Wasted Human Capital:
THE LOOMING TALENT MANAGEMENT
CRISIS IN CORPORATE AMERICA

RESULTS AND ANALYSIS FROM THE LARGEST
EVER SURVEY OF PERFORMANCE AND TALENT MANAGEMENT TRENDS
According to a yearlong study conducted by McKinsey & Co., the most important corporate resource over the next 20 years will be talent. Unfortunately, talent is also the resource in shortest supply. The companies who are winning “The War for Talent” have implemented effective strategies and processes for aligning, developing, motivating and maintaining their employees. This mastery of Performance and Talent Management will continue to be their key competitive weapon.

With the advent of new technology that streamlines strategic talent management processes, business leaders and HR professionals are empowered with tools that achieve maximum employee productivity and performance. These tools allow managers to set and align goals throughout the organization to ensure employees are focused on the areas that matter most to the company, measure and manage employee performance to ensure that employees are recognized for what they have accomplished and prepared for future challenges, reward and compensate employees based on their true performance, and ensure adequate bench strength of talent across the organization to meet ongoing business needs.

What is troubling, however, is that despite having these tools at their disposal, the companies who have effectively implemented strategies and processes for performance and talent management are in the minority. As the talent gap continues to widen, especially with the looming reality of the baby boomer retirement, the majority of organizations are not prepared. The goal of this report is to provide information that showcases the challenges that business leaders and their peers are facing, while highlighting the areas of success and offering solutions to ensure that companies can address the needs of the most valuable asset they possess—their employees.

We have highlighted four key areas that focus on the majority of questions posed by the survey: the performance review process; setting and managing goals and objectives; employee compensation; and succession planning. In each area, we have administered a letter grade, highlighted the good and the bad, and offered solutions with an eye towards fixing the current problems.

**Survey Methodology**

1,000 HR professionals were surveyed by an independent research organization using both online and offline methods across a wide range of companies employing between 25 and 250,000 individuals. The respondents were asked 15 questions dealing with their current performance and talent management solutions, as well as problems they presently encounter. The answers obtained from the survey forms the basis for the results below.
Grade: C+
78% complete company-wide performance reviews annually
72% reported being somewhat satisfied/not very satisfied/extremely dissatisfied

Every Employee Has Experienced It
For some companies, it comes once a year. For others, it happens every six months. “Please fill out Form X and give your feedback on Employee Y.” Depending upon the internal process, you might only be reviewing one or two people, or if your company uses a 360-review process, it could be a much higher number. Ensuring that the review process is both efficient and effective for managers and employees can be a formidable and cumbersome task. HR professionals are bogged down with the process, and managers are often untrained in delivering effective reviews that actually impact growth and future performance.

The Good News
When asked about the timeliness of completing company-wide performance reviews, respondents stated that 78% actually completed reviews within their company. This means that a large percentage of the companies have some policy in place for reviewing their employees, hopefully leading to meaningful dialogues between employees and their managers.

The Bad News
Despite having a formal process in place for reviewing their employees, companies also reported an alarming statistic that necessitates discussion. When asked about their satisfaction with the current review process, more than 72% respondents reported that they were either somewhat satisfied, not satisfied or extremely dissatisfied with the process. The simple takeaway is that the current system for reviews is running low on gas and well on its way to a complete transmission breakdown. Continuing the analogy, some repairs to the system might mean only replacing a sparkplug or changing the oil, while others might require a full engine rebuild.

The Solution
Whether your review schedule takes place every six months or annually, it is important to ensure that they are completed by a predetermined and mutually agreed upon deadline. Additionally, it is critical to discuss the process and adjust accordingly based upon feedback from management and other employees. A well-designed performance review process needs to incorporate a common review language based on pre-defined competencies, pre-determined job roles and pre-determined goals and objectives. Having a systematic process in place will eliminate all too common rushed, tedious and ineffective employee reviews and allow management to appropriately tie employee performance to the company’s bottom line business results.
**Grade: D-**

35% do not have/do not know if there is a formal method for setting goals and objectives in their organization
58% face challenges aligning employee goals with corporate strategy
54% face challenges giving employees visibility into management and corporate goals
47% face challenges cascading goals throughout the organization

It is important for both employers and employees to be on the same page when it comes to setting goals and objectives. Each employee wants to make sure that they have their goals, which are more strategic, and their objectives, which are more tactical, aligned with their company—and vice versa. It is not only important that employees are doing a good job, but also that they are doing the “right job”. For instance, Joe, employee of Fast Start, might have a goal of selling 25% over his quota. This goal would seemingly be in line with Fast Start’s corporate revenue goals. But what if in the process, Joe only paid attention to bringing on new customers and did not attend to the needs of his current customers. This would ultimately not serve the needs of his company, whose mission is predicated upon complete customer satisfaction and might end up getting Joe fired instead of promoted. But if Joe's goals and objectives are aligned with Fast Start, both sides can be positioned for success.

**The Good News**
The majority of companies reporting stated they had a formal method in place for setting goals and objectives within their organizations. This means that both the company and the employee are stating what they would like in the future and the path they intend to take together get there. This is a good start, but as we will see in a minute, it is not the final piece to the puzzle.

**The Bad News**
When asked about the challenges they face with their current goal management process, 54% stated that they had problems aligning employee goals with corporate strategy. Coupled with the information above, this means that most employers are taking steps to set goals and objectives with the employees, but that they are not seeing eye-to-eye with their employees when it comes to what they want from each other. This could be either something manageable, like requiring a set amount of goods to be sold over quota to earn a promotion, or it could be that under the current management structure an employee would not have a chance at moving up because goals are unattainable or someone already holds a specific position with no plans to leave. It is critical to align goals with both the employee and the employer to ensure that the employee is properly motivated and that the company knows they are getting the best employee for their company.

**Some More Bad News**
In addition to aligning goals and objectives, 58% report trouble tracking employee and department progress against company goals. Returning to the car analogy used earlier, this means that the company knows that something is wrong with the car but could not tell if you just forgot to put gas in the tank or if you left the lights on and killed the battery. So many problems within companies can be fixed, so long as both sides know that they exist, discuss solutions and see if their solutions work once implemented. These are the problems that if not fixed can cause an employee to be dissatisfied enough to leave and that can eventually destroy a company from the inside. Additionally, almost half the companies reported difficulty with providing employees visibility into management and corporate goals, as well as cascading goals throughout the organization. If management does not let their employees know what the company’s broader vision is, how can employees incorporate corporate goals into their own goals?

**The Solution**
Provide a mechanism that enables all employees to have insight into corporate goals and objectives, which should in turn, be cascaded throughout an organization. Develop a tracking system that easily measures how both the company and employees' goals and objectives are matching against those that were set and projected.
Grade: F
56% reported that less than 50% of their employees are compensated and rewarded based on their performance and goals.

We all grew up hearing the statement “An honest day’s work deserves an honest day’s pay.” But what happens when the person in the cubicle next to you is not pulling their own weight but gets paid the same bonus as you? Or you surpass your established tasks by 50% and do not even get a “thank you” from your supervisor? The reality is that there are complex factors that go into the compensation process—entire fields of study and although there are human resource professionals who have dedicated their careers to serving this portion of the HR process, many companies have yet to find a systematic, equitable way to establish a meritocracy within their organizations.

The Bad News
56% percent of those responding stated that less than half of their employees are compensated and rewarded based on their performance and goals. This means that most companies are not properly compensating their employees, which can lead to a host of problems. Admittedly, some of these failures in compensation can be attributed to problems discussed earlier: failure to set goals and objectives; lack of vision into these objectives; and failure to have a proper review process in place, among others. And as with any of the more in-depth analysis of these responses, there may be unknown circumstances at companies leading them to adopt structures that fall outside the “pay for performance” model. But it stands to reason that if the company is having a tremendously successful year, and employee Joe is contributing to the success but still is paid the same as last year, Joe might be frustrated—and Joe might quit.

The Solution
Consider implementing a “pay for performance” model that aligns an employee’s compensation with their performance and the performance of the company. Specifically, develop a solution that incorporates an easy to use planning interface for managers and that provides a direct link between performance rating and compensation guidelines.
Grade: C+
58% stated that there was no/did not know if their organization has a succession planning strategy in place.
48% face challenges with a lack of visibility into employee skills, experience level and career path.
46% face challenges with an inability to quickly find a pool of qualified internal candidates for open positions.
44% face challenges with a lack of visibility into bench strength for leadership positions.

Most companies would like to take a snapshot of their workforce and freeze it in time. With this line of thinking, no one would leave, no positions would be eliminated and no one would be promoted. The problem is that this scenario does not account for the good things that happen to a company as a result of business success and therefore forces the company to implement a comprehensive succession planning strategy: the company grows, necessitating more workers, talented individuals become available on the job market, high performers within your company are promoted to recognize their good work. Succession planning is not only a good practice—it is a necessity for businesses large and small.

The Good News
Implementing a formal succession planning strategy is a relatively new practice, especially as it relates to an entire organization. It is commonplace (although never discussed in the media) that major companies have someone on the bench if their CEO retires, is poached by another company or simply is unable to perform to meet the increasingly rigorous standards of their board of directors. Approximately 40% of those responding to the survey said that they have a formal succession planning strategy in place.

The Bad News
58% of those responding said that their organization either did not have a succession planning strategy in place or were unaware of a formal plan. Keeping in mind that the survey encompassed companies of all sizes, including small and medium sized businesses, the notion that they do not have a backup plan outside of their current employment structure is nothing short of scary. Any event, from a sudden death or illness to a more attractive offer from a competitor, could throw a business without a formal succession plan into chaos.

More Bad News
When discussing the challenges facing current succession management process, nearly 50% of respondents stated that they encountered a lack of visibility into employee skills, experience level and desired career path. Not surprisingly, companies are unable to find a pool of qualified internal candidates for open positions and have a lack of visibility into bench strength for leadership positions, leading to unnecessary time and exorbitant expense searching externally for qualified candidates that could very likely be sitting in the same building.

The Solution
In this situation the holistic nature of performance and talent management is at its clearest. If employees are properly reviewed and if management and employee goals and objectives are properly aligned, some of the concerns addressed in the succession planning process would also be addressed. There is no real reason for companies to experience a talent gap. Succession management, when instituted as a standard and consistent business process, incorporating long term vision and strong technology, will ensure the continued effective performance of an organization by making provision for the development and replacement of key people over time, allowing an organization to evolve seamlessly.
SuccessFactors delivers performance and talent excellence, on demand. The company’s software promotes visibility, accountability, and results, enabling organizations to eliminate the politics that destroy motivation and impede performance. Fueled by the industry’s highest renewal rate, SuccessFactors has grown to support more than 1.5 million users in 102 countries around the world. Customers include MasterCard International, British Telecom, Textron, Salesforce.com, Cooper Tire & Rubber Company, Volkswagen of North America, Reebok, Pep Boys, Lancaster General Hospital and Grant Thornton. The company has achieved a global industry leading, scalable and secure hosting operation. Founded in 2001, SuccessFactors has multiple worldwide offices collaborating for strong local support of customers. For more information, visit [www.successfactors.com](http://www.successfactors.com) or call (800) 809-9920.