

Successful talent management revolves around one overriding objective—assuring smooth leadership succession. Finding the right people with the right skills and experience in a shifting and complex business environment is the great challenge facing managers throughout the world.

According to Deloitte, almost nine in 10 executives see leadership issues as the highest-priority issue overall—and, tellingly, only 14% of companies describe themselves as “strong” in succession planning throughout the business.¹ That’s a big problem that falls squarely on senior managers and HR leaders, who will play increasingly vital roles in maneuvering their organizations through an unfolding perfect storm of events: a labor shortage that is already well under way and set to deepen as experienced baby boomers leave their careers; the rise of younger talent with little inherent sense of loyalty; and the imperative to develop the skills of that talent as technology and work culture evolve.

Competition for the best leaders will only get more and more fierce, a heady challenge made even more demanding by the fact that attracting and retaining critical talent is an enterprise-wide priority extending beyond the C-suite to all areas of an organization. Critical-skill gaps anywhere can lead to inefficiency and higher costs, if not outright operational turmoil. What best practices lead to a solid succession strategy?

This executive brief, the third in a series of three, will explore the mission-critical importance of 1) aligning an HR strategy around the overall business goals of the organization, 2) identifying internal talent and nurturing a pipeline that feeds those goals and 3) acquiring outside talent to fuel the pipeline and keep the organization at peak efficiency.

BEST PRACTICE #1: ALIGN YOUR PIPELINE WITH YOUR BUSINESS STRATEGY

HR is moving into new territory as a Great Integrator of

goals, the leaders who align talent throughout the ranks with the prime business strategy of the organization. They have to understand the roles of all key employees and teams—and nurture a pipeline with the right talent and skills to fill leadership positions seamlessly. They have to see the big picture and crucial details at once, a complex task that in most companies would be impossible without technology and analytics.

Break silos. First, however, HR itself needs to be integrated by busting down its own silos. “Historically, HR functions have been siloed, leaving other departments with little influence over what new talent they had to work with,” says Amy Abel, managing director of human capital at The Conference Board, an independent business membership and research organization with offices on three continents. When all the functions and moving parts of HR are focused around the critical needs and goals of the organization, the solutions to big challenges around pipeline and succession come holistically. “What if solving a gap in competency or capacity involved the alignment of multiple HR constituencies—talent acquisition, learning and training, onboarding—and they all

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—AMY ABEL
Managing Director
of Human Capital,
The Conference Board

¹Global Human Capital Trends 2016, Deloitte, Deloitte University Press.

understood the depth of this gap?” she says. “Would it require 10 people? A hundred people? Only then can we collectively integrate our solutions to address that need in an impactful and sustainable manner.”

Without integration, the effort would be more disjointed or haphazard. HR would be aware of the gap, but it wouldn't be unified around the issue and able to ask the right questions. Are we recruiting for these particular skills? Are we building leaders? Many companies have a long way to go. In fact, “the overall success by organizations to grow leaders remains dismal,” according to an October 2016 brief from Bersin by Deloitte,² an HR research and consulting group. Its findings point to a widening gap in the capabilities that make great leaders and weak leadership pipelines across all sectors and industries. Only 60% of leaders in surveyed organizations show commercial acumen and business judgment, and only 48% are seen as driving change and innovation.

“Companies need a terrific performance management system and terrific clarity around goals and expectations and what people in teams are supposed to achieve,” says Bob Corlett, president and founder of HR consultancy and executive search firm Staffing Advisors. However, getting employees to a point “where they can achieve their goals is not always up to HR; sometimes it's the job of a manager. The future of HR is this partnering for performance.”

Shannon Sisler, senior vice president of talent management for Western Union, agrees. “We're asking our managers to make decisions and not always involve HR, but rather make sure that HR has the right checks and balances,” she says. “It's been an evolution for both managers and HR practitioners.” Employees play their own part in this evolution as data-centric talent profiles and talent review dashboard matrices show them the competencies they need to develop, along with their learning and leadership development plans.

Solve the business problem. The Conference Board's Abel tells the story of an HR team at a global aluminum manufacturer. They ran a geographic analysis of their workforce and found that they didn't have a pipeline in place to fill future mission-critical gaps following the retirement of highly skilled and experienced leaders in their plants. These positions required many years on the job and a deep understanding of processes and technology. If those roles were not filled with competent leaders, there was going to be a process problem and a succession problem—their pipeline around this area was weak. Was that

a training issue? Sure. But it's not just a training issue, and it's not just an HR issue—it's a business issue.

The HR team at the aluminum maker took their findings to the C-suite and other high-level executives so the full thread of leadership could understand the impact of the potential disruption. They still had time over the coming years, but not a lot of time: the teams had to know what they could do to fix the looming gap and make sure it didn't become a crisis once these highly skilled and experienced leaders retired. “It sounds like a cliché to say that you need to first understand business strategy and then prioritize hiring and development based on that strategy,” Abel says. “But it's not always easy to implement solutions. With labor shortages often causing pressure, HR must rise to the occasion by, among other steps, carrying out a data-driven talent strategy. To underscore the extent of talent-related challenges and impact to business operations when talking to the C-suite, presenting meaningful evidence and analytics plays a vital role.”

BEST PRACTICE #2: IDENTIFY AND NURTURE YOUR FUTURE LEADERS

A strong critical-talent pipeline depends on the ability of managers to identify their organization's future leaders and support their success—and then *retain* them. In many ways, pipeline and culture are intertwined: talent needs to be engaged and aligned with the core goals of the organization, and these employees need a supportive and collaborative environment that lets them grow into their careers in a way that supports the organization. The strength of a pipeline is also deeply connected to data and analytics.

“Many HR departments are creating their own internal labor shortage indexes, similar to the way The Conference Board has built one for the U.S. economy as a whole,” says Brian Schaitkin, a senior economist at The Conference Board, which studies labor issues and recently launched a labor shortage index.³ “These departments are aiming to answer questions that include: who in their organization is going to retire, how likely is it someone will retire at a certain time, what does the pipeline look like in their younger generations, how long will it take to develop new talent, and how hard will it be to fill particular openings? Whatever the question, the answer begins with an analytics process that seeks to identify the future needs of an organization.”

Support mobility. At Western Union, the global

²“High-Impact Leadership: The New Leadership Maturity Model,” WhatWorks Brief, Bersin by Deloitte, October 2016.

³“Help Wanted: What Looming Labor Shortages Mean for Your Business: CHRO Strategic Implications, The Conference Board, 2016, <http://pages.conference-board.org/labor2016-lp-chro.html>

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financial services firm, average employee tenure is five years. Because of hiring due to company growth and expansion, a fifth of the workforce is fairly new to the organization. Retention is top of mind—and efforts around keeping the best talent revolve around the firm’s culture. “Realistically, millennials are not going to stay in jobs for 10 to 20 years,” Sisler says. “A portion of them will, but we really have to think about how we can support their career mobility both within and outside the company.”

How does HR do that? Many managers are turning to talent review dashboards. A talent review dashboard relies on an interactive matrix that lets users look at large-scale trends in the organization as well as review individual talent details for a team or multiple teams. Using the performance to potential matrix, HR and managers can gain a complete picture of a company’s talent landscape, enabling the best decision making.

Exelon Corporation assesses talent throughout its internal population and external pipelines and identifies high-value employees through such avenues. “We have a rigorous assessment process, and we look at people’s leadership profile early on in the internal selection and external hiring process so that it’s something we can leverage as they’re moving on in their career,” says Amy Best, senior vice president and chief human resources officer at Exelon. “We really focus on assessing the leadership competencies of new hires, as well as internal employees as they are promoted, so that we can have a baseline of where they are and help drive their success forward.”

Visibility into the pipeline also helps managers develop existing talent who have been selected to succeed incumbents in critical roles. “Because our company is so big and so diverse, we can offer multiple career opportunities, but we also offer a lot of leadership development and core employee development,” says Jennifer Boyd, vice president of talent management at Exelon. “We really focus on individual development as part of our performance process and development plans that drive leadership accountability.”

Be flexible. The Conference Board’s Schaitkin says that the retention of younger employees can be distilled down to one word: flexibility. “The more flexibility organizations can provide to their employees across all categories that encapsulate work-life quality, the more

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likely they will retain top talent,” he says. “In contrast, if they fail to offer that level of flexibility, but competitors do, they will lose talent. Today, several websites allow current and prospective employees to compare work cultures across organizations, so they can migrate to those that better suit their values and needs. So the questions to ask: Are you giving flexibility to young workers in terms of how technology allows them to use their time? And, are they able to join projects that allow them to thrive, including ones that might not be precisely spelled out in their job descriptions?”

Abel cites one company that built a project-management platform that enables managers around the world to post a project for which they could use help; individual employees around the globe can look at the listings and volunteer. It isn’t a formal job; there is no relief of their current day job. Workers use their discretionary time to participate on a particular project anywhere in the world—one that could be outside their particular function or involve skills they don’t get to use. “They’re ‘Ubering’ projects,” Abel says. “And guess who loves the platform? Millennials. They’re all over it—it’s both global and cross-functional, and it shows how technology and analytics come together to bring forth new solutions to retain employees.”

BEST PRACTICE #3: ACQUIRE NEW TALENT

Succession is not entirely about nurturing a pipeline of internal talent—it is also very much about finding and

onboarding outside leadership to freshen an organization's direction or to fill a gap in talent or skill. CEO and other top leadership roles get the headlines, but successfully staffing critical talent throughout an organization is vital—and increasingly challenging. In certain occupations and across certain geographies in the U.S. and the developed world, talent is draining from the workforce—and that is increasing the cost of labor, including key positions. Another factor comes into play, too: the introduction of new people into a firm with a well-defined work culture and strategic vision can cause teams or an entire organization to go off track.

Seeing the future. The risk of losing key personnel—and being caught off guard when it happens—and the importance of acquiring the right new talent is a core HR challenge that will only become more acute as digital disruption continues to play out. Companies have to adopt new technologies and skills, but many are behind. A recent KPMG and Forbes Insights survey showed that most CEOs see skill gaps in their organizations, and 70% of them “are concerned about the number of issues which are now mission critical, and in which they have little personal experience.” Almost every single CEO (99%) has taken action to develop existing or future talent.⁴

CEO succession, on the other hand, is often a more predictable event. It may be forced; it may come after a long and illustrious career and involve extended discussion and planning. For most succession events, however, HR needs to be ahead of the curve—to see it coming and to see around the curve to the solution.

Analytics is a big part of seeing past the curve. Applying advanced statistical techniques to data around employees and the organization at large can help HR predict future events, such as voluntary turnover. The view can be granular—at the individual level—or a big-picture take on the overall workforce. The numbers inevitably tell a story about the current state of human capital, but it takes commitment to technology to get a full and accurate picture. “We’ve really utilized human-capital analytics across the employment life cycle, and we’re starting to be able to tell a much more robust holistic story,” says Western Union’s Sisler. “I think we’re definitely starting to move that ball forward. We still have a decent way to go, but I feel like now we have all the data. We just need to become better storytellers with that data.”

Act on the future. A story is certainly to be told in labor

statistics. The Conference Board’s Schaitkin points to the unemployment rate—at or a little below 5% throughout 2016—and the developing labor shortage. “The working age population, or the number of Americans between age 18 and 64, will stay virtually flat over the next 10 to 15 years,” he says. Labor markets broadly speaking are going to remain perpetually tight, with some occupations—healthcare, for example—more likely to encounter shortages. “Health workers and workers in skilled-trade occupations tend to be baby boomers who will retire in the coming years, so you’re more likely to experience shortages. Moreover, in those kinds of jobs, employers have little flexibility in terms of arranging how their workforce will be organized.”

Look to the cloud. Best practices that address succession issues around mission-critical roles will only become more important. They will require leaders to have the technology and cloud-based HR software services necessary to find current and future leaders—and to make work life better. Advanced HR teams are using predictive analytics to gain deeper awareness of their entire workforce and act on those insights. Cloud-based systems bring together modern user experience—social platforms that are mobile, for example—with detailed employee profiles and rich data streams to support HR, management and employees themselves.

Armed with technology, HR executives can better analyze employee talent holistically and determine if they

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⁴ Forbes Insights and KPMG “2016 Global CEO Outlook” survey.

OUTSIDE TALENT CAN BE COSTLY

A 2012 study at the Wharton School⁵ documents “some quite significant costs” of hiring outside talent and “some quite substantial benefits to internal mobility.” External hires will perform worse over the first two years than workers entering the job from inside the organization and have higher exit rates. And they’ll get paid more—about 18% more initially. What about internal hires? The Wharton researcher concluded that employees promoted into jobs have “significantly better performance” over the same period and “lower rates of voluntary and involuntary exits.”

Yet a trend toward outside hiring at the CEO level is on the rise, according to the 2015 CEO Success Study by PwC. In the latest four-year period (2012-2015), the firm’s research showed that boards chose outsiders to lead in 22% of turnovers, up from 14% in the previous period. The report points broadly to merger and acquisition activity and a rise in forced turnover as the reason, but its detailed look at the data reveals a key takeaway: industries experiencing the most disruption had a higher-than-average share of outside CEOs, and low-performing companies were more likely to hire outside CEOs than high-performing ones, except in forced takeovers.⁶

The findings only point back to the critical importance of a strong internal pipeline. Talent acquisition spending by U.S. companies increased 7% in 2014 to nearly \$4,000 per hire.⁷ Workers have choice—and they may have even greater choice as the labor shortage plays out over the coming 15 years. That makes existing talent all the more precious—and it’s why companies are investing more internally—in leadership training, such as executive coaching inside the company, and a variety of approaches to development—because they may not find the talent they need on the open market.

have the talent available to carry out their business strategy. Workforce modeling is particularly helpful in the event of a merger or acquisition, especially among financial and healthcare companies where M&A is one of the strategies for growing revenue while containing costs—because it allows HR to fit people into the right slots quickly and to play the part of strategic advisor.

Integrating financial systems with HR processes can help determine how strategic decisions will impact top-line revenue generation. Could hiring Candidate A drive greater productivity than promoting Employee B? Integrating systems via the cloud answers these types of questions and teaches businesses how to structure their talent management strategies in order to grow and increase revenue. “It’s all about having the right HR technology to bring people and information together in new and better ways, so we can get the insights needed to innovate and deliver the employee experience we need to support our talent strategy,” says Joyce Westerdahl, executive vice president for human resources at Oracle. “It’s about being able to deliver greater business value and putting employees in the best position to succeed professionally and help our customers succeed. Cloud gives us that critical foundation.”

CONCLUSION

HR executives can begin to nurture a critical-talent pipeline that defines, attracts and develops the right talent for the most appropriate roles with these key steps:

1. Align HR goals with the overall business strategy of your organization
2. Identify internal talent pools to determine which workers and candidates are critical to your business
3. Find outside talent to fill talent and skill gaps

And:

- Create a multi-channel sourcing strategy that taps a variety of channels, from LinkedIn to employee referral portals
- Empower new hires with their self-service capabilities in the form of corporate intranet sites and social collaboration portals
- Create social networks that facilitate real-time communication among new hires, peers and mentoring groups
- Support a flexible workforce with a cloud platform capable of providing 24/7 access to HR information, integrating data silos and delivering a consumer-grade experience

⁵“Paying More to Get Less: The Effects of External Hiring versus Internal Mobility,” *Administrative Science Quarterly*, February 2012.

⁶PwC CEO Success Study: Outsider CEOs.

⁷Benchmarking Talent Acquisition: Increasing Spend, Cost per Hire, and Time to Fill, Bersin by Deloitte, April 2015.

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