



**Strategic Research on Human Capital  
Challenges**

**Executive Summary**

**December 2007**

# SHRM Foundation CHRO Strategic Research Project Executive Summary

## **Major Findings:**

- The vast majority (75 percent) of top executives surveyed rated “Succession Planning” as the “most significant challenge” for the future.
- More than two-thirds of top executives cited the following challenges as the next three most important (in order of ranking): “Providing leaders with the skills they need to be successful”; “Recruiting and selecting employees to fill positions”; and “Engaging and retaining talented employees.”
- “Rising health care costs” was the fifth most important challenge and “Maintaining a performance-based culture” ranked number six.
- Despite these results, C-suite executives do not have a great deal of confidence that their companies have a plan or solution to address these top human capital challenges. Executives from smaller companies are the least confident.

Biggest Human Capital Challenges for the Future
1) Succession Planning
2) Recruiting and Selecting Talented Employees
3) Engaging and Retaining Talented Employees and Providing Leaders with Skills to be Successful
4) Rising Healthcare Costs
5) Creating/Maintaining a Performance-based Culture

## **Conclusions:**

- In light of the importance of these human capital challenges for all organizations, regardless of their size, location or industry, the SHRM Foundation will focus its future research on identifying best practices and new tools to assist companies.
- SHRM Foundation-supported activities will include examining strategies to:

- Promote succession planning
- Assess leadership capabilities
- Identify new sources for recruiting qualified employees
- Hire, develop and use non-traditional employees effectively
- Engage and retain high potential employees

### **Detailed Explanation of Results**

The vast majority of survey respondents (75 percent) rated *succession planning* as “one of the biggest challenges” or “a significant challenge” for the future. This is consistent with the interview findings -- over 80 percent of C-suite executives interviewed identified succession planning as the biggest challenge currently faced by their company.

Over two-thirds of C-suite executive rated *providing leaders with the skills they need to be successful, recruiting and selecting employees to fill positions, and engaging and retaining talented employees* as significant challenges for the future. Similarly, the interview participants identified *recruiting and selecting employees to fill positions* as the second biggest challenge currently facing their companies and *retaining talented employees* as the third biggest challenge currently facing their companies.

Other human capital issues rated as “one of the biggest” or a “significant challenge” by a large percentage of C-suite executives were *rising healthcare costs, managing the people side of change, and creating a performance-based culture*. This is also consistent with what the interview participants said were some of the biggest human capital challenges their company is currently facing. However, creating a performance-based culture was not mentioned in the interviews as a big challenge

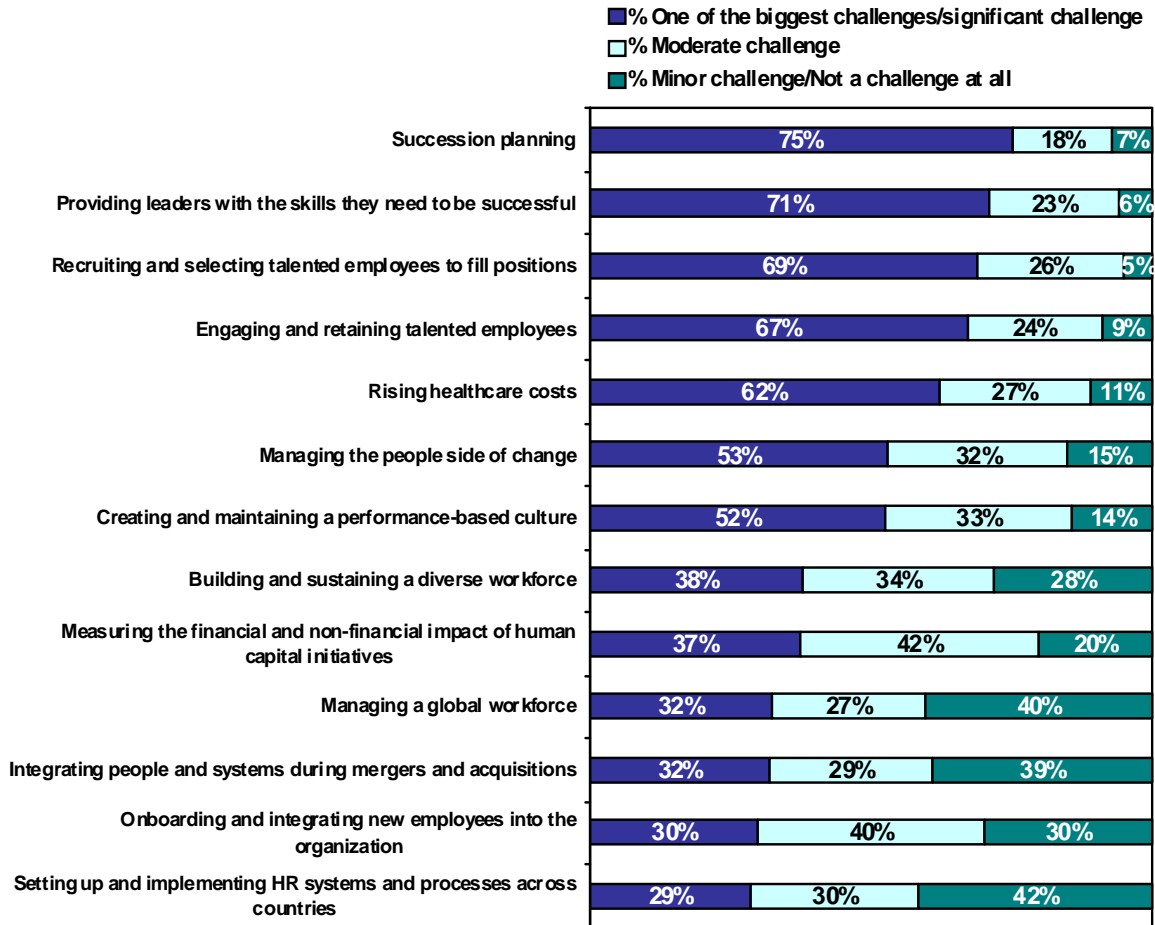
C-suite executives were less likely to view *setting up and implementing HR systems and processes across companies, onboarding and integrating new employees into the organization, integrating people and systems during mergers and acquisitions, and managing a global workforce* as significant challenges for the future. However, interview participants did feel that *operating as a global* was a challenge currently faced by their company (at least one-fourth of C-suite executives interviewed identified this as a challenge).

Next, C-suite executives were asked to rank their top three challenges from a list of human capital issues they rated as “one of the biggest” or “a significant”.

*Succession planning* was ranked as the #1 human capital challenge by the largest percentage of C-suite executives (nearly one-third). One-fifth of C-suite executives ranked *recruiting and selecting talented employees to fill positions* as their number one challenge for the future. *Providing leaders with the skills they need to be successful and engaging and retaining talented employees* were identified as the #1 challenge by approximately one in ten C-suite executives.

## Chart 1: Rating of Human Capital Challenges – Overall Sample

Rate how much of a challenge you believe each human capital issue will be for your company in the future



Overall, these six human capital issues were viewed as significant future challenges, regardless of company size or the C-suite executive's title (HR versus non-HR). Additionally, the majority of these challenges were rated as significant by C-suite executives from global and US-based companies. The global companies saw these top challenges as even more significant than US-based companies, with the exception of rising healthcare costs. It should be noted that rising healthcare costs is viewed as more of a future human capital challenge by C-suite executives from small companies and from US-based companies.

## **Confidence in Addressing Human Capital Challenges**

C-suite executives have little confidence that their company has a plan or solution to address future human capital challenges. Roughly one-third of C-suite executives indicated that they are “very confident” or “confident” that their company has a plan or solution to address challenges around *recruiting and selecting talented employees to fill positions, succession planning; and creating and maintaining a performance based culture*. A smaller percentage of C-suite executives believe their company has a plan or solution to address human capital challenges around *engaging and retaining talented employees* (26 percent), *providing leaders with the skills they need to be successful* (24 percent), and *rising healthcare costs* (18 percent).

C-suite executives expressed the most confidence that their company has a plan or solution to address challenges around *onboarding and integrating new employees into the organization, integrating people and systems during mergers and acquisitions, and managing the people side of change*.

There is less confidence that small companies have a plan or solution to address critical human capital challenges (when compared to medium and large companies).

HR C-suite executives were more likely than their non-HR counterparts to express confidence that there is a plan or solution to address human capital challenges around succession planning, recruiting and selecting employees, creating and maintaining a performance-based culture, and providing leaders with skills for success (four out of six of the top human capital challenges for the future). However, the majority of both HR and non-HR C-suite executives did not express confidence in their company’s ability to handle the top six human capital challenges.

Finally, there were no meaningful differences between C-suite executives from US-based and global companies in terms of their confidence that the company has a plan to address the top human capital challenges for the future (with the exception of creating and maintaining a performance culture).

## **Key Themes and Supporting Comments of the Biggest Human Capital Challenges**

C-suite executives were asked to describe their biggest human capital challenges for the future (e.g., What is your biggest challenge around succession planning?). Below is a breakdown of the key themes and sample comments associated with the six most pressing human capital challenges for the future.

### ***Succession Planning***

1. *Companies need to have a clear succession plan for identifying and preparing future leaders- there is sometimes a lack of strategic planning.*

- “The topic says it all. Succession planning is always a tough challenge of keeping your prospective people fully engaged and informed. You are competing against an entire market for a small number of qualified applicants.”
- “The greatest challenge will focus on convincing Senior Executive Management to make the necessary investments in preparing tomorrow's senior leaders through rotational assignments, education and training and other developmental experiences.”

2. *The challenge for companies is finding and retaining people who have the aptitude to be senior leaders – individuals with the technical skills, leadership skills, strategic vision and who will fit into the corporate culture.*

- “Trying to find people who are not only qualified, but that would fit in with the way the company is run and the people that are already here.”
- “Fast growth and strong desire for internal leaders is a constant drain. Culture fit especially with senior leadership is a big challenge.”

### ***Recruiting and Selecting Talented Employees***

1. *There is a great deal of competition to get talented employees with the right skill sets.*

- “The biggest challenge is getting talented employees. There is very little unemployment, the talented employees have jobs. Therefore, you have to find a way to lure them from their present employer.”
- “Increasing competition for a limited pool of talented individuals.”

2. *Small companies have particular challenges in competing for talent.*

- “We are a small and growing company. We have to compete with much larger organizations for the talent.”
- “Finding talented individuals at the director level and up, with appropriate experience, is a huge challenge. Add to that the compensation they could get at a large company and this becomes our most difficult task.”

### ***Engaging and Retaining Talented Employees***

1. *Remaining competitive with pay and benefits is a crucial step in retaining employees.*

- “As a health care employer, developing/ maintaining a competitive wage structure within a volatile revenue stream continues to be a significant challenge particularly as it relates to competitive rates for nursing personnel.”
- “As an org with 55 percent Gen X and 16 percent Gen Y (71 percent total), how are we going to retain these people when we don't have the turnover of Baby

Boomers most companies have? Where are the opportunities going to come? Why will they stay? We have to meet their needs - with flexibility, pay, benefits, learning & development, etc.”

2. *Providing developmental opportunities is a challenge and a key step in engaging and retaining talent.*
  - “Ensuring that the performance management process works (i.e., is attended to by managers) and is continually refreshed. Providing career paths/opportunities to high performers. Having managers understand the value of engagement and create the processes to engage the heads, hands and hearts of our people.”
  - “Providing career growth opportunities in a flat organization.”

### ***Leadership Assessment and Development***

1. *Finding the resources (money, time, etc.) to create successful leadership programs is a challenge.*
  - “Building the business case necessary to secure commitment of resources (time, money, etc.) is a challenge. Some do not see this as a priority.”
  - “Training and development are large cost items for mid sized firms and it is often difficult to show the ROI to the executive team. However, without significant strides in this area all future leadership roles will have to be filled from outside of the organization.”
2. *There is a need for better programs that help define the leadership skills needed, develop the training content, and identify those who should participate.*
  - “Identifying and developing meaningful programs to address the deficiencies of current leaders and obtaining their commitment.”
  - “Defining the skills required, developing the content and finding the time for leaders to participate in activities designed to improve their leadership skills.”

### ***Rising Healthcare Costs***

1. *The biggest challenge for employers is to continue to provide affordable healthcare for all employees.*
  - “Finding affordable health care without sacrificing major benefits, where the cost of medical coverage rises faster than wage increase.”
  - “Finding the right health provider and being able to offer our employees a health package that can take care of them but one that the company can afford.”
2. *Employers need their healthcare plans to be competitive, in order to attract and retain talent.*

- “We need to contain costs without losing employee loyalty.”
- “The increase in healthcare costs may have a negative impact on recruiting and maintaining entry level employees.”

### ***Creating and Maintaining a Performance-based Culture***

1. *The challenge for many companies is how to come up with objective, measurable performance goals.*
  - “Each of our properties is very different from each other and it is difficult to find true measures to tie performance to.”
  - “Devising the appropriate performance measures and creating the organizational will to meet them is our biggest challenge.”
  
2. *Building commitment to performance management throughout leadership can be challenging.*
  - “Higher Education is a collegial environment, with many conflict-averse managers. In the attempt to be ‘nice’ to people, managers often do not clarify or uphold expectations.”
  - “Inconsistency among leadership on these topics makes it difficult to maintain a performance-based culture. Some leaders are better than others.”

### **Background:**

In March, 2007, the Society for Human Resource Management (SHRM) Foundation engaged Hay Group to conduct research to identify the most pressing human capital challenges faced by Chief Human Resources Officers (CHROs) and other C-suite executives. The SHRM Foundation will use this research to identify opportunities for commissioning research and developing of tools and practices to help address these challenges now and in the future. The research consisted of three parts; a comprehensive literature review, phone interviews with a select group of C-Suite executives and a detailed on line survey.

### **Methodology:**

*Literature Review.* The SHRM Foundation commissioned a comprehensive literature review to examine and categorize various literatures focusing on current and emerging human capital issues. Talent management includes succession planning, development, recruitment, and retention. Other top HR issues were leadership development; culture transformation and change management; HR technology; work/personal life balance; diversity; health care management; globalization; and business ethics.

*C-suite Interviews.* Hay Group identified a list of 46 C-suite executives to invite to participate in the interviews. The list was primarily comprised of Hay Group clients. An

effort was made to include a cross section of companies (e.g., different industries, company sizes, global and US-based companies).

*Survey Design.* Hay Group designed the Human Capital Challenges Survey based on: 1) research conducted by Hay Group and SHRM; 2) results of interviews with C-suite executives; 3) input from the SHRM Foundation; and 4) discussions with Hay Group consultants and SHRM subject matter experts.

*Sampling Plan.* Hay Group designed a survey sampling plan to meet the following objectives:

- Generalize survey results to the overall business population
- Provide statistically reliable survey data for the business population as a whole
- Provide statistically reliable survey data for the following segments:
  - Company size (small versus medium versus large companies)
  - Global companies versus US-based companies
  - Type of executive responding (HR versus Non-HR)

The survey was sent to C-suite executives from 6,024 companies. Only one C-suite executive was surveyed from each of the 6,024 companies. A total of 526 C-suite executives (from 526 companies) participated in the survey. The overall response rate was 9 percent.

The table below shows the industry breakdown of the survey sample.

## Industries

Industry	% Responded	# of Respondents
Agriculture, Fishing, Forestry	1.9	10
Aerospace/Defense	2.1	11
Airline	0.4	2
Automotive	1.9	10
Chemical	2.3	12
Computers (Hardware, Software, Networking)	4.2	22
Construction	4.2	22
Education	6.5	34
Engineering	0.6	3
Entertainment	1.7	9
Financial Services	9.7	51
Food and Beverage	2.1	11
Healthcare	11.4	60
Hospitality	4.0	21
Insurance	4.9	26
Legal	1.5	8
Manufacturing	15.6	82
Mining	1.1	6
Oil and Gas	2.1	11
Outsourcing	0.4	2
Pharmaceutical	4.6	24
Professional Services	7.8	47
Publishing	3.8	20
Real Estate	2.7	14
Research & Development	0.6	3
Retail	7.8	42
Telecommunications	2.9	15
Transportation	3.4	18
Warehouse Distribution	0.8	4
Wholesale	1.1	6
Utilities	2.3	12
Other	10.6	56
Not Coded	11.8	62

## HR vs. Non-HR

Fully 72 percent of the survey-sample respondents (380) were C-suite executives in the HR function and 28 percent were non-HR C-suite executives (e.g., CEO, COO, CAO, CFO) (146).

**Global vs. US-based**

There were an equal proportion of global and US-based companies in the survey (232 global companies versus 230 US-based companies).

**Sample vs. Population**

The sample of C-suite executives who responded to the survey was compared to the population to ensure a representative sample. The table below shows the company size breakdown of the survey sample (those who responded to the survey) and population (those who were sent a survey). For example, 27 percent of C-suite executives in the survey sample were from large companies compared to 25 percent in the population. In terms of company size, the survey sample appears to be representative of the population.

Company Size	Sample	Population
Small Companies	40 percent	48 percent
Medium Companies	33 percent	28 percent
Large Companies	27 percent	25 percent