

*The Case for Engaging in Talent and Succession
Management Strategy at UC*

November 2018

Executive Summary

The University of California (UC) system faces economic, political, and social challenges that require a more intentional approach to talent management to maintain organizational readiness for the future. For UC to be successful in recruiting and retaining talent, we must create a cross-system approach to talent and succession management. Systemwide Human Resources, working with Council of University of California Staff Assemblies (CUCSA) and the Human Resources Leadership Collaborative (HRLC), is recommending that leadership at all UC locations take initial steps towards expanding our current strategies for effective talent development and succession management.

Look for Key Skills	<ul style="list-style-type: none">• What are the key skills UC needs today, will need tomorrow?• Which jobs offer opportunities to learn those skills?
Identify Top Talent	<ul style="list-style-type: none">• Which employees have potential and the aspiration to become future leaders at UC?
Assess Current Skill Levels	<ul style="list-style-type: none">• Who needs to develop their skills before they will be ready to move on to meet their future potential?
Plan for the Next Move	<ul style="list-style-type: none">• How can we effectively move people around the organization to develop the skills they will need to lead UC into the future?

Developing our talent and succession management strategy and practices by addressing these questions will help advance UC's overall talent strategy, empowering the university to attract, retain, motivate and develop employees. By ensuring we have the right people with the right skills, supporting a diverse employee population, and encouraging employees to grow and develop, UC sets its sights on a brighter future while building on what makes it great today.

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Section I: Background

The University of California (UC) is one of the preeminent public research universities in the world, attracting top researchers, administrators and professionals from every industry and field of academia. The UC system includes ten campuses, five medical centers and three national labs. It is the third largest employer and fourth largest healthcare delivery system in California.

In 2015, UC developed a Systemwide Human Resources Strategic Plan¹, intended to elevate HR to a more strategic role within the system. As part of this plan, the Systemwide Talent Management office looked at the current state of talent issues at UC. Several areas were assessed, including the extent to which we are preparing future leaders for management, establishing diversity as a key strategic pillar, and providing both tools and systems that prepare the UC system for environmental changes. This led to the Integrated Talent Management approach, with several activities that support attracting, hiring, deploying, developing and retaining the best talent in preparing for the needs of the future. In previous years, a number of UC locations engaged in succession planning and staff development activities as part of local efforts to ensure that development of talent was fostered in order to prepare the University for openings that would arise through expected retirements or attrition.

Most recently, in line with responses to the UC Employee Engagement Survey sponsored by CUCSA, and to best prepare for those future needs, Systemwide Talent Management at UC is working on a Systemwide Talent & Succession Management Strategy. This strategy aims to support each location as they face the unique challenges involved in staying current with rapidly changing workforce trends. Issues range from an increasingly competitive talent market, multigenerational workforce and risk of retirement in key positions. Addressing these issues will lead to a higher performing UC today and will ensure there is a motivated staff prepared to handle the talent challenges on the horizon.

Talent & Succession Management Strategy for the University of California means keeping the organization ready for today while preparing for tomorrow. We do this by ensuring we have the right people with the right skills, supporting a diverse employee population and encouraging employees to grow and develop.

This paper describes the basic elements of a talent and succession management strategy. Not every UC location is at the same stage of developing their local strategy. Not every factor presented in this document will apply to every team, but every team can benefit from taking a more intentional and consistent approach to talent and succession management.

Section II: Business Case & Research

The talent-related challenges facing UC today are complex, rapidly evolving and unique for each campus. Despite the complexity and changing nature of these issues, working to address them is an imperative business problem, as human capital costs represent roughly 70% of operating costs within organizations.

Currently, organizations are facing high levels of competition for talent, which is expected to intensify further². This competition is a particularly difficult problem for UC, as U.S. Bureau of Labor Statistics shows

¹ http://www.ucop.edu/human-resources/_files/hr-strategic-plan-2015.pdf

² <https://hbr.org/2015/09/when-the-competition-is-trying-to-poach-your-top-employee>

California's unemployment rate has dropped to a low of 4.2% as of March 2018, and Indeed's 2018 rankings of the best cities for job seekers includes five cities in California in the top 10 (San Jose, San Francisco, San Diego, Los Angeles, and Sacramento). As recently as 2017, UC's Staff Workforce Profile showed that 17.6% of all separating employees (both voluntary and involuntary) stated that they were leaving UC for other jobs. This number is expected to grow as the baby-boomer generation moves more dramatically into retirement over the next decade. To remain competitive with the external market, UC needs to find ways to retain and engage employees, which increases their likelihood of growing within UC.

Beyond the high competition for talent, local government has impacted UC's talent initiatives in several ways. Rising taxes and the costs of living create financial pressures on employees to look for higher paying jobs. UC is a public institution with a duty to taxpayers to utilize financial resources responsibly. Recently, federal funding changes have resulted in the university decreasing its coverage of healthcare and its overall benefits³. Further, the overall cost of relocating to California⁴ makes attracting talent from out of state difficult. These financial complications create a situation in which UC needs to find alternative incentives to entice candidates to join the UC community, as well as convince current staff to see opportunities for career growth when they stay.

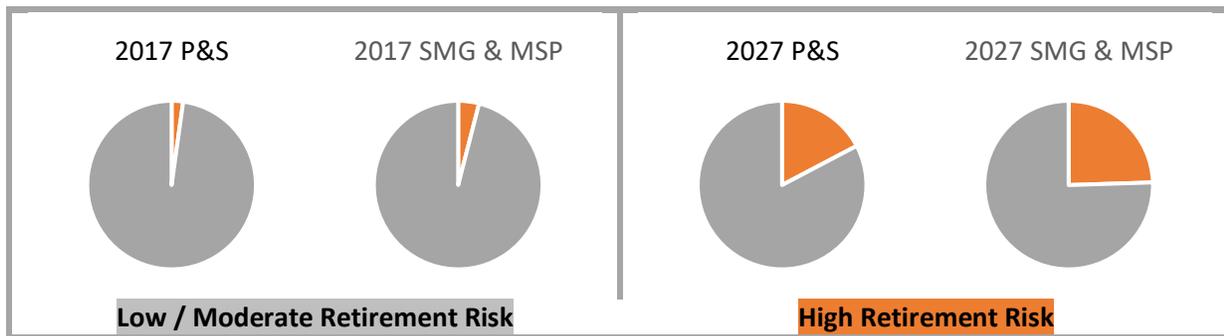
Internally, pressures from the employee base also create the need for more robust talent management initiatives. Turnover at UC had been fairly steady at about 8.8% in the years following the onset of the recession (2010-2014), but has crept up to 9.1% recently (2015-2017). This increase, as well as a 2% increase between the 2015 and 2017 Engagement Surveys in the number of employees responding that they are seriously considering leaving the UC system, gives us reason to believe that this trend could persist for the immediate future. Emerging talent expects career discussions and development to be part of their employment experience.

Moreover, the retirement landscape is of concern to many organizations, and UC is no exception. As of October 2017, 2.2% of Professional & Support Staff and 4% of Senior Management Group & Management Senior Professionals were a high retirement risk (60 years of age or older with 20 or more years of service). Over the next decade, these numbers are expected to increase dramatically as an additional 17.3% of PSS and 24.5% of SMG & MSP will be in the high retirement risk category. This likely increasing turnover and high upcoming retirement risk increase the likelihood of both the loss of institutional knowledge and the cost of replacement to the organization.

³ <https://www.cbpp.org/research/state-budget-and-tax/funding-down-tuition-up>

⁴ <https://www.forbes.com/sites/robertwood/2016/11/21/as-trump-tax-cuts-emerge-high-13-3-california-tax-spells-exodus/#18eb79935696>

Changing Retirement Risk Landscape



With increasing turnover and a likely retirement boom, UC will need to focus on both identifying internal talent to fill these roles and hiring externally. Studies have shown that external hires are more costly than internal hires/transfers, both in terms of hours worked and financial impact^{4,5,6}. The reason for this cost is three-fold. First, there is the cost of an external search; and external hires are typically paid more. Second, external hires typically receive lower performance ratings for the first year or two than internal transfers, suggesting it takes longer for an external hire to get up to speed and learn how to be successful in the UC environment. Finally, new employees are more likely to turn over within the first few years than employees who have already been with the organization.

On top of these three costs, a recent internal study of hiring at UC revealed a unique cost not necessarily encountered by other organizations. Over the past few years, roughly half of UC's total hires have been people who were already internal to the UC system, but who were identified by an external search firm. This means that even though these strong candidates were available and waiting to be found, UC paid external consultants **several million dollars** to find them. During times of economic strain, this cost to identify internal candidates could be better spent elsewhere.

Not all hires can come internally, though. Talent reviews may reveal a lack of current employees who possess an urgently needed skill/capability. If, for example, the manager of a key IT system has a planned retirement and no current staff members are qualified to manage the system, the organization must look outside to identify someone who can step in. If this is identified far enough ahead of time, potential employees could be recruited using development plans as a key differentiator between the organization and competitors. "We have a plan to develop you towards a leadership position," can be a powerful enticement. This planning is also a position in which an organization can be mindful and proactive about the diversity and inclusion implications of personnel decisions.

Employees at UC have felt these problems, as can be seen by the results of the 2017 Employee Engagement Survey. "Career Development" and "Performance Management" were two of the three least favorably rated topics in the survey. Responses in the low 30% favorable range on items within those topics, such as "My campus/location is doing a good job of planning for management succession," and "I

⁵ <https://www.shrm.org/hr-today/news/hr-magazine/pages/010215-hiring.aspx>

⁶ Bidwell, Matthew. "Paying More to Get Less: The Effects of Hiring Versus Internal Mobility". 2011. University of Pennsylvania.

feel my campus/location does a good job matching pay to performance,” clearly indicate that employees would welcome more attention to strategic talent management. These issues likely relate to the 61% of UC employees responding favorably that they are “seriously considering leaving the UC system” at the present time.

All of these external and internal pressures point to a need to focus on identifying and supporting tomorrow’s leaders at all levels and building the plans to provide them with the developmental experiences they need to grow into tomorrow’s leaders. Before UC can plot its course, it needs to identify where it is, where it wants to go and develop a strategy to bridge that gap. It is vital that UC builds a common systemwide approach that is flexible enough to leverage campus differences.

Section III: Systemwide Talent and Succession Management Approach

Organizations with mature talent management practices tend to: create a talent and succession management program that goes deeper than the top levels; define what talent is needed to support their business strategy; accurately identify leadership potential; provide holistic development opportunities; check for promotional readiness with targeted development to fill gaps; and offer transition support when a leader is promoted. Overall, the ideal is to have a plan.

For talent and succession planning to be effective, it is important for an organization to agree on the strategic direction, making sure senior leadership has a clear vision of the organization’s future. As a result, it is key for senior leadership to identify critical managerial positions needed for the future. The next step is to create a coherent, formal process for evaluating internal and external talent. The benefit of an effective talent and succession management plan is that it provides a common language for discussion of talent, potential, development and expectations. It also provides key intelligence on critical roles, the business impact of vacancies, the traits and drivers of people and where the talent gaps are.

Overall, the most effective talent management approaches drive business strategy, address concerns across the entire organization and add value. Talent and succession planning is key to an organization’s ability to sustain success and hire internally. It allows organizations to retain talented employees and save money by hiring internally rather than going through expensive, external headhunters and hiring externally.

On the following pages is the general approach to Talent and Succession Planning designed by UC’s Systemwide Talent Management team:

<i>Step 1: Vision of the Future</i>	Identify the desired outcome state
<i>Step 2: Structure and Key Roles</i>	Identify the key roles and structural details that need focus
<i>Step 3: Competencies for Key Roles</i>	What competencies will be required by the key roles
<i>Step 4: Talent Review</i>	Evaluating the current state of talent
<i>Step 5: Gap Analysis</i>	Identifying the differences between the desired state and current state
<i>Step 6: Gap Resolution</i>	Create and enact an approach to bridge the gap between the desired and current state
<i>Step 7: Sustainability and Successes</i>	Measure and adjust the approach to continue success

Section IV: Benefits of Approach

A strategic approach to identifying, understanding and developing talent is a key competitive advantage as the working world continues to evolve. It helps provide employees with crucial feedback as they develop and see a future with the organization. Participating managers can help their employees and themselves succeed by more effectively utilizing the available talent over the long run. The organization benefits by managing costs and by having potential leaders ready or qualified to assume key roles.

The strategic approach will help with talent and succession management in a variety of ways best viewed through the four stages illustrated below. Even though the process laid out by Systemwide Talent Management is in seven steps, there are four main activities each of which will help address the unique pressures facing UC today. These activities are important for senior level or “mission critical” positions and for positions at all levels of the organization.

Understanding Needs	Understanding Capabilities	Understanding Gaps	Understanding Paths
What capabilities are needed for current/future roles to be successful?	What are the current levels of those capabilities in-house?	What is the difference between the current state and those capabilities needed for future success?	Which talent management processes will move the current state capabilities to the future needs?

Understanding Needs

By understanding the current and future capability needs facing the organization, UC can decide whether the gaps can be filled by training internal talent or by hiring externally. Greater clarity around actually required skills and abilities will lead to more effective hiring decisions. Capabilities identified as most critical to success can be incorporated into the performance system. Employees can receive feedback and pay for performance programs can be based on behaviors that really matter. Strong connections between pay and performance have previously been seen as strong motivators for high performing employees, so long as they agree that what is measured is important.

Understanding Capabilities

Identifying the current capability levels provides a solid base from which to build. Without understanding where things currently stand, an organization cannot accurately plan for the future. Building this understanding provides vital information for the current functioning of the organization, such as whether there are areas where money could be better spent on talent whose capabilities more closely align with the strategic goals of the organization or if talent could be moved to areas where they can more effectively serve the university system. When the current state of skills can be documented or tracked in some way, it helps define potential areas of cross-skilled talent, which represent potential candidates for

transfers. Being able to easily identify these transfers internally will enable greater organizational agility and help protect UC from unnecessary, costly candidate searches.

Understanding Gaps

The difference between the current capabilities of the organization and the future needs takes several forms. First, there is the shifting nature of work, with new and important technical skills developing over time. Second, as longer tenured staff begins to retire, certain critical institutional knowledge may go with them if it is not documented beforehand. Therefore, for the long-term good of the organization, it is imperative that we identify where these gaps exist today and where they will be in the near future. Similar to understanding the needs, the gaps play a key role in managing financial concerns, as well as those of the employees. These gaps between current capability and needed skill levels represent the urgency involved in finding a solution. The bigger the gap and shorter the period allowable, the more urgent it is to hire externally. A smaller gap or longer-term focus may allow current staff to undergo training to address this gap. Is there currently enough of a capability in-house, enough that can easily be trained, or does it need to be brought in externally? A best practice for organizations today is to develop a “build, buy or borrow” strategy to meet current and future organizational needs.

Understanding Paths

The road from here to there represents the most strategic element of the four stages and the highest level of work. While the needs and gaps generally represent financial and people gains, the paths represent the most risk mitigation. Strategic planning is important in order to build the capabilities needed for success tomorrow, and ensure the current state stays in place. A strategic eye towards moving employees laterally, diagonally and vertically between roles can help them learn and grow in ways that will be needed for the future, and puts everyone in the best position for success. A comprehensive people strategy ensures stability and readiness for an organization’s future. This approach can also be an effective attraction and retention tool for employees. When employees know that the organization sees important roles for them in the future, they are less likely to seek alternative employment options. Therefore, by creating plans to start developing the workforce of tomorrow, and to help employees see a future for themselves at the organization, strategic pathing is a crucial part of the talent planning formula.

*Real Results in Practice*⁷

Harvard Business Review recently published two examples of effective talent and succession management initiatives at very different companies: Company A in Japan and Company B in the United States. Company A manages succession from a centralized top-down perspective, while Company B takes a decentralized bottom-up approach. Common across both cases was a rigorous attention to what capabilities were needed for the company to succeed, along with an assessment of the current capabilities of employees.

Company A wanted to ensure a strong internal leadership pipeline, viewing leaders that grew up in the company culture as a strategic advantage. They started a rotational program to spread the developmental experiences around the high potential talent pool, ensuring that the next generation of leaders would have those skills and experiences seen as important. Potential leaders are considered to be “owned” by the HR department, and are then shared with various departments around the company to work on strategic initiatives as a way to provide them key developmental experiences for growth. These

⁷ HBR: Turning Potential: The Missing Link in Leadership

experiences are constantly tweaked to make sure they align with future business concerns. Thanks in part to this approach, Company A has grown to the sixth highest valued Japanese company across all sectors.

Company B was faced with an established talent and succession management program that was no longer doing what they wanted it to, identifying internal talent that could be developed into future leaders. With an eye towards the future, Company B trained its line managers in how to spot potential stars early on. In their new process, HR leaders and line managers have conversations about these employees, as well as discuss business needs, critical roles, and potential successors, which then get reported up to the executive committee. This awareness creates an environment where managers are able to move employees into situations that are not only important to the company, but also for the employee's development. In 2016, 95% of top openings were filled internally based on this revised talent identification and development process, a great improvement.

Companies A and B took different approaches toward talent identification, retention, and development, but both were successful. Understanding the strengths of both approaches here is critical. Company A allowed its employees the opportunity to demonstrate and hone their leadership skills, encouraging promising talent that they have a chance to prove themselves and move forward in their career with the organization. Company B, on the other hand, developed a language around preemptively highlighting high potential and skilled individuals, taking much of the strain away from identifying such candidates during the hiring process. Both approaches effectively increased important factors like employee dedication, while reducing the costs associated with finding and hiring talent. A strategic focus on talent and succession management, as seen in these two examples, can provide great dividends in the long run.

Section V: Critical Role Examples

Currently at UC, there are wide differences in Talent and Succession Management practices. Some work groups are more effectively managing their future risks and needs than others, and this is normal. Our goal for the next few years is to reduce this variation, and make the practice more consistent. This means that all work groups should be thinking about succession management, but not that every group needs to do the same things. The three different Critical Role examples below demonstrate how a talent and succession management strategy at UC could improve talent retention and decrease recruiting costs.

Ex. Role One: A high turnover but critical position

Development Officers are crucial to the financial well-being of the university system by building relationships with donors and bringing funding into the organization to support achievement of the institutional mission. Unfortunately, because of high demand across the nation for experienced and successful fund-raisers, the market has become increasingly competitive and a high turnover rate has been experienced at many UC campuses.

Management of this function could consider a future-focused perspective on what engages a person who enters into this kind of role, how the role may be changing, and what skills are required now and in the future. This could then be used to create a competency model to guide future hiring, and restructure the position to help engage people and increase retention. For example, they may find that Development Officers enjoy the relationship building aspects of the work, but that the financial pressures are draining.

They may then choose to restructure the work or the timing of work to allow Development Officers time to rotate out of the pressures at different times. A temporary rotation to other roles, perhaps to a function that allows them to see the impact of the work they do, may help retain officers longer, while still maintaining relationships and reducing costs associated with turnover.

Ex. Role Two: High potential talent leaving over rewards

Technology is an area at UC that is full of great potential. Recently, employees in the Technology Transfer Group have been very difficult to retain, due to the high level of competition for technology talent throughout the nation. Because of restrictions on compensation within the UC system, these employees find that they can seek greater opportunity in private industry.

Recognizing this problem, management could choose a two-step approach to reinvigorate and retain these employees. First, their succession and development plan could begin much earlier, targeting talented students within the UC system for potential jobs at graduation. Qualified students who are interested could be hired into a rotational program, where they would have opportunities to experience various Technology Transfer Group functions, while helping to maintain the staffing numbers. Second, for current staff in this function, in recognition that promotions and rewards may not come as quickly as they would in private industry, a more differentiated incentive-based compensation structure could be used, rewarding the retention targets with the highest potential for their efforts based on the valuable contributions they have made.

Ex. Role Three: Talent in extremely high demand

Across the country, nurses are in high demand. After the nursing shortage crisis in the 1990s and early 2000s, nursing degree programs were expanded to meet demand. However, once finishing formal education, newly graduated nurses require extensive on-the-job training before they can practice independently. There is a large cost to taking on new graduate nurses given the personnel needed to orient and train them. In addition, given the tertiary/quaternary focus of the UC health systems, our patients are very sick and require intense nursing care. Ironically, there is tremendous demand from new graduates to work in the UC system; however, we lack the bandwidth to effectively train as many new nurses as we need. In partnership with Talent Acquisition, Nursing Management and Nursing Education, a business case could be made to justify the expense of expanded support in order to take on more new graduates for short term staffing needs and developing an experienced nursing workforce for the future.

Given the limitations on new graduate hiring, it is in UC's best interest to retain experienced nurses as long as possible, both to reduce turnover costs and to retain the experienced nurses to train new nurses. Several UC locations have only 12-hour shifts, which can be challenging for this population. Nursing management should explore options on shift length to retain talent.

There is significant salary compression between staff nurses and nurse managers. There is also a perception that the work of the manager is challenging. Therefore, it is difficult to get staff nurses to apply for management roles. Efforts should be made to look at compensation, but also explore what the barriers are for staff nurses in order to encourage their development and advancement.

Recognizing these difficult circumstances, increased succession and talent management is crucial to ensure the long-term effectiveness of the organization. The key is to identify critical positions, explore what skills and competencies they require, and what the applicant pool needs. The key is to identify solutions to today's issues while preparing for tomorrow's needs.

Section VI: Conclusion and Next Steps

At UC, talent and succession management needs to be flexible enough to account for the unique differences across the system. Rather than a “one size fits all” approach, what we recommend is a “pick your flavor.” There is no single right way to do the organizational readiness exercises. It is critical for organizational leadership to be engaged in the process, rather than viewing the process as an HR initiative.

What needs to happen, then, is for the managers and senior leaders across UC to invest the time and energy to start these processes. The call to action is for managers in the UC system to look at their staff – including themselves-- and think about how the various sets of knowledge/skills/abilities are benefitting their work today and how these will be needed tomorrow. What capabilities do those employees need to work on, and what might be effective ways to help them succeed? If the managers can think about what it would take for their employees to be able to take on a higher-level role, and what roles they may be able to take on, the organization would benefit from improved morale and enhanced planning for the future. Then, take that information and discuss it with the next manager up the chain. The more these conversations are held within the organization, the more strategic the talent and succession management practices will become.

We also encourage the continued sharing of best practices across the UC system. In conjunction with the HRLC, a common framework for a talent and succession management review is being prepared. This model will be instituted at UC to help guide conversations. The HRLC workgroup is identifying tools, training opportunities, and resources such as an advisory council to support a renewed focus on talent and succession management. For us to remain competitive and retain our top talent, it is important to recognize that we must act now to help develop, support and engage a workforce that is prepared to face tomorrow’s challenges. Initiating such discussions locally and systemwide can go a long way towards protecting the excellence of the university system into the future.