

Executive Outlook

**The talent
imperative
at the top**



For companies to thrive in swiftly changing times, CEOs and chief human resources officers must align on business, talent strategies. Courage and tenacity are required.

The critical alignment.

The resources devoted to talent must be aligned with strategy for companies to thrive. This alignment also needs to be recalibrated when strategic shifts occur—and these shifts are taking place with growing regularity.

When it comes to managing the relationship between organizational strategy and talent, boards of directors, CEOs, chief human resources officers (CHROs), the rest of the executive team, and business-line leaders confront two high-stakes questions:

- 1.** Does the allocation of talent resources support the business direction?
- 2.** Are the enterprise's talent processes aligned with each other to support the business direction?

In far too many cases, the answer to both questions is “no.” A disconcerting 83% of CHROs express concern that their organizations do not possess the talent needed to deliver on strategic priorities, according to Korn Ferry research.

This is troubling news. Organizations' talent strategies must be aligned with their business strategies for companies to thrive. This alignment also needs to be recalibrated when strategic shifts occur—and these shifts are taking place with growing regularity. A majority of executives expect to see more divestitures in the coming months, according to CFO Magazine. Merger and acquisition (M&A) activity is on track to reach the highest number of consolidations on record, according to The Wall Street Journal and data provider Dealogic. Chief executives and CHROs in more than 80% of companies must quickly align their talent and their business strategies, Korn Ferry research shows.

This need helps explain why a recent Harvard Business Review cover package featuring an illustration of a bomb with a lighted fuse proclaims that “It’s Time to Blow Up HR (and Build Something New).” The articles inside feature titles and subtitles like “Rethinking Human Resources,” “Why We Love to Hate HR,” and “A New Role for the CHRO.” Leading HR experts and thinkers are not the only groups intensifying their focus on HR's purpose and talent-management purview. In recent years, CEOs have thrust talent to the top of their priority lists. For the second year in a row, chief executives who participate in The Conference Board's annual survey of CEO concerns hold up human capital as their top challenge (The Conference Board 2015).

We agree with the growing calls for a major rethinking of enterprise talent strategy. And we firmly believe that a fundamental challenge—and an invaluable strategic opportunity—confronting CEOs and CHROs is to develop a fundamental alignment between enterprise strategy and the organization's talent strategy. This paper presents

three steps to accomplish this goal, helping organizations to drive strategic change and performance results and to more swiftly place the right talent into the right roles. That talent then designs and executes strategies that deliver sustainable competitive advantage. Getting all the parts in place is difficult work, given the prevalence of deep-rooted obstacles, four of which are examined later in this paper.

Although we primarily focus on the relationship between the CEO and the CHRO, the alignment of strategy and talent should involve all the top leaders in the organization, including the board, the executive team, and business-line leaders. CEOs and CHROs must work in concert, but board members and executives also must participate. If this effort is delayed, the strategy-talent gap will only widen. The problem—and it is pervasive—is that too few companies have the right talent in the right place and, as a result, their growth engines misfire. Organizations could, instead, better find and funnel talent into the right places if their organizational and talent strategies were tightly synced.

Three steps to talent-strategy alignment.

To get their organizational and talent strategies in line, leaders need take three comprehensive, straightforward steps. But these activities' direct nature belies how rarely they are present in many organizations. That's because these steps are difficult to execute and tough to sustain in the face of ingrained organizational habits and tendencies, as we will explain below. Further, if any one of these steps is neglected or performed inadequately, alignment will not occur.

Step One: The CEO, CHRO distill what talent is needed to execute the business strategy.

This process identifies the needed and essential talent building blocks—organizational culture, decision-making and governance operations, performance metrics, incentive structures, talent pools and related capabilities—given the current business strategy and related performance objectives.

The CEO and CHRO may start by clarifying the current business strategy. Is the company committed to organic growth or seeking to scale through mergers and acquisitions? Or, does innovation, globalization, or digitization define the strategy? Each approach requires unique capabilities. For example, if a company is driving innovation, it needs different capabilities (e.g., a robust research and development function, more internal collaboration, an organizational culture that rewards experimentation) than a company focused on global expansion (e.g., international leadership experience, cross-cultural management competencies).

The most effective forms of this work are research-based, methodical, and they should be framed as a responsibility of the leadership team, rather than as a one-off HR exercise. But relatively few leadership teams devote sufficient attention to talent strategy during their annual off-site planning meetings. Although strategic planning, operational planning, and budgeting are covered in such sessions, talent strategy too often is not.

The CEO and CHRO also must distill the optimal structure for the organization to operate in, the decision-making and governance processes that will deliver strong performance, the incentives that reward performance, and the type of organizational culture that brings all of this to life. Once these larger structural and cultural considerations are addressed, more HR-specific questions should follow:

- Given our business strategy, which roles are most pivotal to its execution, and how should these roles be organized?

- In those roles, what specific competencies, experiences, traits and drivers are required for success?
- What are the employee value propositions for these roles?
- How urgent are these talent needs?

Urgency is important because it will help determine the methods (e.g., leadership development, hiring?) to address talent gaps as presented in Step Three.

Consider how this urgency might affect a cable company whose strategy is to grow by increasing market share among subscribers. After assessing their industry's ferociously competitive environment in which some customers may be tempted to flee their current providers, the CEO and her executive team determine that constant connectivity is the competitive differentiator. They realize that customer satisfaction and retention hinges on the Internet, televisions, and phones working every time a customer uses them. This leads them to scrutinize their company's customer service area, the critical nature of the function's leadership roles, organizational culture, performance management processes, incentive structures, and talent. They focus on identifying what steps are needed to ensure that this area has the right leadership, culture, and talent processes. This talent profile helps the organization hire and develop the best service executives in the industry, build the best customer service, and allocate a disproportionate amount of resources to this area. The previously unglamorous, and quite possibly under-resourced customer services area, now becomes a critical driver of strategy.

Although few would disagree with this approach, there are reasons why it often falls short:

- The CHRO may not understand the strategy well enough to analyze the capabilities it needs;
- The CHRO may be excluded altogether from this type of strategic planning, instead working through an intermediary, such as the chief operating officer (COO), due to reporting relationships;
- Embarking on this analysis requires the entire leadership team to accept a subsequent need for radical changes;
- Big-budget, deeply entrenched recruiting programs championed by influential executives may need to be shelved in favor of more strategically appropriate, focused programs;

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- A willingness to commit to potentially major changes—emptying out corporate headquarters to support international growth, for example—may not be present; and
- The treatment of certain organizational roles as more valuable runs counter to a longstanding HR tendency toward the equitable treatment of all employees.

Step Two: The CEO, CHRO assess the current talent capabilities versus organization's strategic needs.

Once the leaders have identified roles and needed capabilities in their organization and methodically organized them into more specific competencies, experiences, traits and drivers, they can compare the talent needs to the organization's inventory baseline of talent. They must conduct a comprehensive assessment and ask tough questions about talent—what's working and what's not:

- Which individuals are delivering strong results and demonstrating the behaviors required for strong performance in pivotal areas of strategy execution?
- How strong is the pipeline of talent who can one day backfill the most strategic roles: Who has longer-term potential, who might be ready for a near-term bigger assignment, and do we have enough of these individuals in the right places?
- How strong is the culture today at enabling the people and processes most critical to the organization's success?
- How well do the reward and recognition systems work in motivating the right people to do the right things?
- Are these roles designed and organized in a way that maximizes performance?

The CEO and CHRO aren't just looking at their organization's current talent but also likely future hires. This process applies to all pivotal roles and talent pools in all levels of the organization as they were identified in the first step.

The work frequently bogs down here because the assessment of existing talent relies too heavily on notoriously inaccurate and biased processes. Business-line executives and managers may lack a framework and terminology to evaluate and discuss their talent in a consistent way, and it is understandably hard for managers to objectively evaluate their people. Their assessments overvalue results accomplished while neglecting what an individual might achieve in the future with the right support. Performance-review politics also hinder assessments of current talent: *I'm not going to challenge Steve's rosy evaluation of his top lieutenant because if I do, he might challenge the plum rating I gave my top lieutenant...*

A lack of common evaluation criteria—and, especially, a lack of data on performance, potential, and readiness to handle new challenges—are common obstacles too. Where data do exist, they often have little value in predicting current or future performance outcomes. Finally, performance assessments may not measure individuals against success profiles (i.e., the organization measures the wrong indicators).

Step Three: The CEO, CHRO craft a strategy to close gaps between the current talent pool and the business' strategy needs.

After undertaking the previous steps, the leaders now must design a talent-management plan. HR should identify which roles can be filled internally by building and developing existing talent and those requiring external recruiting. Some may be filled by redeployment of existing talent. This assessment should be based on data at the individual and organizational level. When HR looks at all the data, it also should draw conclusions about gaps in current recruiting, promotion, development, and reward programs.

Timing also becomes a crucial consideration in this effort, as CEOs are under intense pressure to make and successfully execute strategic shifts. Knowing this, the CHRO can act with the appropriate urgency, striking the right balance between actions focused on immediate acquisition of external talent and those emphasizing development of internal talent. When the urgency is great, CEOs and CHROs need to make tough calls swiftly about “buy versus build” talent approaches.

The sound execution of this gap-filling step can be decisive in determining if an organization successfully aligns its organizational and talent strategies. We have seen companies and their HR departments do excellent work on the first two phases we've described only to drop the ball on Step Three. That's because organizations often lack the will to execute the changes needed to get the right talent into the right roles. These changes routinely affect almost all major talent-management processes, including sourcing, recruiting, onboarding, training, leadership development, succession planning, performance management, and compensation. As a result, this step can be the most difficult to carry out and sustain. Successful execution requires a clear vision of how existing talent-management processes and approaches must change, the leadership courage needed to make the changes, and the stamina to sustain the efforts over the long haul. Stamina and leadership courage are required to reallocate HR budgets, time, and roles, which is almost always necessary.

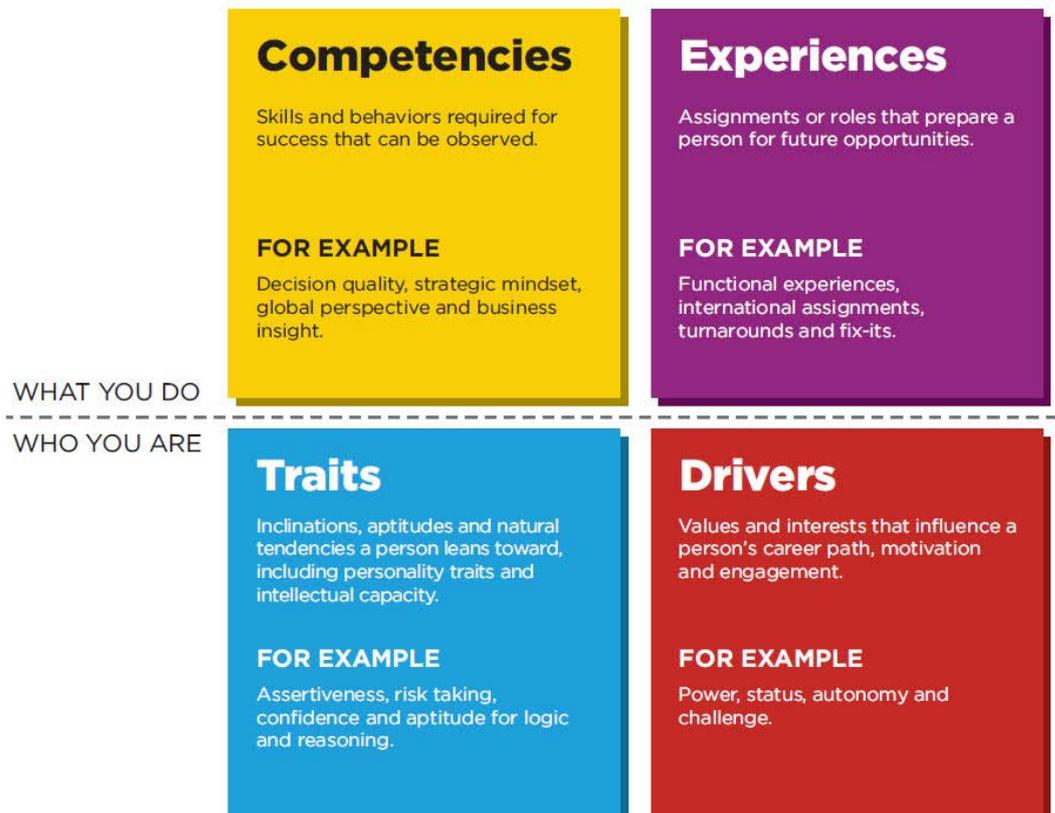
Obstacles to overcome.

CHROs must spearhead the work described above, grappling with common obstacles from numerous sources, exerting their influence. To succeed they must sway the CEO, board, the rest of the executive team, and business-line leaders. This effort is crucial, especially to overcome four of the most typical stumbling blocks:

- Lost in translation:** Business-line executives struggle to translate their talent needs into specific capabilities to guide HR departments in hiring and development practices. That's because the managers lack objective criteria and reliable data to do so. In many cases, organizations also lack a common language for talking about talent and its alignment with organizational strategy. Talent frameworks like Korn Ferry's Four Dimensions of Leadership and Talent (KF4D, see Figure 1) and methodologies can help address this challenge.

Figure 5

KF4D



At the board level, directors' general questions about talent strategies fail to get translated into concrete action. Boards must take a more supportive role by asking sharper questions about talent strategies: We see a procession of survey data showing that talent ranks as the No. 1 CEO concern—so what is our talent strategy? Board members can dig deeper. While many directors ask if succession plans exist at a company's highest level, fewer ask for more extensive succession planning efforts—and few boards ask CEOs and CHROs to explain how the succession plan was created and how it aligns with business strategy.

Creating and managing an effective talent strategy requires tough decisions.

- **Leadership courage lacking:** Creating and managing an effective talent strategy requires tough decisions. Many CHROs and HR departments would benefit by amassing more experience negotiating, influencing, and persuading boards and executives that organizations must make difficult but strategically beneficial talent decisions. Filling gaps between the talent required for the business strategy and the company's talent profile is akin to zero-based budgeting: This year, we're doing away with all talent programs that do not align with our business strategy. It takes courage to: challenge the status quo; face off against the influential executive who championed the leadership development program that costs \$5 million annually and has little strategic value; and to take money from one part of the organization so the company can hire 200 of the best and brightest service technicians. Such displays of courage, however, are critical steps in the journey to top performance.
- **Benchmarking bias:** Too many organizations by default rely on talent strategies that amount to copycats of leading companies' talent strategies. Benchmarking can be an effective tool, but it should not substitute for a company creating its own talent strategy that addresses its unique needs. Talent management practices that succeed at one company are not necessarily best practices for all organizational cultures; they work well for a specific company because the talent activities align with its business strategies. These "best practices" also work well because the benchmark company puts them in place in concert with many other related processes—and all of these align with its unique strategy.

- **CEO-CHRO calibration:** Organizational knowledge and familiarity are crucial components when CEOs and CHROs seek to align the business and talent strategies. This is especially true given the difficulty of making major changes throughout most areas, and at all levels, of the enterprise. But newly hired CHROs, including those brought in by CEOs to make changes, can move more quickly than is prudent, and, as a result, encounter more resistance and less support. Newly hired CEOs brought in to implement new strategies, similarly, may understandably move too quickly for the existing CHRO; this gives rise to the same resistance and support problems.

Conclusion

When aligning strategy and talent, the CEO and CHRO need to calibrate their thinking on the speed and magnitude of change. This need is widespread; based on our fieldwork and research, we estimate that the likelihood that a CEO and CHRO are aligned on all three dimensions presented in this paper is less than 20%. Strategy-talent alignment requires CEO-CHRO alignment. It also requires action. Delaying the interrelated steps identified in this paper or avoiding alignment work puts your company's strategy execution efforts—and perhaps your job—at great risk.

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