The talent strategy imperative

Five steps to align talent with your business strategy.
Introduction

When today’s CEOs toss and turn at night, that restlessness is likely caused by more than a preoccupation with hitting their quarterly numbers. Many top executives are concerned about having the right talent in the right place at the right compensation—and fully engaged—so their businesses can compete in rapidly-shifting markets.

When Harvard Business Review asked 24 high-profile CEOs to name their biggest challenges, “talent management” topped the list of priorities. (Groysberg, and Connolly, 2015). Those leaders weren’t alone in their focus on talent matters. Chief executives participating in The Conference Board’s 2016 annual survey of CEO concerns also placed issues like dealing with labor shortages and creating a culture of engagement high atop their priority lists. (The Conference Board, 2016).

Many of these leaders wanted assurances that they had the right talent in place in periods of organizational change or growth. CEOs who were implementing new digital strategies, for example, said the swift pace of change had created significant skill gaps in their companies. Other executives wondered if they’d have talent that was mobile enough—and equipped with the right cultural intelligence—to support global expansion. Another segment of surveyed CEOs fretted over whether their high-potential employees were being properly identified and developed.

This accelerated rate of change requires agile talent strategies that can quickly pivot to support shifts in business strategy and fill critical talent gaps. For insight into how leading organizations build such strategically aligned talent strategies, we interviewed a number of chief human resource officers (CHROs) from Fortune 500 companies. The advice and lessons from these CHROs on developing effective talent strategy supplements the Korn Ferry research and perspectives found throughout the paper.

In our experience, companies that follow a five-step approach to talent strategy development are more likely to build potent strategies and execute their business plans with distinction.

Five Steps to Talent Strategy Development

1. Crystallize the talent implications of your business strategy.
2. Create the right structure and culture.
3. Identify the pivotal job roles.
5. Make the “buy versus build” decision to close any talent gaps.
Companies that win in today’s markets need agile talent strategies that are tightly aligned to business strategies. Yet we find organizations often employ insular or narrow approaches to build those strategies rather than using holistic, data-driven methods. One common approach focuses on fortifying individual components of a talent system—silos like recruiting, performance management, or compensation—without managing talent as a cohesive whole or linking the talent strategy to overarching business objectives. With compensation and benefits representing 50 to 70 percent of operating costs in many organizations, CEOs increasingly seek assurances that talent is being used in ways to maximize that considerable investment. (Lawler III, Edward E. and John W. Boudreau. 2012).

Strategic talent management has its origins in a differentiated business strategy. The genesis of any effective talent strategy lies in an agreement between the CEO and CHRO on that business approach. Is it based on innovation? Digitization? Operational excellence? Customer intimacy? Organic growth? Growth through acquisition? Clarifying the strategy lays the groundwork for the high-stakes decisions CHROs and executive teams must make around strengthening organizational capabilities and closing talent gaps to support strategic initiatives.

The process that we recommend uses a research-based approach to identify the specific talent and organizational capabilities needed to execute business strategy and assigns priority to those capabilities, then evaluates the state of performance in each area, focusing new talent investments where they matter the most.

If innovation is the strategy, for example, does the organization have the right structure, culture, and incentives in place to foster that approach? Are there rigorous, cost-effective selection processes to attract talent with proven innovation skills and are the right retention strategies in place to keep top innovators on board?

Figure 1 shows how business strategies determine the organizational and talent capabilities needed to create and sustain a competitive advantage.

Consider how organizations like Nordstrom and Apple designed talent strategies to serve their differentiated business strategies. To drive a strategy based on customer intimacy, retailer Nordstrom custom-built recruiting, development, and compensation systems to hire, engage, and retain talent with elite customer service skills. Apple famously tethered its talent strategy to a business model dependent on hiring the world’s top innovators to create breakthrough products—and then went to great lengths to keep those individuals producing at high levels for Apple, not a rival.
Our experience shows that moving talent strategy from a peripheral role to a central component of an overarching business strategy pays enduring dividends. This repositioning ensures the vital link between talent and business outcomes is given proper attention in an executive team’s off-site planning meetings, along with strategic, operational, or budgeting issues.

As business strategies evolve, CHROs also need to recalibrate talent strategies to keep pace. If a company’s strategy shifts to emphasize cloud computing or e-commerce, for example, HR leaders have to ensure they have the right quality and quantity of talent in place to support the change. Rapidly identifying and quickly hiring that talent—or retraining existing staff for a skills pivot—can mean the difference between a business strategy succeeding or failing.

For example, when electronics retailer Best Buy responded to growing pressure from competitors by devising a new business strategy, HR leaders there had to quickly adjust talent strategy to support the change. The revamped operating strategy stressed improved in-store customer service and highlighted services of the Geek Squad, an elite team of information technology experts. (Wieczner, 2015). In response, HR put retail employees through a retraining boot camp and focused recruiting and retention efforts on fortifying the Geek Squad. Those initiatives rebooted the company and generated impressive new revenues through sales of connected-home solutions that leveraged the recent developments of “Internet of Things” enabled products.

### Figure 1
The Business/Talent Strategy Decoder

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<th>CRITICAL TALENT ORGANIZATIONAL CAPABILITIES</th>
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*Higher Organizational Skill / Effectiveness* | *Moderate Organizational Skill / Effectiveness* | *Lower Organizational Skill / Effectiveness*
CHROs also must work with the executive team to assess the moorings that allow business and talent strategies to thrive. That includes devising the best structure for the organization to operate within and building a culture that supports the execution of differentiated business strategies. If a business strategy is designed to bring new products to the market faster, for example, but the organization is designed in functional silos that inhibit cross-functional collaboration, this structure will serve as a brake on strategy execution. In another scenario, a hierarchy-oriented corporate culture characterized by management control and stability won’t support a talent strategy that’s been modified to hire large numbers of millennials who thrive on fast-moving environments, collaboration, and open communication with executives.

Organizational structure is not a one-and-done; design often needs to change to support an evolving business or talent strategy. For example, if a CHRO forecasts a need for more leaders with profit-and-loss management experience but sees inadequate bench strength in that area, he or she might suggest reorganizing divisions to create new roles with a smaller P&L, cross-functional, or project–management responsibilities. That experience will help prepare leaders for broader bottom-line accountability in the future.

To transition faster into digitization, a CEO and CHRO might need to work together to reconstitute work teams or form special units with expertise in that area. A shift to a more consultative selling strategy could require creation of a dedicated sales team to serve key national accounts.

Consider how technology leader Adobe changed its organizational structure to help develop and engage talent. Adobe’s top HR leader, Donna Morris, was given responsibility for both the employee and customer experience as well as oversight of Adobe facilities. That new structure allowed her to manage two of the company’s most valuable but high-cost assets—organizational talent and buildings—in a more strategically aligned way.

As a result Morris was able to reassign key talent to growing global markets, consolidate facilities, and create new advancement opportunities for employees like software engineers. These moves energized and engaged employees, boosting customer service and financial results in the process.

Changes in business strategy also require that executives revisit organizational culture to ensure it remains aligned with operational goals. Recent studies highlight the critical role that corporate culture plays in organizational performance. The need to reconsider culture is illustrated in the recent merger–acquisition of Hillshire Brands by Tyson Foods. Integrating the brands, processes, and culture of Hillshire Brands with that of Tyson Foods created new growth avenues and higher margins for the combined company that couldn’t have been delivered had they remained separate. A driving force behind the merger’s success was the efforts of Tyson’s CHRO, Mary Oleksiuk, and her team to unify the new business strategy with the culture and mission of the combined company.

The human–resources function worked to engage and unite five generations of employees behind the company’s mission of “making great food, making a difference.” That unification and evolved culture contributed to a doubling of the organization’s market capitalization within two years of the merger.
Pivotal roles are those in which enhancing the quality and quantity of talent has a disproportionate impact on business success. The term conjures thoughts of top executives, sales leaders, or key managers. While those jobs are usually essential, pivotal talent can come in many sizes and shapes.

Depending on the industry, organization, and business strategy, critical roles might also include product developers, real-estate analysts, front-desk service staff, or maintenance mechanics. Pivotal roles also can be geography-dependent. If a growth strategy involves expanding into China or Brazil, for example, leadership roles in those countries might be deemed more pivotal than others.

Indeed, HR leaders are often surprised when they find—following a workforce analysis that determines which job roles have the biggest impact on critical operating metrics—which positions qualify as pivotal and which do not.

Favoring some job roles over others can run counter to the time-honored belief in human resources about the equitable treatment of all employees. But successful CHROs understand that some roles are more important than others in driving competitive advantage, and that reallocating recruiting, development, or compensation resources to attract or retain employees in pivotal roles is fundamental to a successful talent strategy.

One example of allocating resources in this fashion comes from pharmacy company CVS Health. CHRO Lisa Bisaccia and her team designated the pharmacist position as a pivotal role in the organization. Pharmacists were deemed both “quality” pivotal—as prescription sales represent more than half of company revenues and even small mistakes on their part can harm the company brand—and “quantity” pivotal, as the chain employs more than 30,000 pharmacists in its national network.

With those crucial roles in mind, Bisaccia implemented recruiting, engagement, and retention strategies that ensured only the market’s top pharmacists were hired and developed into long-tenured employees. Bisaccia also manages these pivotal roles using a complex algorithm of staffing, development, and scheduling procedures to ensure the right pharmacists are in the right stores at the right time to enhance customer service and maximize revenues.
Step 4: Specifically define success profiles.

With critical talent pools identified, CHROs should work with business-line leaders to decide exactly what results are expected and which specific competencies, experiences, traits, and drivers are required for success in pivotal roles. Precisely defining the “right stuff” required for these jobs creates the basis for improved talent-management decisions.

Our experience shows that business success can largely be measured by an organization’s capacity and courage to make critical decisions that differentiate from competitors not just on business strategy, but also between the defined requirements of success for various talent pools in the organization.

Business-line leaders often struggle to translate their talent needs into specific capabilities to guide HR functions in making recruiting or development decisions. That process improves when line leaders first separate mission-critical from “nice-to-have” results and expectations required of each position, allowing HR to translate those desired behaviors and outcomes into job-specific success profiles.

For example, a well-constructed success profile for a CHRO might place greater weight on the skills and experiences required to deal effectively with the executive compensation committee on a board of directors. Similarly, the success profile for an information-technology executive could assign higher priority to skills like mastery of cloud-based technologies, knowledge of best-practice data security protocols, or experience in defending IT infrastructure investments to a board.

A talent framework like Korn Ferry’s Four Dimensions of Leadership and Talent (KF4D) helps develop success profiles for pivotal roles based on research identifying what differentiates top performers from other employees.

Four Dimensions of Leadership and Talent

**Competencies**
Skills and behaviors required for success that can be observed.

**FOR EXAMPLE:** Decision quality, strategic mindset, global perspective, and business insight.

**Experiences**
Assignments or roles that prepare a person for future roles.

**FOR EXAMPLE:** Functional experiences, international assignments, turnarounds, and fix-its.

**Traits**
Inclinations, aptitudes and natural tendencies a person leans toward, including personality traits, intellectual capacity and learning agility.

**FOR EXAMPLE:** Assertiveness, risk taking, confidence and aptitude for logic and reasoning.

**Drivers**
Values and interests that influence a person’s career path, motivation, and engagement.

**FOR EXAMPLE:** Power, status, autonomy, and challenge.

It’s also important for HR leaders to identify with specificity the employee value proposition (EVP) for pivotal roles, or the perceived value employees will receive in return for working at the organization—and why that proposition exceeds what competitors offer.

A good EVP incorporates pay and benefits and learning and growth opportunities as well as work-life balance, an attraction of particular interest to millennials. A next-level proposition also emphasizes how employees will experience a sense of purpose in their work and that their organization’s brand and culture will be sources of pride.
Step 5: Make the “buy versus build” decision to close talent gaps.

CHROs also need to create workforce plans to determine where gaps in talent might limit execution of business strategy. For example, how will a change in business strategy affect talent needs? How strong is the pipeline of talent who can one day backfill the most pivotal roles in the company? Who has longer-term potential, that might be ready for near-term bigger assignments, and are there enough of these individuals in the right spots?

Using research-based approaches to identify gaps in pivotal talent pools creates choice points for CHROs. Will they fill gaps between the talent on hand and the talent required by recruiting externally or by developing internal employees? This high-stakes “buy versus build” decision rests on a number of variables.

We recommend recruiting outside the organization when skills are difficult to develop internally, when there is urgency to fill skill gaps, or when there is no history of needed competencies within a company or department. For example, HR may have a pressing need for advanced data analytics skills in its own function but no history of employing such capabilities. Rather than trying to develop analytics competencies in HR generalists, it may be more expedient to recruit externally or to transfer internal finance or marketing staff with those skills into human resources.

Conversely, developing internal employees to fill talent gaps may be a better option when infusing outside talent is deemed risky to the culture, when there are known talent shortages in external candidate pools, when there’s little urgency to fill talent gaps, or when it can be challenging to recruit to certain geographies or industries.

For example, when AT&T reinvented itself to compete in an industry moving from cable and hardware to wireless and cloud-based technologies, HR leaders determined the technical skills needed to support the new strategy weren’t available outside of the organization. AT&T opted instead to rapidly retrain its existing workforce through use of cutting-edge training techniques and by instituting a culture of perpetual learning (Boyce, et al., 2015).

We know of another organization that refused to promote internal job candidates if they weren’t able to outperform external candidates on mission-critical skill assessments. Leaders in this company sought an assurance that their promotion decisions wouldn’t just result in placing their own best in elevated roles, but rather candidates that ranked best in the overall market.
Obstacles to creating effective talent strategy.

As with any effort to overcome engrained habits or shift traditional thinking, there are obstacles that stand in the way of creating strategically aligned talent strategies. Here are some of the biggest pitfalls to which CHROs can fall prey:

**An attachment to business-as-usual**
Implementing a talent strategy often requires challenging the status quo and making tough decisions. CHROs need moxie as well as effective negotiating skills to reallocate recruiting or development resources or to shelve established HR initiatives in the name of better serving the business strategy. Decisions like discontinuing long-running training programs that no longer have strategic value, for example, can ruffle feathers. While courting controversy, these are the kind of resource-reallocation decisions that CEOs make on a regular basis to keep their organizations healthy. CHROs should not be exempt from similar decision making.

**Tendency to mimic competitors’ strategies**
It can be easy to fall into the trap of creating talent strategies that mimic competitors’ approaches or those of best-practice organizations. Yet talent strategies only succeed when custom-built to serve distinct business strategies and organizational cultures. A strategy that introduces external recruiting as a way to fill leadership talent gaps, for example, might be anathema to a culture that’s long thrived on home-grown development or promotion of talent. It’s paramount to put your own unique stamp on a talent strategy.

**Failure to consider external influences**
Developing talent strategies in isolation of outside influences or intelligence about competitors can be dangerously insular. CHROs should monitor the competition to note significant changes in hiring strategies, modifications to incentive programs, or any organizational restructuring. Such changes usually foretell a shift in business strategy.

CHROs also need to be well informed on matters like the availability of pivotal talent in geographies where business growth opportunities lie, how emergent recruiting strategies or technologies can help identify hard-to-find talent, and regulatory or compliance issues that affect talent strategies.

**Lack of capabilities within HR to deliver on talent strategy**
The HR function must be staffed with the right quality and quantity of professionals in the right locations—to execute on talent strategies. For example, an HR department that has historically used external recruiting to close certain skill gaps but is shifting to a new learning and development approach will need to rethink how it is staffed to best support the change.

Similarly, a new emphasis on combining workforce and business data for strategic decision making may require more HR staff with analytics competencies. In another scenario, an organization expanding into new global markets might need HR leaders with international experience to relocate overseas.
Overlooking the impact of culture
Failing to align talent strategies with organizational culture can impact execution of business strategy. A company with an entrepreneurial culture that is competing on agility and innovation requires a different talent strategy than one with a more bureaucratic culture competing on operational excellence. Effectively leveraging culture is an essential but oft-overlooked component of talent-strategy development.

No horizontal alignment of talent processes
Talent strategies also can suffer when individual talent processes aren’t aligned with one another in support of business strategies. For example, if a recruiting initiative is designed to hire more employees with business-development skills but a performance-management system doesn’t accurately measure those skills, or reward systems don’t properly incentivize people for generating new business, performance won’t be optimized.
Conclusion

When creating talent strategies, CEOs and CHROs need to collaborate to determine the organizational capabilities essential to driving a differentiated business strategy. These two leaders should identify how important specific talent pools, organizational structure, culture, and incentive systems are to that strategy and then rigorously assess how they stand in each area.

Once that process is completed, HR leaders need to display the courage and influence skills to reallocate talent resources to areas that do most to create competitive advantage. Just as CEOs regularly make tough capital-reallocation decisions, CHROs should review the data on recruiting, development, promotion, and reward programs and employ a zero-based budgeting approach to fund future talent strategies. That may result in discontinuing expensive legacy programs that no longer have strategic value, for example, or that don’t close gaps in pivotal talent pools quickly enough. It also may mean revamping recruiting strategies to focus on hiring candidates who best support an evolving business strategy.

Such decisions first require accurately identifying an organization’s pivotal talent and creating success profiles to understand the competencies, experiences, traits, and drivers needed for employees to succeed in those crucial roles. Only then will CHROs ensure that their talent strategies are calibrated and aligned in ways that provide the fuel for successful business strategies.
Acknowledgements

Korn Ferry would like to thank these executives for their time and insights.

- Lisa Bisaccia, Executive Vice President and Chief Human Resources Officer, CVS Health
- Donna Morris, Executive Vice President, Customer and Employee Experience, Adobe Systems
- Mary Oleksiuk, Executive Vice President and Chief Human Resources Officer, Tyson Foods

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