Global Leadership Forecast Series

HR Leadership Insights Report

HR's Biggest Challenge Comes from Within

Can you think of a moment in modern history when talent has hung so precariously in the balance?

As resignations surge, the war for talent has escalated quickly. To attract talent, companies find themselves having to make hard-to-refuse offers, testing the limits of their compensation and benefits resources. Even previously content employees may be considering a move, given the enticing offers on the market.

But even more deeply, HR is tasked with creating a flexible, supportive workplace culture where employees can grow while avoiding burnout. Yet while HR's strategic role in creating this new culture has never been more critical, HR has been pushed into a more reactionary role, struggling to find time to create and execute the talent and leadership strategy that will enable their organizations to succeed.

In this report, we explore these rapid changes, and how HR can create a more powerful leadership strategy for the future.

To fuel our findings, we analyzed responses from 15,787 leaders and 2,102 human resources executives surveyed in 2020. In addition, we surveyed a subset of the same HR group in September 2021 to examine what had changed and forecast changes for 2022.

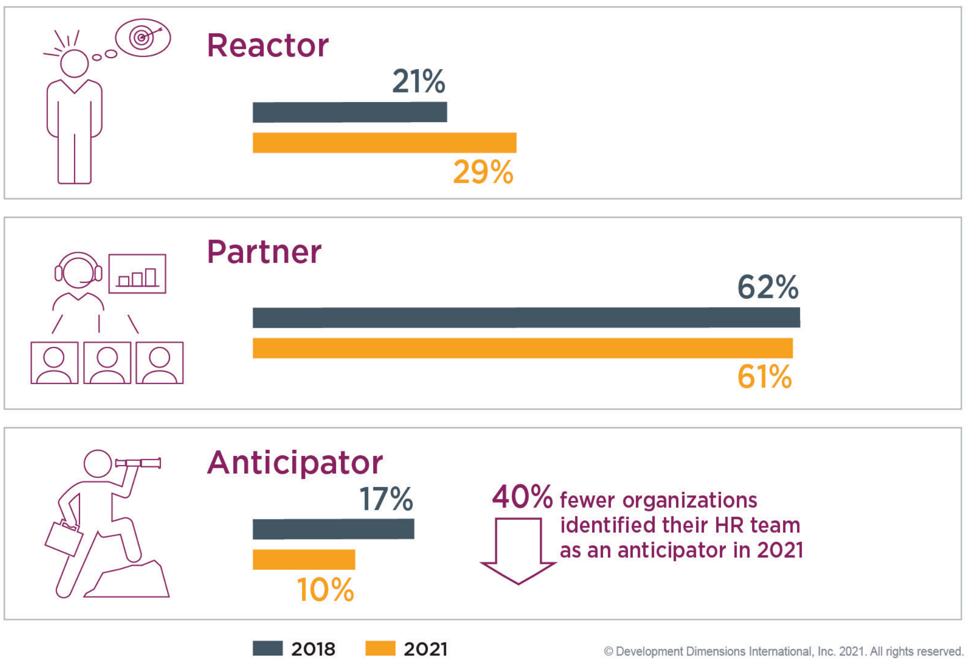
The goal of this report is to leverage these deep and broad data points to track how trends have shaped HR's role in the market, and set the stage for a dramatically different role in the years ahead.

Quick Reference Guide

HR Struggles with Strategy

Strapped HR Teams Pushed into Reactionary Mode

HR's Strategic Position: Reactor, Partner, or Anticipator



Quick Reference Guide

At a time when HR's skills to anticipate talent needs are needed most, they've become surprisingly underutilized. Given that CEOs ranked developing next-gen talent as their top concern in this study, they should be relying on HR more heavily. But that hasn't been the case.

Since 2015, we have tracked how HR departments are positioned in their companies based on three categories:

1. **Reactors:** They ensure compliance with policies and practices, and respond to needs of the business by providing key tools/systems when asked.
2. **Partners:** HR works with business leaders to openly exchange information about current talent issues and collaboratively work toward mutual goals.
3. **Anticipators:** Leading a strong talent strategy, they use analytics and data to predict talent gaps in advance and provide insights about how talent quality relates to business goals.

While we expected HR departments to have evolved rapidly since our earlier analyses, the reverse has occurred. Forty percent fewer organizations identified their HR team as playing the role of "anticipator" than in 2018. And rather than see more HR teams operating as "partners," there was a significant increase in the number identifying HR as "reactors."

As companies prepare for a faster, more tumultuous, and increasingly digital future, HR's role is now even more important in creating the leadership and talent strategy to support that future. So why have they been pushed into a merely reactive status? Are the demands to stay afloat so high they have no time to look to the future? Or are companies overlooking the value of one of their most critical departments?

Where to focus

5 Leadership Practices That Differentiate Anticipators

As we shared in our *CEO Leadership Report 2021,* there are significant advantages to having HR operate as an anticipator. Organizations in which HR is an anticipator are 3X more likely to make better hiring decisions, 1.4X more likely to respond to change effectively, and 4X more likely to have a strong leadership bench.

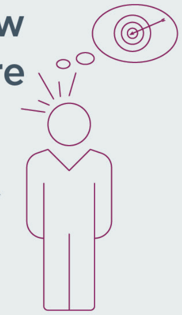
In examining the areas that set apart HR functions that take on this forward-operating role, we've identified five standout practices that differentiate anticipators from reactors:

1. Relying on data to make strategic talent decisions.
2. Having an effective leadership strategy.
3. Gathering objective data to diagnose. leaders' strengths and development needs
4. Having a clearly defined set of leadership expectations/competencies.
5. Using a consistent process for hiring and promotion decisions.

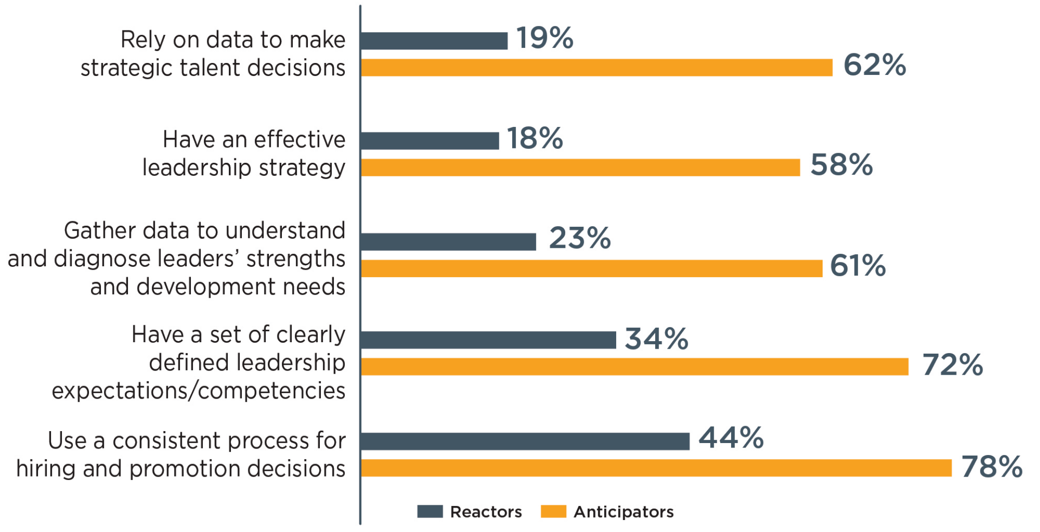
Reactors rate significantly lower in all five of these areas, and as a result they are less prepared for the future. Organizations that view HR's role as reactor are 3X less likely to effectively manage and respond to change. Leaders at these organizations also say they are significantly less prepared to anticipate and respond to change themselves, with 80% fewer leaders at these organizations saying they are very prepared, compared to leaders at anticipator organizations.

There's a need to be responsive to changing business context, but HR can still play a leading role in driving talent strategy in alignment with the business.

Organizations that view HR's role as Reactor are 3X less likely to effectively manage and respond to change



5 Key Practices That Differentiate Anticipators from Reactors



Leaders Unprepared for Hybrid Work

Companies That Develop Virtual Leaders Get Better Outcomes

Implications for a Changing Workplace

The anxiety of missing traditional in-person collaboration coupled with employee demands for more flexibility has led to a surge in hybrid work models. While these models look different across (and often within) organizations, it's creating a major challenge for HR teams as they grapple with decisions not only about policy around where people work most effectively, but the more intangible effects of how.

In our *Global Leadership Forecast 2021* survey, only 20% of leaders said they are very effective at leading virtually, a skill that may not have been critical until recently. A September 2021 survey of 116 HR executives showed that 60% indicate that the majority of their organization now works from home, and 50% say that their leaders will choose where they work in the future. Having a more dispersed workforce requires companies to better enable collaboration, and leaders to lead better virtually.

Having leaders who were already prepared to lead teams virtually is a huge advantage in a hybrid workplace. Organizations who have made leading virtual teams a focus of their development programs have 36% more leaders highly effective at leading virtually than other organizations. They were also more effective at managing the shift to remote work when it was needed most. Of all leaders who rated themselves as very effective at leading virtually, 71% were also very effective at managing change.

Where to focus

Reinforce Connectedness, Empathy, and Wellbeing

If leaders aren't confident leading virtual teams, it will be extremely challenging for organizations to drive engagement and collaboration in a hybrid workplace. According to our examination of nearly 300 companies that are already doing this well, and who have a greater percentage of effective virtual leaders, there are a few key differentiators for their success:

- **Connectedness:** Effective hybrid leaders make an effort to connect with their team members and colleagues on an individual level. At organizations with more effective virtual leaders, employees are 25% more likely to say their manager inquires about their experiences outside of work and shares their own experiences openly. They are also 50% more likely to say they have made valuable connections with people they have gone through training with.
- **Empathy:** Beyond fostering valuable connections, organizations with more effective virtual leaders also develop crucial interpersonal skills including empathy. They are 64% more likely to indicate that leaders have strong interpersonal skills overall, and more specifically 30% more likely to have managers who model empathy.
- **Wellbeing:** At effective hybrid organizations, a significantly greater percentage of employees say their manager genuinely cares about their wellbeing, nearly 90% compared to 79% at other organizations. It's clear that this commitment from leaders to employee wellbeing pays off. These organizations are also 2.3X better prepared to prevent employee burnout.

Just as companies are adopting new practices to better engage remote employees and leaders, they are shifting their approach to development. In line with this, HR indicated that leadership investments for the next year will be very different than the one before. Although the largest percentage of budgets will continue to go to instructor-led learning (45%), more organizations plan to deliver courses virtually.

Companies also plan to utilize more immersive experiences including Virtual Reality (VR). In fact, the expected budget increase for immersive learning was the biggest change over the past year—with HR indicating they plan to spend 23% of their development budget towards VR and immersive learning, 14% more than they did last year.

Organizations plan to spend

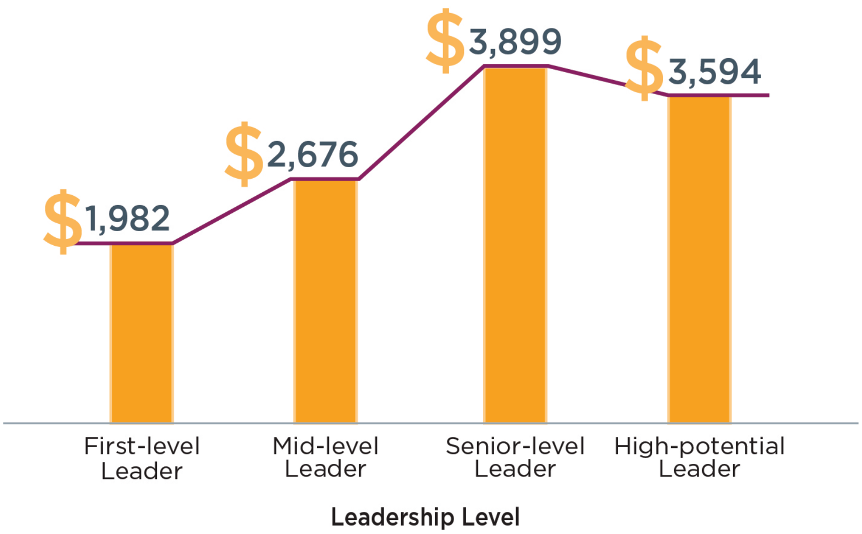
23%

of their development budget towards VR and immersive learning

Investing in the Future

Key Areas Reveal the Highest ROI on Development Budget

How Much Organizations Spend on Development per Leader



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At this point, the question is not whether or not to invest in leadership development; companies are already making it a high priority. In fact, a DDI survey in September 2021 showed that 55% of HR professionals said that leadership development remained a top priority even during the pandemic.

Rather, the question is where organizations will see the most return on their investments.

One of the key investment questions is whether it makes sense to "build or buy" technology solutions to support development.

Some HR organizations elect to develop their own solutions internally to satisfy their organization's unique needs—like regulatory needs for industries or organizational values. When this happens, they typically end up spending significantly more across all levels of leadership than those that leverage solutions built externally.

The amount invested in development also matters. On average, organizations spend $3,594 per high-potential leader. But organizations that spend more than average developing their high-potential leaders had higher percentages of leaders rated as high quality. In fact, when HR invested above-average amounts, leadership quality increased by 18% compared to the quality in organizations where less than average was spent. Organizations that spend above average are also 57% more likely to be considered a best place to work.

Organizations that spend more than average developing their high-potential leaders had an

18%

increase in leadership quality

Where to focus

Best Balance for Biggest Benefit

The modalities organizations decide to invest in are just as important as how much they invest. Organizations with higher overall leadership quality tend to use multiple unique modalities for development more than organizations with lower overall leadership quality. Leveraging these modalities allows for a more personalized experience for leaders.

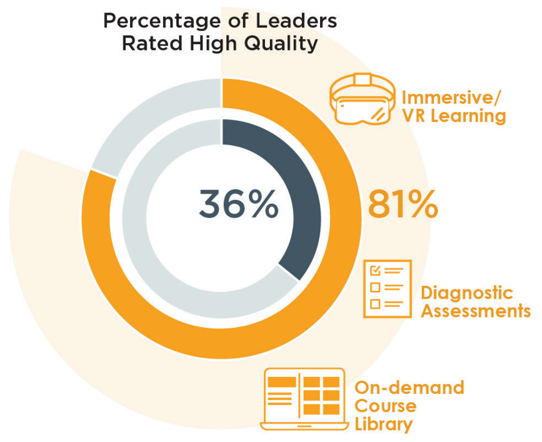
Specifically, there are three key developmental modalities that stand out among companies that have the highest quality ratings for their leaders. In order of impact, they are:

- **Immersive learning and virtual reality:** While still not broadly used across companies, companies that have ventured into using immersive experiences such as VR for leadership development have an edge over other companies. The ability to immerse leaders into realistic scenarios and allow them to practice their leadership skills in a low-risk environment may catapult companies ahead in their development efforts.
- **Diagnostic assessments:** Across the board, we saw leaders asking for more assessment in their development programs. And when companies do use assessment, it appears to pay off as leaders have deeper self-awareness about their strengths and weaknesses.
- **On-demand library of courses:** Online learning libraries can be a somewhat controversial method of development. While our *Global Leadership Forecast 2021* showed that online course libraries are not a top demand from leaders, many companies are using them successfully to support learning on demand in moments when leaders can't access more formal learning options fast enough. These libraries can play a critical role in filling in the gaps between other development.

No single solution works best on its own. The key is using a combination. In fact, when these three are heavily used in organizations, the percentage of leadership considered high quality more than doubles compared to organizations where these are not used.

In addition to these three key drivers of overall leadership quality, organizations with overall high-quality leadership are also more likely to have additional development modalities available to leaders to support their development, such as group-based simulations and internal coaching opportunities. Having multiple modalities available to serve different needs provides opportunities for leaders to develop where and when they need it most.

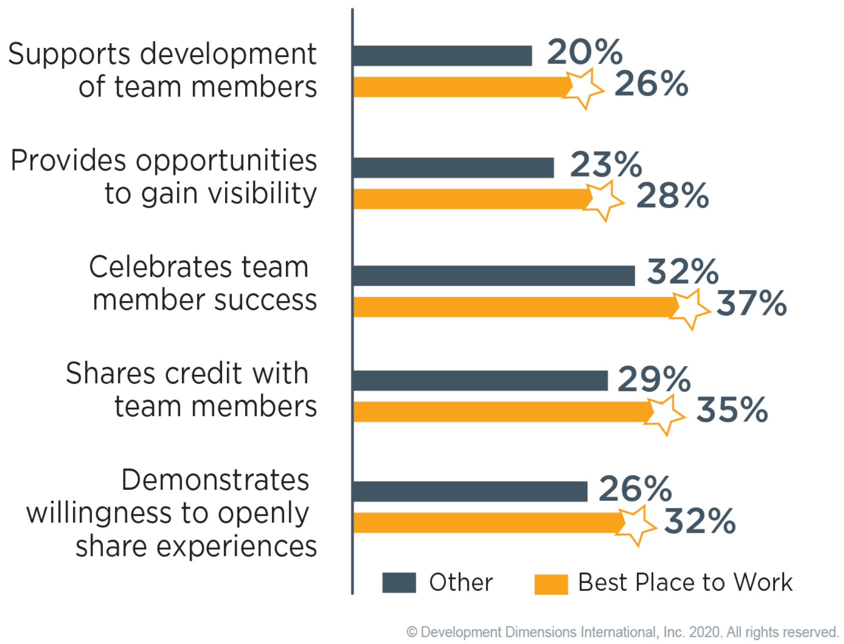
Multiple Modalities Boost Leader Quality



Creating a "Best Place to Work" Culture

Leaders' Behaviors Dramatically Affect Culture

Leaders at "Best Places to Work" Demonstrate Key Behaviors



Quick Reference Guide

Being considered a "Best Place to Work" can dramatically change a company's ability to attract and retain top talent. One of the key differences in companies that achieve this designation is the way their leaders behave on a daily basis.

In our study, we asked HR leaders whether their companies were recognized as a Best Place to Work. We also asked leaders and aspiring leaders about the behaviors their bosses displayed regularly.

Among Best Places to Work companies, leaders exhibit five key behaviors more frequently. They:

1. Support the development of team members.
2. Provide opportunities to gain visibility.
3. Celebrate team member success.
4. Share credit with team members.
5. Share openly about their experiences.

When leaders demonstrate these behaviors consistently, they create a strong foundation of trust with their team members.

In addition to the talent benefits, there is a relationship between Best Places to Work organizations and higher financial performance. In fact, Best Places to Work are 1.8X as likely to be among the top 10% financial performers compared to peers.

Best Places to Work are

1.8X

as likely to be among the top financial performers

Where to focus

Relationships Matter

Leaders in Best Places to Work organizations approach work a little differently than peer organizations.

Attend More Group Meetings. Leaders in Best Places to Work organizations spend 13% more time per day on average attending group meetings than others. Working closely with others provides opportunities to foster relationships and share openly about experiences. This also permits leaders to help provide opportunities for team members to gain visibility.

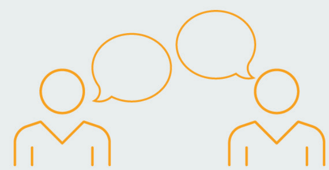
Connect with Training Peers. At Best Places to Work, leaders are 15% more likely to connect with their peers they have gone through leadership training with than at other organizations. As a result, they have a strong internal network of people to partner and share ideas with when needed.

Seek Additional Opportunities to Contribute. The strong team environment in Best Places to Work creates a stronger incentive for people to contribute beyond their basic job responsibilities. In fact, leaders at Best Places to Work organizations are 25% more likely to seek additional opportunities to contribute outside of their job function. They are looking for other ways to add value and help advocate for their team members when they can.

When leaders do all three of these things consistently, the likelihood of their organization being a Best Place to Work increases by 34%. Through building supportive relationships with others and seeking opportunities beyond the basic job requirements, leaders in Best Places to Work organizations unlock opportunities for themselves and their teammates to grow and succeed together.

At Best Places to Work, leaders are

15%



more likely to connect with development cohort peers than other organizations

Powering a Diverse & Inclusive Culture

Companies Are Weak in Providing Quality D&I Programs

High-quality D&I Programs Yield Strong Outcomes

1.6X more likely for leaders to say inclusion is a strong component of their culture

9X more likely to have high-quality leadership overall

48% more leaders ready to fill critical roles

Quick Reference Guide

Is a commitment to diversity and inclusion just lip service?

While companies increasingly tout their public commitment to diversity & inclusion (D&I), HR professionals are skeptical of the quality of their D&I programs.

Barely more than a quarter (27%) of HR respondents rated their diversity programs as "high" or "very high" quality. Even worse, 15% said they do not have formal diversity and inclusion programs in place at all.

A weak or nonexistent D&I program is a big miss for companies. Organizations with high-quality programs are already powering a more diverse and inclusive culture and reaping the benefits. Leaders at organizations where HR rated D&I quality high were 1.5X more likely to say that their organization recruits from a diverse pool, and 1.6X more likely to say that inclusion is a strong component of their culture.

Additionally, their organizations reap better leadership and business outcomes. We've previously found that organizations with a more diverse leadership bench are 8X more likely to fall in the top 10% for financial performance, but organizations with high-quality D&I programs also see better leadership outcomes overall:

- Organizations with high-quality D&I programs have a stronger, more diverse pipeline with 48% more leaders ready to fill critical roles.
- They are also 9X more likely to have high-quality leadership overall.

Where to focus

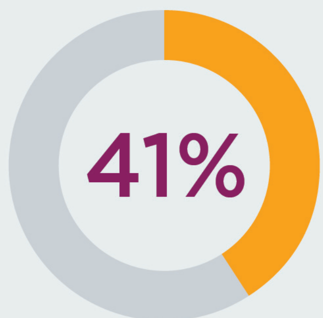
What Differentiates Successful D&I Programs?

Organizations with high-quality D&I programs have several things in common. Specifically, we found that they are far more likely to consistently use three key practices:

1. A systematic process (e.g., strategic talent planning) to identify the quantity and quality of leadership required to drive future business success.
2. Data from assessments and simulations to make leadership hiring and promotion decisions.
3. A senior executive outside of HR to champion leadership and talent strategy.

Additionally, leaders indicate that these practices make a difference in how well their organizations drive inclusion. Leaders said they feel more prepared to foster an inclusive culture and workplace when there is a systematic process for identifying talent and senior management is accountable for the identification and development of high-potential leaders.

Following these leadership best practices not only results in higher-quality D&I programs, but also more successful outcomes. Organizations with high-quality D&I programs were 2X more likely to rate above average in diversity of their leadership bench. They were also 38% more likely to have a high rate of internal hiring success from their leadership pool, showing that these practices not only result in better diversity, but more successful promotions overall.

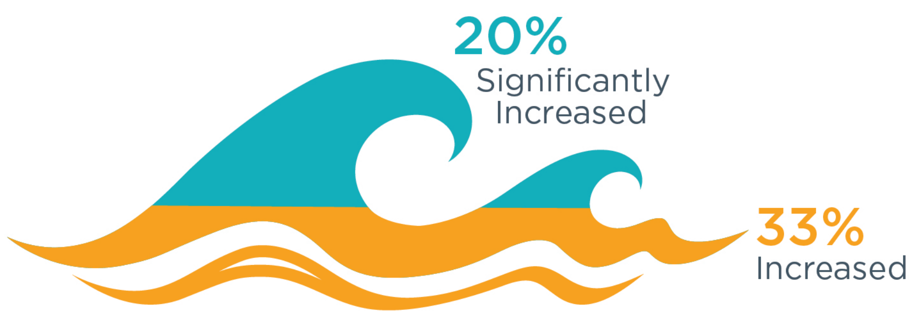


of companies have low-quality or non-existent D&I programs

Treading Water to Keep Up with Turnover

The Rising Tide of Turnover Steals HR's Focus

Turnover on the Rise



More than half of organizations are seeing an increase in turnover.

Quick Reference Guide

The pandemic and its resulting global impact across industries has spurred the "Great Resignation," as millions of workers have resigned and re-evaluated what they want out of work. In fact, between 26%[1] and 40%[2] of workers plan to leave their current job within the next year.

While most HR professionals expect and want a healthy level of turnover to ensure an ongoing match of talent with job needs, many have become alarmed by the amount of turnover they are seeing. As we collected data earlier in the pandemic, only 36% of HR reported that turnover had increased in the past year, with only 8% reporting that it had increased significantly. Thirty-four percent reported that it stayed steady, and 31% said they'd actually seen a decrease.

In a follow-up survey in September 2021, a sample of our HR respondents reported much higher turnover, with 33% saying they'd seen an increase and an additional 20% saying they'd seen a significant increase.

These excessive turnover rates are forcing HR into a difficult and reactive position, focused more on filling empty roles than anticipating talent needs to help their organization meet strategic objectives. As a result, they may become so bogged down in acquisition that they risk not developing the leadership culture that breeds retention. In the focus to fill jobs, they may also overlook loyal employees, creating a revolving door of turnover.

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[1] Prudential Pulse of the American Worker Survey. April 6, 2021. https://news.prudential.com/increasingly-workers-expect-pandemic-workplace-adaptations-to-stick.htm

[2] Microsoft Work Trend Index. March 2021. https://www.microsoft.com/en-us/worklab/work-trend-index

Where to focus

Persevering Through High Turnover

Overall perceptions of leadership quality have an impact on turnover. Specifically, when leadership is perceived as high quality, organizations are more likely to have low turnover compared to organizations with poor perceived leadership quality. Given the impact that leadership has on the day-to-day employee experience, people are more likely to stick with good leadership rather than venture into the unknown.

However, even exceptional leaders may have high turnover on their teams right now because of factors outside of their control, such as higher pay from a competitor or broader industry burnout. In those cases, leaders need to focus on supporting the employees they still have and helping them persevere through the challenges.

In our study, three leadership skills stood out as contributors that help leaders thrive when experiencing high turnover:

- **Delegation and empowerment:** Delegating and empowering are essential when it comes to transferring knowledge to others. Among companies with high turnover, leaders need to ensure that multiple people are capable and empowered to perform multiple roles or tasks, providing a backup of knowledge in the event that another team member leaves.
- **Leading virtually:** While most employees are asking for more flexibility, they also may feel less connectivity and loyalty to their companies when they work entirely remotely. By building managers' virtual leadership skills, leaders have a better shot of building strong relationships that encourage their teams to stay, and a culture of collaboration.
- **Digital acumen:** Leveraging technology effectively can enable leaders to be more efficient in transitioning or completing work, reducing the burden on remaining employees.

These skills can help leaders to be better prepared when turnover increases by enabling them to bounce back more quickly. When leaders are effective in these three areas, they are 2X more likely to be capable of capturing knowledge before it is lost. They are also 3X more likely to have a strong enough bench to fill critical leadership roles as knowledge was shared before it was too late.

When leaders are effective in these three areas, they are

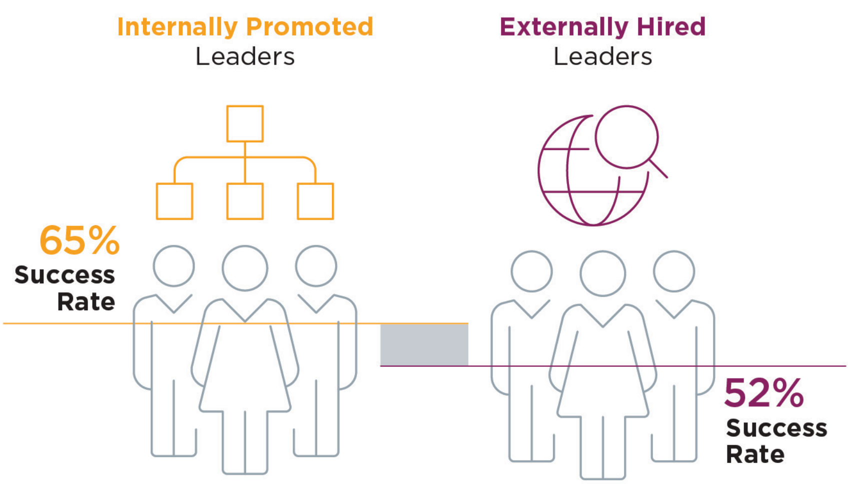
2X more likely to capture knowledge before it is lost

3X more likely to have a strong bench to fill critical leadership roles

The Cost of Letting Leaders Go

HR Struggles to Replace Leaders with External Hires

Success Rates of Leaders Promoted Internally Versus Hired Externally



Quick Reference Guide

Companies are bleeding leadership talent. In the midst of the pandemic, HR respondents in our study said they experienced average overall leader turnover of about 14% in their organization. In a September 2021 survey, HR respondents reported that leadership turnover had increased to 18% on average.

That puts HR in a predicament. Just how badly do they need to retain existing leadership talent? Or can they depend on hiring from the exodus of leaders from other companies?

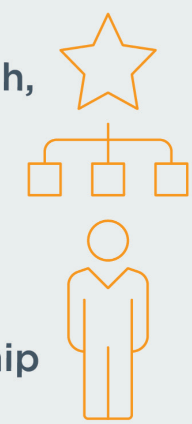
To help answer that question, we looked into the success rates of leaders who are promoted internally versus hired externally. We found that internally hired leaders are successful 65% of the time, compared to 52% of external hires. In other words, internally hired leaders are 25% more likely to be considered successful by HR than those recruited from outside of their organizations.

Beyond individual success, there's also a cumulative effect when companies focus on internal leadership promotions. Specifically, when internal hire success rates are high, organizations are 4.7X more likely to have high overall leadership quality.

When internal hire success rates are high, organizations are

4.7X

more likely to have high overall leadership quality



Where to focus

Boost Leadership Hiring Success

Whether hiring from an internal or external source, companies can increase their likelihood of success for a new leadership hire in several ways.

External Hires. For leaders hired from external sources, it might be difficult to gain familiarity with the culture as it can be challenging to describe in the selection process. However, leveraging a high-quality assessment to better understand how the external candidate approaches work will provide objective data to help understand if the leader will fit well within the organization.

Helping external hires be successful does not end when they sign their offer letters. In fact, the biggest influencers of external hire success occur after they have begun in their new roles. In addition to a successful onboarding experience, leadership development programs can make an impact on external hire success. Specifically, results indicated that the following elements of leadership development programs directly influence external hire success rates:

1. Leadership development programs that begin with a diagnosis of leader strengths and weaknesses.
2. Leaders who regularly review their development plans with their managers.
3. Leaders who have a library or learning system from which they can choose on-demand courses.
4. Leaders' with high-quality development plans. Keeping their development top of mind can help guide leaders who are new to an organization by giving them objective feedback and personalized opportunities to improve.

Internal Hires. One of the advantages of hiring internally is that the candidates are already exposed to the company culture, belief systems, values, and ways of doing things. Internal candidates have had an opportunity to understand if they fit within this environment and if it feels right to them.

However, internal candidates often lack objectivity in their strengths and weaknesses as they receive feedback from the same group of people. In fact, the strongest influencer to internal hire success is to have a leadership development program begin with a diagnosis of strengths and weaknesses. Companies with above-average internal hire success rates leverage assessments 60% of the time, compared to only 48% of the time for those with below-average rates.

Companies with above-average internal hire success rates are

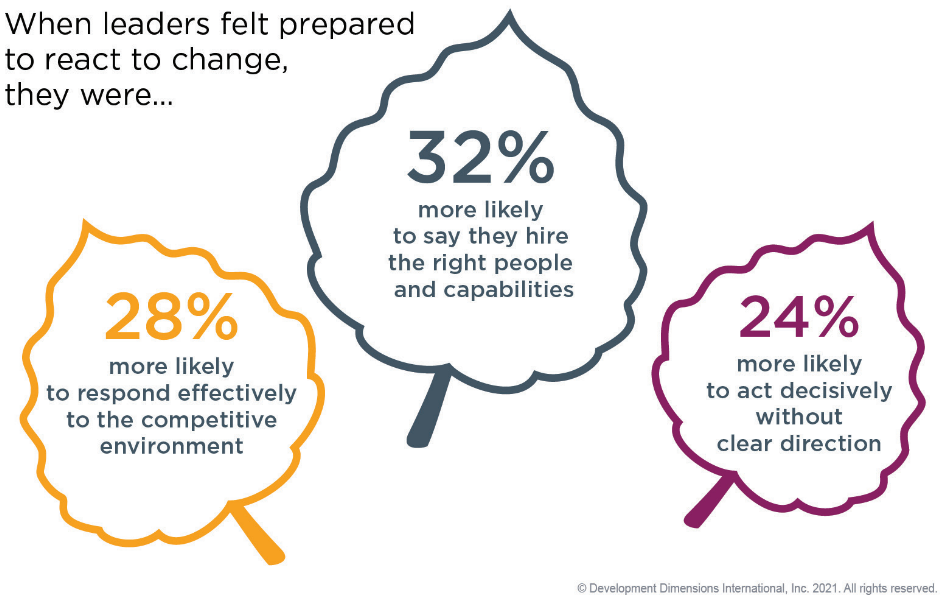
25%

more likely to leverage assessments

Supporting Mergers & Acquisitions

Change Management Can't Be an Afterthought for HR

How Managing Change Helps Leaders



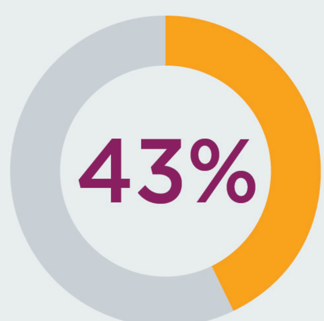
Quick Reference Guide

One strategy to combat a tumultuous economy is to consolidate, leading to higher rates of large-scale changes like mergers and acquisitions (M&A). Among the 1,742 organizations we surveyed, 43% reported undergoing a merger or acquisition within the last three years. And as global M&A activity skyrocketed in late 2020 and the first half of 2021, all expectations point to a continued rise in M&A.[3]

What does this mean for HR? First, they should start preparing now. M&As introduce rapid change and uncertainty in a very short period of time, and can cause massive chaos among employees. While some may see opportunity in the change, others will quickly seek more control over their fate by heading out the door. Though there are many reactions to these types of changes, one thing is certain: how leaders respond to change matters.

Yet, despite the importance of managing change during these uncertain times, less than a quarter (23%) of leaders who underwent a merger or acquisition within the last three years felt very prepared to anticipate and react to the speed of change.

When they did feel prepared, they performed much better. On average, they were 28% more likely to respond effectively to the competitive environment faced by their organization, and 24% more likely to act decisively without clear direction. Perhaps most importantly, they were 32% more likely to say they hire the right people and capabilities into their organization. As a result of their preparation, they were not only more personally effective but served as examples for their team members to do the same.



of organizations went through a merger or acquisition within the last three years

[3] PWC, Global M&A Industry Trends: 2021 Mid-year Update.

Where to focus

Building Capabilities to Manage Change

Managing change effectively rarely comes naturally. Fortunately, leaders can develop this skill through training and experience. When leaders receive training on managing change, their likelihood of being very effective doubles from 25% without training to 50% with training.

When leaders receive training in managing change effectively, they are also 1.5X more likely to take on challenging assignments to cultivate new skills and 1.6X more likely to be very prepared to prevent employee burnout in the pursuit of driving profitable growth. Both of these growth-oriented approaches are critical for success in a merger or acquisition, as many leaders take on new roles and teams.

The benefits also extend to their teams and the company's talent retention strategy. In companies where leaders manage change effectively, average overall turnover rates are 15% lower than in companies where leaders do not.

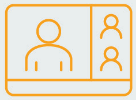
If larger-scale turnover does occur, those in organizations that offer training on managing change are more prepared to overcome challenges associated with it. When training is offered, companies are 1.4X more likely to be very prepared to capture organizational knowledge from those who are leaving before it is lost.

With training on managing change, leaders are more likely to take on new challenges and prepare to flex where their company needs them to. Offering training on managing change may be the difference between a successful and unsuccessful merger or acquisition. HR organizations should audit their programs to make sure quality instruction on managing change is offered.

Leaders' effectiveness at managing change is

25% **without training**

compared to



50% **with training**

Global Leadership Forecast Series

HR Leadership Insights Report

About DDI

DDI is a global leadership consulting firm that helps organizations hire, promote, and develop exceptional leaders. From first-time managers to C-suite executives, DDI is by leaders' sides, supporting them in every critical moment of leadership. Built on five decades of research and experience in the science of leadership, DDI's evidence-based assessment and development solutions enable millions of leaders around the world to succeed, propelling their organizations to new heights.

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