

The Best Get Better:

Critical Human Capital Issues of 2012



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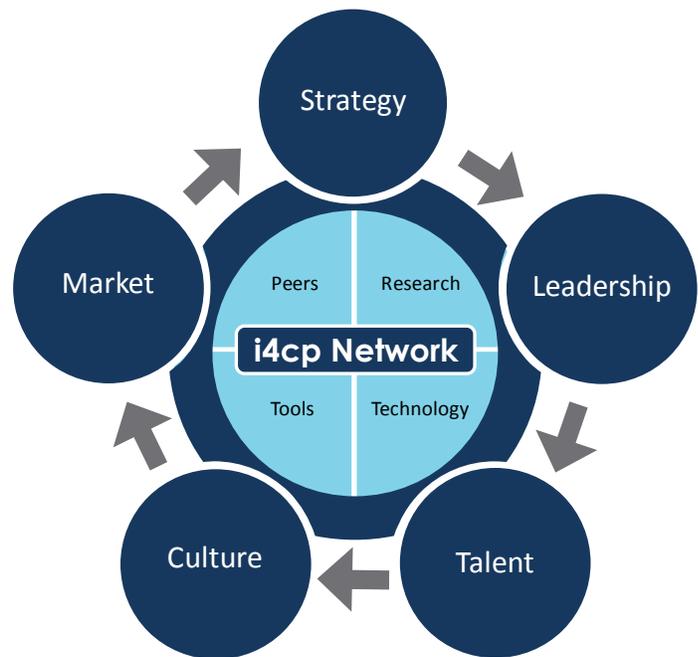
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- Identifying best and next practices for all levels of management
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The Top Five Critical Issues of 2012	Importance	Effectiveness	Change Since 2010
1. Leadership development	86%	26%	
2. Managing/coping with change	78%	23%	
3. Talent management	79%	26%	
4. Managing organizational change	79%	26%	New Issue
5. Succession planning	69%	24%	

Executive Summary

Workforce management issues touch on nearly every element that drives overall organizational success – it’s no stretch to assert that insight into the issues most critical to human capital management is essential for business. Viewing those issues through the filter of market performance, this report, based on the i4cp’s *2012 Critical Human Capital Issues Survey* findings, identifies the issues most important to organizations and the level of effectiveness they have in managing those issues.

The most dramatic overall finding of the 2012 study is that high-performing organizations – companies that are up to seven times as effective as low performers at managing some human capital issues – *have been consistently increasing capabilities in the areas they consider critical and have been doing so throughout the course of the global recession*. Conversely, low performer movement on the critical issue index (CII) over the years has stalled, due predominately to those organizations shifting their focus to what’s looming overhead at the time and gaining little by way of management effectiveness. This finding illustrates that higher performers are able to identify areas for improvement and possess both the agility to increase competencies in those areas and the desire to continually set their sights on the next level of development.

Other headlines from this year’s survey:

- High-performance organizations report effectiveness in some areas of leadership that are up to five times that of low performers. High performers are also continuing to make strides in the struggle to increase leadership effectiveness, while low performers appear stymied.
- Talent management (TM) and planning are increasingly driven by rigorous data analysis linked to business outcomes. But while high performers have increased their competencies in this area, overall there’s movement away from *workforce planning* and *measuring human capital* as critical issues – a trend driven by a drop in emphasis by low performers. Unfortunately for them, this leaves high performers to continue benefiting from rigorously collected and relevant data that bolsters performance in the areas that low performers are striving to improve on: strategy development, alignment and execution.
- High performers are getting a handle on *social media*, *human capital measurement* and *the changing nature of the role of HR* – issues that don’t even make the top five for critical HCM issues among low performers. Again, high performers are operating in a world in which human capital management is a business savvy, relevant and vital contributor to success.

Market performance matters

Compared to lower-performing organizations, high performers report being more than:

- **7X as effective** at managing learning and development
- **5X as effective** at leadership development, coaching and recognition
- **4X as effective** at building and managing teams, aging of the workforce and building compensation strategies for different workforce segments
- **3X as effective** at succession planning, performance management, measuring human capital, compensation, managing the global workforce, multicultural teams and outsourcing HR
- **And 2X as effective** at managing/coping with change and managing organizational change, workforce analytics, workforce planning, measuring/rewarding behavior, internal communication, retention, skill level of the workforce, strategy development, building (or rebuilding) the employment brand, global economic situation, quality of life, healthcare management, corporate restructuring, generations at work, diversity and inclusion, benefits, mergers and acquisitions, and global health threats.

These vast differences in management effectiveness – as well as the importance organizations place on strategies in varied market conditions – culminate in a different set of critical issues for organizations at different market performance levels. It also draws a map for improving market performance by studying how organizations at different performance levels tackle various issues.

The Top Five Critical Issues for High Performers

1. Leadership development
2. Succession planning
3. Managing/coping with change
4. Talent management
5. Learning and development

The Top Five Critical Issues for Low Performers

- Managing/coping with change
- Leadership development
- Managing organizational change
- Performance management
- Engagement

- Top companies are looking to find greater competitive advantage in *flexible work arrangements*. Though they show only slightly greater effectiveness in managing flex work, high performers ascribe it nearly twice the importance. Flex work is often cited as a recruitment hook for younger talent and a must-have for broadening recruitment options on a global scale among skilled knowledge workers.
- High performers focus on external factors while low performers focus internally, one reason why issues such as *innovation, sustainability and global markets* are on tap for high performers, and why *building (or rebuilding) the corporate brand* is critical for low performers. *Innovation* continues to be recognized as a vital ingredient for market survival.

- *Knowledge retention* is an area in which basic skills are critical in a dynamic job market. Yet high and low performers report decreased focus and ability in managing this issue, raising the fear that information vital for business continuity will be lost in a wave of post-recession job churn and retirements. Mastering knowledge retention now is critical to managing these future transitions.

The U.S. perspective

Strictly national organizations (predominately U.S.) have higher CII scores for almost all issues that don't specifically relate to operations in global or multi-national markets. The general trend is for them to ascribe more importance and claim less effectiveness. Even when greater importance is cited by global and multinational organizations, they tend to cite greater levels of management effectiveness.

Mergers and acquisitions is one exception to that trend. Both importance and effectiveness increase by around seven percentage points for that issue when strictly national companies are removed. This is most likely due to the current drive to expand into new/emerging markets and the added complexity of cross-border deals. There is an apparent need to build competencies in this area to fuel expansion into fresh and thriving global markets during a period of upheaval and uncertainty in developed economies.

Otherwise, *globalization of markets/products, globalization of production, global health threats, global economic situation, offshoring, and relocation* are the issues that are generally less critical among strictly national organizations.

Aging of the workforce is the issue that increased the most among strictly national organizations, as aging issues tend to hit different regions at different times based on distinct generational divisions.

Strategy

Critical: Adding a few basic skills can impact the ROI of knowledge retention in a dynamic job market.

Top Five Strategy Issues

1. Strategy execution/alignment
2. Knowledge retention
3. Workforce technology
4. Increasing productivity
5. Strategy development

High Performers

- Strategy execution/alignment
- Knowledge retention
- Workforce technology
- Increasing productivity
- Strategy development

Overall, organizations have a lot of room for improvement in the strategy category. And while high performers are twice as effective as low performers at managing *strategy development* and *corporate restructuring*, they still have work to do in mastering their own top critical issues.

Overall, *knowledge retention* – with the second lowest effectiveness score in this category – is a prime area to add basic skills, especially with turnover concern as job markets heat up. Notably, both high and low performers report decreased importance and effectiveness for this issue, an indicator that knowledge vital for organizational continuity could be lost in the long overdue wave of retirements in some regions or the predicted post-recession job churn in others.

Corporate restructuring is the issue that shows the greatest separation between high and low performers, with high performers citing 51% importance and 42% effectiveness, compared to 65% and 21% respectively for low performers. *Corporate restructuring* also went up dramatically in importance for lower performers since 2010 (a 22 percentage point jump) without a concurrent jump in effectiveness. This makes it a prime area for market challenged companies with ongoing or imminent restructuring initiatives to strive for increased competency.

From i4cp's [Knowledge Retention Playbook](#):

Six tips to improving knowledge retention.

1. **Use social networking** – 40% of large companies do so to tap the knowledge of their workers. And **internal blogs and wikis** are especially effective for organizations operating in multiple locations.
2. **Phased retirements** are becoming more prevalent as a strategy for capturing the knowledge of workers before they retire.
3. **Learning communities or communities of practice** allow workers performing identical tasks to connect, ask one another questions, and share experiences and best practices.
4. **Develop an online database.** Employees can be active participants in the company's knowledge retention efforts by accessing and adding to the shared information.
5. **Develop knowledge maps** – business process diagrams in which each step of a process is linked to specific knowledge and training.
6. **Consider coaching and mentoring** as tools for knowledge retention.

Purchasing or implementing a new HR technology platform? [Join i4cp's HR Technology Exchange research working group.](#)

Leadership

Critical: High performers report effectiveness in leadership that's up to five times that of low performers.

Top Five Leadership Issues

1. Leadership development
2. Managing/coping with change
3. Succession planning
4. Differentiating top talent
5. Coaching

High Performers

- Leadership development
- Managing/coping with change
- Succession planning
- Coaching
- Differentiating top talent

As usual, leadership concerns crowd the top of this year's list of critical issues. But while CII ranking of leadership issues are fairly similar among high and low-performing organizations, that doesn't mean that they're at similar levels when it comes to managing those issues. Although high performers assign much greater importance on almost every issue, they also report management effectiveness for some issues that's up to five times that of lower performers. So even though only 41% of high performers consider themselves effective at *leadership development*, they are still operating at a much more advanced level than the 8% of lower performers who say the same.

Another differentiator from a market performance perspective detours away from the top five list for breakouts of the data; when asked about *identifying revenue growth areas*, low performers saw the issue as important (83%) but did not claim much effectiveness at managing it (35%). This compares to 64% importance and 57% effectiveness claimed by higher performers, making for the largest CII gap based on performance among leadership issues. So while not a top critical issue, the ability to identify areas of revenue growth is the area in which low performers stray farthest from the high-performance path.

From i4cp's [Developing High-Performing Leaders report](#):

Top leadership competencies correlated with market performance:

- Business competencies
- Strategy development
- Global mindset
- Decision-making sciences
- Organizational design
- Strategy execution

Relationship and communication competencies:

- Verbal communication skills
- Collaboration
- Building organizational capacity
- Building relationships outside the organization

Working on leadership development initiatives this year? i4cp is launching a new executive leadership development research working group in 2012. [Learn more about participating.](#)

Talent

Critical: TM and planning are increasingly driven by rigorous data analysis linked to business outcomes.

Top Five Talent Issues

1. Talent management
2. Workforce analytics
3. Workforce planning
4. Engagement
5. Performance management

High Performers

- Talent management
- Learning and development
- Retention
- Workforce analytics (tie)
- Workforce planning (tie)

While *talent management* is the only talent issue to rank on this year's overall top five list (ranked third), three other talent issues ranked in the top ten: *workforce analytics*, *workforce planning* and *engagement*. *Workforce analytics*, an issue introduced in this year's iteration of the critical issues survey, jumped in as the eighth most critical issue overall and promises to remain a critical issue as focus on increased accountability becomes more acute.

Workforce analytics has a strong relationship to the issue of *workforce planning* – as well as the HCM issue of *measuring human capital* – both of which are top issues for high performers. In short, effective talent management and planning will increasingly be driven by relevant and rigorous data collection, with analysis that's linked to bottom-line results.

Organizations are also focusing more on the talent they need to thrive. *Engagement*, *learning and development*, *recruitment and selection*, and *retention* all increased in importance from 2010 levels. But it is *recruitment and selection* that has seen the biggest CII jump in the last two years in the talent category. As the job market warms up, organizations overall are placing more emphasis on recruitment and acknowledging that competencies in that area have stagnated during the recession.

One stand-out in the talent category is *learning and development*, an issue with which high performers reported having seven times the effectiveness of low performers – 49% compared to seven percent. But high performers also ascribed much greater importance to this issue – 90% compared to 53% among low performers – maintaining L&D as a top critical issue on which high performers focus resources. High performers know that effective L&D can drive productivity by helping to fill in imminent skill gaps in the workforce. In the debate over whether to hire, train or steal future talent, high performers have chosen all of the above with L&D as a lynchpin strategy.

From i4cp's [Evidence-Based Human Resources](#) on-demand webinar.

Measuring efficiencies in HR is good, but measuring HR program effectiveness is better.

Measuring the **business impact of HR programs and processes** has a positive correlation with high market performance. The future of HR measurement lies in metrics that show strategic impact, drive organizational change, have greater validity and rigor, rely on a direct causal link to what's being measured and look to leading indicators to be predictive rather than reactive.

Want to analyze the effectiveness of human capital initiative? [Join i4cp's Evidence-Based HR research working group.](#)

Culture

Critical: Top companies are looking to find greater competitive advantage in flex work arrangements.

Top Five Culture Issues

1. Managing organizational change
2. Managing corporate culture
3. Quality of life
4. Generations at work
5. Flexible work arrangements

High Performers

- Managing organizational change
- Quality of life
- Flexible work arrangements
- Diversity and inclusion
- Multicultural teams

Of most of the issues considered critical in the culture category, high performers are twice to three times as effective as lower performers at managing them. The only area in which this is not the case is *flexible work arrangements* – high performers report only slightly greater management effectiveness (29% compared to 22% of low performers). Notably, however, flex work is also an issue to which high performers attach nearly twice as much importance. Top companies are looking to flex work to provide greater competitive advantage and build on competencies and strategies. The increase in importance may be attributable to a predilection for flexible work options as a benefit for younger generations entering the workforce or a preemptive measure for accessing a diverse and scattered pool of critical and increasingly scarce knowledge workers.

The most common barriers to an effective corporate culture come from an inability to *manage organizational change* and a lack of control (or clear direction) in *managing corporate culture*. And while high performers are more than twice as effective at managing these issues compared to lower performers, they still have a long way to go in an environment in which change is the only constant.

Managing organizational change ranked fourth on the overall list of critical issues. The culture issues that rank as the least critical areas in need of improvement include *mergers and acquisitions*, *business ethics*, *employee privacy* and *discrimination*.

From the i4cp/AMA [Cultivating Effective Corporate Cultures Survey Report](#).

Top five characteristics of an aligned culture:

1. The top firms present the same face internally that they present externally.
2. Their values permeate the organization.
3. A company that is viewed as a good place to work is also quite likely to have an aligned culture.
4. Work/life balance is more strongly correlated with an aligned culture.
5. Leaders are influential. Strong leadership shows the strongest correlation to an aligned culture and market performance.

Looking to use social media to positively impact culture and productivity? View the on-demand webinar [Social Media at Work: What Can Be Learned From Trailblazing Organizations](#).

Market

Critical: High performers are more likely to focus on external factors while low performers focus internally.

Top Five Market Issues

1. Innovation and creativity
2. Quality management
3. Sustainability
4. Economic trends
5. Emerging markets

High Performers

- Innovation and creativity
- Sustainability
- Emerging markets
- Globalization of markets/products
- Economic trends

Innovation and creativity remains steady as the top critical issue in the market category, as does the overall most important issue for high performers – *focus on the customer*. This category also includes the second most important issue for low performers – *building (or rebuilding) the corporate brand*. Examining the importance placed on these issues demonstrates how high performers tend to focus efforts externally while low performers focus internally.

Building (or rebuilding) the corporate brand is a topic with the largest gap overall between high- and low-performing organizations. Low performers see it as vitally important (88% compared to 60% among high performer) but are not stellar at managing the issue (29% compared to 44%). This makes a relative non-issue among high performers a top-ten issue for low performers. Other issues in this category considered critical for low performers while being less of an area for focus among high performers: *economic trends*, *quality management* and *focus on the customer*. While this last issue is the most important for high performers, their effectiveness at managing it is 79% compared to 53% among low performers, making it much less critical when seeking to improve effectiveness to a degree that leads to competitive advantages.

From i4cp's [Innovate or Perish: Building a Culture of Innovation](#) report:

Six questions for fostering innovation:

1. What exactly does innovation mean to the organization?
2. How does the organization effectively and efficiently identify and select the best new ideas and make quick go, no-go decisions?
3. What is the best way to measure success?
4. Are leaders prepared to drive innovation within the organizations?
5. What does talent with a propensity toward innovation look like?
6. What does it take to recruit, retain and keep passionate, talented people engaged?

Also, download the ASTD/i4cp white paper [Learning to Innovate](#).

HCM

Critical: High performers are getting a handle on social media, HC measurement, and the changing role of HR.

Top Five HCM Issues

1. Measuring human capital
2. Recognition
3. Use of social media approaches with employees
4. Differentiating pay for top talent
5. Changing HR profession

High Performers

- Use of social media approaches with employees
- Measuring human capital
- Differentiating pay for top talent
- Recognition (tie)
- Changing HR profession (tie)

Effective management of HCM issues are key to organizational performance, as they overlap and drive a variety of issues in other areas. One example of this is the issue *use of social media approaches with employees*, which impacts *internal communication, knowledge retention*, etc. A strategically focused HR function will master HCM issues, whereas tactically focused functions simply respond to organizational needs in these areas without seeking to use them to fuel greater competitive advantage. To gain the benefits to be found in this category, organizations should begin with the top HCM issue, *measuring human capital*; specifically through the application of evidence-based HR (or EBHR), which promotes the collection of metrics that are tied to bottom-line results.

High performers claim anywhere from two to five times the effectiveness at managing most of the issues in this category. *Measuring human capital, use of social media approaches with employees and global health threats* are all more critical for high performers than low performers.

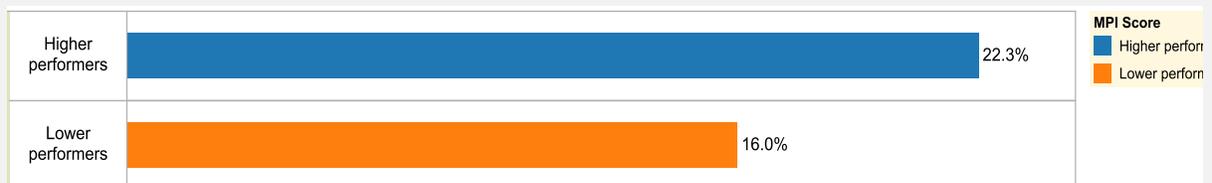
Issues new to this survey iteration – *recognition, use of social media approaches with employees, differentiating pay for top talent and global economic situation* – dominated the top of the HCM list. *Measuring human capital*, though still the top HCM issue, decreased in importance from 2010 due to a drop in importance and rise in effectiveness. The 2010 issue, *healthcare cost* (reabeled in 2012 to *healthcare management*), dropped slightly, while *wellness programs* increased in importance, but not in effectiveness. High performers increased effectiveness in *measuring human capital, the changing HR profession and compensation*.

From i4cp's [Internal Movement Playbook: Leveraging the Power of Workforce Measurement](#):

An overall workforce measurement strategy speaks to broad employee-related metrics.

To what extent does your organization have a workforce measurement strategy?

Percentage of respondents answering "high" or "very high" extent



Conclusion

i4cp – and its predecessor the Human Resource Institute – has tracked the issues the world’s top-performing companies consider critical for over 30 years. What we’ve found is that the way organizations deal with these critical issues is a good indicator of future market performance.

Basically, high performers are quick to assess, identify, embrace, and master the issues critical for their success, while low performers reactively look to what’s important in the moment and develop competencies slowly.

High-performing organizations are also consistently in motion. Even though their management competencies are often twice to seven times that of lower performers, they continue to ascribe more importance to issues and to add to management effectiveness as needed.

While there tends to be continuity among top CII issues, longitudinal movement and market performance breakouts identify the issues in need of greater attention. What appears as a trend based on the CII alone doesn’t necessarily give a full indication of where resources should be focused. Studying what’s important for *successful* companies, as well as considering what issues they identify as being in need of strengthening in the area of management effectiveness, is where true competitive advantages are found.

Analysis of this year’s survey shows that high performers are looking to strengthen their already developed leadership pipelines by better identifying the competencies that will be needed in future leaders. They’re also becoming increasingly effective at collection and analysis of workforce metrics to guide strategy, plan for workforce shortcomings and fill imminent skill gaps. A continuing drive is the external focus on increased innovation and sustainability in global markets, while issues such as *flexible work arrangements* and *knowledge retention* will provide valuable tools in what promises to become a volatile market for new employees with the skills needed to compete in the global arena.

Determining what is critical

Unlike other issue studies, i4cp incorporates effectiveness as a filter to determine what’s critical. Though many issues are important for effective performance, they aren’t considered critical if an organization is already competent at managing them.

The Top Five Scores for Importance

1. Focus on the customer	90%
2. Strategy execution and alignment	85%
3. Strategy execution and alignment	85%
4. Engagement	82%
5. Talent management	79%

The Top Five Scores for Effectiveness

1. Business ethics	68%
2. Focus on the customer	59%
3. Discrimination	56%
4. Employee privacy	52%
5. Work ethic and attitudes	45%

For example, even though *focus on the customer* is ranked as the most important issue in 2012, a 60% effectiveness score is enough to lower it to 46th on the list of critical issues. While this doesn’t negate the need to devote resources to such an important topic, it does reduce its “criticality” by accounting for existing strategies, structures and initiative.

The *Critical Issues Survey* is one that i4cp draws on year-round for deeper insights into the drivers and motivators of high-performing organization behavior. This study, along with the invaluable practitioner perspective provided by our exceptional member companies, guides our research agenda and helps us to define and differentiate the concerns of global business leaders for the coming year.

We hope that you make this study your guidebook for setting the organizational agenda at your company. And look to i4cp for a steady stream of resources that will help you develop in the areas that are critical for your organization to survive, thrive and be productive.

About this report

This report provides analysis of the results for i4cp’s 2012 *Critical Human Capital Issues Survey*, which was conducted in December 2010. Previous iterations of this publication – formerly titled the *Major Issues Survey* – have been conducted by i4cp over the past three decades, and provide rich longitudinal perspective that informs our research and, in turn, aids our members in setting organizational priorities. For this survey, the 2010 iteration is referenced to provide context and to show movement over time. A total of 506 respondents participated in 2012; 632 participated in 2010. Although not specifically referenced in the study, results from the 2011 iteration were used to identify “blips” in the results that might not necessarily indicate reliable trends. That survey had a total of 417 respondents.

Data for this study have been filtered for organizations with 1,000 or more employees. Breakouts by organization size, industry and other demographic factors are available in the interactive data workbook for this study, which is available to all member organizations through the i4cp website.

Changes to the study

This year’s survey is dominated by perennial favorites that often vary little in their placement on the list, but it also saw the rise of several new issues that are regularly added in or swapped out to keep the survey relevant with the times and trends of the industry.

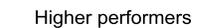
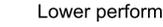
New issues to this iteration of the critical issues survey are *differentiating top talent, workforce analytics, recognition, use of social media approaches with employees, differentiating pay for top talent, identifying revenue growth areas, building compensation strategies for different workforce segments, global economic situation and environmental impact.*

Branding was discontinued in 2012 and replaced by *building (or rebuilding) the employment brand and building (or rebuilding) the corporate brand*, while *healthcare cost* was discontinued in favor of *healthcare management*.

About the Market Performance Index (MPI)

i4cp’s Market Performance Index, or MPI, is based on self-reported ratings encompassing an organization’s performance in four key areas: market share, revenue growth, profitability and customer satisfaction as compared to the levels achieved five years previously. The average of the four ratings determines MPI score. Scores are then separated into thirds to assign categories of higher-, mid-range, and lower-performers.

The following is a breakdown of respondents by MPI score for the survey iterations referenced in this report.

	2012	2011	2010
Higher performers	 25.1%	 24.0%	 19.1%
Mid-range performers	 62.6%	 57.8%	 50.2%
Lower performers	 12.3%	 18.2%	 30.7%

About the Critical Issues Index (CII)

The Critical Issues Index (CII) is calculated by multiplying the mean score for the importance of an issue by another number related to effectiveness. Issues with a high CII score are considered prime areas of focus that could, if addressed well, result in the greatest boost to organizational performance.

Authors and Contributors

This report was written by **Eric Davis**, i4cp's senior editor. He has authored numerous articles and reports on human capital topics, as well as editing and contributing on other projects, with specialization in issues related to corporate culture and diversity. He can be reached at Eric.Davis@i4cp.com.

This report was edited by **Lorrie Lykins**, i4cp's managing editor and director of research services. She has been involved in human capital research for a decade and has authored numerous white papers and articles. She may be reached at Lorrie.Lykins@i4cp.com.

Contributors

Several i4cp staff members provided background research and other support for this report. **Jay Jamrog** and **John Gibbons** advised the research team, **Eric Davis** provided graphic design and proofing, and **Joe Jamrog** provided research support and created the graphs.

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1-866-375-i4cp (4427)
or at www.i4cp.com

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