



The talent paradox

Before HR can help an organization address the talent gap, it needs to address its own

The role of HR continues to evolve, gradually shifting from administrator to strategic business partner. Traditional HR focus areas such as improving HR operational efficiency, reducing staff costs, and training/development are now tablestakes. They must be done well, but don't provide a sustainable performance advantage.

To succeed in its new role – and deliver what the broader organization needs – HR must attract and develop staff with new skills and capabilities. The Economist Intelligence Unit conducted a global leadership survey on behalf of Deloitte member firms (“Deloitte”) to understand the challenges that today’s HR organizations’ face in developing and acquiring HR talent. Key findings:

- **HR must improve its capabilities.** Most of the surveyed organizations believe the HR function has significant room for improvement. Although respondents say HR is generally performing well in its traditional administrative role, only 29% believe their HR function has the talent necessary to succeed in the next three to five years.
- **HR must focus on strategic people issues, not just administration and operating efficiency.** To fully support the broader organization, HR must focus more time and effort on strategic people

challenges such as leadership development and pipeline, creating a high performance culture, talent management and acquisition, and anticipating and responding to mission-critical events. According to the survey, these are the types of challenges that drive an organization’s overall performance. To meet the challenges, respondents expect HR will need to significantly upgrade its talent and capabilities.

- **Strategic HR requires new skills and competencies.** Competencies expected to rise the most in importance over the next three years are all fundamental to HR’s new role as a strategic partner – things like innovation, strategic thinking and analytical ability, relationship building/strategic partnership, and business acumen. Unfortunately, the survey data shows that many of these critical future competencies are currently viewed as HR’s weakest areas. 38% of respondents say that HR is “weak” or “very weak” in innovation, while another 39% rate HR’s innovation capabilities as simply “moderate.” Other key competency areas receive similarly low marks.
- **Build? Buy? Or both?** To close the gap, HR should increase its investment in business-related training, and ramp up programs such as job rotations that help HR staff improve their business knowledge and experience. It should also recruit leaders and staff with broad knowledge and experience that transcends traditional HR competencies. In the face of a chronic talent shortage, HR will need to recruit more aggressively, actively positioning itself as a great place for top talent to launch a career.

Before HR can help the broader organization address its strategic talent challenges, HR must first address its own talent challenges. This survey report highlights the latest issues and trends in HR talent, and offers practical, real-world insights to help HR attract, develop, and retain the talent it needs to help the organization succeed.

What organizations need from HR

Organizations today face unprecedented people challenges, and they need HR's help. The HR function can no longer limit its focus to traditional improvement areas such as HR operational efficiency, reduced staff costs, and training/development. These kinds of activities have become tablestakes. They should be done well, but don't provide a sustainable advantage in the marketplace. And they are not enough to address the myriad of short- and long-term people issues that today's organizations are wrestling with.

The survey results show that in order to help an organization thrive, HR must focus more time and effort on strategic people challenges:

- Leadership development and pipeline – building the next generation of leaders
- High performance culture – creating a workforce that is pre-wired for high performance
- Talent management – attracting, developing, and retaining the talent an organization needs to thrive
- Talent acquisition – recruiting and hiring people with the right skills and capabilities
- Anticipating and responding to mission-critical events – proactively addressing strategic challenges, instead of reacting after the fact

These challenges have a tremendous impact on an organization's overall performance.

Figure 1: Strategic challenges

Which of the following issues present the most important challenges to the performance of your organization?

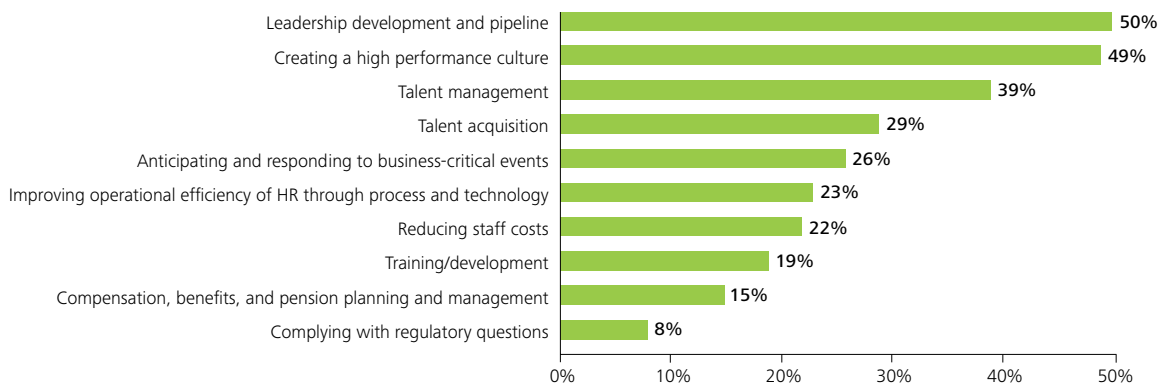
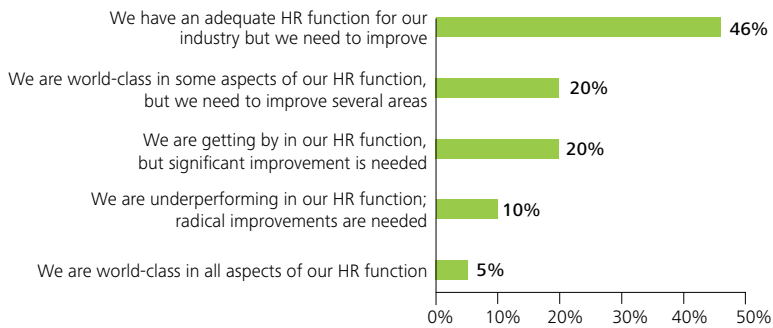


Figure 2: Rating HR's overall performance

Which of the following statements best describes the overall state of your organization's management of HR issues?



Room for improvement

According to the survey, most organizations believe HR has significant room to improve its capabilities and performance. 46% of respondents say their HR function is "adequate but needs to improve," while 20% say HR is "world-class in some aspects, but needs to improve in several areas." 20% believe "significant improvement" is needed, while another 10% say that "radical improvements" are needed. Only 5% consider their HR function "world-class" in every aspect of performance.

In Deloitte's experience, most HR organizations perform well on traditional activities such as benefits administration and regulatory compliance. Also, they have made great strides at improving HR operating efficiency. Yet there is clearly a gap between HR capabilities and the changing needs of the overall organization.

Figure 3: Specific HR competencies

Rate the specific competencies that your organization's HR function collectively demonstrates



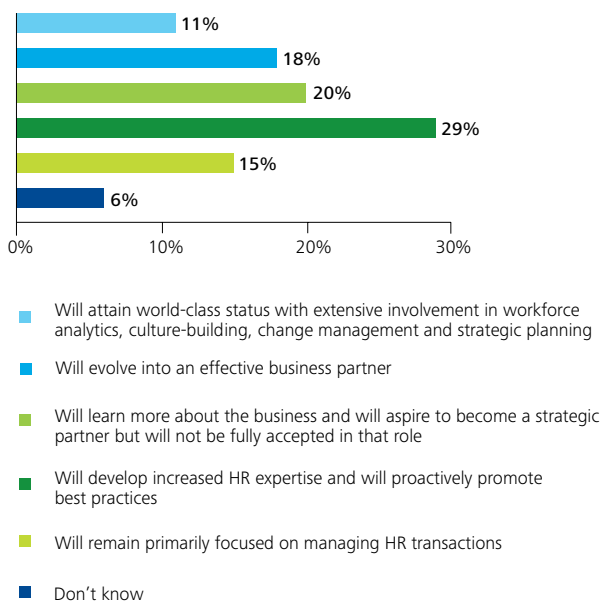
Looking at specific competencies, HR received its highest rating for technical HR expertise (see figure 3). Yet even in this traditional area of strength, 21% of respondents consider HR “highly or moderately ineffective,” while another 36% rate HR as merely “adequate.”

Even more alarming, HR’s lowest ratings were in the two areas rated most important for the broader organization: (1) creating a high performance culture and (2) developing and attracting leaders.

The majority of respondents expect HR to improve its expertise and capabilities over the next three years, but to fall somewhat short of its loftiest aspirations. Less than a third expect HR to evolve into an effective business partner, or to attain world-class status with extensive involvement in workforce analytics, culture building, change management, and strategic planning (see figure 4).

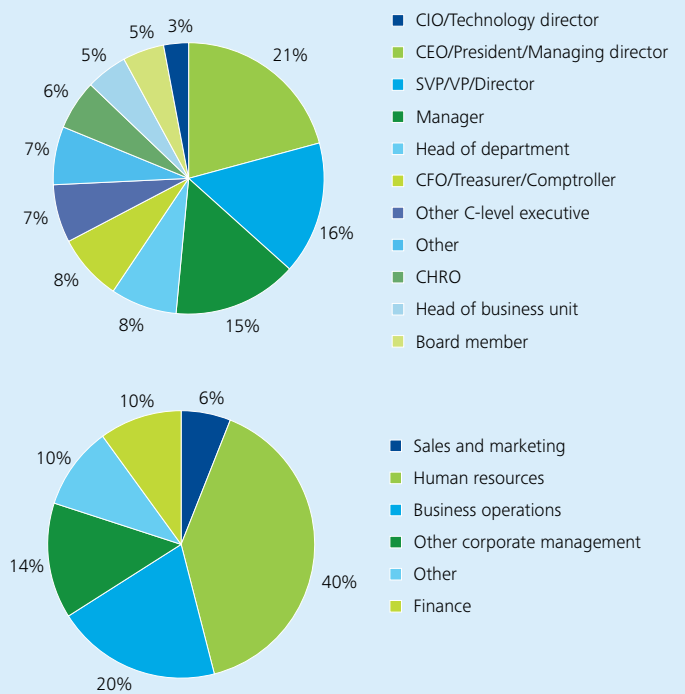
Figure 4: Expectations for HR improvement

Which of the following statements best describes your expectations for the development of your organization’s HR function over the next three years?



About the survey

A total of 359 people from 78 countries participated in the survey. 80% of respondents were senior leaders, including CXOs, board members, department heads, vice presidents, and directors. 40% were from human resources, with the rest representing a broad cross-section of business functions, from operations and corporate management to finance and sales & marketing.



Participating organizations ranged in size from small (less than 5,000 employees and \$500 million in revenue) to large (more than 100,000 employees and \$5 billion in revenue), with strong representation from every major industry and global region.

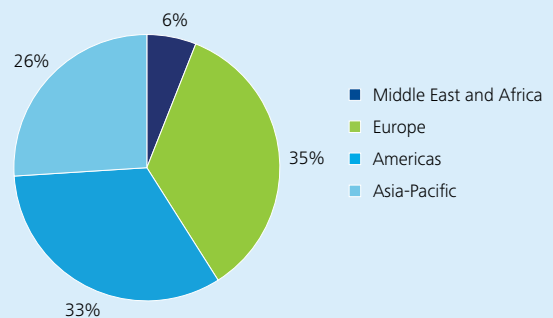
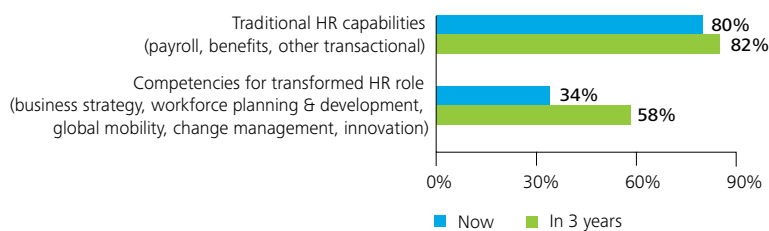


Figure 5: HR talent needs are changing

Ability of talent to fulfill organization’s HR needs now vs. in three years (more than able to meet demand/able to meet demand)



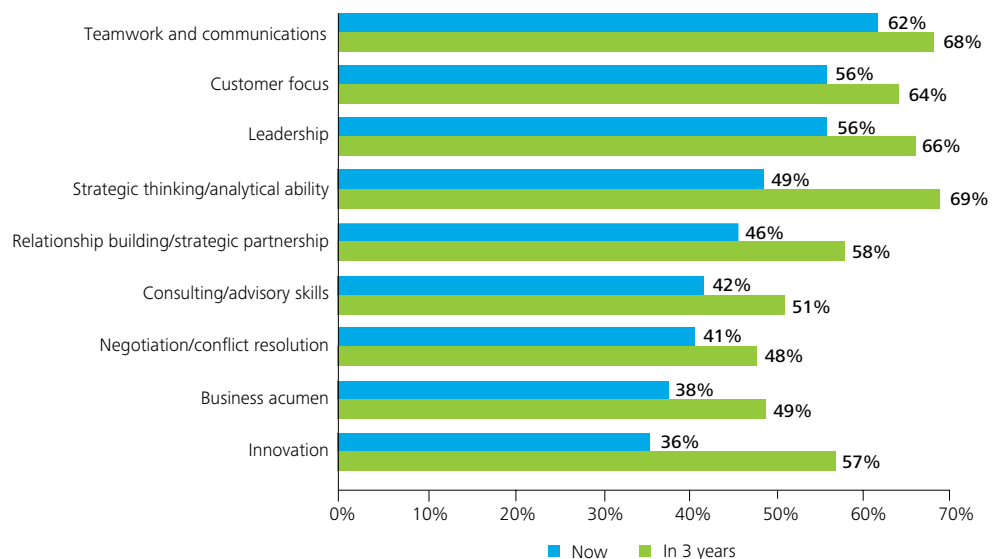
Time for an HR talent upgrade

To fulfill its new role – and deliver what the organization needs – HR must attract and develop staff with new skills and capabilities. According to the survey, only 29% of respondents believe their organizations currently have the HR talent necessary to succeed over the next three to five years (see figure 4).

Looking deeper, the survey data shows that the vast majority of HR organizations (80%) already have the talent they need to meet demand in traditional transaction areas such as payroll and benefits. Where they come up short are areas that are critical to HR’s new role as a strategic partner, such as business strategy, workforce planning & development, global mobility, change management, and innovation. At the moment, only 34% of organizations believe HR has the talent required to meet their needs in these areas. However, survey respondents expect HR to dramatically improve its capabilities in these key areas over the next three years.

Figure 6: Key HR competencies in the future

Importance of the following specific HR competencies now vs. three years from now (respondents selected “essential”)



Key HR competencies

Survey respondents expect HR to improve its competencies areas across the board over the next three years. However, the competencies expected to rise the most in importance during that time are all fundamental to HR's new role as a strategic partner: innovation, strategic thinking and analytical ability, relationship building/strategic partnership, and business acumen.

Innovation is important because even the best ideas eventually become commodities. To keep pace with changing needs – and maintain a sustainable advantage in the talent marketplace – HR must constantly strive for new and better ways of doing things.

Strategic thinking and analytical ability are essential HR competencies because today's talent challenges are driven by complex trends such as workforce aging and global sourcing. It is HR's job to help the organization understand and solve these complex puzzles.

Business acumen and relationship building are also critical. In order to serve the broader organization as credible and trusted partners, HR staff must develop strong relationships with the organization's leaders, and demonstrate a solid understanding of strategic issues.

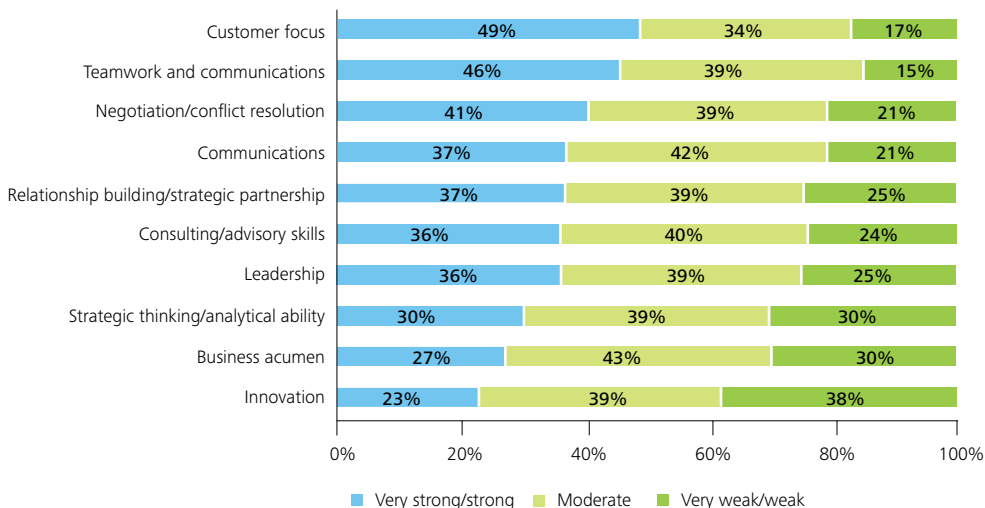
Unfortunately, the survey data shows that many HR departments have yet to develop these critical competencies. 38% of respondents rate HR as "weak" or "very weak" in innovation, while another 39% believe HR's innovation capabilities are just "moderate." Other key competencies such as business acumen and strategic thinking/analytical ability receive similarly low marks.

To support the future strategic needs of the organization, HR must find ways to expand and improve its performance in all of these key areas.

To keep pace with changing needs – and maintain a sustainable advantage in the talent marketplace – HR must constantly strive for new and better ways of doing things.

Figure 7: Rating HR's current competencies

Rate the specific competencies that your organization's HR function collectively demonstrates



Current efforts to fill the HR talent gap

In light of these new requirements, many of the surveyed organizations are investing in business management training to help the HR staff improve its business savvy and capabilities (see figure 8).

That's a good start, but Deloitte believes HR needs to do more. Other key areas for learning and development include: consulting skills, strategic/analytical thinking, and conflict resolution. These kinds of skills can help HR staff partner with the organization more effectively.

HR departments are also making a deliberate effort to hire HR staff with diverse backgrounds and business experience. Although a master's degree in HR remains the most popular credential for success in HR, more than a third of respondents (37 %) are interested in candidates with an MBA.

HR organizations are looking for leaders with HR experience in other industries (59%), business operations experience (58%) and corporate management experience (45%). In addition, a significant number are looking for leaders with experience in non-traditional HR areas, as well as in finance and IT (see figure 10). This broad experience improves an HR leader's effectiveness and credibility when interacting with leaders from other parts of the organization.

Figure 8: Current training investments for HR staff

Which of the following types of training is your company investing in to develop the HR competencies needed for future success? Select all that apply

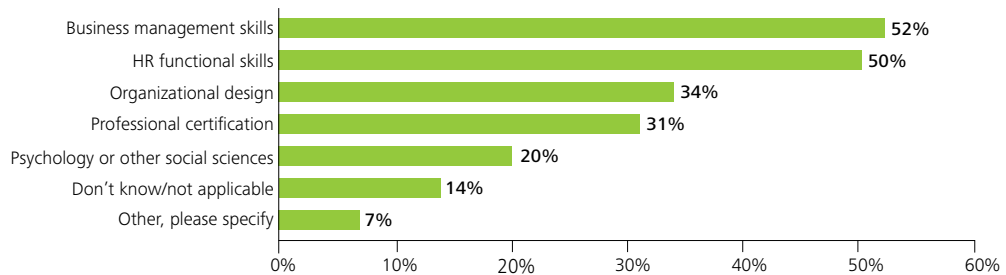
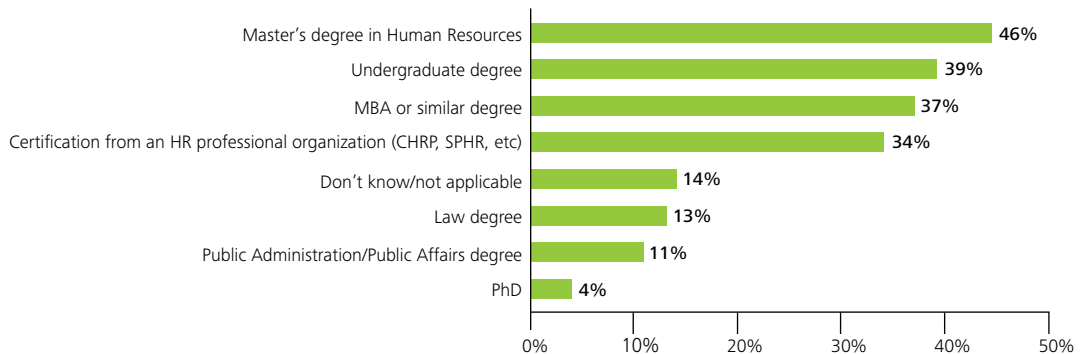


Figure 9: Desired education for HR staff

How important are the following credentials to the success of professionals in your HR organization? Select up to three



Another way for HR staff to build broader business experience and acumen is through exchanges with other parts of the organization. Through these direct, hands-on experiences, HR staff learn what really matters to the organization, and how to think like business people. Just as important, they develop personal relationships across the organization that help them partner more effectively in the future.

At the moment, respondents have mixed feelings about such exchanges (see figure 11). People outside of HR often shy away from HR assignments because they view them as dead ends. Conversely, traditional HR staff sometimes lack the broad capabilities necessary to succeed on assignments within the broader organization. Deloitte believes this dilemma will gradually resolve itself as HR adjusts to its new role as a strategic partner, and as the need increases for HR staff with business experience. However, organizations can prime the pump by taking a more active role in job rotation programs and providing extra management support to help ensure participants are successful.

Figure 10: Desired backgrounds for new HR leaders

Which of the following backgrounds do you look for when seeking new HR leaders from inside or outside the company? Select up to three

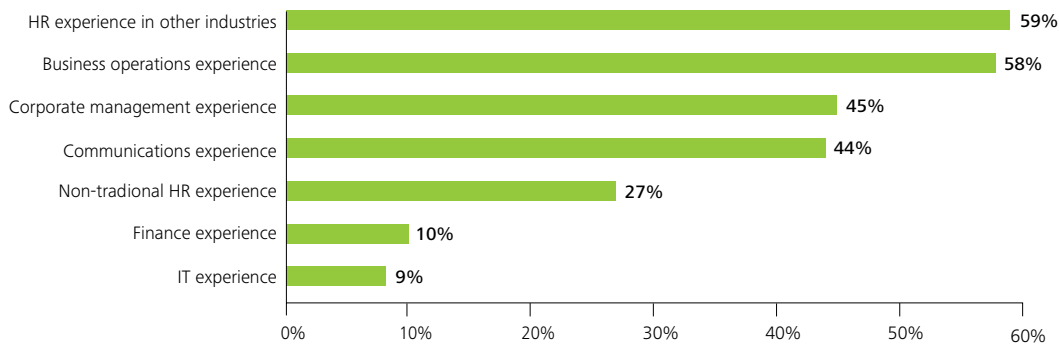
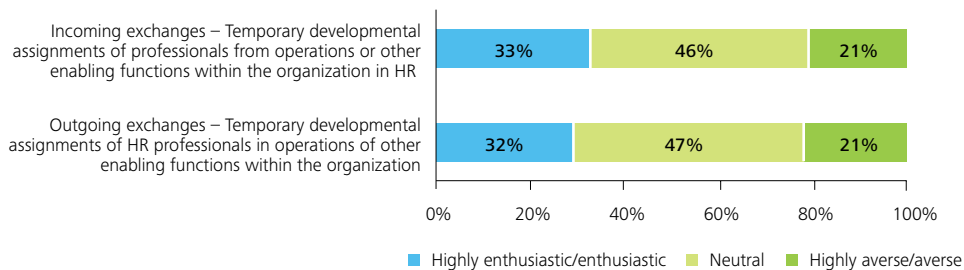


Figure 11: Staff exchanges

How open is your organization to facilitating interchanges of key staff between HR and other business functions?



Challenges for recruiting HR talent

Most of the surveyed organizations believe there is a global shortage of qualified HR talent. They also worry that their HR staff don't have enough opportunities for professional and career development, and that recent graduates do not see the HR organization as a career launch pad.

To address these deep-rooted challenges, HR must be more aggressive about recruiting top talent and improving its brand image in the talent marketplace. Many of the actions HR organizations are taking to improve their strategic role and capabilities will naturally make HR more attractive to talent. That said, it is

important to provide clear career paths that offer plenty of room for advancement and growth. In order for people to view HR as a good place to start a career, they need to see HR staff being promoted to senior leadership positions within and beyond the HR function.

Of course, HR's image as a career launch pad starts at the top. The good news is that a significant number of respondents believe CHROs have a real opportunity to win another C-level position (38%), or even to become CEO (19%) (see figure 13). This is another sign of the progress HR is making as a strategic function.

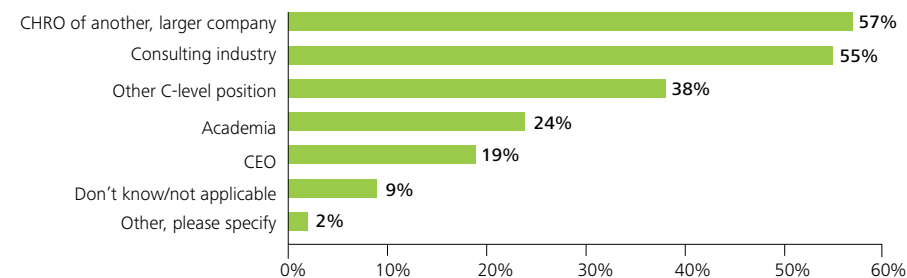
Figure 12: Thoughts on recruiting HR talent

To what extent do you agree with the following statements about recruiting HR talent?



Figure 13: Career paths for CHROs

What are the future career moves for the CHRO? Select all that apply



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