2020 REPORT

The State of Talent Optimization

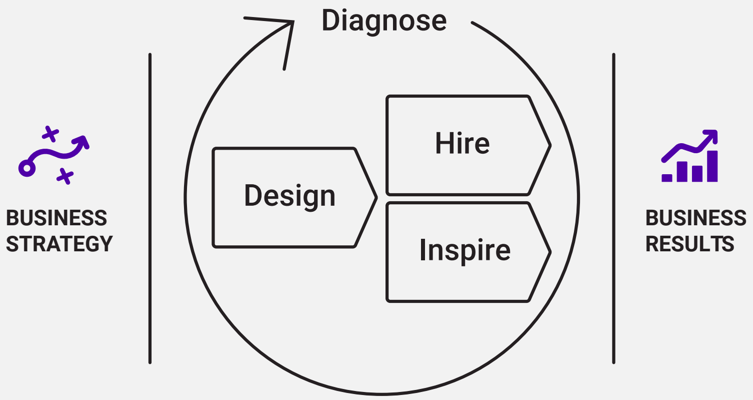
600 executives reveal the talent optimization practices that drive superior business results.

Uncovering the business value of talent optimization

In October of 2019, The Predictive Index surveyed 600 executives across 20 industries to understand the relationship between talent optimization and company performance. Their answers provide a window into the current state of talent optimization—the discipline of aligning talent strategy and business strategy.

While having an agreed-upon and well-documented business strategy is mission-critical, business strategies don't execute themselves; people do. Senior leaders can maximize strategic performance by crafting an aligned talent strategy that mobilizes employees to handle the execution themselves.

We found a relationship between talent optimization and company performance. In fact, we saw that **specific combinations of talent optimization practices translated to positive business results** for the participants we surveyed in this study.



After reading this report, you'll understand how to design a talent strategy for maximum impact.

With insights from 600 executives—including 200 CEOs—the findings in this report will open your eyes to the power of aligning your business and talent strategies to achieve success. You'll discover which specific combinations of talent optimization practices drive the most positive business results, and you'll uncover best practices for hiring, inspiring, and engaging employees.

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Pressed for time? Skip to page 20 to learn how talent strategy drives business performance.

About the study

In October of 2019, The Predictive Index conducted a survey of 600 CEOs, presidents, SVPs, and VPs to find out how many companies had a talent strategy—and if so, whether that strategy drove business success. We began by asking questions about their top challenges and priorities to get a baseline understanding of their common struggles and opportunities. Next, we probed into how optimized the companies were: *Did they design talent strategies that dictated how to organize, hire, and inspire employees? Were those talent strategies well-documented and understood across the organization? Were they aligned to the business strategy?* Finally, we gathered success metrics, including strategic initiative success rate, top-performer retention, and employee performance. (For more details about the survey methodology, refer to page 60.)

Learn about our respondent pool.

600 executives

Of the 600 senior leaders surveyed, 200 held the role of CEO or president. The remaining 400 were SVPs, VPs, or other members of the executive team.

20 industries

Regardless of industry, there were similar challenges and priorities—and a strong relationship between talent strategy (or lack thereof) and business results.

50-500+ employees

Each executive surveyed led a company with no less than 50 employees, with 41% of executives leading a company with 500 or more employees.

Meet our subject matter experts:

We shared some findings with experienced senior leaders and asked them to respond. Throughout the report, you'll see insights from the following subject matter experts:

Kirk Arnold

Executive in Residence at General Catalyst

Arnold is a former CEO and a current board member of companies including Ingersoll Rand, Thomson Reuters, and PI. In addition, she's a senior lecturer at MIT Sloan School of Management.

Yuchun Lee

CEO & Co-Founder at Allego

Lee is an investor and entrepreneur who brought his first company public then sold it to IBM. An MIT and Babson grad, he was vice president and GM at IBM and serves on several boards.

Dena Upton

VP of People at Drift

Before joining Drift, Upton was VP of People at LogMeIn. She's worked in HR for nearly 25 years, and brings a strategic approach to performance management, recruiting, and training.

Marilynn Duker

CEO at Brightview Senior Living

Duker is CEO of a company that operates more than 400 senior living communities across eight states. She's spearheaded transformation and growth during her 35+ year tenure.

Tracie Sponenberg, SHRM-SCP, SPHR

Chief People Officer at The Granite Group

Sponenberg leads people functions for The Granite Group—a wholesale distributor with 45 locations. She co-organizes DisruptHR NH and is on SHRM's Special Expertise Panel.

Meghan Joyce

COO at Oscar Health

Joyce is a Harvard graduate and a current Boston Beer Company board member. Previously, she was a regional GM at Uber, a senior policy advisor, and an associate at Bain.

Designing talent strategy

"Talent optimization is 'Moneyball' for business."

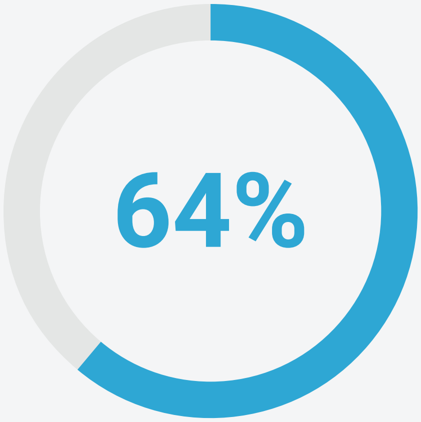
- Mike Zani, CEO at The Predictive Index

People are a company's biggest expense.

What percentage of your company costs are employee-related/labor costs?

KEY FINDING

Execs say 64% of total company costs are labor costs.



The study began by asking the executive panel to assign a percentage of their total company costs to employee-related/labor costs. The average company spends 64% on its employees (line items such as salary and benefits).

Defining a talent strategy is good resource management.

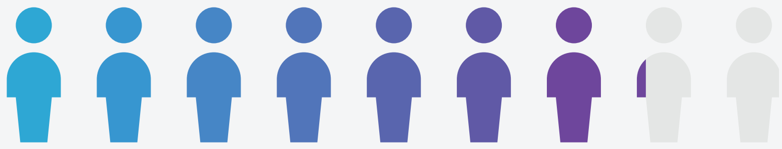
KEY FINDING

Execs attribute 72% of their company's value to their employees.

The panel of executives revealed what percentage of their company's value they directly attribute to employees: 72%. In other words, almost three-quarters of a company's value comes from the people who work there. This means people are a company's most expensive and most valuable asset. Defining a talent strategy, then, is good resource management.

What percentage of your company's value do you directly attribute to your employees?

72%



Having no talent strategy is the norm.

KEY FINDING

Only 36% of companies have a talent strategy.

We presented the executive panel with a list of 14 statements and asked them to check all that were true for their company. Most companies had a business strategy, and roughly half had a financial plan, but fewer than 4 in 10 companies had a talent strategy in place.

Which of the following statements are true?

66% We have a business strategy.

51% We have a financial plan.

36% We understand each executive's confidence level in achieving each of our strategic priorities.

36% We have a talent strategy.

24% We have the right executive team in place to execute our business strategy.

24% We have a well-documented talent strategy that is understood throughout the organization.

23% We intentionally align our organizational structure with our business strategy.

22% We consider the strengths and weaknesses of our workforce when we conduct strategic planning.

22% We think people strategy is everyone's responsibility (not just HR's).

22% Our core values align with the business strategy.

20% Our talent strategy is completely aligned with our business strategy.

18% We map leadership competencies to the business strategy.

17% We have the right people throughout the company to execute our business strategy.

10% When building teams for the company or for isolated projects, we have a credible way of anticipating team dynamics.

Execs are focused on strategy development.

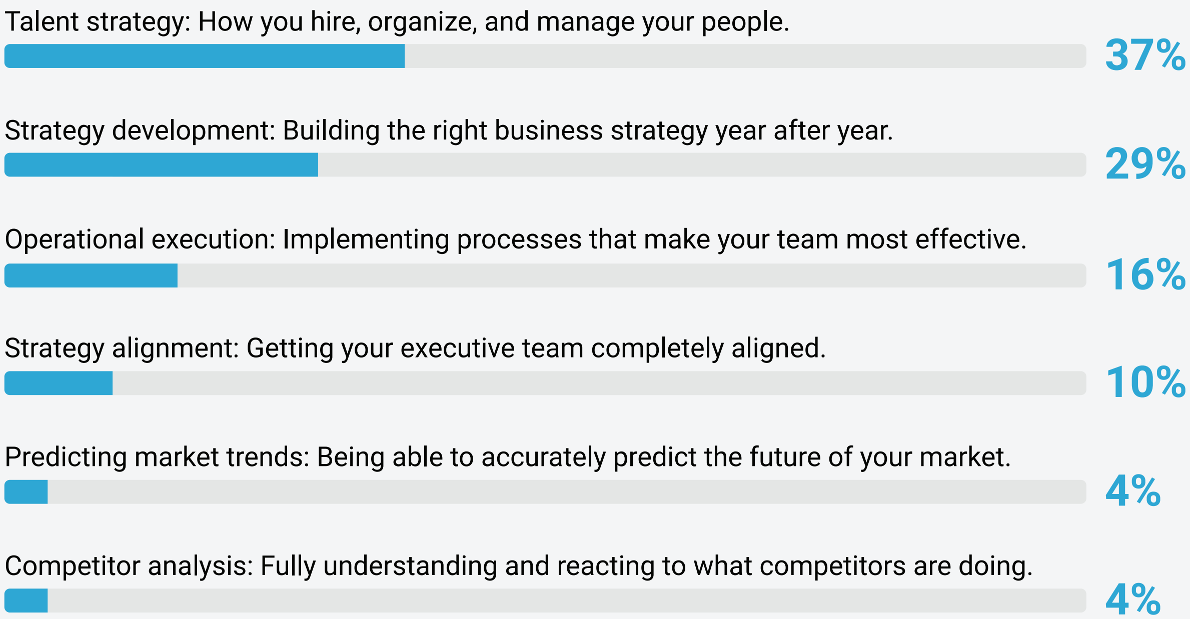
KEY FINDING

37% of executives say their No. 1 priority is talent strategy.

We asked the executives to tell us their top priority for 2020. The panel of 600 executives were asked to choose one priority from a list of six options. The most common answer was *Talent strategy: How you hire, organize, and manage your people* (37%) followed by strategy development (29%).

It's clear from the responses below that execs are concerned with crafting strategy—not implementing it. Ideally, the senior team crafts such a well-defined strategy, it becomes the blueprint for the company so employees can handle the operational execution themselves.

Of the following, which is your No. 1 priority as an executive?



What the experts had to say about talent strategy being the No. 1 priority

"Doesn't surprise me at all. That's absolutely been the case for us for 20-25 years. We transitioned from a real estate business to an operating company that has real estate as a necessary component—but fundamentally, our product is our people. We have to have the best people who are totally aligned with our culture and our values in order to be successful."

- Marilynn Duker, CEO at Brightview Senior Living

"I think it makes a ton of sense. Everything else on the list—whether it's setting the strategy, strategic alignment, execution—all of those things flow from talent strategy. And so, within that group of strategy execution, I could rank order those. But, at the end of the day, those are all going to rely on having the right people and ensuring that they're engaged and set up for success."

- Meghan Joyce, COO at Oscar Health

"I'm on the board of a very large industrial company. This is a company that manufactures very large equipment globally, and they believe they're a technology company. And as a result, their priority has become talent. How do we find the best people? … Because we know innovation—which comes from talent—is how we're going to win this industrial competitive marketplace."

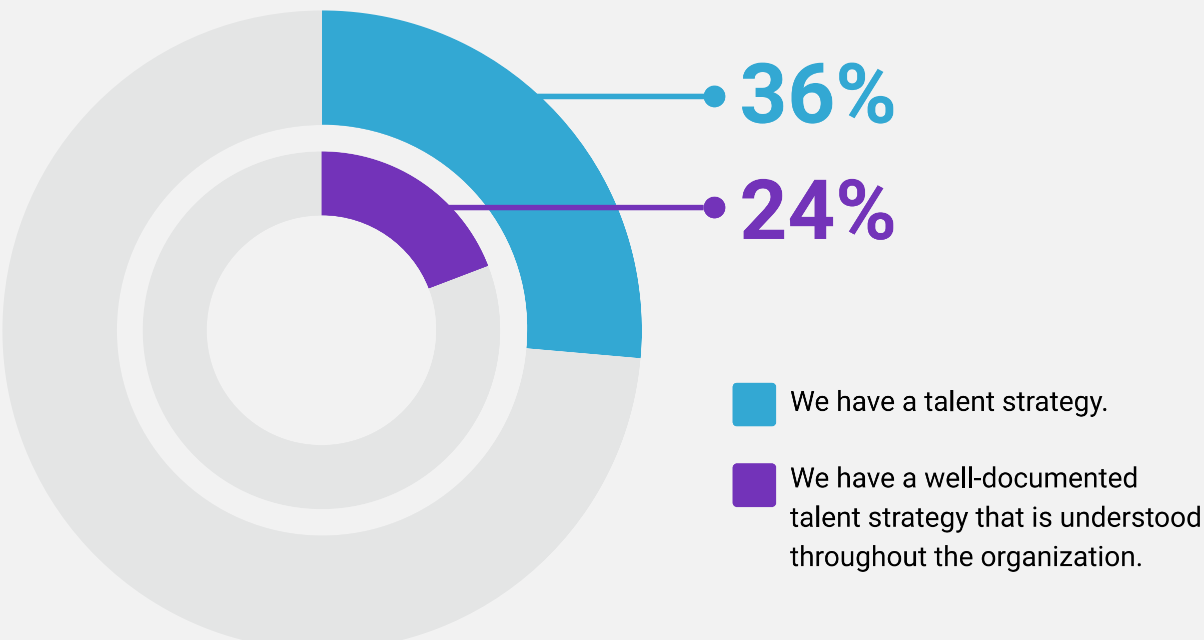
- Kirk Arnold, Executive in Residence at General Catalyst

Not all talent strategies are created equal.

KEY FINDING

One-third of companies with a talent strategy aren't able to communicate it in a way their employees understand.

Whereas 36% of execs said their company has a talent strategy, just 24% said *We have a well-documented talent strategy that is understood throughout the organization.* A strategy must be well-documented to be actionable; if it's not articulated on paper, it can't be shared with employees, partners, or customers.



KEY FINDING

A mere 12% of companies align their talent strategy with their business strategy.

Only 69 of the 600 executives surveyed selected all three of the following statements:

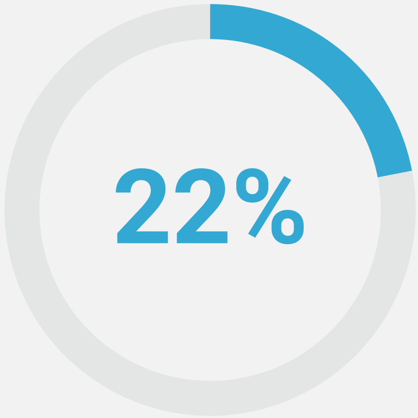
- We have a talent strategy.
- We have a business strategy.
- Our talent strategy is completely aligned with our business strategy.

The talent optimization discipline argues that companies must define both a business strategy and a talent strategy and align them to be mutually beneficial.

KEY FINDING

22% of companies consider talent strategy a shared responsibility.

Just 22% of executives surveyed said *We think people strategy is everyone's responsibility (not just HR's).* When it comes to organizing and optimizing a company's most valuable (and most costly) business asset—people—senior leaders must play an active role. Passing the buck by sending this responsibility "down the hall" to HR is passing up an opportunity to create a great organization.



What the experts had to say about talent strategy design

“We’re at a point where the vocabulary and dialogue around talent strategy is just coming to the forefront of business conversation. At the same time, there’s something about talent strategy that feels more like art than science for a lot of people. And what PI and a number of thinkers are doing in this space is saying this needs to be a data-grounded conversation and a mix of art and science—just like any other business problem.”

- Meghan Joyce, COO at Oscar Health

“It’s not surprising to me that most executives consider talent strategy to be the responsibility of human resources because that’s really where issues related to employees were relegated. I think it’s almost a legacy of the Industrial Revolution … [Today] the largest investment companies are going to be making is in their talent. And as that becomes clear to the senior leadership of companies, I think increasingly they will prioritize talent strategy.”

- Kirk Arnold, Executive in Residence at General Catalyst

“The biggest asset that we have in organizations is the amount of money we spend on our people. So we should ensure that what we’re trying to do from a business perspective is align our talent with our business strategy.”

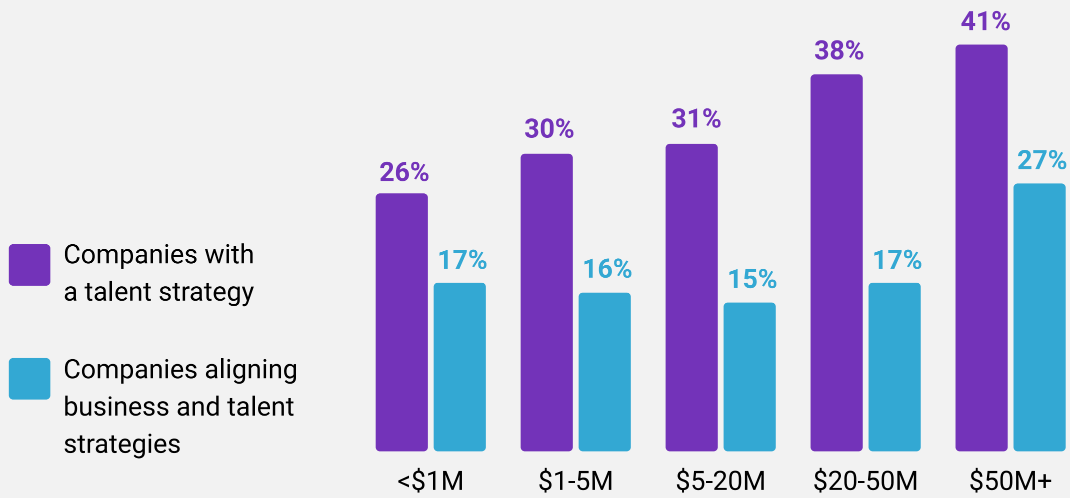
- Dena Upton, VP of People at Drift

Talent strategy is absent in small and medium-sized businesses.

KEY FINDING

Companies with higher revenues are more likely to have a talent strategy in place.

Why is talent strategy the No. 1 executive priority? Because talent optimization drives business performance, and talent strategy design is at the heart of it. But historically, only well-resourced companies have had the capabilities to develop talent strategies. Study participants shared estimates of their companies' annual expected revenue, and, as anticipated, higher revenue companies were more likely to have a talent strategy in place. Additionally, higher revenue companies were more likely to have taken steps to align their business strategies to their talent strategies. In fact, 27% of companies earning more than $50 million had talent strategies aligned with business strategies, compared to only 17% of companies earning less than $1 million. There's clearly a need to make these practices more accessible for smaller companies.



The business value of implementing talent optimization practices

For the purposes of this report, we've defined the following talent optimization practices:

- Have both a business strategy and a talent strategy
- Align talent strategy to the business strategy
- Ensure talent strategy is well-documented and understood throughout the organization
- Make talent strategy everyone's responsibility (not just HR's)
- Align core values to the business strategy
- Align organizational structure to the business strategy
- Have the right executive team in place to execute the business strategy
- Understand executives' confidence level in achieving each strategic priority
- Map leadership competencies to the business strategy
- Have the right people in place throughout the company to execute the business strategy
- Consider the strengths and weaknesses of the workforce in strategic planning

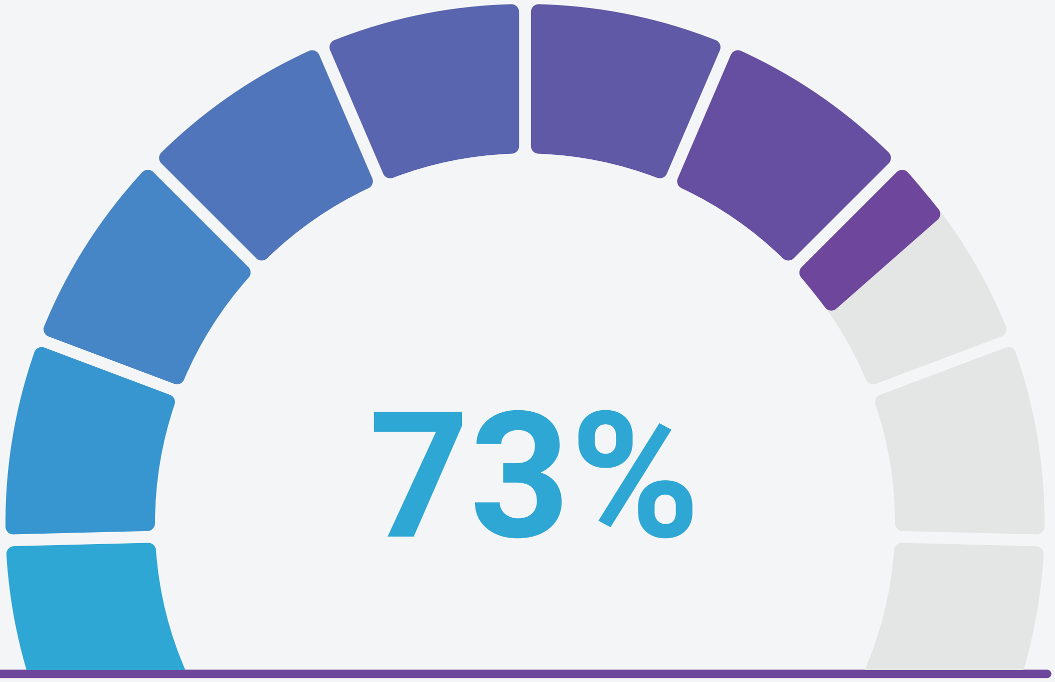
Each of the above practices represents a facet of the talent optimization discipline. Most importantly, **specific combinations of these practices translate to positive business outcomes** for the participants we surveyed in this study. In this report, we refer to companies that implement combinations of the above practices as talent optimized companies.

What percentage of your strategic initiatives are successful?

KEY FINDING

On average, 73% of strategic initiatives are successful.

The first success metric we wanted to examine was strategic initiative success rate. We asked executives to estimate the percentage of their strategic initiatives that they considered to be successful. On average, execs said that 73% of their strategic initiatives were successful—roughly three out of four.



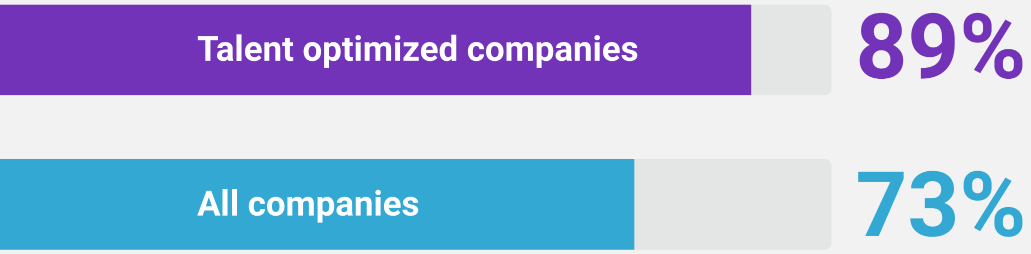
KEY FINDING

Talent optimized companies outperform other companies by 16% in terms of strategic success rates.

When companies implemented the following talent optimization practices, their strategic success rate increased to almost 90%.

- Align talent strategy to the business strategy.
- Align organizational structure to the business strategy.
- Ensure talent strategy is well-documented and understood throughout the organization.
- Make talent strategy everyone's responsibility (not just HR's).
- Have the right executive team in place to execute the business strategy.
- Understand executives' confidence level in achieving each strategic priority.

Considering that even high-velocity companies may only be able to pursue a few strategic initiatives each year—each a substantial investment in time and resources—improving those strategic outcomes' success rate by 16% is an enormous differentiator in the market.

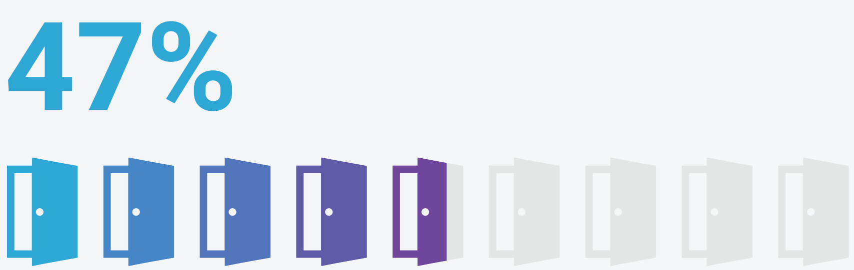


KEY FINDING

On average, 47% of high-performing employees left their company last year.

We wanted to understand the current state of top performer turnover. On average, 47% of high-performing employees left their company last year. In a good job market, these employees are highly mobile, and they can be more selective about where they work.

What percentage of your high-performing employees left the company last year?



KEY FINDING

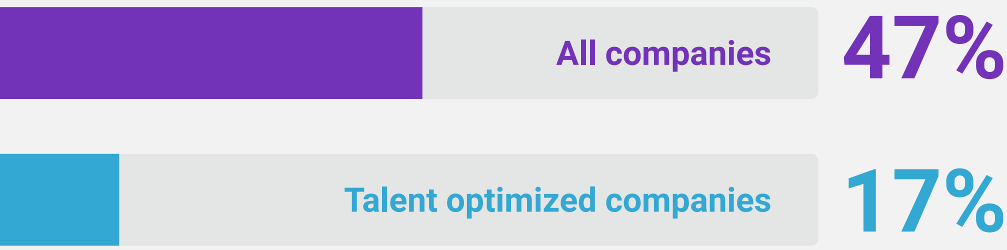
Talent optimized companies have 30% lower turnover of top-performers.

When companies implemented the following talent optimization practices, their high-performer attrition rate dropped to an average of only 17%.

- Align core values to the business strategy
- Align organizational structure to the business strategy
- Understand executives' confidence level in achieving each strategic priority
- Have the right executive team in place to execute the business strategy *or*
- Have the right people in place throughout the company to execute the business strategy

Conversely, the attrition rate of high-performing employees at companies that did *not* use these practices was *three times higher.* On average, 53% of high performers left companies that were not using the above talent optimization techniques.

Losing high performers slows down strategic initiatives, hurts morale, and increases costs. Cascio (2006) and Mitchell, Holtom, and Lee (2001) estimated that the direct and indirect costs of turnover can be anywhere from 90%-200% of the exiting employee's salary. For example, consider a company with 20 top performers, each making $75,000 per year. If this company doesn't practice talent optimization, 10 of those employees may be gone next year—potentially costing the company between $675,000 and $1.5 million in recruitment, training, and lost productivity.



KEY FINDING

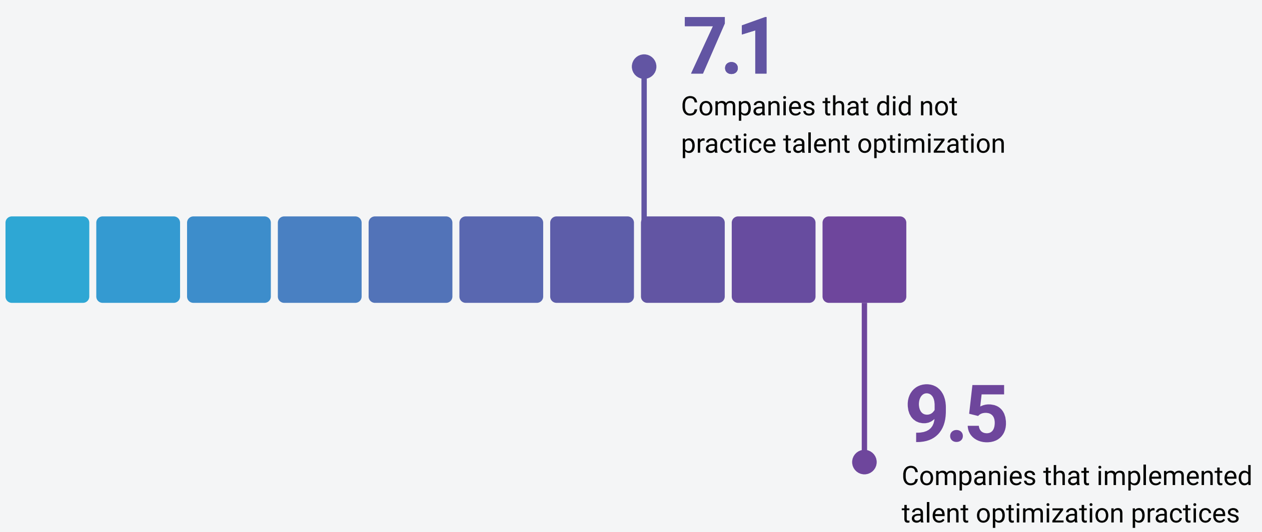
Talent optimized companies have 34% higher employee performance.

We asked respondents to rate employee performance on a scale of 1-10. When companies did not have a clear business strategy and did not practice talent optimization, execs rated their employees' performance at 7.1.

But when companies implemented the following talent optimization practices, execs rated employee performance at 9.5. (This suggests that employees at talent optimized companies are performing, on average, 34% better.)

- Have the right executive team in place to execute the business strategy
- Have the right people in place throughout the company to execute the business strategy
- Align organizational structure to the business strategy

How well are your people performing in their roles?
(1 = severely underperforming, 10 = consistently exceeding expectations)



KEY FINDING

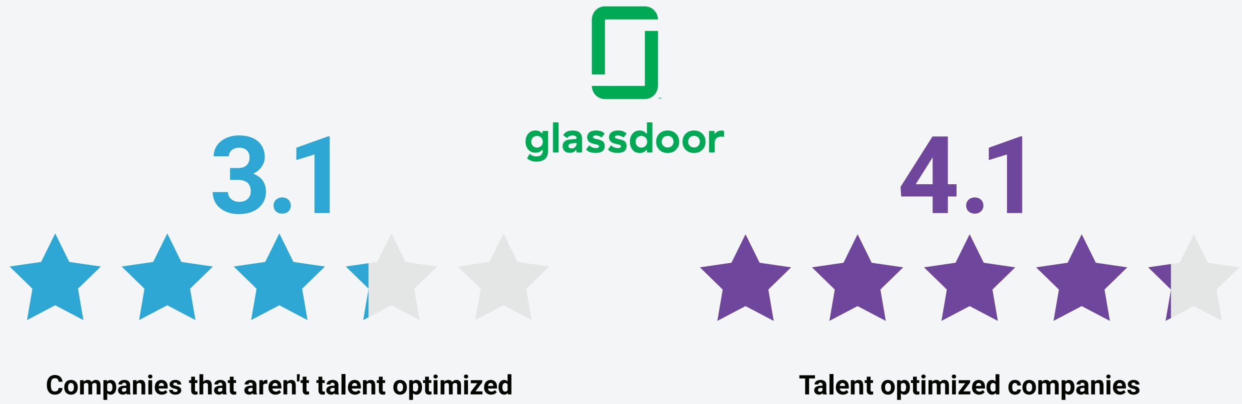
Talent optimized companies have higher Glassdoor ratings.

Next, we asked about their companies' Glassdoor ratings. Glassdoor reported that the average company rating is 3.3 on a scale of 1-5. This mirrored the average Glassdoor rating reported by executives in this study: 3.4. However, companies reported an average Glassdoor rating of 4.1 when they implemented the following talent optimization practices:

- Have a talent strategy
- Have the right executive team in place to implement that strategy
- Consider the strengths and weaknesses of their workforce in strategic planning

Companies that did not implement these practices reported an average Glassdoor rating of 3.1—a full point lower. Glassdoor ratings might seem less important than employee performance, but they're an important consideration for employer branding and attracting top candidates. They're also a rough proxy indicator of employee engagement—a key driver of strategic success.

What is your company's Glassdoor rating?

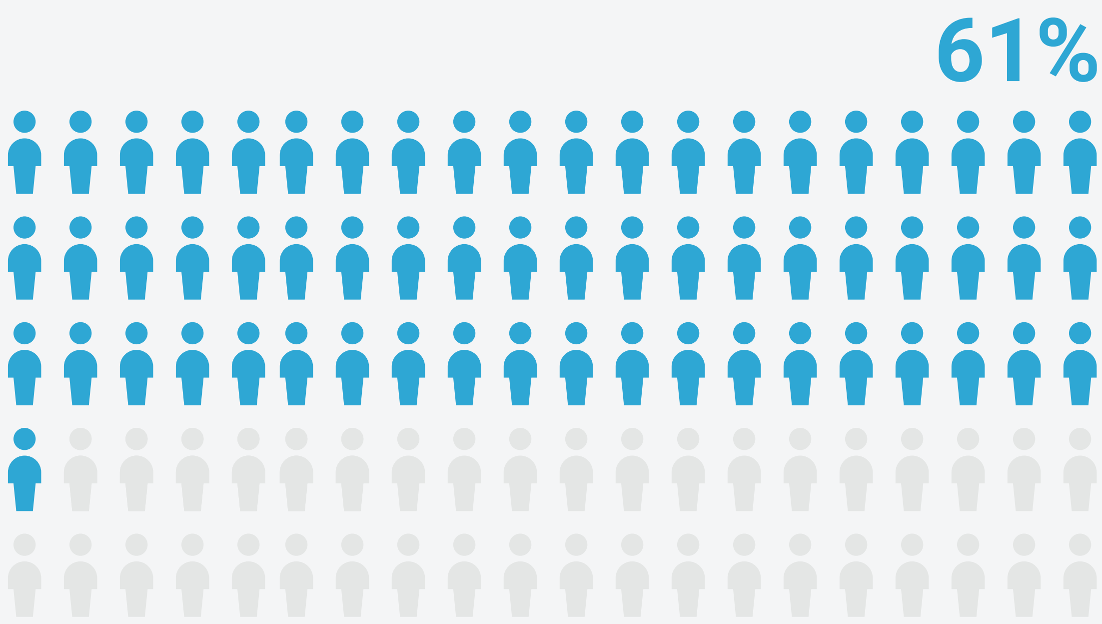


KEY FINDING

On average, senior leaders spend 61% of their time solving people problems.

We asked the executive panel to tell us how much time they spent dealing with people problems (e.g., turnover, low engagement, poor performance). On average, executives at companies with business strategies estimated they spent 61% of their time on people problems.

What percentage of your time is spent on people-related issues and challenges?

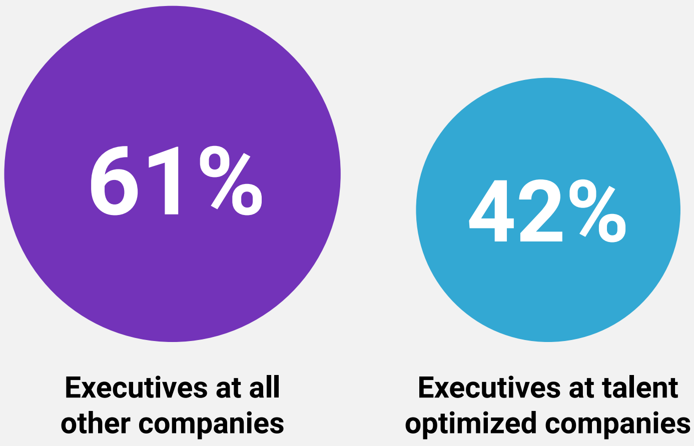


KEY FINDING

Talent optimized companies spend 31% less time on people problems.

Companies that practiced talent optimization cut time spent on people problems by almost a third. That's like gaining back 395 hours a year—almost 10 full weeks. Executives spent an average of 42% of their time on people problems when they implemented the following practices:

- Understand executives' confidence level in achieving each strategic priority
- Ensure talent strategy is well-documented and understood throughout the organization
- Align organizational structure to the business strategy
- Have the right executive team in place to execute the business strategy
- Have the right people in place throughout the company to execute the business strategy
- Make talent strategy everyone's responsibility (not just HR's)



What the experts had to say about the business value of talent optimization

“Talent strategy is one of the top two areas of focus for CEOs, and 37% [of executives] surveyed said it’s their No. 1 priority. The sober reality is that 47% of high-performing employees left their company. From my own experience, CxO’s talent strategies are not being translated downward effectively. The answer is, first, a shift in business strategy toward an ‘employee centricity’ model where highly-engaged and effective employees lead to satisfied and loyal customers, which leads to stronger company fundamentals. Second is the adoption of technology to help scale the type of training and development needed.”

- Yuchun Lee, CEO at Allego

“We talk about being a great place to work first. And unless we have that, we can’t be a great place to live. And if we’re not a great place to live, we’re not going to have good financial results. It’s all about having the right people on the bus and the right seats on the bus—and you’ve got to have tools to do that. And you’ve got to be talking about it all the time so people understand what it looks like to live your culture.”

- Marilynn Duker, CEO at Brightview Senior Living

“Without talent optimization, I think seven out of 10 would be a very high rating [for employee performance]. I think those leaders are being very generous … From my own experience, having unfortunately been in companies—either part of the leadership team or not—where the employees didn’t understand the strategy and didn’t know how they were contributing to it. I can tell you that we were not getting power out of that talent base.”

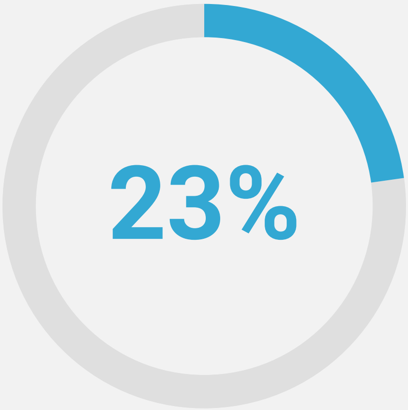
- Kirk Arnold, Executive in Residence at General Catalyst

Organizing people according to business strategy

KEY FINDING

23% of companies align their organizational structure with their business strategy.

When following the discipline of talent optimization, talent strategy design includes selecting an org structure that assists employees in executing the business strategy. According to the executives who participated in the study, aligning org structure to the business strategy significantly lowered employee costs, strategic failures, and the amount of time executives spent on people problems. It also increased employee performance and retention of high-performing employees. Yet only 23% of senior leaders said *We intentionally align our organizational structure with our business strategy.*



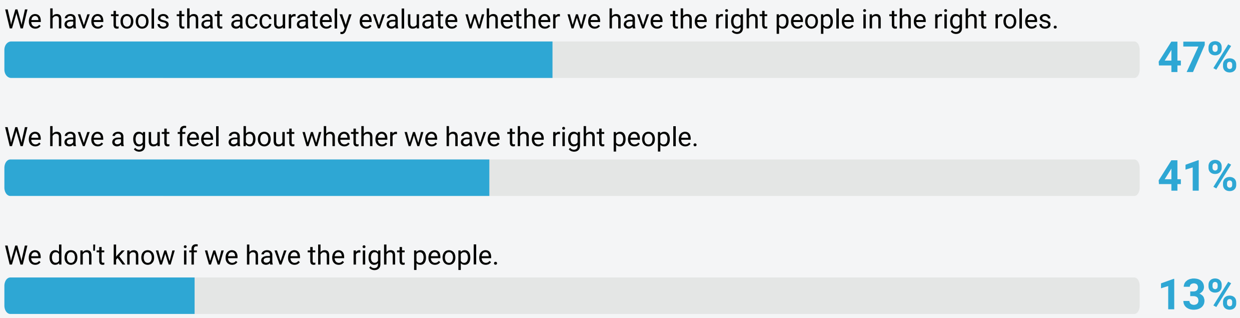
Evaluating senior team fit

KEY FINDING

47% of companies have tools that accurately evaluate whether they have the right executive team in place.

The execution of a given business strategy requires certain leadership abilities. For example, a company that wants to commercialize new inventions requires executives who are visionary, innovative, and risk-oriented. A company that seeks to increase quality and predictability needs somewhat different leadership abilities. That's why talent strategy design also includes ensuring senior leadership team fit—and addressing any gaps. Yet fewer than half of all companies are able to evaluate executive team fit.

Which of the following best describes how well you're able to assess if you have the right team in place for your strategy?



What the experts had to say about aligning people and business strategy

"The leaders I admire most are leaders who understand that great businesses are built by great teams, period end stop … I've had the privilege of working with leaders who understand that and they start from the top of the organization making the tough decisions. Not do I like this person or not, but is this person the right person for the role? Can they participate as a team? How can we engage each other as team members? … And then an insistence that those leaders bring the same focus on their teams all the way through the organization, not just as they build them, but as they engage them every day."

- Kirk Arnold, Executive in Residence at General Catalyst

"You can teach how to forecast, you can teach how to run a marketing campaign, you can teach your product, but you can't teach some of the intrinsic values that just show up with someone … It's not that someone isn't great for your company, but they might not be great for your company at the time in which you need to hire them. And I think understanding what makes people tick, what they naturally show up with, is something that analytics can help uncover."

- Dena Upton, VP of People at Drift

Hiring top talent

"The most important technique or aspect of hiring really happens before you even post a job—we call it gaining agreement."

- Jackie Dube, SVP of People Operations at The Predictive Index

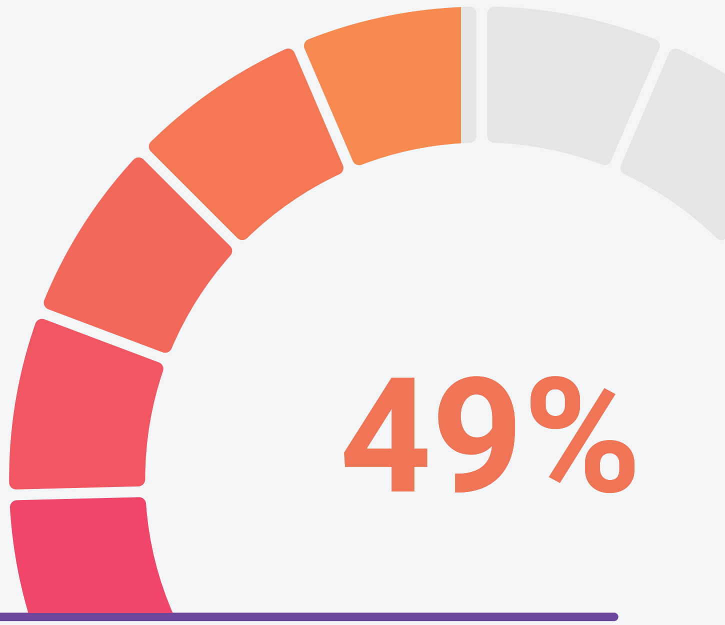
Bad hires are the norm.

KEY FINDING

Execs say only 49% of last year's hires were good hires.

To get an idea of how good companies are at hiring, researchers asked the panel to estimate how many of last year's hires were good hires. Executives report that only about half of all new employees were good hires. What does this mean in dollars and cents? Some experts estimate the true cost of a bad hire at $250,000. More conservatively, a 2019 CareerBuilder report found the average cost of a bad hire was roughly $18,700. Using that second estimate, a workforce of 100 employees might burn through almost $1 million per year due to bad hiring.

What's your best estimate of how many of the hires made in the past year were good hires?



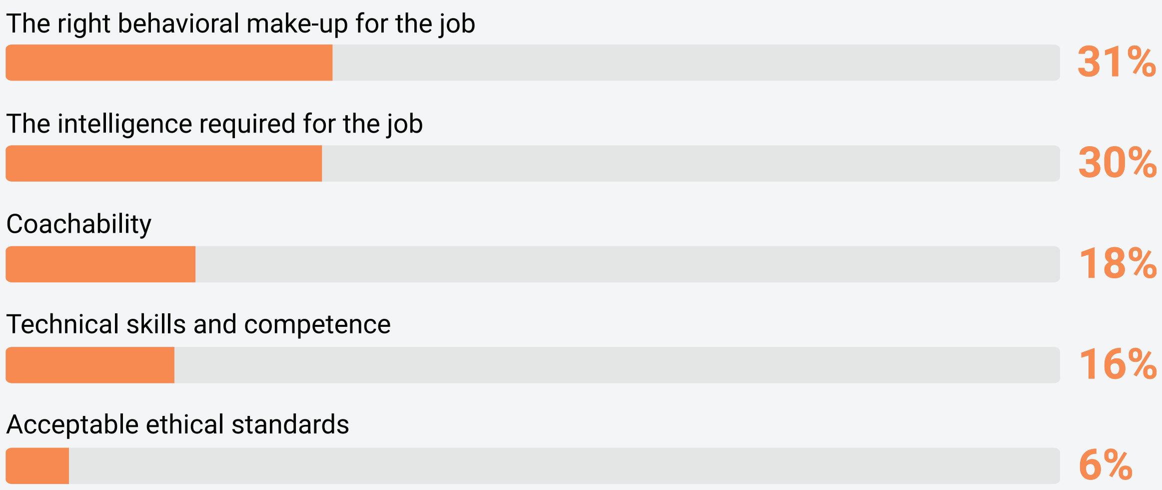
Why bad hires get fired

KEY FINDING

61% of executives say employees are terminated because they lack the behavioral fit or cognitive ability needed for the job.

Next, the survey sought to uncover why employees get fired for performance-related reasons. Researchers asked respondents to choose one item from a list of five options. The top answer was *The right behavioral makeup for the job* (31%). In second place—and just one percentage point behind—was *The intelligence required for the job.*

In your opinion, when companies terminate employees for performance-related reasons, what is the most common thing those people are lacking?



What the experts had to say about terminating employees who lack the right behavioral makeup

"At the end of the day, many, many, many skills can be taught in the workplace … It's the interest, passion, attitude, commitment that the employee brings that gauges how open are they to being taught those technical skills and how committed they are to making it work. When I'm seeing performance difficulties, it's almost always an issue of commitment, attitude, willingness to work at it and get it right rather than purely lacking the skill set."

- Meghan Joyce, COO at Oscar Health

"We hire almost 2,000 people a year … As we've expanded into eight different states, it's been absolutely critical to have a tool our managers can use to be sure we're bringing people in the door who have the behavioral attributes to make them a great cultural fit. … My worst hires ever were when I ignored what [the behavioral assessment] said because I liked the person."

- Marilynn Duker, CEO at Brightview Senior Living

"I do agree that [poor behavioral and cognitive fit] is a large part of the challenge when you have underperforming employees. The question then becomes, whose responsibility is it? … Much of that starts in the hiring process. We as leaders need to understand what are the behavioral profiles that relate to this role and will ensure a likelihood of success—there's no guarantees—and how do we ensure that we find the right people who are going to be a match.

- Kirk Arnold, Executive in Residence at General Catalyst

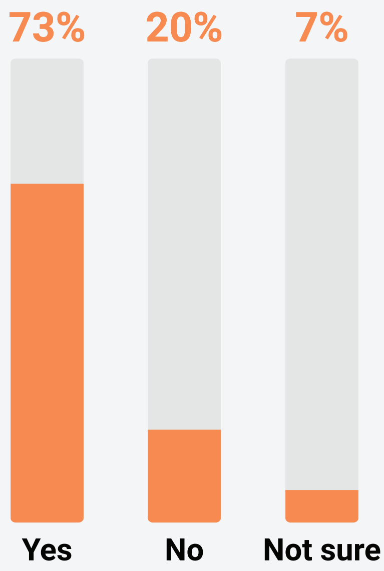
Hiring process is lacking.

KEY FINDING

27% of companies don’t have an effective, repeatable hiring process.

Based on the previous question, ensuring behavioral and cognitive job fit is critical—so is instituting a rigorous hiring process. We wondered how many companies had an effective, repeatable hiring process in place. As you can see, only about two-thirds of companies have one.

Does your company have an effective, repeatable process for hiring candidates?



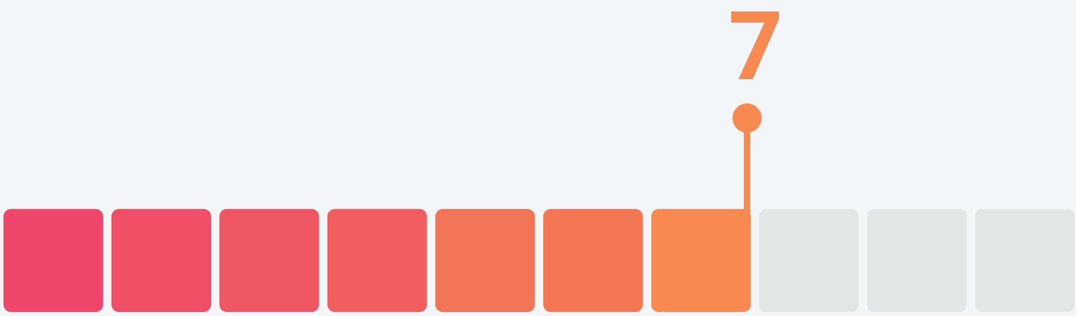
The importance of people analytics

KEY FINDING

On a scale of 1-10, execs rate the importance of using analytics to make hiring decisions a 7.

A talent optimized company adds rigor to its hiring process by collecting additional candidate data points—like behavioral and cognitive data—and using them to guide decision making. We wanted to know how much importance execs assigned to using analytics in the hiring process.

When it comes to building teams/hiring, how important are analytics to your decision making process? (1 = not important at all, 10 = critically important)



The relationship between analytics and goal attainment

KEY FINDING

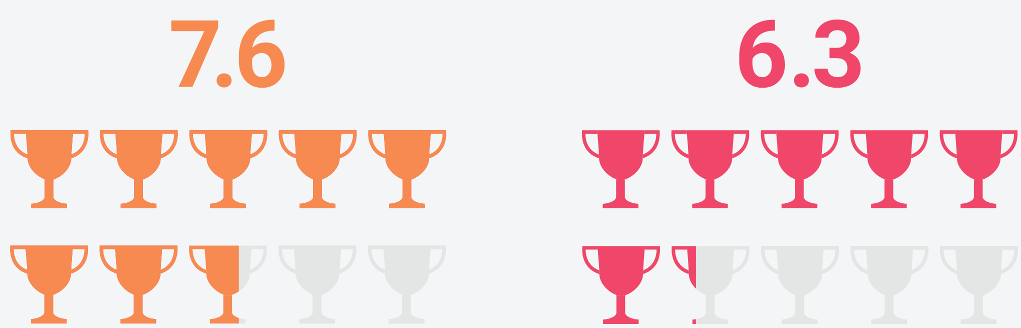
Companies that place more of an emphasis on using analytics for hiring are more likely to surpass their goals.

Next, we asked our executive panel to reveal their company's performance in terms of goal achievement. Executives were asked to choose one of the following:

- We fell short of our goals.
- We met our goals.
- We surpassed our goals.

From there, researchers crossed their responses with their ratings to the question *When it comes to building teams/hiring, how important are analytics to your decision making process?* As you can see, companies that fell short of their goals gave an average rating of 6.3 while companies that surpassed their goals gave a rating of 7.6. We can look at this in reverse too: What's the probability that a company will surpass its goals? For a company that gives hiring analytics an importance rating of 5, the probability they will surpass their goals is only 42%. For companies that rate it a 10, the probability jumps to 60%.

On a scale of 1-10, how important are analytics to your decision-making process?



Surpassed their goals | **Fell short of their goals**

What the experts had to say about using analytics for hiring

"The [behavioral assessment] is a very reliable indicator of what one's natural behavioral tendencies are going to be in the workplace. We find it to be a remarkably accurate predictor—particularly of what someone will do under stress. In our business, a 24/7 health care business, there's a lot of stress … It's incredibly important to have a level of predictability to how associates are going to respond."

- Marilynn Duker, CEO at Brightview Senior Living

"As a wholesaler, we're often viewed as a company that's not exactly on the leading edge of change and innovation. Look behind the scenes, though, and you'll see our fully-automated central distribution facility, our business intelligence tools, and our use of analytics for hiring. As our business grows and changes, [analytics] are essential to ensure our workforce is ready for change—and our team is ready to adapt, innovate, and inspire.

- Tracie Sponenberg, CPO at The Granite Group

"Organizations are starting to understand that old methods of how you recruit talent don't always work. You're basically flipping a coin as to whether or not someone's going to be successful in their role. You have an hour; each interviewer has an hour. So what can you understand about them prior to going into that conversation to make that hour really effective? … Having that sort of cheat sheet or pre look on whether the candidate's strengths match the role you have open is incredibly important."

- Dena Upton, VP of People at Drift

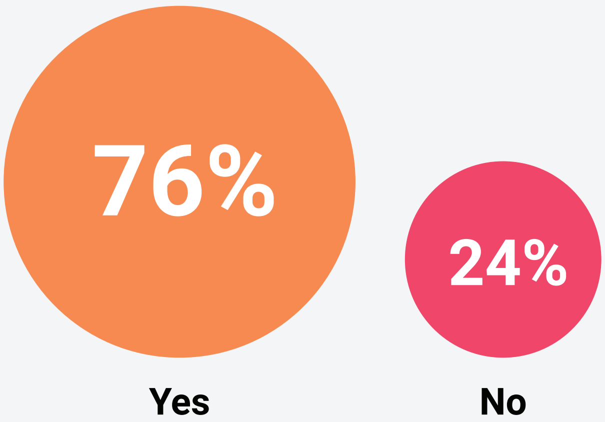
Not all hiring managers have access to people data.

KEY FINDING

24% of hiring managers lack access to behavioral and cognitive candidate data.

Often, when bad hires are made, the hiring manager takes the blame. But when hiring managers are left to make decisions based on resumes and references alone, they're not at fault. Cognitive job fit and behavioral job fit are too hard to predict without objective data. Yet one-quarter of hiring managers don't have access to people data.

Are your hiring managers armed with objective behavioral and cognitive data on the people they're interviewing?



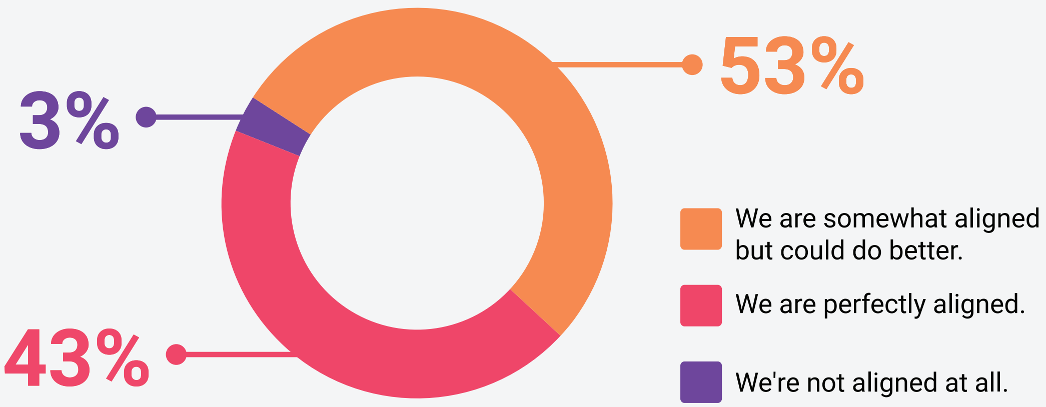
Hiring teams are often misaligned.

KEY FINDING

53% of execs say their hiring teams are somewhat aligned.

If you were going in for surgery and the operating room staff were somewhat aligned, you probably wouldn't feel very confident. Yet many companies hire this way—they post job ads before gaining stakeholder alignment on job requirements. To understand how prevalent this issue was, we asked the panel about their hiring team alignment.

When you are hiring, which best describes how well your hiring teams are aligned on the requirements of the position?



Inspiring employees

"Self-awareness is the cornerstone of great leadership."

- Daniel Muzquiz, President at The Predictive Index

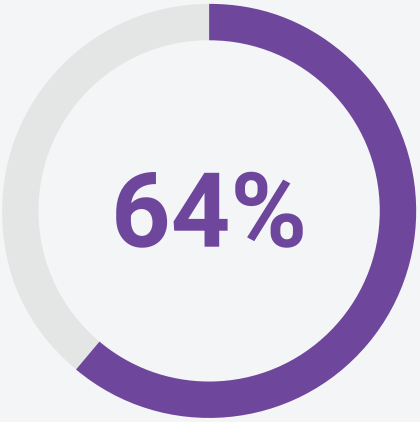
People make or break a business.

What percentage of a strategic outcome's success or failure do you attribute to your employees (as opposed to outside factors)?

KEY FINDING

Execs attribute 64% of a strategic initiative's success or failure to their employees.

Next, the researchers wanted to know whether execs tied strategic initiative success (or failure) to their people—or to outside factors. Of course, outside factors (the global economy, the environment, the political landscape, technological innovation, etc.) have the power to derail strategic initiatives. That's why it's mission critical to not only build but continually motivate an agile workforce that can shift gears as needed.



What the experts had to say about the role employees play in strategic success

“As a company that doesn’t manufacture anything, and with products that are sold by many of our competitors—sometimes for a lower price—our purpose is truly, and literally, our people. Our business rises and falls on the strength of our team members. And that’s why we [use tools] to ensure we have the right people in the right places to drive our business forward, and serve our customers in the best way possible.”

- Tracie Sponenberg, CPO at The Granite Group

“Do [employees] understand how what they’re doing every day connects and is going to impact the outcome? Is their day-to-day manager coaching them, enabling them, giving them feedback that connects and builds on the relationship between the strategic imperative, the goals of the company, and what that person is getting done every day? … I used to do all-company meetings and I’d send out bulletins as a CEO and think everybody understands what we’re trying to do—and that’s simply not true.”

- Kirk Arnold, Executive in Residence at General Catalyst

“The success of execution falls in the hands of how well you’re able to explain the mission to the team … and that you’ve got the right people in the right roles at the right time with the right kind of team dynamics.”

- Dena Upton, VP of People at Drift

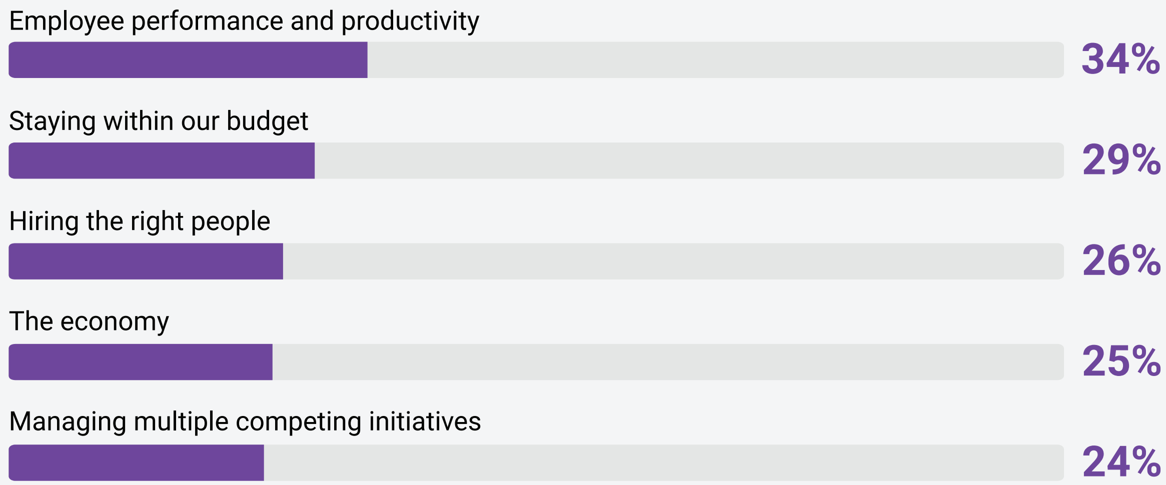
Employee performance is a top concern.

KEY FINDING

Execs are most likely to say *employee performance and productivity* is something they lose sleep over.

To find out what keeps executives up at night, the study presented respondents with 13 items and asked them to choose up to three. Topping the list was *Employee performance and productivity* (34%). Next were *Hiring the right people* (26%), and *Staying within our budget* (29%). The first two are "people problems." If companies nail the people part of the business—by hiring well and inspiring employees to work at full capacity—staying within budget becomes easier.

What about your job keeps you up at night? (select up to 3 options)

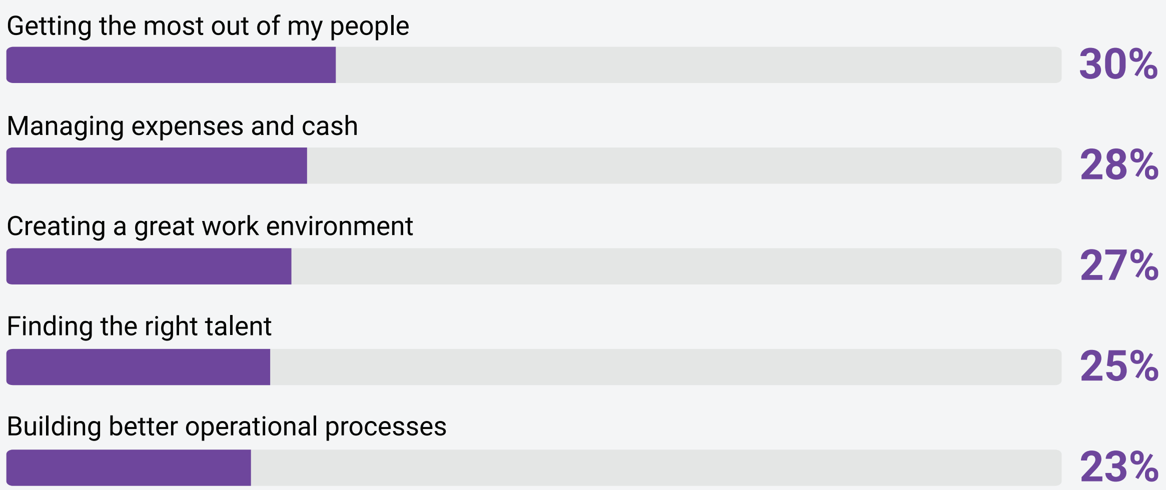


KEY FINDING

Execs are most likely to say *getting the most out of my people* is one of their biggest challenges.

To uncover top business challenges, the survey presented the executive panel with 15 list items and asked them to choose up to three. The most commonly selected item was Getting the most out of my people (30%). In today's global economy, technology, information, and markets are increasingly easy to access. Talent is the last frontier of competitive edge. Companies that can get the most out of their people will differentiate themselves from the crowd.

As an executive, what are your biggest challenges? (select up to 3 options)



What the experts had to say about employee performance

“For us, it’s not productivity; it’s finding enough great people to do the jobs we have … We know if we get the right people, they’re highly likely to be productive. But we’ve got to get the right people walking through the door. That’s where we need to spend our time—on selection and onboarding and making sure people are a great cultural fit. Then we’re less worried about productivity. It tends to follow.”

- Marilynn Duker, CEO at Brightview Senior Living

“We have a lot of science and a lot of data and a lot of insight into how to engage our employees—and understand what they need from us. How does this employee versus that employee want to receive information? … There’s a lot of science around it now and pretty well-developed practice that we just have to do a better job of deploying in business to spark the imagination of these employees and ensure they understand what we need them to do.”

- Kirk Arnold, Executive in Residence at General Catalyst

“Sometimes we’re so caught up in tactical things that we fail to invest in the relationship aspect of it. And I think that people analytics is sort of a cheat sheet to understanding relationships. If you meet your team where they are—more than they need to meet you where you are—you’ll increase engagement across the organization.”

- Dena Upton, VP of People at Drift

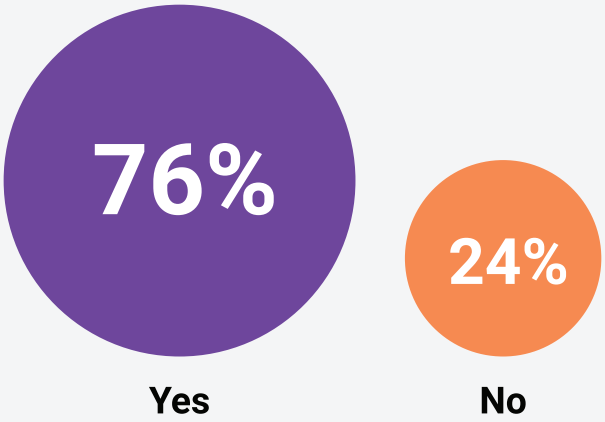
Employee self-awareness and team performance

KEY FINDING

76% of companies have tools to help employees gain self-awareness.

In addition to individual employee performance, leaders must focus on team performance. For a team to be high-performing, its members must trust each other so that they can engage in healthy conflict, make good decisions, and collaborate effectively. Developing trust on a team starts by helping each individual become more self-aware. To that end, we wondered how many companies provided tools to nurture employee self-awareness.

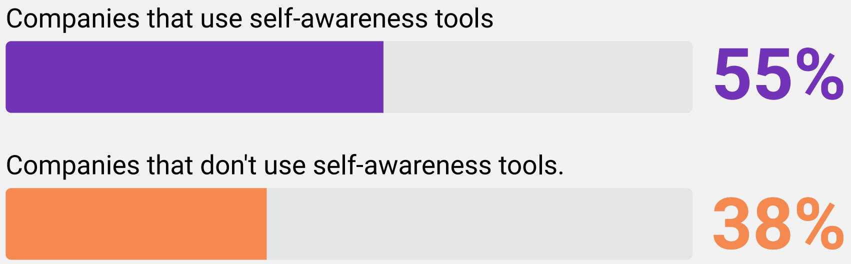
Does your organization use tools that help people to be more self-aware in the workplace?



KEY FINDING

Companies that use tools to build employee-self awareness are more likely to be high-performing.

We wanted to know if there was a relationship between using tools to build employee self-awareness and company performance. Based on the execs' responses, we found that 55% of companies that use tools to build employee self-awareness surpassed their goals, whereas only 38% of companies without tools surpassed their goals. Additionally, companies with these tools had more strategic initiatives succeed (75%) than those without (63%).



Executives have a hard time letting people go.

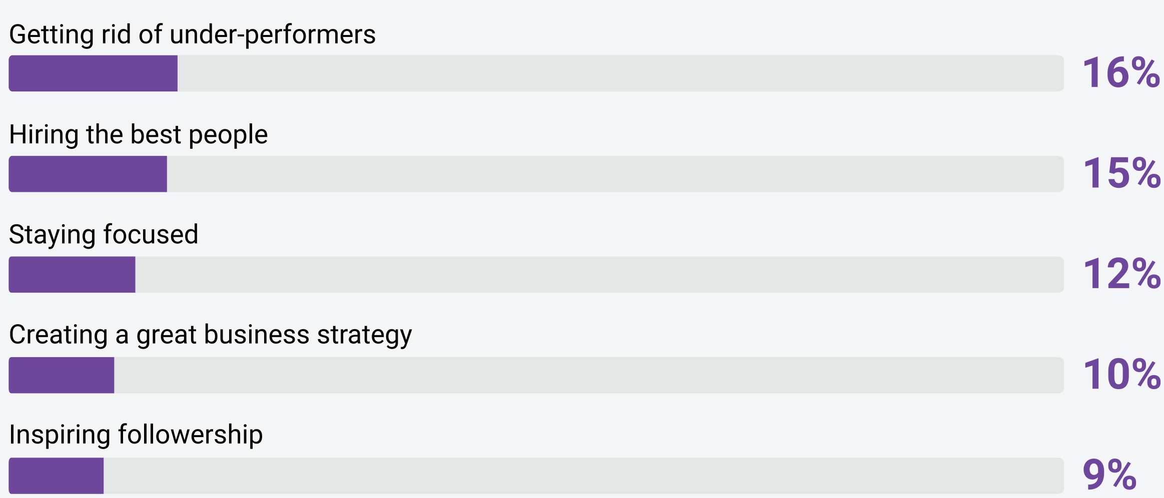
KEY FINDING

Executives' No. 1 biggest weakness is getting rid of underperformers.

Next, we asked respondents to choose their single biggest weakness as a leader, from a list of 12 possibilities. Ninety-five of the 600 leaders surveyed (16%) chose *Getting rid of underperformers,* making it the top reported weakness.

This might shed some light on why high-performing employees are leaving in droves. When high performers are forced to work alongside low-performing employees, they grow frustrated and check out. High performers prefer to work with other high performers—that's why leaders must find the courage to part ways with underperformers.

What do you consider to be your single biggest weakness as a leader?



What the experts had to say about dealing with people problems

"We are at a cultural moment where people are putting their life experiences and their happiness as a priority … That mentality is likely bleeding into the workplace. It's not enough to take home a paycheck. Although that's wonderful, I do want a connection to the mission and I do want to be learning and enjoying my life … If [companies] can tap into that, it drives a much deeper commitment and internal motivation than a paycheck could possibly provide."

- Meghan Joyce, COO at Oscar Health

"The opportunity in front of us is to figure out, we have an [underperforming] individual, is there something they can add? Can we get underneath what this person's capabilities are—what kind of work they're good at doing? Is there an opportunity to direct them or coach them around what they're doing and mapping that to the role they're in? … There are tools and techniques that allow us to try to find ways to legitimately improve that employee's performance. I think using those tools will help us get better at confronting the issue."

- Kirk Arnold, Executive in Residence at General Catalyst

"As a leader, when you make a decision to bring somebody into the organization, you're convincing them, you're doing a lot of selling … you're asking them to step outside a successful organization and a different successful role to take a leap of faith with you … When it doesn't work out, that manager or leader feels responsible in some way. And it's hard to give up."

- Dena Upton, VP of People at Drift

Diagnosing employee engagement

"All business problems are people problems."

- Dr. Matt Poepsel, SVP of Product at The Predictive Index

A missed opportunity

Talent optimization defines “diagnosing” data as a three-step process:

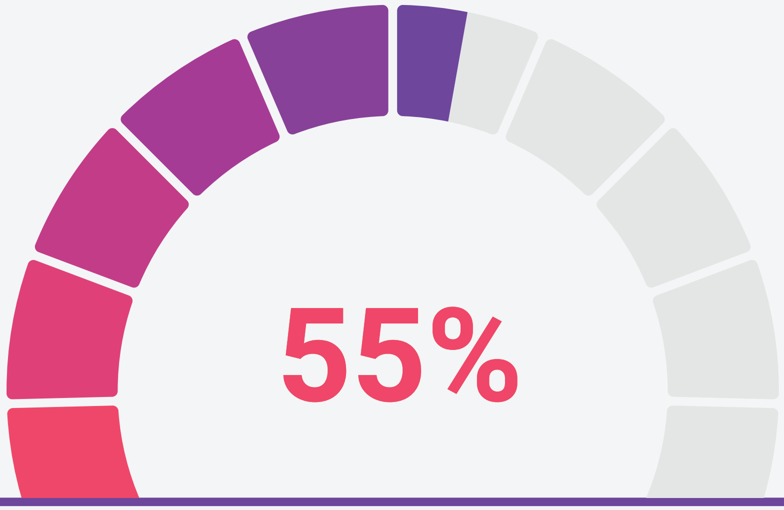
- Measuring data
- Analyzing data
- Making an action plan

KEY FINDING

Only 55% of companies regularly diagnose their employee engagement data.

To close the survey, we wanted to understand how frequently companies diagnosed their employee engagement data. Only 55% of the executives surveyed do this regularly.

At first glance, business problems—like supply chain uncertainties or globalization—are just that: business problems. But upon further examination, it’s clear: they’re people problems. After all, people develop risk-minimizing supply chain strategies and analyze global market data. If people are crumbling under the weight of external forces, execs need to identify the source of the breakdown. *Are low performers sapping the team’s energy? Is org structure a blocker? Are bad managers to fault?* Not diagnosing employee engagement data and acting on it is a huge missed opportunity.

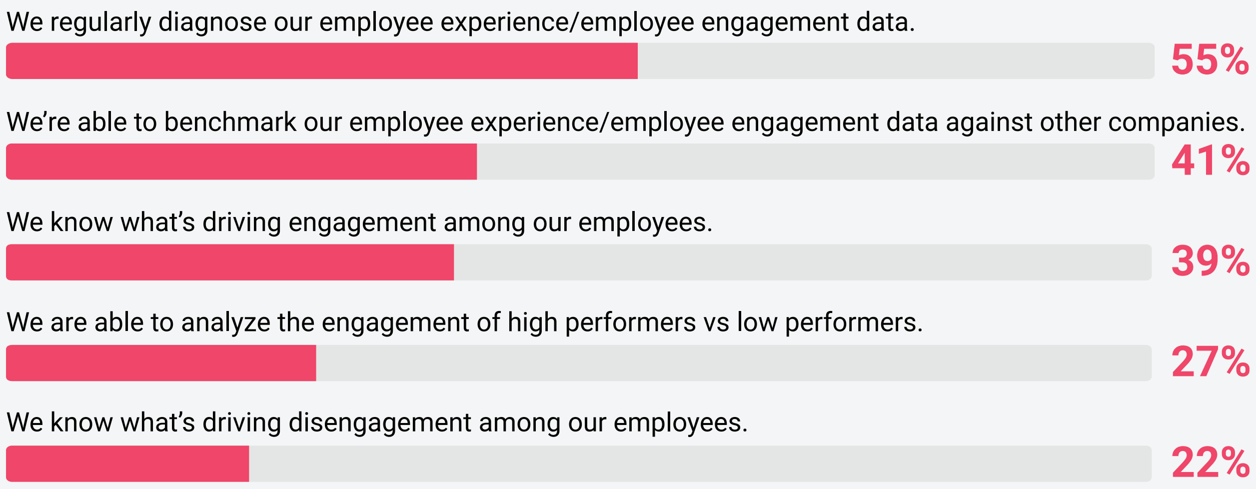


KEY FINDING

Only 22% of companies know what's driving employee disengagement.

Next, we wanted to know if the companies that diagnosed employee engagement data did so successfully. As you can see, 22% of companies said *We know what's driving disengagement among our employees* and 39% said *We know what's driving engagement among our employees.*

Which of the following statements is true? (Check all that apply.)



What the experts had to say about understanding engagement drivers

"Many companies are out of touch with the day-to-day of their teams. Fortunately, The Granite Group is not one of them! By combining the power of employee engagement tools along with talking and—more importantly—listening to our team regularly, we're able to respond to changes in the environment that may affect engagement levels."

- Tracie Sponenberg, CPO at The Granite Group

"I have sat in the seat of the 80% of executives who don't know, so I know how that feels … The only way we're going to be successful in an industry is to drive that engagement, which is critical to success as we move forward. These innovation industries that rely on talent bringing everything they have every day to the task need to have tools and platforms and methodologies that we broadly deploy that can help us with that task."

- Kirk Arnold, Executive in Residence at General Catalyst

"So many organizations rely on this annual engagement survey or every two year kind of survey. You need to sort of pulse check your employees on a more regular basis to understand—or at least try to get ahead of—engagement before it's too late. Half the time, if you use lagging indicators like attrition, they've already left."

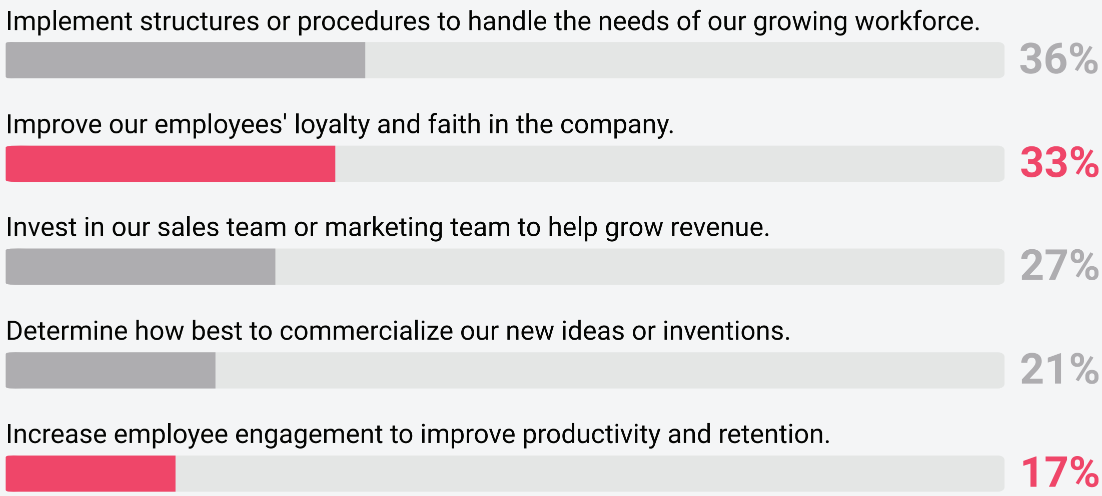
- Dena Upton, VP of People at Drift

KEY FINDING

Only 17% of executives say increasing employee engagement is a top priority.

You read that talent strategy is our panel's No. 1 priority. But we also presented the execs with a list of 20 statements and asked them to select all that best reflect their strategic priorities in 2020. Just 17% chose *Increase employee engagement to improve productivity and retention.* The second most chosen statement was *Improve our employees' loyalty and faith in the company* (33%). The two go hand-in-hand. Leaders must help align employees to the company's strategic goals—and show them how they can impact those goals. This should build engagement and loyalty; employees go above and beyond when they're emotionally invested in the company's success. When aggregated across the entire workforce, *this* is the differentiator between mediocre and great strategic outcomes. Doing this begins with understanding what drives engagement and disengagement—and acting on that insight.

"Please select the statements that best reflect the top strategic priorities your company must pursue over the next 12 months. (Check all that apply.)"



Conclusion: Talent optimization powers winning businesses.

Talent strategy is the No. 1 priority executives will focus on in 2020. This makes a lot of sense when you consider the business value of designing an optimized talent strategy: Companies with optimized talent strategies in place strategically outperform the other companies by 16%. They also retain more of their best people, see better employee performance, spend less time on people problems, and have higher Glassdoor ratings. What's more, we found a relationship between using analytics for hiring and goal attainment; companies that place more of an emphasis on using analytics are more likely to surpass their annual business goals. Finally, we uncovered a relationship between using tools to build employee self-awareness and goal attainment; companies that use tools to build employee self awareness are more likely to surpass their goals.

In order to design and execute an optimized talent strategy, companies need an agreed-upon business strategy. That's because talent optimization exists within a business context. A business strategy is a company's North Star; it's the reference leaders should measure all key actions and decisions against, and it defines how the company will succeed.

The essence of leadership is aligning employees with the business strategy. Yet in this survey, we learned that only 66% of companies have a business strategy in place. Of the companies that do have a business strategy, only 30% of executives surveyed said *We understand each executive's confidence level in achieving each of our strategic priorities.* This means 70% of the business strategies that do exist might not be agreed-upon. If these companies hope to design a workforce of engaged employees who row in the same direction, they must draft a business strategy that all senior leaders agree on.

Study methodology

This report was developed with scientific rigor.

Good surveys begin with identifying the population of interest. Because we wanted to explore the practices of people who directly set and influence business and talent strategies, we partnered with an organization that specializes in surveying executive audiences. The research sample was restricted to executives at the vice president level or above at companies with at least 50 employees. The survey was sent to 13,091 executives, with 974 beginning the survey, and 600 completing the survey, for an overall response rate of 4.6% with complete data.

We developed the survey questions according to best practices in survey research, ensuring questions were clear, concise, and understandable by people with a variety of backgrounds. Questions had response formats designed to balance the richness of data to be collected with the ease of responding. The content of the questions was selected based on a set of research questions identified by subject matter experts as being relevant to emerging trends in talent optimization practices. Together, all of this encouraged participant engagement and high-quality responses while collecting in-depth information about talent optimization practices.

All correlational analyses were conducted with either ordinary least squares (OLS) regression analysis or ordinal logistic regression analysis (when appropriate) using R version 3.5.2. OLS model fitting was conducted using backward elimination from full models that included main effects and two-way interaction effects.