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Human Capital Institute

Retaining Talent:

Retention and Succession in the Corporate Workforce

December 2005

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Preface

Hiring and retaining top talent is the driving concern of human capital management (HCM) professionals today. This research report, *Retaining Talent: Retention and Succession Planning in the Corporate Workplace*, is the latest in Aberdeen's continuing study of workforce management and the business processes involved in the employee lifecycle. Exploring the key issues, plans, and challenges around retaining talent and succession planning in the workforce, this report builds on the Aberdeen report*, The HR Executive's Agenda,* in which 85% of the executives participating said attaining and keeping talent was the primary challenge keeping them awake at night.

The data in this report is derived from a survey of 170 HCM professionals and executives who are members of the Aberdeen Group and Human Capital Institute's global online communities, as well as interviews with executives in human capital management across North America.

Executive Summary

What are corporations doing today to retain their top talent and ensure leadership for the future? With changing demographics, an aging workforce, changing business models, global sourcing for new workforce members, and a potentially improved hiring climate, how are both large and mid-size companies planning for future labor needs?

In *The HR Executive's Agenda,* Aberdeen reported that the foremost concern weighing on the minds of today's human capital executives is the maintenance of a highly talented workforce, specifically through hiring and retaining the individuals they need to run their companies in a superior fashion. 85% of HR executives reported that **the single greatest challenge in workforce management is creating or maintaining their companies' ability to compete for top talent.** Moreover, just finding top talent is not enough; companies want to ensure they can retain their employees long after the ink is dry on their contracts.

There are many reasons why workforce attrition is such a vital concern:

- Loss of key players affects corporate productivity.
- The cost of churn — recruiting, hiring, and time-to-productivity — is steep, especially for highly professional staff.
- The cost of vacancy, particularly at peak periods, can negatively impact shareholder value.
- Loss of top talent to a competitor can lessen competitive advantage.
- High attrition affects morale of the remaining workforce.
- Frequent staff changes and new, inexperienced employees cause customer dissatisfaction.

The Will to Succeed

Succession planning is driven by the concern over continuity in executive leadership for the future, and the potential cost of disruptive succession from one leader to another. To a lesser extent, it is driven by the desire that future leaders come from within the company. Succession planning is also vital to retaining leadership talent within the corporation. Key individuals who know they are being groomed for succession are more likely to remain in place.

The data in this report is derived from an online survey of the Human Capital Institute's and Aberdeen Group's global online communities, as well as interviews with senior executives in human capital management across North America. A total of 170 HR professionals participated in this study.

Key Business Value Findings

The two greatest challenges in human capital today are the inability to address talent requirements over the next five years, and the inability to get the talent needed today. Thus the dilemma of where to focus workforce planning efforts is created: Is it better to plan for the future with a long-term staffing plan, or direct all efforts into hiring, creating, and keeping current talent.

Retention of talent is a global issue. Attrition of mid-level managers, for example, is less in North America and Europe (1%-5% range annually). Hourly turnover is highest in South and Central America and Europe.

Improved alignment of employee performance objectives with the goals of the company and better screening in the hiring process are viewed as the key strategies employed to lower attrition.

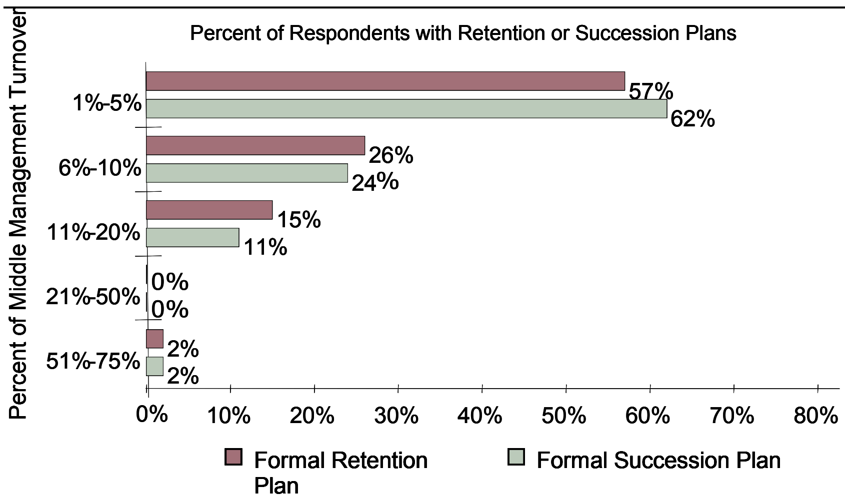
Concern over continuity in executive leadership for the future is primarily addressed through internal leadership development programs

Implications and Analysis

A clear correlation exists between executive retention and companies with formalized retention and succession programs. This Aberdeen research found the strong majority of companies that reported 1% to 5% average turnover rates had a formal retention (89%) and succession program respectively (84%). Length of programs is a key variable impacting both the cost of the program and its ultimate success. Of companies with programs in place for over 12 months, the length of the executive succession programs varied from 6 months to several years.

The relation of formal plans to employee retention also holds true for middle management (Figure i). Less than 5% turnover of mid-level managers is attained when formal retention or succession plans are in place in the corporation.

Figure i: Effect of Formal Plans on Mid-management Turnover



Source: AberdeenGroup, December 2005

Almost half of the respondents in this study (48%) viewed the cost of rewards as the major impediment to initiating or implementing a corporate retention plan, however, they viewed salary and benefits, followed by the provision of work / life balance, as their key methods to maintaining a competitive stance against attrition.

There are differences among companies based on Aberdeen's competitive framework – which classifies companies into best in class, industry average, and laggards.

Best in class companies are more likely to have formal retention plans then their colleagues. Key performance metrics show that these companies also have lower new hire and attrition costs. Industry average companies are more apt to have a formal retention plan than a succession plan – but laggards are just the opposite – they are almost as likely as the best in class companies to have a succession plan. Laggards, however, were characterized by longer hiring cycles and higher employee turnover costs.

Recommendations for Action

1. Understand and be able to articulate your costs of turnover at all levels of the workforce across the enterprise. You cannot control what you cannot define.
2. Ascertain your top talent. Know how to identify and quantify the workers or type of workers you want to retain and why.
3. Review the talented people — the "keepers" — in terms of the positions they hold today and the positions they might hold in the organization in the future. Internal mobility is critical, but it also creates employees with broad enterprise understanding, which is important for succession management.
4. Look at the key aspects that lead to optimal talent retention: better screening, pre-employment assessment, hiring, onboarding, and employee lifecycle performance management.
5. Create formal programs to address both employee retention and, at the very least, leadership succession. Be prepared to share the plan and its results with the Board of Directors and the shareholders.

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Chapter One: Issue at Hand

Key Takeaways

- 57% of companies cite both the inability to get the talent needed today and concern over the inability to address talent requirements over the next five years as their top overall challenges.
- 41% report that retention begins with hiring and onboarding--key elements in its success.
- 79% state that their chief concern is continuity in executive leadership for the future.
- 61% are concerned over potential cost of disruptive succession from one leader to another.
- $13,295 was the average cost of a new hire among those companies that reported their cost of hire.

Executives are worried about their workforce. They are worried about their ability to locate, hire, develop, and retain the number of qualified people they need to run their companies. The concerns center around future leadership needs, the continued reliance on informal, subjective tactics to make corporation's attractive to current and future talent, and costs of replacing staff.

A Naked Look in the Mirror

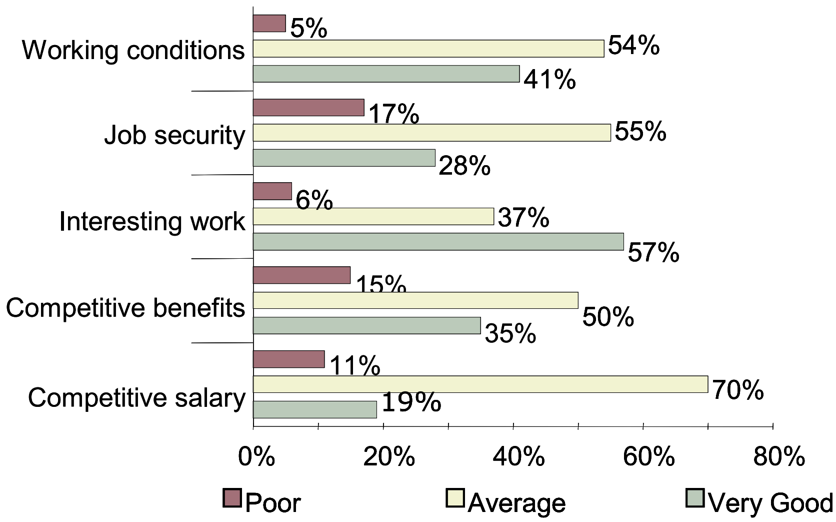
How do companies today perceive themselves in terms of their competitiveness to attract and retain talent? Aberdeen surveyed companies on a spectrum of categories relevant to retention (Figure 1a to 1c) to get a baseline view toward key motivators and common complaints of executive and managerial employees in three areas.

Although no survey is the entire truth, a snap-shot glance at the "very good" selections reveals a unique overview of the recent success and future needs for retention and succession planning capabilities. The following observations can be made:

- **Corporate factors:** Companies believe they are most equipped to offer employees *interesting work (57%)* and *good working conditions (41%)*, suggesting that companies rely on two very subjective factors across talent to diminish the risk of loosing talent. This is especially discouraging as many professional roles continue to migrate to remote or home-based office environments.
- **Development factors:** Companies believe they are relying on *work-life balance, manager-employee relationship,* and *recognition for work well done* to develop talent. Setting aside the constant debate of balance, other Aberdeen key findings shared in this report present key challenges in training managers and funding recognition programs.
- **Employee-company interaction factors:** Companies believe they are most excellent at providing sympathetic help on personal matters and their loyalty to workers. Both noble traits, but each more and more elusive given dramatic shifts

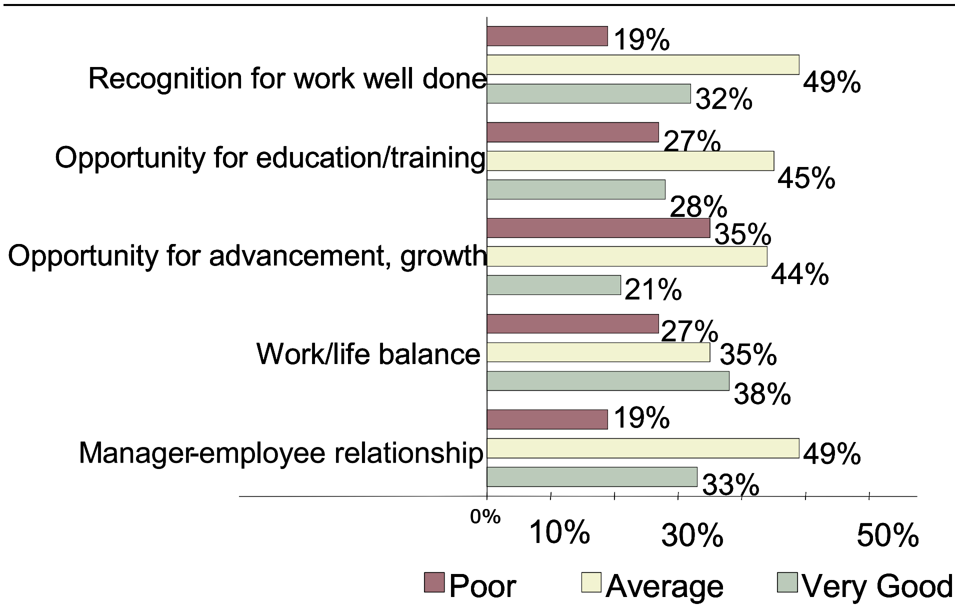
in social and legal norms, not to mention generation X & Y interests. In the same regard, these companies admit being poor at *involving employees in decision making*. The specific issue most relevant to the post-boomer staff now entering managerial ranks.

Figure 1a: Views of Corporate Factors Strengths and Weaknesses



Source: AberdeenGroup, December 2005

Figure 1b: Views of Development Strengths and Weaknesses



Source: AberdeenGroup, December 2005

Figure 1c: Views of Company-Employee Interaction Strengths and Weaknesses

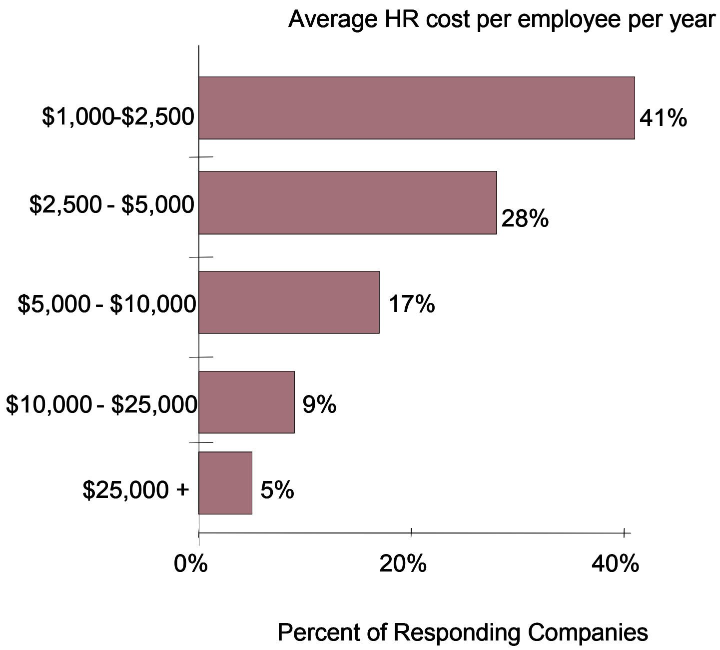
Source: AberdeenGroup, December 2005

The Cost Factor of Acquiring New People

According to data gathered by Aberdeen, the total cost of replacing staff is measured in terms of disruptions in customer service, production, and direct human resource costs. On average, the time to fill a vacancy is eight weeks at an average cost per new hire of $13,295 per position filled based on 37% of the respondents; the range was from $50 US to $50,000 US. The average time to "full" productivity for new hire for respondents who tracked that metric was 13 weeks, but extended to 70 weeks in some industries.

The average cost of an executive vacancy was $80,515, reflecting the high-cost loss of an executive or difficult to replace set of specialty skills. The direct HR department investment per employee per year nestled between $1,000 and $5,000 per employee on average (Figure 2). In many cases, respondents did not know the cost of their HR practices.

Figure 2: The Cost for HR per Employee per Year



Source: AberdeenGroup, December 2005

A Direct Hit to the Bottom Line of Smaller Companies

Companies of all sizes are dependent on a conscientious, reliable, and appropriately skilled workforce. But at medium and smaller firms, typically with less than 500 employees or revenues under $500 million, the costs of losing and replacing staff is dramatically clear. Total cost of turnover in these firms averaged $233,231 per year. The sunk cost in training per year is $360,738, on average, and can walk out the door any day. Likewise, in addition to benefits or cash layouts used as rewards, the investment in retention programs averaged $20,762.

Today's Retention and Succession Planning

Respondents in this Aberdeen study reported on the retention and succession plans they have in place today. Succession is primarily the bailiwick of the executive staff, although significant attention is paid to succession in the mid-management areas as well. Retention plans tend to cover the "worker bees" – those employees necessary to accomplish day-to-day business tasks, such as open the store or staff the factory.

Table 1: Corporate Retention and Succession Plans by Job Levels

	Formal Retention Plan	Formal Succession Plan
Executive	71%	69%
Mid-level management	65%	67%
Exempt employees	82%	37%
Hourly workers	77%	36%
IT staff	73%	45%
Clerical, administrative	76%	38%
Contingent	64%	45%

Source: AberdeenGroup, December 2005

To accomplish their objectives, these programs must have been in place for a period of time. The inception of a program does not correlate with sudden retention of current workers. For both kinds of programs, the investments are forward-facing risk mitigation measures for a future which may hold a different labor market in terms of costs and abilities (Table 2a and 2b).

Table 2a: Length of Time Retention Program Has Been In Place

	Less than 12 months	More than 12 months
Executive	28%	58%
Mid level management	34%	45%
Exempt employees	26%	36%
Hourly workers	20%	28%
IT staff	32%	35%
Clerical, administrative	22%	28%
Contingent	23%	15%

Source: AberdeenGroup, December 2005

Like retention plans, the fact that a company has a succession plan does not reveal much. Succession management does not happen in a day, or even a year. Succession plans clearly require longevity in order to be successful. Most are several years in length, and often involve management training programs for employees. Corporate interest in this area is growing, as noted by the increasing number of young programs. 22% of executive retention programs, and 19% of those for other managers, have been added within the last year

Table 2b shows the length of time the program has been in place for companies who have such a program. Furthermore, the extent of succession planning varies within the professional levels.

Table 2b: Duration of Succession Plans by Targeted Employee Level

	Less than 12 months	More than 12 months
Executive	22%	49%
Mid level management	19%	46%
Exempt employees	11%	16%
Hourly workers	8%	13%
IT staff	11%	25%
Clerical, administrative	8%	18%
Contingent	2%	11%

Source: AberdeenGroup, December 2005

Chapter Two:
Key Findings: Retention

Key Takeaways

- The cost of rewards is the biggest challenge to those putting a retention program in place. The variable pay or merchandise-based reward system is always costly for companies. However, replacing a skilled employee is a far greater cost.
- 90% plan to position succession planning as a key retention strategy.
- Inability to validate the ROI of retention management and the inability to link performance management with retention present key challenges to 34% of respondents.
- 60% of respondents view their retention programs as haphazard at best, and heavily reliant on paper files and manual efforts.

Pressures

The competition for qualified employees is fierce and attitudes of newer employees are shifting . Holding on to skilled employees once they are onboard is a major challenge for HCM executives. Gone are the days of the life-long, mill-town employee. The ease with which employees can change jobs, geographic locations, and industries offers new challenges. Services-based business models and expansion into new international markets are accelerating a changing, and ever-unsteady workforce. The rationale for formal retention planning arises from these factors.

Respondents cited their top five challenges in retention management, and the top five plans they have to address these challenges (Table 3). A key challenge is justifying the cost of rewards that support a pay-for-performance culture given the inability to validate the return-on-investment and link dollars to performance.

Table 3: Top Retention Challenges and Responses

Challenges	% Selected	Responses to Challenges	% Selected
Cost of rewards	52%	Offer competitive benefits	39%
Inability to validate ROI	34%	Offer competitive salary	38%
Inability to link performance management with retention	34%	Improve work / life balance	38%
Retention is perceived as an HR initiative	30%	Recognize work well done	34%
Inability to track factors that relate to improved retention	25%	Train managers on retention skills	33%

Source: AberdeenGroup, December 2005

While not supported by all respondents, provisioning competitive benefits and salaries is regarded as the chief reaction to retention challenges by 39% and 38% of the companies surveyed. As the distribution of survey responses demonstrates, actions are equally weighted, therefore no clear strategies are defined.

Employee Benefits Seen as Key Hiring and Retention Strategy

Many employees and their management take employee benefits for granted. However, those responsible for their delivery are aware of their criticality as a motivator for hiring and keeping talent. The benefits, and the percentages of those companies surveyed that offer them, is shown in Table 4 below.

Table 4: Top 6 Retention-Related Benefits, and Percent of Companies Providing Them

Benefits	% Selected
Medical Insurance	79%
Flextime	67%
Dental Insurance	66%
Life Insurance	59%
401(k) or similar	57%
Job-related tuition reimbursement	56%

AberdeenGroup, December 2005

Actions to Address Retention

Taking to heart the employee lifecycle is a key strategy in formulating better retention planning and ensuring retention for the future. Addressing retention centers around three key phases of activity, as represented in the retention lifecycle wheel (Figure 3).

Improved Hiring Management: This entails better sourcing, screening, and initial placement. The more a company can gauge the behaviors, character, and skills of a prospective employee before that employee is hired, the greater likelihood of a good fit. Onboarding processes can be improved making the transition for new employees easier and less daunting. Mentoring programs for new hires are also a way to ease the transition, making employees more likely to stay on board through the initial phase of their employment.

Figure 3: Retention Lifecycle Wheel

AberdeenGroup, December 2005

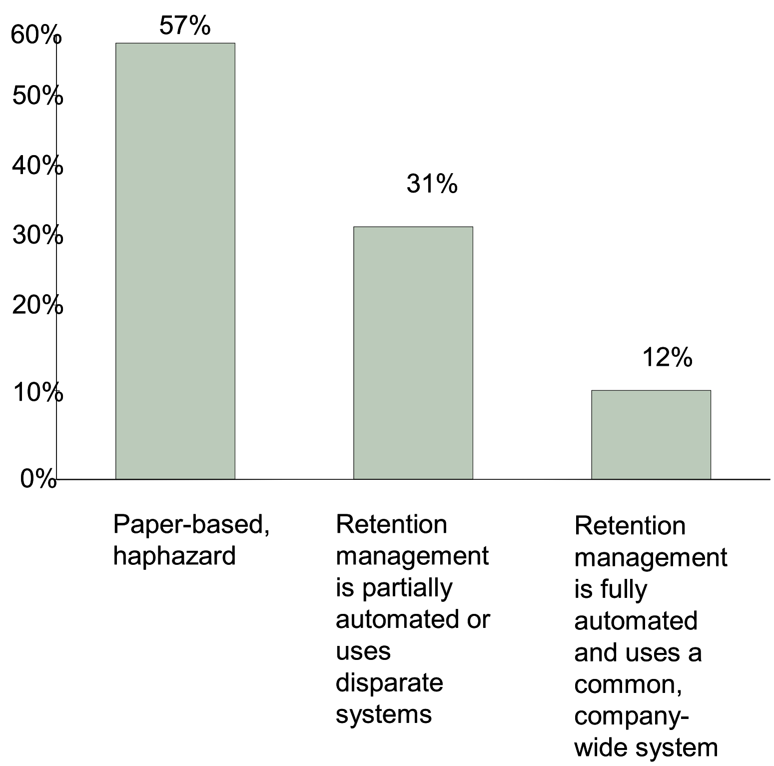
Better Employee Management: Throughout employee lifecycle, better management is required to ensure that employees are content with their position and are adequately challenged while meeting their goals and performance measures. Companies can work to ensure better alignment of employee performance objectives with the goals of the company. They can offer professional training and personal advancement opportunities, as well as job rotation and improved internal mobility. While it remains a large expense for most companies, organizations MUST ensure adequate and competitive benefits for employees.

Recognition of Employee Results: Finally, a vital part of employee lifecycle management is recognition of the employee as an individual. Too often employees can feel unappreciated or over stressed. Knowing that their organization cares about their personal and professional needs is a powerful way employers can ensure retention. This includes ensuring visibility into employee work/life issues, providing public recognition for employee's achievements, and offering more material appreciation in the form of a reward, bonus, or merit programs.

Capabilities

Approximately 60% of respondents view their current retention management as haphazard, underpinned by manual or paper-based processes. Only 13% report the use of automated, enterprise-wide programs (Figure 4).

Figure 4: Levels of Maturity of Retention Programs: Technology Adoption



Source: AberdeenGroup, December 2005

With these paper-based procedures in place, companies lack the capabilities to coordinate the information and data about the employee, his or her career goals, on the job training, and many other factors for retention decision making. Visibility into factors such as date of last promotion, commuting time, and length of time doing the same tasks, can give an astute line of business or HR manager the information to address a flight risk before he or she resigns. How data is collected and used by managers and HR professionals is summarized in Table 5, along with the percentage of respondents that collect or maintain that data.

Enablers

While research found that the majority of companies are not yet using technology to enable retention management, 43% of companies use automated programs today. In addition, companies are increasingly applying technology to the business processes used to enhance retention. The ability to handle variable compensation is in place in nearly half the respondents' companies (46%), and is seen as a way to retain, though motivational pay, improved hiring, performance management, and training and development are other areas linked to improved retention (Table 6).

Table 5: Retention Data Management Approaches and Support

Managing Data And Knowledge To Support Retention	Use
Positions are profiled in detail	53%
Data about employees is maintained, not reviewed for retention	38%
Data traceable by HR and the employee's manager on-line	35%
Employee profiles are created when hired	33%
Data is the responsibility of the employee's manager	33%
Career preferences and interests influence collateral moves and advancement throughout the company	27%
Employee profiles are created as living documents on-line where new skills and competencies are added over time	24%
Manager has on-line access to information relevant to employee's reports and their likelihood of leaving	14%
HR reviews retention factors by employee on-line	11%

Source: AberdeenGroup, December 2005

Table 6: Solutions Used or In Plan to Support Corporate Retention Strategies

Solutions	In Place Today	Procure in next 12 months
Pre-hire assessment	52%	13%
Variable compensation system	49%	11%
Performance management system linked to the compensation system	46%	20%
Automated performance management	27%	19%
On-line competency and skill profiling and tracking	26%	20%
Automated hiring management	25%	12%
Integrated training management system	18%	18%
Learning management system (LMS)	15%	25%
Automated rewards and incentives system	15%	14%

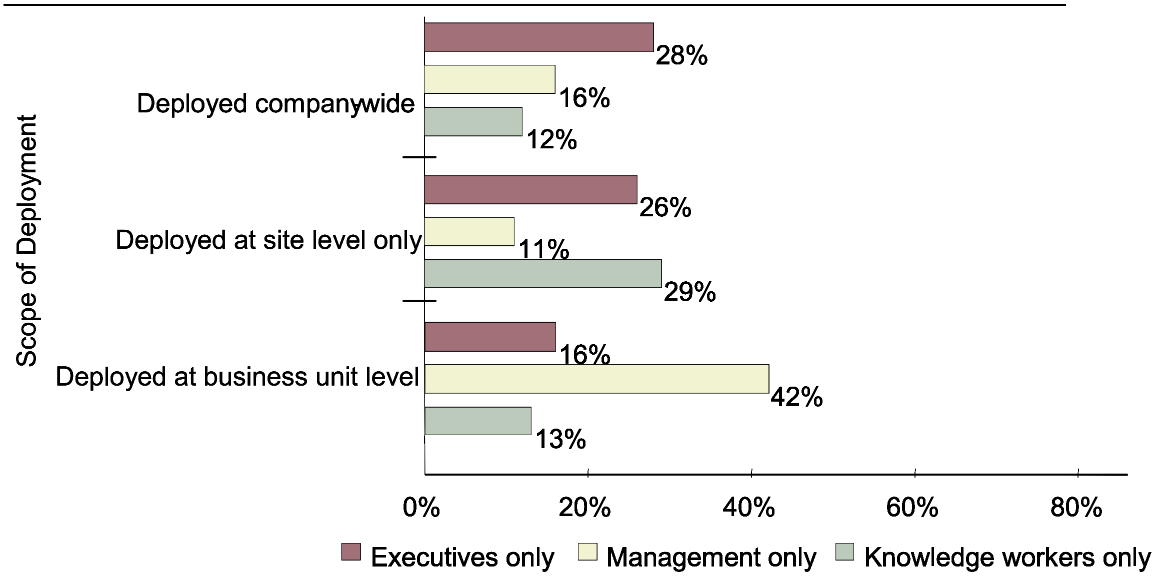
Solutions	In Place Today	Procure in next 12 months
Dashboards that enable visibility into employee information	12%	24%
LMS linked to performance management system	6%	23%

Source: AberdeenGroup, December 2005

This demonstrates the variety of applications seen as potentially lending support to an employee retention strategy. Future buying intent is clustered around performance management and development, demonstrating more interest in molding talent than necessarily hiring it. Nearly a quarter of respondents also noted an interest in better visibility into their employee information than they have currently. Automating rewards and incentives appears of least interest.

The majority of companies in this study report using technology for retention management of all employee levels and typically deployed this technology company-wide. Figure 5 shows that when retention management is an initiative at the enterprise level, more employees tend to be included in it; at the business unit level, the focus is on management; at the single site level, knowledge workers have the best chance of being targeted for retention (29%).

Figure 5: Scope of Technology Deployment for Retention Management



Source: AberdeenGroup, December 2005

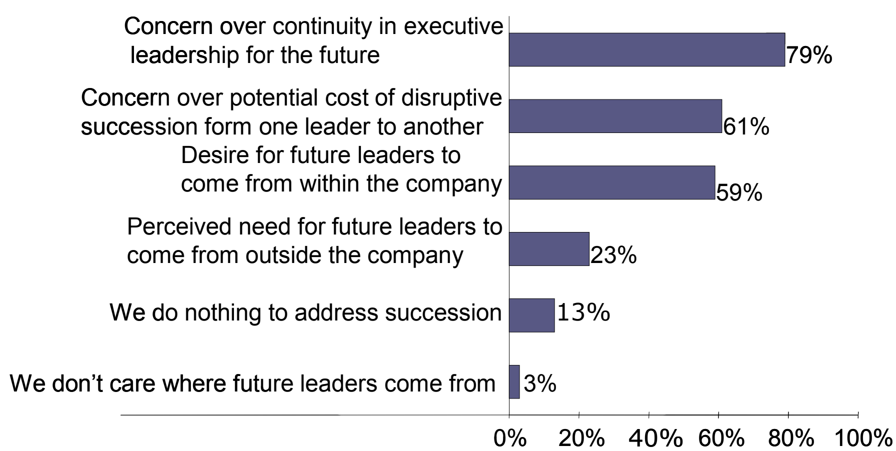
Chapter Three:
Key Findings: Succession Planning

Key Takeaways

- Lack of funding for leadership development plagues those charted with succession planning (61%)
- Inability to locate or create a talent pool of passive candidates is a key challenge in succession planning (56%)
- Early identification of prospective leaders is the measure of success for 75% of succession programs

Fear of lack of future leaders and business continuity reigns high in the minds of corporate management and their boards of directors – as it should! Churn in leadership or a gap in business continuity can easily be reflected in declining share value. Many of the same pressures that are prompting retention planning — growing international expansion, mobility of workers, declining loyalty, and new business models are also affecting succession planning. Another goal of succession planning is the commitment of most companies to "grow their own" leaders from people who are both committed to the corporate mission and know the business well and in whom they have previously invested (Figure 6).

Figure 6: Rationale for Succession Planning

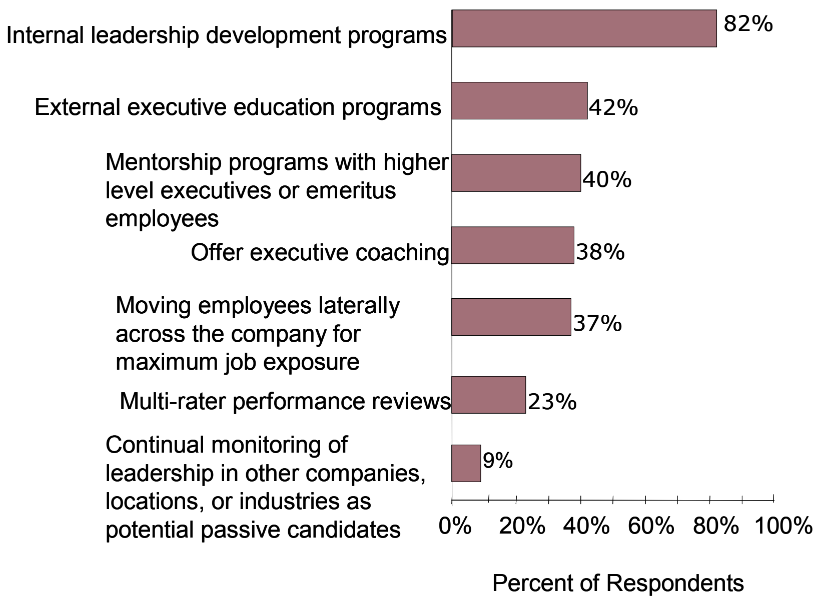


Source: AberdeenGroup, December 2005

Actions for Smooth Succession

Internal leadership development programs are the most popular way to grow the leadership of tomorrow, followed by sending the probable talent to similar outside programs, often provided through universities with graduate business schools. But program types can also range from mentorships using emeritus employees (retirees) to coaching promising employees (Figure 7).

Figure 7: Strategies in Use or in Plan to Implement Succession Planning



Source: AberdeenGroup, December 2005

Challenges and Responses

Given the continued corporate focus on cost containment, 56% of respondents see funding to locate prospective leaders and fulfill professional development as the major obstacles to their succession planning programs. Yet, the succession planning program is offered to managers as a key element of retention strategies. The survey respondents' top business challenges and their corresponding responses are shown in Table 7.

Table 7: Top Succession Challenges and Responses

Challenges	% Selected	Responses to Challenges	% Selected
Lack of funding for leadership development	61%	Position succession planning as a key retention strategy	90%
Inability to locate or create a talent pool of candidates	56%	Acquire automated tools to track high achievers with management potential	23%
Lack of data on competitive salary, benefits	29%	Rely on outside agencies to recruit successors when the time comes	12%
Succession regarded as a secret within company	29%		
Subject not of interest to current executives	24%		

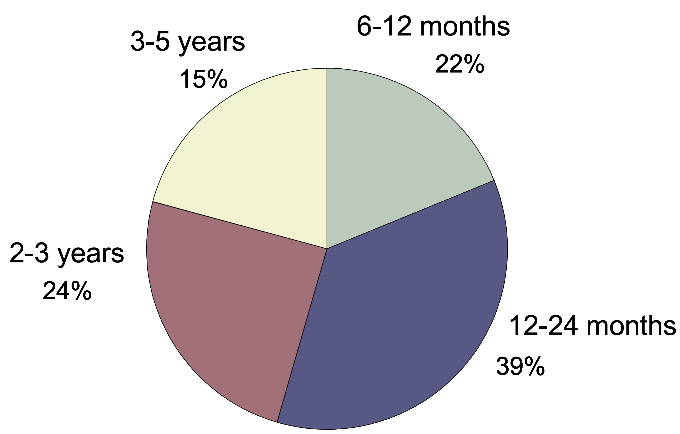
Source: AberdeenGroup, December 2005

Applying Capabilities

How long does executive or leadership development take? In general, there seems to be no magic answer. Figure 8 shows the length of executive succession programs in the companies included in this research study. The duration extends out to five years, but for most firms a one to three year window is managed.

As with retention programs, succession results relate to how long the program has been in place. 82% of respondents believe succession planning is worth implementing in the executive ranks. Almost half (49%) had executive succession plans in place for over a year, with a total of 71% with plans in place today. These figures exemplify the growing awareness of the importance of succession plans at executive and managerial levels and in positions with difficult-to-replace expertise, an awareness that Aberdeen sees as increasing.

Figure 8: Length of Succession Plan for Each Potential Executive



Source: AberdeenGroup, December 2005

Scope of Succession Planning Technologies

Lastly, Aberdeen's research indicates the scope of succession planning within an enterprise is clearly limited to executive ranks, which may be appropriate in numerous traditional businesses, but Aberdeen Group recognizes that in professional environments, departmental or regional consideration needs to be addressed (Table 8).

Table 8: Scope of Deployment for Technologies to Support Succession

	Executives only	Top mgmt.	Line Mgmt.	Knowledge workers	All employees
Deployed at site level only	30%	22%	30%	22%	39%
Deployed at business unit level	12%	41%	53%	29%	12%
Deployed company-wide	75%	39%	7%	4%	14%

Source: AberdeenGroup, December 2005

Chapter Four:
Key Performance Measures

Key Takeaways

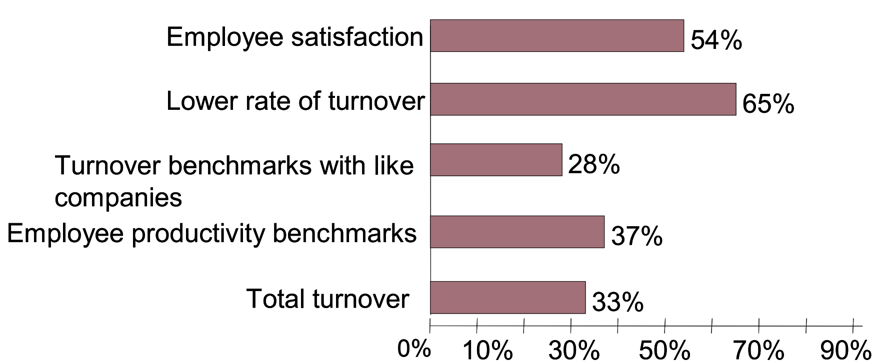
- 60% of companies believe they are very good at providing their employees with interesting work.
- 33% view themselves as poor in providing opportunities for advancement and growth.
- Over a quarter of responding companies see themselves as poor in their provision of opportunities for training or education (29%).
- While 44% believe they are very good in their loyalty to their workers, only 24% feel they are very good in involving employees in decision making, and 29% feel their company is doing a poor job in including employees in decision making.

Key Performance Indicators (KPIs) are vital in calculating how retention and succession planning programs are affecting the bottom line. By calculating key metrics, such as employee satisfaction, total turnover, and lower rate of turnover, companies can acquire material evidence that retention and succession plans are necessary strategies and contributing to corporate success.

Measuring Retention Performance

Clearly the measure of good retention planning is the decrease in attrition of top talent, which was seen as the key KPI for 65% of the respondents. This is followed by employee satisfaction (Figure 9).

Figure 9: Primary KPIs Used to Measure Success of Corporate Retention Plan

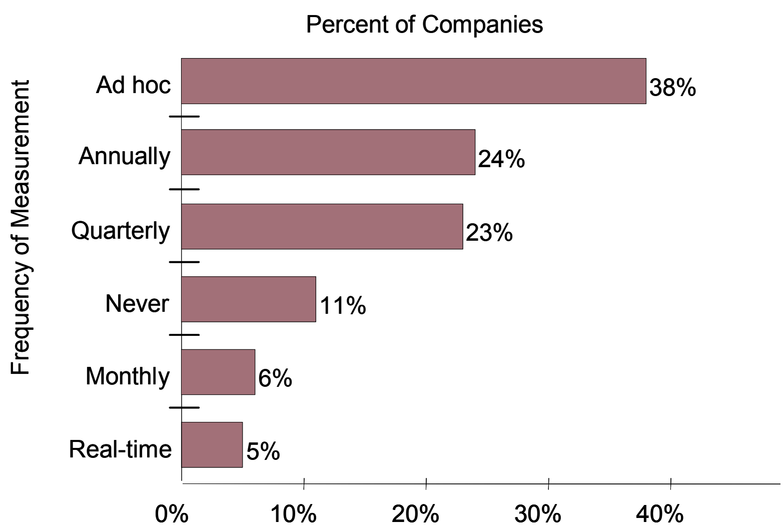


Source: AberdeenGroup, December 2005

Only 17% rated the turnover of just their high performers as a key performance indicator, and only 13% viewed positive turnover of the bottom 10% of performers as a KPI.

Neither retention plans nor succession plans can simply be initiated and let loose to run by themselves. For program effectiveness, they must be measured. Figure 10 shows the frequency for program evaluation and the measurement of results among study participants.

Figure 10: Frequency of Retention Plan Measurement



Source: AberdeenGroup, December 2005

Measuring Succession Planning Performance

The key metric in evaluating a succession plan is the early identification of prospective leaders. These individuals may be from within the company or from the labor market as a whole. The ability to undertake change of leadership without creating chaos (or further attrition) is the goal of 43% of the professionals with succession plans in this study (Figure 11).

Other areas used as measures of strong succession planning include:

- Success rate of new executives in terms of positive effect on the company's reputation and/or brand (31%)
- Success rate of new executives in terms of employee satisfaction and productivity (29%)
- Success rate of new executives in terms of shareholder value (25%)

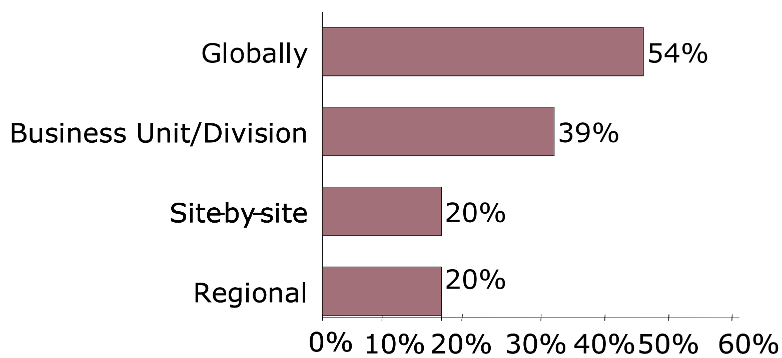
25% saw the decrease in cost of executive turnover as a key metric in determining succession plan success. This is a logical finding as early identification of leadership potential and concomitant grooming of the individual toward a leadership position will likely lower the cost of executive acquisition.

Figure 11: Key Performance Metrics Used to Determine the Success of Succession Initiatives

Source: AberdeenGroup, December 2005

Measuring the success of succession planning is generally done across the entire enterprise, rather than site by site or division by division (Figure 12).

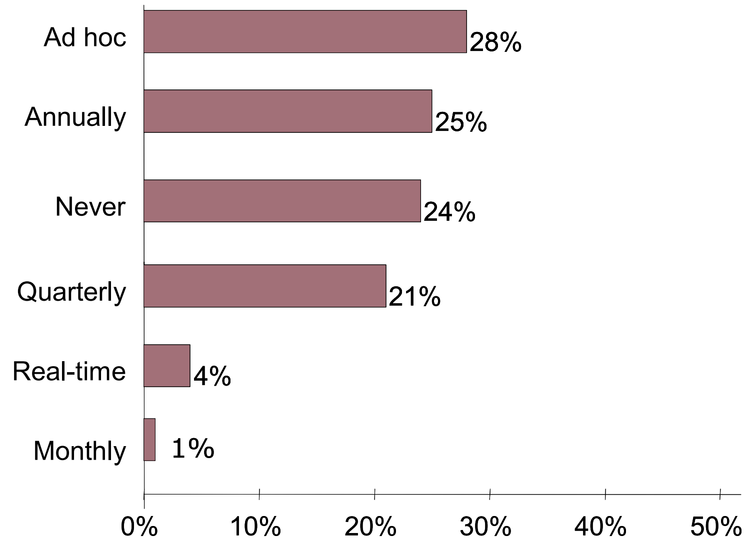
Figure 12: Scope of Succession Plan Performance Measurement



Source: AberdeenGroup, December 2005

As with retention management, succession management efforts must be weighed against the results they produce. However, some of these important practices are not monitored or measured for their return on investment in a timely fashion (Figure 13).

Figure 13: Frequency at Which Success in Succession Plan is Measured



Source: AberdeenGroup, December 2005

Chapter Five:
Recommendations for Action

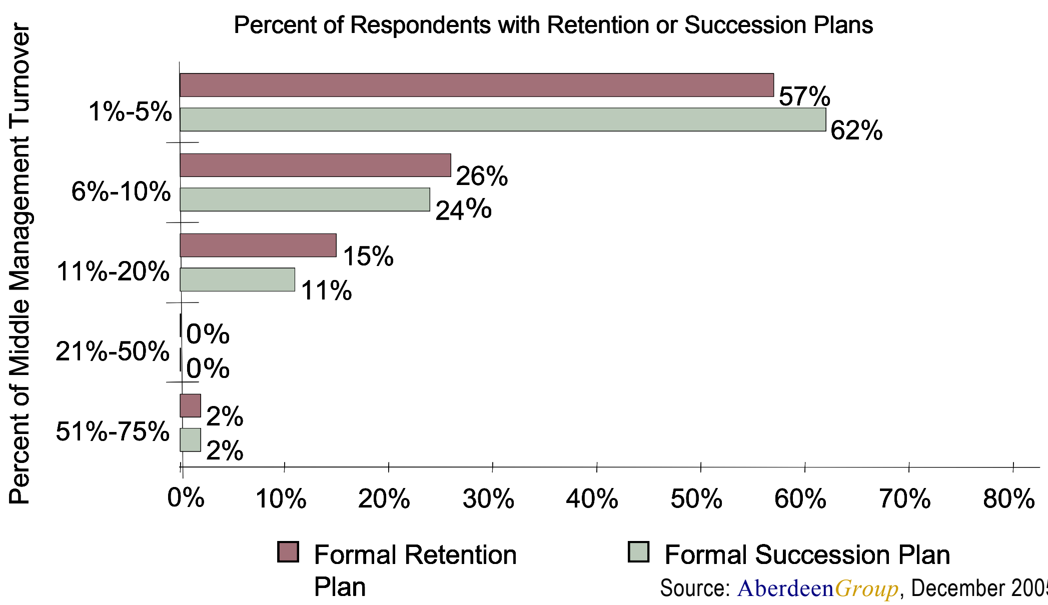
Key Takeaways

- Best-in-class companies are more likely to have both a formal succession and retention plan than the industry average.
- The public sector is the least likely to have formalized retention and succession programs for executives.

Cost is an issue for any company. Often, however, those responsible for budgeting retention-related expenditures do not fully appreciate the cost of the alternative. With the direct cost of replacing an employee ranging from $13,000 to $80,000, the tangible return of retention and succession planning on turnover is clear, not even considering the operational, lost experience, and time to "full" productivity stated in Chapter 1.

The relation of formal plans to employee turnover also holds true for executives and middle management (Figure 14). The highest performance, less than 5% turnover of mid-level managers, is attained when formal retention or succession plans are in place in the corporation.

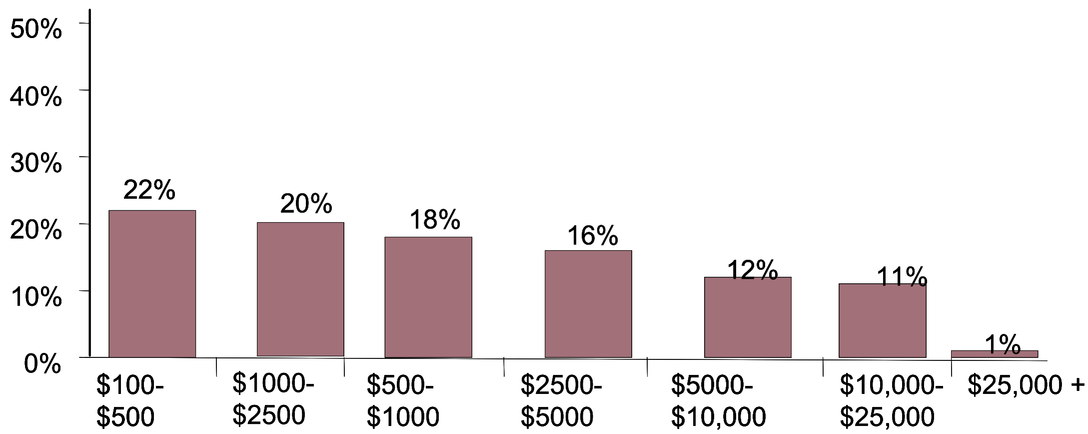
Figure 14: Effect of Formal Plans on Mid-management Turnover



Source: AberdeenGroup, December 2005

Although the biggest challenge was perceived as investment in rewards, generally, companies do not need to invest a lot on retaining their employees, usually between $100 and $2500 dollars.

Figure 15: Cost of Retention Program per Employee per Year

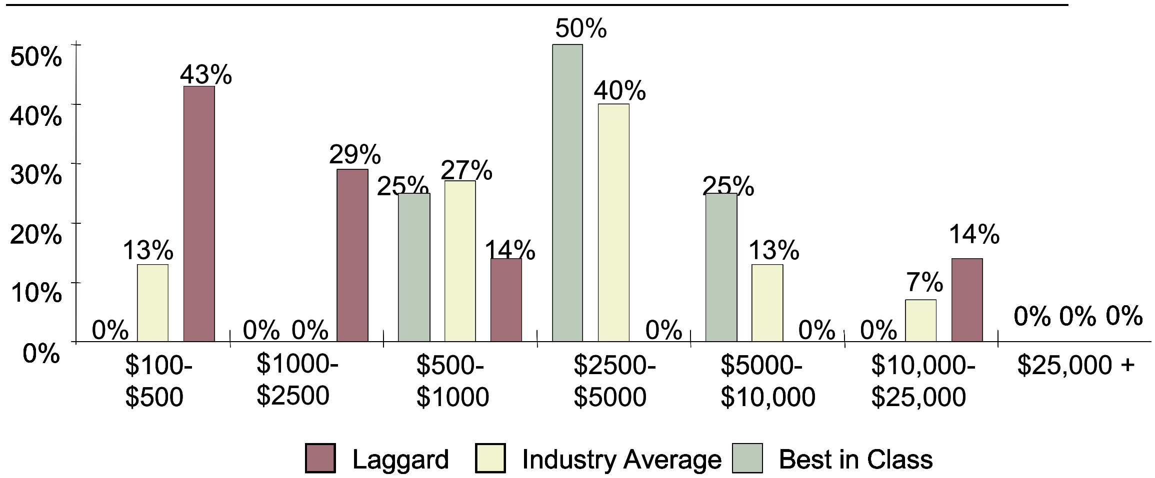


Source: AberdeenGroup, December 2005

Best in Class Approaches

Best in class companies do tend to invest more, on average, into their programs that retain and develop their workforce, but still within the budget range of all firms surveyed. However, the highest range of investment is represented by both laggard and industry average companies (Figure 16). Aberdeen concludes that perhaps companies should look more closely into how they spend on retention and where it actually goes in the organization.

Figure 16: Annual Retention Spend by Competitive Framework



Source: AberdeenGroup, December 2005

Aberdeen suggests the following recommendations to help create the required capabilities in retention and succession planning to improve performance:

Laggard Steps to Success

1. *Begin with the Basics*

   You get who you hire. Competitive companies take the time to carefully screen candidates for each position. Their skills are measured, their predisposition for the type of work is assessed, and their fit with the corporate cultures is ascertained. A bad hire will cost you through loss of productivity and the downtime of two hiring cycles: the cycle to hire the person and the cycle to replace him or her.

2. *Measure performance*

   Retaining people that are not A and B players is not a goal. Keep the team together that is going to win.

3. *Build a succession program*

   Executive change happens. Big cheeses do get moved. Be prepared by creating a program that captures key requirements of the job, and then looks internally and externally to locate people who can fill those shoes if needed. Every chief executive should have a back up.

4. *Look at your plans for retaining the talent that you have*

   Look at the middle managers and the high-performing white collar workers. What would you do if that great software developer you have left in the middle of a product cycle? As you look at your employees, ask yourself "what will it take for this person to stay with us another year?"

Industry Average Steps to Success

1. *Almost three quarters of industry average companies have a retention plan in place today. Review the success of your programs to quantify how they affect retention.*

   Is your program successful? Do people stay in your company because of company picnics, great salaries, or benefits? Why do they leave? Compare your exit interviews with the areas you have invested in to maintain the workforce—are they the right investments?

2. *Only 63% have a succession plan in place.*

   Think strategically. After a decade of terrorists and tsunamis, we all know the unexpected, and the unplanned can happen. Look across the enterprise with a "what if?" hat on and begin to develop a contingency plan for every key person or groups of people in the corporation.

3. *Automate business processes. Retention and succession planning are areas that require visibility – visibility across the entire workforce.*

   You should have automated means to alert managers as to which employees are a "flight risk" and likely to jump ship. This isn't rocket science or something mystical. There are programs out there that that can look at the results of data algorithms and tell you who your flight risks are, then respond if indeed you want to retain them.

Best in Class Next Steps

1. *Please your shareholders.*

   Let your shareholders know that you have both succession management and retention controls in place. Then share the results. This means you need to be able to collect and synthesize data from all over the enterprise, but your investors will sleep a lot better for it.

2. *Move to Best Practices.*

   Review your turnover of talent – then review your benefits, your perks, and your employee management practices in terms of perceptions of opportunity and career growth for all employees – or at least those you want to keep.

3. *Ask yourself "Why are our top players here today?"*

   What has kept them thus far? Interesting, challenging work? A great culture? A collegial environment? Perceptions of opportunity or revenue? You cannot rest on your past laurels. What attracted them to the company and kept them on the job so far may not be sufficient to keep them tomorrow.

4. *Collect metrics.*

   Collect the data you need to validate your status today, the ROI of your technology employed, and the value to the enterprise of the models you have in place. Analyze the results regularly to evaluate your success.

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Caren.Shaffer@profilesmail.com
www.profilesinternational.com

Author Profile

Dr. Katherine Jones, Research Director
Human Capital Management Research
Empowering the Enterprise
Aberdeen*Group*, Inc.

Katherine Jones is responsible for human capital management research at Aberdeen*Group*. In this role, she provides analysis and assessment of software and services that automate and streamline the sourcing, lifecycle performance management, and succession of a productive workforce at all levels.

Jones focuses on the fundamental processes of business operations and strategy as well as the effects of technological change and innovation of these processes within the global organization. In addition to focusing on traditional enterprise environments, such as business, industry, and manufacturing, Jones addresses the application of enterprise solutions in education, the public sector, and the federal government. She consults with early implementers of these applications to identify world-class management strategies and determine strengths and weaknesses of competing technology solutions and services in this market.

Her current research includes the ROI of electronic-driven recruiting, human resources outsourcing (HRO) in the middle market; performance management for aligned, performance-driven workforces; and planning for workforce mobility as changing demographics, an aging workforce, global sourcing for new workforce members, and a potentially improved hiring climate affect current working environments.

Upcoming research will focus on pay-for-performance, employee lifecycle management, and further work in HRO.

Lesley Keene, Research Editor
Empowering the Enterprise
Aberdeen*Group*, Inc.

As research editor, Keene brings her writing expertise to Enterprise Performance Management at Aberdeen to help analyze marketing, finance, human resources and other internal enterprise functions. With her strong track record in producing solid and effective marketing and press materials, she assists in creating effective tools for Aberdeen clients.

Prior to joining Aberdeen Group, Keene served as Press Coordinator for Kodimedia, London where she wrote and designed company literature and press material, developed written content for the website, and helped devise business strategies to stabilize the emerging company. As a freelance writer she has reported on a range of subjects spanning health, politics, and entertainment. Some of her most recent work includes “Belly dancing for fitness" for Women's Health and "What's Happened to Sony" for Brand-channel.com.

Education

Keene holds a Masters in international journalism from City University, London and has a BA in arts administration from Simmons College, Boston.

Appendix A:
Research Methodology

In November 2005, **Aberdeen*Group*** and the Human Capital Institute, a Washington-based provider of educational programs for human capital practitioners, talent managers, and executives who recognize the critical importance of human capital, examined the depth of adoption of retention and succession planning in the HCI community of HR professionals. Aberdeen supplemented this online survey effort with personal interviews of human capital executives, gathering additional information to the 170 completed survey responses. The issue of retention and succession was analyzed using the PACE framework. By examining the pressures, actions, capabilities, and enablers of formal retention and succession plans, Aberdeen was able to understand how retention and succession impacts overall corporate value, as well as benchmark companies according to our competitive framework. Aberdeen research indicates that companies that identify pressures with the most impact and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance a company achieves is strongly determined by the PACE choices they make and how well they execute.

Table 9: PACE Framework

PACE Key

Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:

- Pressures — external forces that impact an organization's market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)
- Actions — the strategic approaches an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product/service strategy, target markets, financial strategy, go-to-market, and sales strategy)
- Capabilities — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products/services, ecosystem partners, financing)
- Enablers — the key functionality of technology solutions required to support the organizations' enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)

Demographics of the Surveyed Population

Responding enterprises included the following:

- ***Job title/function:***

37% HR Director or Manager

23% Senior Management (CEO, CFO, COO)

23% Management (Vice President)

8% Executive Management (Executive Vice President)

6% Administrator

3% Recruiter

1% HR Benefits Manager

1% HRIT Manager

- ***Functional responsibilities are as follows:***

39% Human capital management

8% Succession planning

9% Retention management

8% Benefits administration

5% EAP

6% HRIS management

13% Employee performance management

11% Recruiting

3% Finance

7% Marketing

34% Operations

8% Sales

- ***Industry**:* The research sample included respondents from a wide variety of industries. 10% were from healthcare-related services and industries; 25% represented high-tech companies; 7% each from public sector and education; and 12% finance/banking/accounting. In all, 26 industries were represented.
- ***Geography:***

69% North America (Includes USA, Canada, Mexico)

10% South/Central America and Caribbean

19% Asia/Pacific

6% Middle East/Africa

18% Europe

- ***Company size*:**

16% 1-25

11% 26-50

9% 51-100

11% 101-200

4% 201-250

8% 251-500

4% 501-1000

8% 1001-2000

4% 2001-3000

3% 3001-4000

1% 4001-5000

5% 5,000 – 10,000

15% 10,000+

- ***Company Revenue:***

54% Less than $50 Million

15% $50M to $249M

5% $250M to 499M

7% $500M to $999M

10% $1 billion to $5 billion

9% More than $5 billion

- ***HR Department Size:***

40% 1-2

17% 3-5

10% 6-10

10% 11-25

4%	25-50
15%	50+
1%	We outsource recruiting
2%	We outsource HR

Appendix B: Related Aberdeen Research & Tools

Related Aberdeen research that forms a companion or reference to this report includes:

- *The HR Executive's Agenda: The 2005 Benchmark Report,* November 2005
- *Competing for Talent: The Challenge for HR Executive's in Mid-size Companies,* December 2005
- *Retaining Talent: Top Challenge in Workforce Management,* November 2005
- *Future Shock: Tomorrow's Workforce, Today's Challenge*, May 2005
- *Management Technology: High Growth, High Value*, May 2005
- *A Key to Mid-Market Success: Creating a Brand of Workforce Talent*, May 2005
- *The Technology Foundation for Hiring Management: Market Requirements*, May 2005
- *Enterprise Talent Management: Hiring Smart, Hiring Right,* March 2005

Information on these and any other Aberdeen publications can be found at www.Aberdeen.com.

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- LEVERAGE information technology for tangible business value.

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***Aberdeen**Group*, *Inc.*
260 Franklin Street, Suite 1700
Boston, Massachusetts
02110-3112
USA

Telephone: 617 723 7890
Fax: 617 723 7897
www.aberdeen.com

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