Driving Successful HR Leadership: Talent Management’s Role in Core Business Strategy

A New Study Exploring What’s Working for Organizations Today and the Biggest Gaps to Fill

Independent research conducted by HR.com and sponsored by ORACLE®
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The Shift from Transactional to Strategic

Today’s CEOs and executives maintain that there are three key components to a successful business: 1) you have to have the right strategy, 2) you have to have the operations in place to execute that strategy, and 3) you have to have the best people in the world to execute those operations.

Being responsible for one-third of a business’ success already puts HR in a critical role. But it’s not just about finding the best people—it’s about finding the best people, at the lowest cost, with the lowest possible attrition and the best possible performance. And it’s about guiding your executive team to the right decisions using the language they understand best: numbers. Talent management—covering everything from recruiting and compensation to ongoing education and retention—has traditionally been managed in silos, with a series of disparate systems and disconnected processes and reports. In today’s data-driven world, CEOs demand more. Given that 55% of the US GDP alone is spent on wages and salaries, it’s not a stretch to say that the biggest financial decision a company can make each year is the total amount of merit increase. The strategic HR leader is expected to come to the table with hard numbers justifying merit increase requests; it’s no longer enough to state industry trends or averages. And that’s just one piece of the puzzle. Today's HR leader needs to holistically understand the workforce by function, category and location. Is R&D attrition in China hurting the company’s bottom line? Does the company need to offer more competitive packages to retain top performing sales reps in North America? These types of questions cannot be answered quickly, easily and to a CEO’s satisfaction if data is scattered across legacy systems and pieced together in rudimentary reports.

It’s clear that a shift is needed. The next generation of HR leadership is not about completing transactions—it’s about helping drive the CEO to great decisions and using technology to connect the dots throughout the entire organization. So how are companies doing? In a recent study conducted by HR.com and sponsored by Oracle, we found some gains and some definite areas for improvement.

For this study, HR.com surveyed over 90 HR leaders from organizations with over 500 employees in Canada and the United States.

The study explores two main areas: 1) talent management tactics that are working for companies today and 2) the extent to which companies have been able to integrate talent management applications and move toward a holistic process.

Key Study Insights

The following emerged as key tactics or trends in talent management based on the organizations surveyed for the study:

1. Improving sourcing is thought to be the most effective way to decrease time to fill, though tactics like social networking and improved screening are close runners-up.
2. 80% of organizations surveyed focus on one of two tactics to improve retention: better employee engagement through clear goals and communication, and better career and succession management.
3. Employee development is the number one tactic used to retain top performers.
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4. Improved data analysis has the most significant impact on improving total compensation and rewards.

5. Training managers are seen as the most effective way to improve the overall performance management process.

6. Nearly 80% of organizations do talent reviews and a majority use technology to support this process.

7. Almost half of the organizations that do talent reviews use the 9-box assessment method.

8. For the majority of organizations, the integration of talent management applications remains moderate or poor.

9. Executive teams are more likely to focus on performance management over talent scarcity or retention.

10. CEOs indicate that people management is a primary driver of results, but less than 30% offer strong support for HR analytics.

In the following sections, we’ll delve into these trends and tactics, covering core areas such as: talent scarcity and recruitment, talent retention, compensation and learning, performance management and talent reviews, integration, and business context.

The War for Talent: Talent Scarcity and Recruitment

Technology advances have pushed businesses forward but they’ve also presented new challenges: finding the right people to help you get the right products to market — especially before your competition — is harder than ever. This is compounded by the advent of online professional networks. While these networks can help recruiters more easily find new talent, they also make it possible for top performers to be found by other hungry recruiters and cherry pick talent for their next great job.

Some jobs are easily filled, but all too often the talent the organization needs is scarce and the skill of recruiters in quickly finding and wooing that talent is essential.

This is a matter of strategic importance to the company’s bottom line. Open essential positions lead to delayed projects, missed targets and overextended teams. And a delayed project is not just an inconvenience—it can mean the difference between getting a product out before competitors and being late to market. These vacancies can ultimately contribute to reduced revenue and loss of market share. Given the impact vacancies can have on the organization, recruiters must constantly explore new tactics to reduce the time to fill openings. So what works?

In this study, results varied. Just over one-third of companies point to better sourcing as the number one tactic in decreasing time to fill (Figure 1). Tying for second place were the use of social tools and improved screening and assessments. Some companies also noted improvements due to better software and processes. Only 7% of companies said that more competitive compensation and benefits made a difference. This could be because organizations are unwilling to increase pay or have not considered using non-financial rewards to attract talent. Companies falling into the “other” category reported tactics such as being flexible in adhering to job descriptions when sourcing new recruits and relying on their firm’s success and reputation to attract talent.
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The takeaway is that there’s no magic bullet when it comes to decreasing time to fill. More likely, it’s a combination of better sourcing, effectively leveraging social media tools, improving screening and streamlining software applications and processes. As we’ll see later, some firms are also turning to non-financial rewards. Finally, one tactic not mentioned by those surveyed is using a holistic, analytical approach to better anticipate vacancies—via predicted retirement or attrition—and prepare before there is an immediate need.

FIGURE 1: What has had the biggest impact on improving the time to fill your open positions?

Filling positions quickly is important but warm bodies do not make for a successful business. As mentioned earlier, finding the best people is one of the three keys to a company's success. Recruiters know well that there can be considerable variation in ability even between candidates who have similar qualifications. Consistently finding the best candidates can have a significant effect on organizational performance.
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What tactics are most successful in improving the quality of hire? Figure 2 shows that improved screening and assessments had the biggest impact on quality of hire for almost half of the respondents. Improved sourcing was cited by 23% of study participants followed by 14% of respondents who aim to model requisitions after high performing employees or job profiles.

Getting a better handle on what a high performer looks like is frequently recommended by consultants, but its weak showing in the survey is not surprising given the poor to moderate talent management application integration cited by study participants. Without a clear and consistent view of employee statistics across the organization, it’s nearly impossible to create data-driven and actionable profiles of desired candidate attributes.

Several respondents falling into the “other” category pointed to the importance of on-boarding in improving quality. This is an interesting view; it emphasizes the ability of the organization to bring out the best in the raw talent they have hired rather than assuming that ability is fixed when they bring the employee on board. Another response pointed to the value of having a specialized recruiter, noting that it is not just the tools or processes an organization has but also the skill of the person using those tools.

FIGURE 2: What has had the biggest impact on your quality of hire?
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Nurturing Talent: Retention, Compensation and Learning

If finding the best people is essential to a company’s success, keeping them is even more important. Just as with customers, finding new top talent is more time and resource-consuming than keeping the top talent you already have.

Compensation and learning are primary factors in employee satisfaction, which ultimately leads to retention, and they are also examined in this section.

When asked about general retention strategies, 80% of study participants reported focusing on one of two tactics: better employee engagement through clear goals and communication, and better career and succession management (Figure 3).

In the book *Beyond HR: The New Science of Human Capital*, John Boudreau and Pete Ramstad make a case for sharper focus, such as better needs analysis when it comes to employee retention. After all, organizations aim to retain top performers and high potentials, not all employees. Only 10% of respondents listed needs analysis as a top focus, which is in line with general survey findings regarding talent management application integration and the embracement of HR analytics. At this point, HR is still likely to be focused on programs for the general employee population.

Respondents who answered “other” named tactics such as using a combination of these methods (rather than focusing effort on one) or using better selection as a way to improve retention. While limiting selection to those anticipated to stay may work when there is a large pool of qualified applicants, in times of talent scarcity, it may be impractical.

**FIGURE 3: What are you focusing on most to improve talent retention?**

<table>
<thead>
<tr>
<th>Focus Area</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better employee engagement through clear goals and communications</td>
<td>51%</td>
</tr>
<tr>
<td>Better career and succession management</td>
<td>30%</td>
</tr>
<tr>
<td>Better talent retention needs analysis</td>
<td>10%</td>
</tr>
<tr>
<td>Better total rewards/compensation plans</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
</tr>
</tbody>
</table>

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Although HR departments tend to focus on the broad employee population, study participants did emphasize the importance of tactics to retain top performers. Developing employees to their fullest potential is the most employed tactic. The second most popular tactic was using rewards and incentives (Figure 4).

FIGURE 4: What is your organization’s main tactic for keeping top performers?

![Bar chart showing tactics for keeping top performers]

Compensation is a crucial aspect of employee retention but keeping compensation under control is also critical to the company’s bottom line. As mentioned earlier, the annual merit increase is often the most significant financial decision a company will make all year. When else will a CEO approve a spend reaching into the millions without strong evidence to justify it?

Although HR departments have yet to realize the full power of analytics, when it comes to reward and compensation effectiveness, organizations have embraced its value: analysis is listed as the number one improvement tactic for over 40% of respondents (Figure 5).

The other finding of note was the effectiveness of non-financial rewards. In boom times companies may have been prone to simply increase compensation levels; in this less certain economy, we see organizations taking a more creative route. Thirty-four percent of organizations surveyed named better non-financial rewards as having the biggest impact on improving total rewards and compensation. It is worth recognizing that non-financial rewards are not just a way to save money; employees genuinely value flexible hours, child care services, and even time-saving benefits such as on-site laundry services. Employees, especially those with child care responsibilities, find it difficult to juggle the many demands on their time and non-financial rewards may make a bigger difference in their life than a slightly bigger paycheck.

Among the 11% of respondents answering “other,” some mentioned finding out what mattered most to employees, others discussed better managing pay grades, while yet others said they had made no improvements.
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FIGURE 5: What has had the biggest impact on improving your total rewards and compensation?

It’s important to remember that top performers aren’t just out for a paycheck. Particularly with younger workers, the chance to continually learn on the job is a major factor in retention. So what are organizations doing to improve learning? The most common tack taken by this study’s participants is improving their training needs analysis to understand how and where to spend money (Figure 6). Getting nearly as much attention is e-learning, an increasingly popular training model due to its lower cost and increased flexibility for both companies and employees.

Those who responded “other” mentioned a number of tactics including better follow up, more in-person training, and better documentation.

FIGURE 6: What are you focusing on most to further improve learning?
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Measuring Talent: Performance Management and Talent Reviews

End-to-end talent management encompasses three main pillars: recruitment, learning and performance management. Performance management is a crucial element of maintaining the best possible workforce as it enables companies to identify high performers and high potentials while also understanding issues of under-performance. From there, companies can better strategize merit increases, retention efforts and more.

Figure 7 shows where organizations surveyed have had success in improving performance management and what they are focusing on to improve it further.

Organizations indicated that training managers in performance management has brought them the most success; this is also the area of greatest focus for continued improvement. The other two successful practices have been better alignment between goals and better goal setting.

Respondents who answered “other” pointed to the importance of making performance management part of the culture and ongoing employee-manager communication.

FIGURE 7: Performance management, what has worked and what are you working on?

One of the most important elements of talent management is to go beyond the individual performance appraisals and look closely at the talent pool to identify and develop key talent. This process is typically called a talent review, and is handled by a committee of senior managers. Just over 20% of organizations reported that they did not use talent reviews. If we focus on the nearly 80% that did, we find that close to half of those only use paper-based reviews (Figure 8). Given the ease with which talent review committees can sort through and evaluate a global workforce using an integrated talent management system, it seems likely the number using manual processes will shrink in the years ahead. Stand-alone technology (instead of integrated technology) is surprisingly prevalent; it is used by well over half of the organizations that use technology for talent reviews.
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FIGURE 8: What is your company’s adoption of talent reviews?

One classic tool for talent reviews is the 9-box model. This model attempts to distinguish between performance and potential. The dream employee is one who is both a high performer and has high potential. The 9-box model draws attention to the fact that there may be employees who do very well in their current job but wouldn’t do well if promoted, and possibly other employees who are full of potential but for some reason are not yet performing well in their current role.

The model generally looks like this:

<table>
<thead>
<tr>
<th>POTENTIAL</th>
<th>HIGH</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MEDIUM</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>LOW</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 9 shows that nearly half of the respondents who do talent reviews use the 9-box model. Of those using the model, two-thirds use it to look back on the historical record while one-third also use it to get a handle on future talent outcomes.

FIGURE 9: Do you use the 9-box to perform talent reviews?

Yes, to view historical talent data and model future outcomes, 28%
Yes, to view historical talent data, 19%
No, 53%
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Managing Talent: The Advent of Integration

Soon after adopting new talent management applications, most organizations realize the need for integration. Technology investments are often made to streamline processes and improve data accuracy. But the full power of technology cannot be realized when companies have multiple systems of record with disconnected data streams and conflicting processes. Moving data from one system to another and ultimately needing to process the information in a manual application, like a spreadsheet, leads to inaccuracies, frustration and wasted manpower.

Our study shows that HR has a long way to go when it comes to integration. The majority of organizations surveyed report poor to moderate integration of their talent management applications. Performance management is a bit more likely to be well integrated than the other pillars of talent management, although even there the number with poor integration greatly outweighs those with good integration.

Talent management is increasingly becoming a priority for companies and CEOs have new, more strategic expectations of their HR leadership. At the same time, HR leaders strive to be seen as more than transactional contributors and push for a seat at the executive planning table. To elevate their roles and present CEOs with the thoughtful, proven talent intelligence demanded, HR leaders will need to make systems integration and clean, consistent data greater priorities.

FIGURE 10: How well integrated are your talent management applications?
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Note: The study gave examples of what was meant by poor, moderate and good integration; here are the illustrations used in the survey:

<table>
<thead>
<tr>
<th></th>
<th>Very poorly</th>
<th>Moderately</th>
<th>Very well</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Performance Management</strong></td>
<td>Performance management software is manual or the software is not connected to HRIS etc.</td>
<td>Performance management just tracks ratings</td>
<td>Performance management software fully integrated into talent management suite for outcomes such as learning or compensation</td>
</tr>
<tr>
<td><strong>Compensation</strong></td>
<td>Compensation software is not connected to HRIS etc.</td>
<td>Compensation system has no HR connection beyond contact info and payroll</td>
<td>Compensation software is fully integrated into talent management suite with performance ratings</td>
</tr>
<tr>
<td><strong>Learning</strong></td>
<td>Many disparate, unconnected systems</td>
<td>Single learning system with no HR connection beyond contact information</td>
<td>A single integrated system for learning data</td>
</tr>
<tr>
<td><strong>Recruiting</strong></td>
<td>Recruiting software not connected to HRIS etc.</td>
<td>Recruiting software is just connected to core HR</td>
<td>Recruiting software fully integrated into talent management suite</td>
</tr>
</tbody>
</table>
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View from the Top: The C-Suite Weighs In On Talent Management

According to study participants, when it comes to talent management, their executives focus mainly on performance management (Figure 11). The reason performance management is so often on the front-burner is that organizations are striving to get more out of the people they already have, rather than adding headcount. The business imperative at many firms is simply being more productive and that is what good performance management ought to deliver.

Significant numbers of respondents also reported a primary focus on talent retention/compensation/learning and talent scarcity/recruiting. Those that responded “other” pointed to various issues such as “succession planning” or more worryingly, “business survival.”

**FIGURE 11: Which of the areas is management focusing on the most?**
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The previous figure showed what areas of talent management organizations are focusing on; the next figure (Figure 12) shows why. The data shows that the area of focus is just as likely to be in good or very good shape as it is to be a weak area in need of fixing. In the case of performance management, we see that 11% felt that their system was already strong and 39% rated it as good, but it was sufficiently critical that it remained the priority. It is an encouraging sign that many organizations, in all three of the areas we examined, are aiming to go from good to better.

FIGURE 12: Why is this area the focus?

Perhaps one of the most important pieces of context for HR is the top management’s attitude towards HR analytics. If HR analytics are seen as low priority, then that may be a signal that top management views HR as mainly transactional. On the other end of the scale, if top management values HR analytics then HR is more likely to be seen as able to drive business success.
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Figure 13 shows top management being “somewhat supportive” of analytics narrowly edging out “analytics is not a priority at this time” as the most common response. Only 8% said that management had already made sure HR had the analytics tools they needed. These figures contradict other recent studies showing that CEOs expect more out of their HR leadership, especially when it comes to making data-driven decisions. This should be a call to action for HR to better present the value of new analytics solutions and the ability of their departments to leverage them.

FIGURE 13: What best describes top management’s attitude towards HR analytics?
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We also asked directly about whether business unit heads and the CEO indicate that people management is a primary driver of results. In Figure 14 we see an interesting finding that is somewhat at odds with the data in the previous chart.

Only a few strongly disagree with the statement that “The CEO indicates that people management is a primary driver of results.” If top management usually agrees that HR is a primary driver of results but is not supportive of HR analytics, then there clearly is work to do when it comes to demonstrating the capabilities of today’s HR analytic solutions and their ability to optimize people management. Of course the success of HR analytics rests on a tighter integration of talent management applications, something that is lacking at the majority of organizations interviewed.

Figure 14: The CEO/ Business Unit Heads indicate that people management is a primary driver of results

Note: the average was calculated by giving four points for strongly agree, three points for agree and so on, down to zero points for those who strongly disagree that HR is a primary driver of results.
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Conclusion

The talent management game has changed. Slower economic growth combined with a scarcity of talent to fill crucial positions, the advent of social networking and a new generation of digital natives, AND increased expectation from the top, mean that the days of transactional HR have long passed. HR leaders want a seat at the strategic table and CEOs want to give it to them. But to be able to make this leap from transactional to strategic, HR leaders need to put greater focus on tools, process and integration and stop addressing talent management in silos.

While tactics for decreasing time to fill, maximizing the effectiveness of compensation and rewards, and retaining top performers vary among companies, one thing is constant: easy access to workforce intelligence is key. Without access to clean, consistent data, HR leaders cannot act with the certainty and speed to get the best people at the lowest cost and ensure the best performance and lowest attrition. Moreover, HR will lose the opportunity to be true leaders in the business and help guide the CEO in decisions based on future business impact. How many top performers will you lose to retirement in the next five or ten years? What skill demands are on the rise? Which regions, categories and functions need greater attention? What will be the bottom line impact of giving merit increases to top performers only vs. all employees? This is all insight that the HR leader can and should provide.

One of the three crucial elements of a successful business is having the best people in the world. It is a war to find, develop and retain the best people, but it’s one that can be won with the right tools at hand.