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Thought Leadership Whitepaper

IBM® **Smarter Workforce Institute**

Are traditional HR practices keeping your organization average?

Build a high-potential organization with workforce science

By Dr. Jay Dorio, Dr. Rena Rasch, and Dr. Sheri Feinzig,
IBM Software Group

Ever since the publication of the War for Talent in 1997, the stakes for getting things right have been high…and they continue to be a top priority for CEOs (IBM Institute for Business Value, 2013). However, an over-reliance on traditional methods across critical human capital management processes may be limiting effectiveness.

From the initial attraction and selection of the right candidates for a role, to the development and retention of high-potential employees, traditional assumptions often result in average performance—and average does not yield high performing organizations. We can do better. Traditional HR practices can be transformed through workforce science[1], and a high-potential, Smarter Workforce can be created.

In this white paper, we explore the changes that are impacting work as we know it, and the limitations of traditional human capital practices based on old assumptions. We also discuss how workforce science, data, and analytics can help organizations focus on high-potential employees, avoid being average, and supercharge human capital management. For the purpose of this paper, high-potential employees are defined as those employees who have been identified as high-potential by their organizations and are enrolled in a high-potential program. Employees who are not identified as high-potential are categorized as "other."

Changes impacting work

Work as we know it appears to be entering an era marked by the fastest and most drastic changes we have ever seen. It goes without saying, technology has dramatically changed the way and the speed at which people communicate, connect, and work—and social technologies in particular have certainly played a role in these changes.

Furthermore, our insight and understanding of human behavior has never been greater. Just a decade or so ago, a gut feeling and a strong handshake were enough to get a job. Today we have advanced to the point where we know precisely what makes people good at what they do, both individually and as a group. In fact, according to recent IBM research, 63 percent of employers actively using analytics across their enterprises believe it is creating a competitive advantage for their organization (IBM Institute for Business Value & Saïd Business School, 2012).

The combination of technology and human insight has produced mountains of data on our employees, that can be analyzed to predict behavior. We are able to identify talent like never before, match capabilities to market needs, retain the best, and act on proven insight to drive business outcomes. Simply put, we can now replace traditional processes and guesswork with science, data, analytics, and precise methods to help develop a Smarter Workforce. So, if we have these capabilities, what is stopping us?

Limitations based on "traditional" assumptions

Unfortunately, the ability of organizations to be high performing and create a Smarter Workforce is hindered by assumptions underlying our human capital processes. For example, one of the most commonly used selection devices remains the unstructured interview, despite robust research highlighting the litany of rating errors and problems inherent in such a subjective process (McDaniel, et al., 1994).

Unstructured interviews are not the only obstacle preventing us from becoming smarter about HR processes. Many hiring managers incorrectly assume that if we hire a candidate for a job, then he or she "can probably do it" given the chance. However, workforce science tells us that while a candidate may be able to do it, we get much better outcomes when we hire people who have an absolute passion for doing the job. Advances in workforce science mean we can now predict exactly who has that passion. Further, hiring passionate people has a strong positive impact on organizational performance.

On this assumption hinges the critical message of this white paper: to move from traditional to smarter, we must apply our scientific understanding to high-potential employees.

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[1] *Workforce science is the application of behavioral science, statistics and psychological principles to improve employee and organizational performance.*

From traditional to exceptional: high-potential employees

Despite the enormous effort that is expended to recruit and develop top performers, there are still a variety of HR practices that do not focus on those performers are most likely to improve business performance. For example, training programs are often designed around how an average employee does the job, rather than the way a top performer or high-potential employee does it. Yet, research and experience tell us high-potential employees do the job differently than average employees.

With such an average approach, we may fail to capitalize on the enormous potential inherent in top performers, and miss a valuable opportunity to share that potential with other employees. In taking the average approach, organizations remain traditional and reduce the likelihood of achieving exceptional performance.

In this white paper, we share data that show just how high-potential employees differ from other employees. Insights like these will enable organizations to move beyond the traditional and other to an exceptional and Smarter Workforce.

Insights into high-potentials

In a recent global WorkTrends™ survey of over thirty thousand workers, we found nearly a quarter of them were identified by their organizations as high-potential employees[2]. We wanted to know how these highly valued employees are different from their coworkers. We found high-potential employees differ from average employees in a number of ways.

They are high-potential for a reason

High-potential employees possess many characteristics of value to organizations (Figure 1). They are more engaged and satisfied than other employees, which leads to higher individual job performance (Riketta, 2008). High-potential employees are also more collaborative than their coworkers, which makes them better teammates as well as individual contributors. Lastly, these superstars are more innovative, providing their organizations with a strategic advantage.

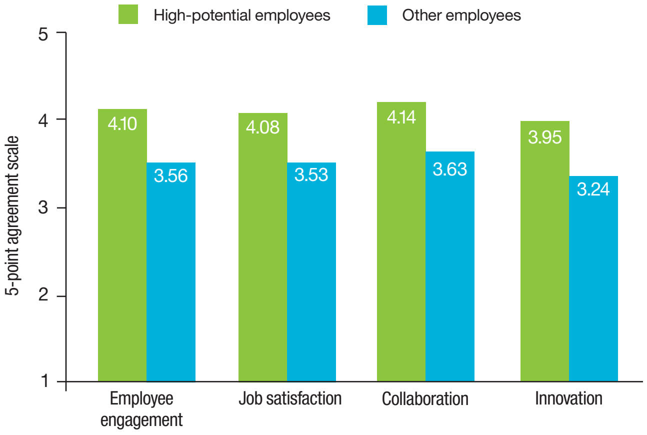

Figure 1: High-potential employees are more engaged, satisfied, collaborative, and innovative.

Source: WorkTrends™ 2013/2014; Sample: High-Potential Employees=3,679; Other Employees=14,587

The pull to stay, the push to go

These valuable characteristics seem to be recognized and rewarded. In our research, we found high-potential employees are over three times more likely to be eligible for a pay raise. They also get bigger raises—3.5 percentage points higher on average. Consequently, more high-potential employees (69 percent) feel they are fairly paid than other employees (44 percent). Being well and fairly paid likely leads high-potential employees to feel a pull to stay at their organization.

Yet, they may also feel a push to go to another organization. A manager's worst nightmare is learning his or her best employee has been poached by a competitor, but this fear is not irrational. High-potential employees know their value—more of them are confident in their ability to get an equal or higher paying job elsewhere (54 versus 31 percent among other employees). They are also highly sought after—twice as many were recruited by headhunters to their current jobs (30 versus 14 percent among other employees). This combination of factors is enough to cause sleepless nights for many managers.

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[2] *Notably, more than 1 in 10 employees did not know how to answers this question. This surprising number may illustrate the need for organizations to raise awareness of their existing programs.*

High-potential employees are hard to get

Knowing what high-potential employees value may help organizations recruit these superstars. We asked employees to rate the importance of different reasons in attracting them to their current job (Figure 2).

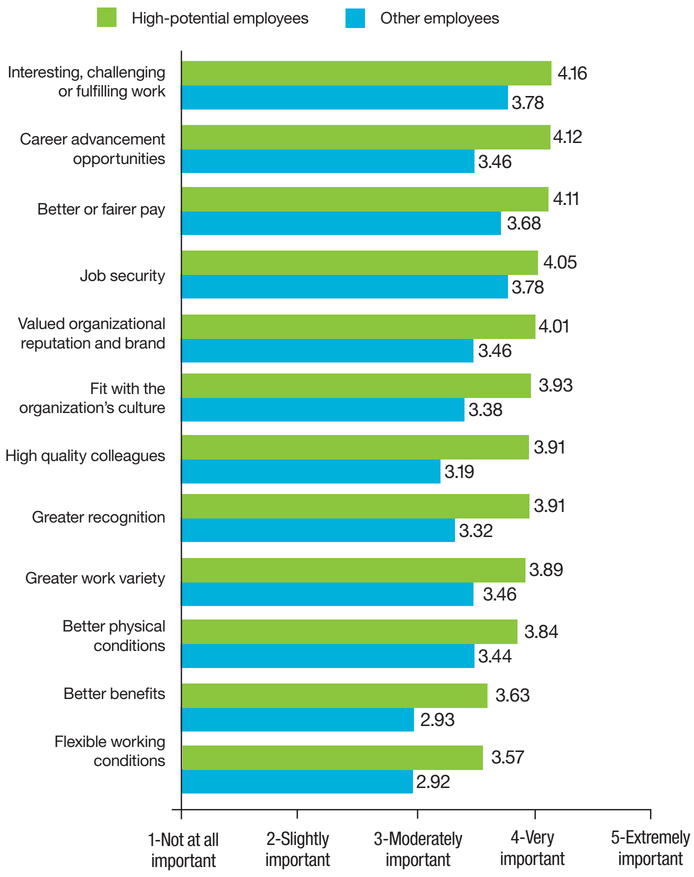

Figure 2: Everything is more important to high-potential employees

Source: WorkTrends 2013/2014; Sample: High-Potential Employees=3,679 Other Employees=14,587

Comparing high-potential to other employees yields three insights. First, the rank order of the attracting factors is largely the same. Second, everything is more important to high-potential employees. Perhaps this is because high-potential employees are highly sought after and can afford to be pickier when looking for a job. Third, the biggest differences were observed in the importance placed on high quality colleagues, better benefits, career advancement opportunities, and flexible working conditions. These factors are all much more important to high-potential employees than to other workers.

What 'work' means to high-potentials

We also asked employees to explain what work means to them. To high-potential employees, work is less about an income, and more about status and prestige (Figure 3). This insight could inform strategies for recruiting high-potential employees. It may not be enough to offer them more money—they may be attracted by more intangible incentives, such as working for a prestigious brand or in a prestigious role.

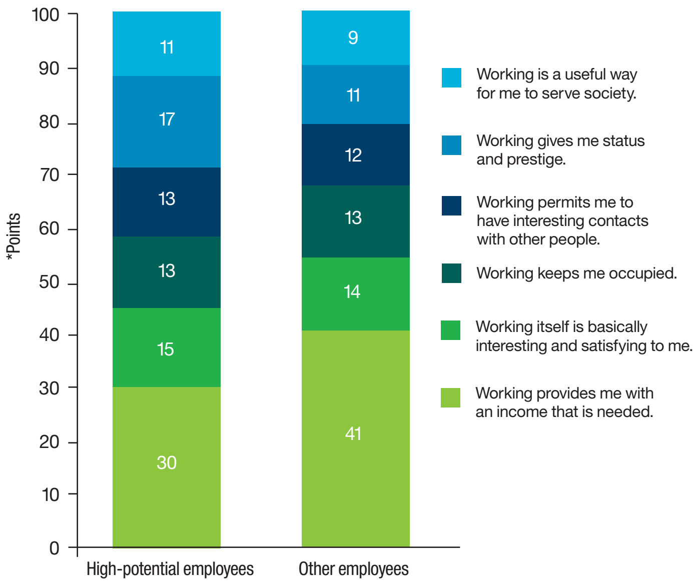

Figure 3: To high-potential employees, work is less about money, more about prestige

Source: WorkTrends 2013/2014; Sample: High-Potential Employees=3,679; Other Employees=14,587;

**To help explain what working means to employees, we asked them to assign a total of 100 points, in any combination they desired, to the six statements listed. The more a statement expressed their thinking, the more points they assigned to it.*

The importance of status and prestige to high-potential employees has broad relevance encompassing job titles, responsibilities, and characteristics of the work itself. While these general research findings can guide, at a high-level, recruitment strategies and job design initiatives across organizations, we would encourage a deeper analysis to identify specific drivers of attraction and retention for high-potentials in your particular organization.

A bird in the hand is worth two in the bush

So, how do we hold onto our best employees? Using our predictive retention analysis, we examined the importance of 16 factors related to turnover intentions[3].

In general, employees consider leaving when they have the capability to do so. Confidence in their job mobility, or ability to find another job, was the most important predictor. The ability to command a higher salary (as measured by the size of their most recent pay raise) and having been contacted by a recruiter both predicted higher turnover intentions as well.

Employees also consider jumping ship, when the ship appears to be sinking. Employees in organizations that had layoffs or outsourced jobs in the past 12 months had higher turnover intentions, whereas employees who felt their jobs were secure reported lower turnover intentions.

Negative experiences, like work stress, play a role in driving employees away. However, positive experiences, such as enjoyment of the job, reduce turnover intentions. In fact, positive experiences seem to be more important to retention than negative experiences—job satisfaction was the second most important predictor (after job mobility) of whether an employee intends to stay. Getting deserved recognition and seeing opportunities for advancement both led to lower turnover intentions as well.

What about high-potential employees specifically? In our statistical analysis, we examined whether the importance of these predictors changed for high-potential employees. We found they are largely the same, with a few exceptions. Job mobility is even more important to high-potentials' professional wanderlust. Organizational changes, such as layoffs and outsourcing jobs, are also more important to high-potential employees' thoughts of leaving. On the other hand, recognition is even more important in keeping high-potential employees at the organization.

In summary, high-potential employees differ from other employees in some important ways. They are well-paid, and highly sought after. It takes a lot to impress them—they want the whole package plus a little extra. The money is great, but it is not enough. They want to work with the big names, and they take a great deal of pride in their status. They need plenty of room to advance, or they just might outgrow the organization. If they do not get the recognition they deserve, they will look elsewhere, which is not a problem for these confident workers. Organizations, on the other hand, may find themselves struggling to replace their most prized employees.

Moving from traditional to exceptional talent acquisition

Research insights such as these highlight the need to differentiate between high-potential and other employees, and to move away from traditional assumptions towards exceptional practice. Such an approach can be implemented today using a predictive hiring technique that focuses on top performers rather than the typical employee.

The approach is summarized in Figure 4 and answers three critical questions of organizations:

- What is your most important job family?
- How much more (revenue, sales, profit) do the best employees in your key job family produce than your average?
- What would the impact on your success metrics be if you hired only candidates who performed at the same level as your highest performers?

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[3] *We examined 16 predictors, including job mobility, having been contacted by a recruiter, job satisfaction, manager effectiveness, career advancement opportunities, number of promotions received, pay and benefits competitiveness, percent salary increase received, recognition, job security, layoffs and outsourcing in the organization, safety of work conditions, time spent teleworking, and level of work stress. We also controlled for age, gender, occupation, management level, high-potential status, industry, and country. Total variance explained (R^2) was 38%. For detailed results, please contact Rena Rasch (rrasch@us.ibm.com).*

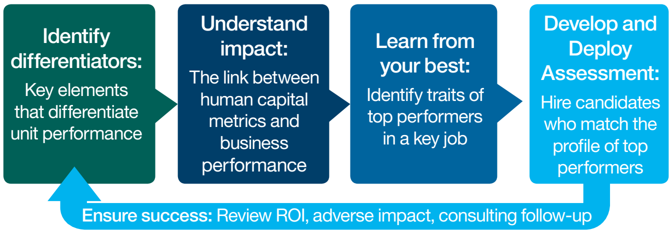
Identify differentiators:
Key elements that differentiate unit performance
Understand impact:
The link between human capital metrics and business performance
Learn from your best:
Identify traits of top performers in a key job
Develop and Deploy Assessment:
Hire candidates who match the profile of top performers
Ensure success: Review ROI, adverse impact, consulting follow-up

Figure 4: IBM Kenexa Predictive Hiring

This approach enables organizations to develop a precisely configured predictive behavioral assessment that avoids having to rely on subjective interviews and guesswork about what a candidate “might” do on the job. Instead, organizations have the ability to make data-driven decisions about candidates—and the ability to predict which candidates will perform like top talent in key roles to drive business success.

Conclusion

The world is changing fast, and the world of work could be changing fastest of all. Human resource functions seem hampered in their ability to embrace this change by focusing on traditional approaches to their business processes. When organizations are able to harness the power of science, data, and analytics together with insights into human behavior and workforce solutions, they can transform traditional practices and bring people and employers together to achieve more and improve performance.

IBM Smarter Workforce Institute

The IBM Smarter Workforce Institute produces rigorous, global, innovative research spanning a wide range of workforce topics. The Institute’s team of experienced researchers applies depth and breadth of content and analytical expertise to generate reports, white papers and insights that advance the collective understanding of work and organizations. This white paper is part of IBM’s on-going commitment to provide highly credible, leading-edge research findings that help organizations realize value through their people.

About WorkTrends

WorkTrends™ is a research program begun in 1984. In its current form, WorkTrends is a multi-topic survey completed online by a sample of workers diverse in terms of industry, organization, occupation, gender, age and other key organizational and demographic variables. In 2013, data were collected from adults who work full-time across 26 countries. In the study presented in this paper, international samples of 3,679 high-potential employees and 14,587 other employees were used. The WorkTrends survey measured a wide range of workplace issues, including attraction, quality of hire, manager effectiveness, employee engagement, training, career advancement, compensation, recognition, collaboration, innovation, turnover intentions, and others.

For more information

To learn how to build a smarter workforce, visit:
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About the Authors

Dr. Jay Dorio

Dr. Jay M. Dorio is responsible for developing Smarter Workforce solutions that highlight and capitalize on proven workforce science. With more than 20 years of human capital management experience, Dr. Dorio has a strong background helping organizations implement solutions to hire the very best candidates, job family by job family; and helping organizations optimize their work environments to ensure top performance. Dr. Dorio most recently served as the Managing Director of IBM's Smarter Workforce/Kenexa business in Canada. Dr. Dorio holds a Doctorate in Industrial and Organizational Psychology from the University of South Florida, and is a member of the Society for Industrial/Organizational Psychology (SIOP), the American Psychological Association, the Society for Human Resource Management, and the Academy of Management.

Dr. Rena Rasch

Dr. Rena Rasch has been with IBM's Smarter Workforce Institute since 2008. She has managed the Institute's WorkTrends study, a large-scale employee opinion survey of over 33,000 workers in 26 countries around the world. Rena values empirically-based practices, and uses her skills in psychometric theory, research design and statistics to develop valid and reliable HR tools and knowledge. She has published in the Journal of Applied Psychology and Journal of Business and Psychology, as well as written book chapters. She is currently leading a comprehensive research stream about independent workers. Rena is a member of SIOP, and frequently presents at its annual conference. Rena received her Ph.D. from the University of Minnesota's Industrial/Organizational Psychology program.

Dr. Sheri Feinzig

Dr. Sheri Feinzig is the Director of IBM's Smarter Workforce Institute, and has over 20 years of experience in human resources research, organizational change management and business transformation. Sheri has applied her analytical and methodological expertise to many research-based projects on topics such as employee retention, employee engagement, job design and organizational culture. She has also led several global, multi-year sales transformation initiatives designed to optimize seller territories and quota allocation. Additional areas of expertise include social network analysis, performance feedback and knowledge management. Sheri received her Ph.D. in Industrial/Organizational Psychology from the University at Albany, State University of New York. She has presented on numerous occasions at national conferences and has co-authored a number of manuscripts, publications and technical reports. She has served as an adjunct professor in the Psychology departments of Rensselaer Polytechnic Institute in Troy, New York and the Illinois Institute of Technology in Chicago, Illinois, where she taught doctoral, masters and undergraduate courses on performance appraisal, test and measures.

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