviews lists of "exportable talent," and movement of key talent is planned well in advance. This is how Whirlpool has been able to develop "global managers" so successfully.

Developing high potential employees is a priority, but consistent execution falls short

Growing recognition of the need to develop leadership talent early has given rise to "high potential" or "emerging leader" programs, in which promising talent is identified and cultivated to become the leaders of tomorrow. Not only does this ensure a strong pipeline to meet future needs, it increases the engagement of the company's most valuable employees.

While most understand the need for such programs, many organizations struggle with consistency in terms of high potential identification, communication, and development. At 86% of companies, management identifies high potentials early to at least "some degree" and takes actions to proactively develop them. However, only 7% said this was being done consistently. And while 69% of companies give high-potential employees additional opportunities to interact with senior management, only 13% do so consistently across the organization. Without a well-defined approach to grooming high potential employees, many organizations avoid informing

Figure 19: *Elements of High Potential Programs*
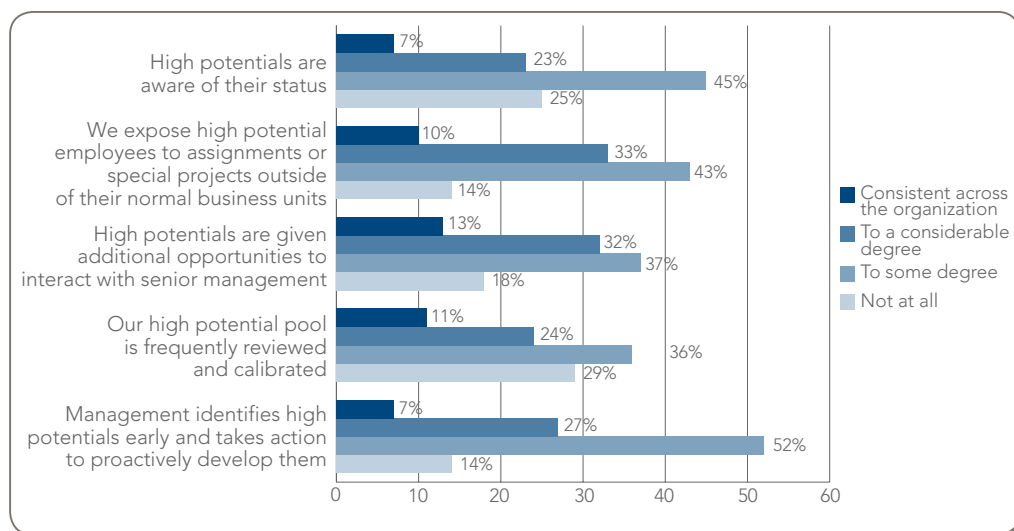
them of their status. More than two-thirds (70%) of organizations either do not inform them at all or do so only to a small degree. Just 7% communicate status to high-potentials consistently across the organization.

While the majority of companies are struggling, a few organizations are taking innovative approaches to identifying and developing high potentials. At **EMC Corporation**, significant emphasis is placed on implementing talent reviews consistently to facilitate the identification of top talent across the globe. Each business unit conducts a rigorous review process to identify top talent. Subsequent cross-business unit calibration sessions ensure consistency in how top talent is viewed across the organization. This culminates in a review session with the CEO. Seeking to streamline the process and make it more efficient, the company recently introduced new technology designed to automate the entire process.

Caterpillar Financial also devotes extensive time, energy, and resources to identifying and developing future leaders. Preferring to promote from within, the company rarely hires externally at the management level. Instead, Caterpillar Financial prepares employees for future leadership roles by ensuring access to cross-functional experiences. Managers work with employees to document current skills, career aspirations, and the skills and experiences they need to get there. The company also offers a mentoring program and an extensive learning and development function that includes both on-site and Web-based training for employees.

For organizations to be ready to tackle the business challenges of tomorrow, they must begin building a cadre of strong leaders today. While many have already embarked on this journey, it's clear that more sustained focus and consistency is needed to effectively build this capability.

Talent Analytics

Savvy companies manage their human capital much like other investments — using measurement to drive decisions and improve results. Metrics help to weave a "talent mindset" into the operating fabric of the business, clarifying expectations and creating a framework for tracking and reporting talent-related results in a language that business leaders understand. As with many areas of talent management, however, we found significant gaps in both the collection and usage of data. Organizations vary dramatically in terms of the quality of their metrics and how they are used, but most are still taking a traditional approach. Few organizations leverage talent analytics to make strategic investment decisions or link them to business performance. As the pressure on revenues and returns increases, companies will need a more strategic approach for measuring talent effectiveness and demonstrating a link to business results.

Few companies are strategic about what they measure

Instead of being empowered by decision science, the majority of established talent analytics do a good job at telling companies what has happened and how they're doing operationally but do little to trigger action. Traditional HR metrics, such as benefit and healthcare expenses, are systematically tracked by the vast majority of companies. However, far fewer organizations track metrics related to the quality of talent or the effectiveness of talent programs. Only 10% of organizations employ metrics to gauge the effectiveness of workforce management practices consistently across the organization, and even fewer (7%) consistently use metrics to align human capital investments with business results.

By and large, organizations take an ad hoc approach to measurement, tracking a large number of low-impact metrics. Such measurement is helpful in that it provides good current state information, but it does not enable the prioritization and focus needed to improve talent practices or link talent analytics to business results. While 92% of organizations measure total turnover, for example, only 51% measure leadership turnover and just 43% track turnover of high performers. Even with the mass exodus of the baby boomers upon us, only 51% of companies are measuring the percent of employees, managers, and executives scheduled to retire within the next five years.

Figure 20: *Turnover Metrics Tracked*
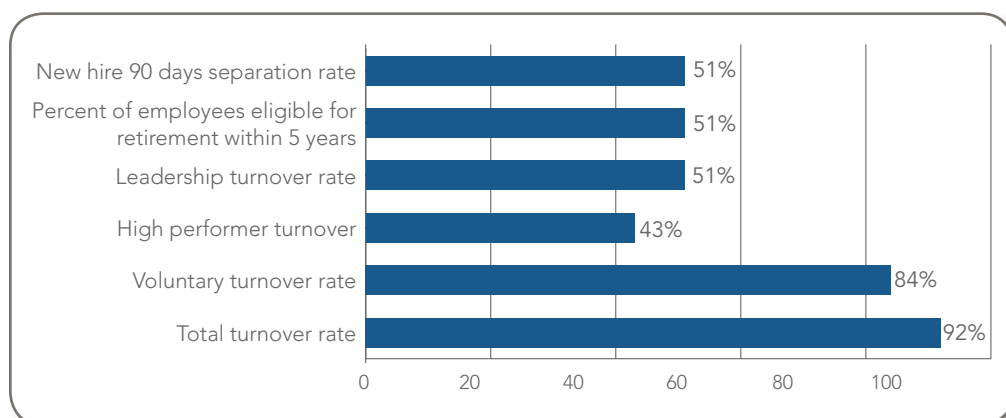
For most, the focus is on operations rather than outcomes

The majority of companies approach measurement by tracking operational metrics, rather than focusing on outcomes. The most commonly tracked recruiting metrics remain time to fill open positions (76%) and percent of external hires (72%), while more quality-related metrics such as the percent of critical positions that are filled and new hire first-year performance rating are tracked by just 53% and 39% of companies, respectively.

Figure 21: *Recruiting Metrics Tracked*
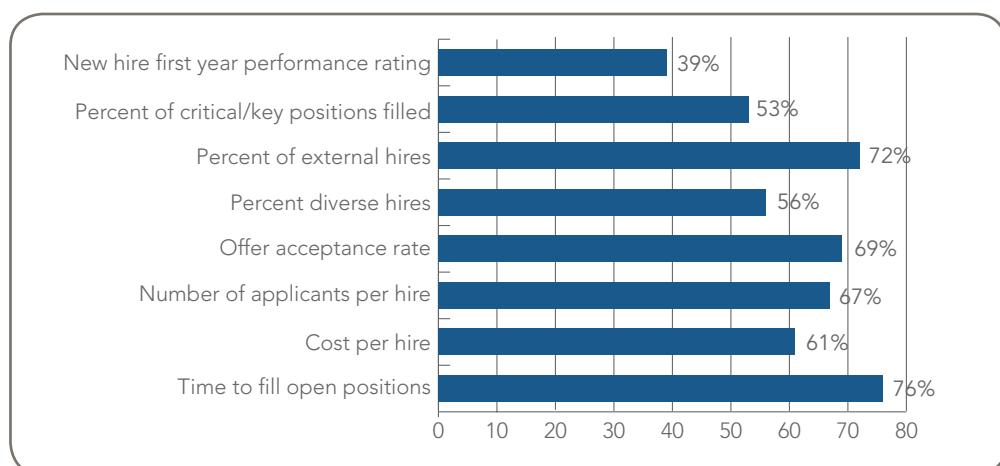
Similarly, operational measures prevail in both development and succession metrics. While 48% of organizations regularly measure learning and development hours and dollars per employee, only 24% measure the percent of employees with critical skills. In addition, just 37% track the depth of their succession pipeline, while even fewer (33%) track job openings filled from the succession pool. This focus on operations, rather than outcomes, makes it difficult for organizations to use metrics as a strategic decision-making tool.

Figure 22: *Percentage of Companies Collecting Development and Succession Planning Metrics*
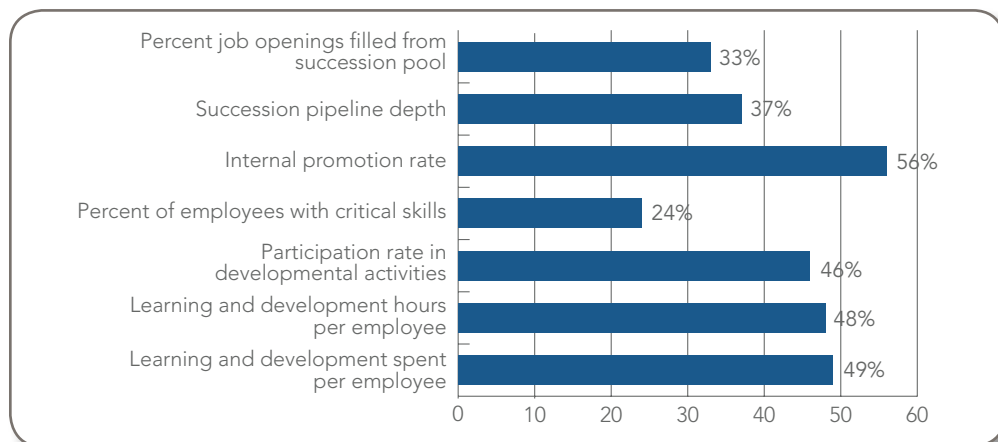
Select organizations are leading the way in talent analytics

Clearly, many companies are struggling to figure out exactly what they should be measuring and how best to make use of the resulting data. Fortunately, the next frontier for HR analytics is already in sight. Nearly all the Top Companies for Leaders measure the effectiveness of their talent and leadership development efforts and many use metrics to track how specific leaders are moving, developing, and retaining talent. Top Companies are also more likely to track broader outcomes, such as the long-term performance of a placed successor[2].

One ranking *Top Company for Leaders*, **Caterpillar**, uses a "leadership index" and "engagement index" to measure its leaders' effectiveness at developing, engaging, and inspiring talent. Planned movement is encouraged throughout the organization as a primary means of developing its workforce. Individual leaders are rewarded not only for the results they produce, but also for their ability to build functional and leadership capability.

These examples are part of a larger shift occurring among leading-edge organizations when it comes to measuring HR and Talent Analytics. Select companies are moving from solely tracking data to make operational decisions to utilizing more predictive future-focused metrics to drive business decisions.

[2] Hewitt Associates, *Top Companies for Leaders 2007: North American Highlights*, October 2007

Figure 23: *Metrics Evolution*

	Current State of HR Metrics Tactical Approaches	Future State of HR Metrics Strategic Approaches
What is measured	Static and current state HR metrics (answers the question: *What are we doing?*)	Predictive and future-focused metrics (answers the question: *What should we do next and why?*)
How it's measured	Ad hoc approach where many measures are tracked (examples: headcount, labor costs, turnover, total compensation)	Selective approach where quality is valued over quantity (examples: ROI of human capital, performance drivers, leadership capability)
How the data is accessed and used	HR primarily collects and uses data to make operational decisions	HR partners with business units to interpret data to drive business decisions

Applying rigorous analytical thinking to drive human capital decisions is still a relatively new concept. However, a growing number of companies are taking bold steps in that direction. For example, **Capital One** created a workforce analysis team that has been making major inroads in linking human capital and workforce performance to business results. Recently, the team designed an interactive workforce planning process aimed at helping business units establish optimal "build, buy, or borrow" strategies for the future. Using sophisticated data mining and modeling techniques, the team identified how various talent sourcing approaches affected workforce engagement and productivity. This enabled the team to predict the optimal mix of external hiring, internal promotion, and other people practices for driving long-term engagement.

Clearly, metrics have the potential to serve as a powerful tool to enhance talent management effectiveness and drive critical human capital decisions. To harness their full power, however, companies must adopt a systematic and strategic approach focused on the consistent tracking of a limited set of measures that drive business value creation.

Recommendations for the Future

Given the increasingly challenging global business environment, talent management will — and must — remain a top priority for executives in the years ahead. The future of talent management will need to evolve from where it is today to become a more systematic business process. Our research shows us that:

- Leaders see the value of talent, but most organizations are still struggling to systematize and integrate their talent management processes.

- There is a need for more direct, tangible accountability for developing talent among leaders and managers, but this accountability needs to work both ways. Companies must provide the training and support managers need to build their management skills and capabilities.

- Leadership development is clearly a priority, but again, more sustained focus is needed on execution to ensure organizations are ready to tackle tomorrow's business challenges.

- Metrics are critical for connecting talent management initiatives and priorities to business results. While there are some clear innovations in this area, most organizations need to push past static operational measures to more strategic, predictive analytics.

- Ultimately, leading companies demonstrate both breadth and depth of their talent management practices with a clear alignment to overall business and talent strategies and an indefatigable commitment to program execution.

So what do companies do now to address the key talent management challenges identified in this report? What is the practical starting point for companies today? Regardless of industry, size, or geography, the following are key actions to help your organization improve current talent management practices or jump-start ones that are just getting off the ground.

Sustain executive commitment to talent management

Sustaining executive buy-in to the criticality of talent management is especially important in a challenging business climate, when organizations need, more than ever, to have the right people focusing on the right things. Pressure to deliver business results can divert emphasis away from actions that signal an organizational commitment to talent management. Experience tells us that strong performers will always have choices about where to work. To

retain your most valuable talent and build a foundation for tomorrow, now is the time to ensure that your talent practices are progressive and effective.

To sustain leadership commitment, provide executives with data that substantiates the value of talent management. Straightforward analyses that look at the relative contributions of low, average, and high performers can provide compelling "evidence" that acquiring and developing the right talent is critical to achieving business results. Ensure that executives keep talent management on the agenda for every discussion of organizational priorities, and push for consistent, future-focused decisions that communicate the continued importance of talent management.

Establish Direction

To ensure you are moving in the right direction, you must start with the end in mind. Establish a clear understanding of your organization's business goals and objectives; then determine whether your current talent management strategy is aligned to drive these goals. Ask the hard questions: Does our organization have the talent it needs to execute our business strategy? How well are talent initiatives coordinated across our business units and the regions in which we operate? Do our talent programs penetrate deeply enough into the organization to support the business effectively? Are managers capable enough to develop and support capability growth?

Once you have taken an objective assessment of your strengths and weaknesses, you can begin to frame solutions. This leads to another set of questions: What specific talent outcomes are needed to achieve success? How do we address the shortcomings in our talent management approach? What are the biggest priorities? How do we measure success effectively? Use these questions to start a dialogue within your organization to determine which talent management initiatives will have the biggest impact.

Vet the opportunities for real impact

> *"A leader who says I've got ten priorities doesn't know what he's talking about"*
>
> — Larry Bossidy and Ram Charan,
> in *Execution — The Discipline of Getting Things Done*

Now more than ever, it's important to focus on issues that, if addressed, will have the greatest business impact. As in all aspects of running the organization, effective prioritization of talent management initiatives will yield the maximum payback on precious resources expended.

Look for ways to get and maintain an accurate picture of how well the organization's talent practices are actually "landing on people." This means finding out what's happening from a qualitative perspective (e.g., employees' perceptions of development and career opportunity) as well as quantitative data (e.g., such as the number of hits on the development Web site). Non-intrusive workforce surveys, quick pulse questionnaires, "open-mic" employee teleconferences for feedback about talent practices, focus groups, and high performer panels are a few of the many ways organizations are gathering and distilling reliable insight about the essential few areas for action now.

Combining feedback of employee perceptions of talent programs with the assessment of capabilities needed to drive business results will help identify key talent management opportunities that have the greatest impact on your organization.

Look for new ideas and approaches you can adapt

Talent management is no longer about exhaustive benchmarking studies; it's about scanning the landscape for approaches, steps, and tools being tried and applied, and finding the ones worth looking at more closely. Which other organizations, inside and outside your industry, have practical ideas and methods you might find useful? The idea is to spot opportunities to kick-start, supplement, or re-wire current practices by adapting or tailoring aspects or elements of others' talent management systems. Colleagues in professional organizations, conference presenters, and publication authors are examples of sources for new thinking that goes beyond the customary talent practices. Look to them for input on thorny issues (e.g., How can we build manager capability when supervisors are stretched by individual and unit workloads at current staffing levels? How do we create the cross-generational and cultural inclusion that will engage everyone to give their best?).

Also remember to look within your own organization for the talent practices working well in one part of the business. Find out what they're doing, why it's working, and how their learning and practices can be leveraged more broadly across the company. In many organizations, great practices that could help the entire firm win are occurring "under the radar screen."

Create a realistically aggressive action plan

As business and talent management leaders, we all know how to build action plans incorporating critical steps, milestones, and target outcomes. However, as we've seen throughout this report, execution is a critical and often mismanaged aspect of building a talent management strategy. Identifying best practices is vital, but effectively implementing them based on a solid action plan is just as important. As you create your action plan, build in sound project management principles to ensure an effective rollout. Consider using pilot programs versus enterprise-wide implementations, time your rollouts with other business initiatives and cycles, and provide consistent communication to foster clarity and commitment.

Once you have the solid foundation of project management in place, make sure you maintain a realistically aggressive focus on results. Ask yourself: Does our talent strategy push hard enough to accelerate timelines for results, compared to other areas of the overall business plan? And, does it identify the highest priority areas for action and commit to a limited number of critical deliverables? Do we have clear, quantifiable metrics in place to measure the effectiveness of the implementation and the business impact of our talent-related initiatives?

Conclusion

While many of these actions appear straightforward, putting them in place is not easy. As with any organization-wide initiative, there is a need for discipline, innovation, and sheer persistence to see lasting results. Many of the organizations we've highlighted with effective talent management practices have been at it for years — consistently demonstrating their commitment to developing great talent. And over time, this commitment has translated into a strong base of talent and a pipeline of leaders with a demonstrable impact on business results. Innovative ideas, strong execution, and a foundation of clear metrics can enable many more talent management professionals to create a talent mindset that will prepare their organizations to face the challenges ahead.

Acknowledgements

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About Talent Practices Impact Survey: 2008

Conducted in 2008 by the Human Capital Institute and Hewitt Associates, this study reflects the input of nearly 700 respondents to an on-line Talent Practices Impact Survey, as well as in-depth interviews of a sampling of participants. Participants represent senior-level talent leaders (both HR and non-HR) who are directly involved in functional areas, such as HR, talent management, organizational development, leadership development, and succession planning. Together, they represent a mixture of public and privately held companies from around the globe in a variety of industries, geographies, and sizes.

Participating organizations range in size from fewer than 1,000 to more than 50,000 employees. Just over one-half (55%) of participating companies have fewer than 5,000 employees, while the remaining half are somewhat evenly distributed (between 5,000 and 50,000+ employees). Seventy percent of respondents represent talent management practices and processes for U.S. companies, while the remaining 30% are non-U.S. companies. Nearly two-thirds (63%) have operations around the globe.
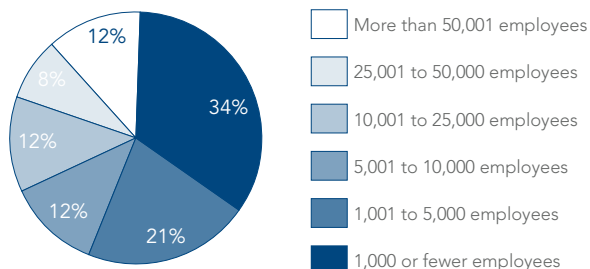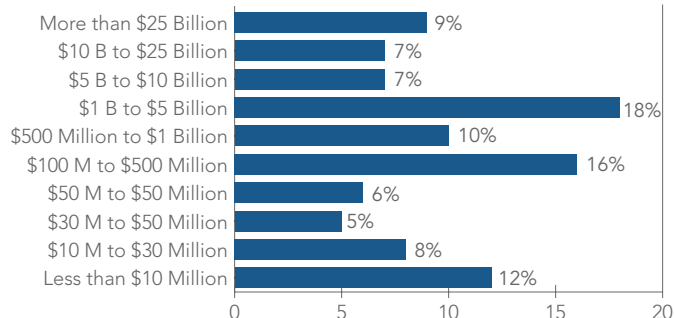
Figure 1: *Number of Employees*

- 34% — 1,000 or fewer employees
- 21% — 1,001 to 5,000 employees
- 12% — 5,001 to 10,000 employees
- 12% — 10,001 to 25,000 employees
- 8% — 25,001 to 50,000 employees
- 12% — More than 50,001 employees

Figure 2: *Revenue Size*

Revenue	Percent
More than $25 Billion	9%
$10 B to $25 Billion	7%
$5 B to $10 Billion	7%
$1 B to $5 Billion	18%
$500 Million to $1 Billion	10%
$100 M to $500 Million	16%
$50 M to $50 Million	6%
$30 M to $50 Million	5%
$10 M to $30 Million	8%
Less than $10 Million	12%

Figure 3: *Geographic Location*

Location	Percent
United States	70%
Canada	9%
Mexico and Central America	1%
South America	1%
Europe	8%
Africa	2%
Asia	6%
Australia	1%
Other	1%

Figure 4: *Industry*

Industry	Percent
Aerospace/Defense	2%
Business Services	9%
Chemicals	2%
Computer Hardware and Services	5%
Construction	2%
Manufacturing	12%
Energy/Utilities	%
Financial Services	16%
Food and Beverages	2%
Government	3%
Health Care	8%
Pharmaceuticals	2%
Retail (Includes Wholesale)	3%
Telecom Services and Equipment	3%
Transportation Services	2%
Other	23%