Addressing the Recruitment and Retention Challenges of Today's Small and Mid-Sized Organizations

How to attract and retain talented employees

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Executive Summary

Effective talent management remains elusive for many organizations as they struggle with retaining employees, finding qualified job candidates and using talent management technology. Talent management challenges facing smaller organizations can differ from those of large and enterprise employers. Therefore, we have taken a two-pronged approach to our research. This report delivers our findings based on the survey responses from participants working in organizations with 999 or fewer employees.

Below is a quick overview of some of the findings:

- **Most employers struggle to attract the right talent**, with 55% saying that candidate attraction is an issue at their organization.

- **Keeping talent is also a challenge**, with 55% saying that "retention is an issue" at their organizations.

- **Retention problems are particularly acute for entry-level workers**: over two thirds (68%) say that keeping employees at that level is their most difficult retention challenge.

- **Retention problems may be one key reason most hiring is done externally**: only a quarter of respondents say that 50% or more of their hiring is "done internally."

- **Building an attractive employer brand can be difficult**: only about half (52%) say their employer brands are attractive "to all generations," with 45% saying their brand is not attractive and 3% saying they do not understand the meaning of employer brand.

- **Mentoring and succession planning programs are not widely adopted**, but for those organizations with such programs in place, employee retention challenges appear less daunting.

- **Relatively few have talent management systems**, with just a third (34%) saying they do. However, such systems are more common among participants in larger companies. Even when such systems are adopted, though, the technology has not been used long.

- **Hiring continues at every level of most of these organizations**, from entry-level right up to C-level employees.

About the Survey

The *Best-in-Class Talent Management for Under 1,000 Employees* survey of HR professionals ran from November 2016 to January 2017. Partnering with ClearCompany, HR.com gathered responses from 344 HR professionals working in organizations with 999 or fewer employees. The participants came from virtually every industry vertical. Most of the participants work in US-based companies (55%), with the remaining participants coming from a cross section of global and North American organizations.

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Most Organizations Struggle to Attract and Retain Talented Employees

Finding One: Finding the right talent for their organization is a challenge for over half of participants.

We asked participants if attracting candidates was an issue. As the graph below illustrates, the answer is that it is indeed a challenge for about half, with only a little more than a third saying it wasn't. The large discrepancy between the "yes" and "no" responses indicates that being a smaller company is no guarantee that it will be easy to attract the right people. Smaller organizations may not need as many employees as their corporate counterparts, but the proportional recruiting challenges remain high.

**Survey Question:** Would you say candidate attraction is an issue at your company?

12%

36%

52%

- YES
- NO
- I DON'T KNOW
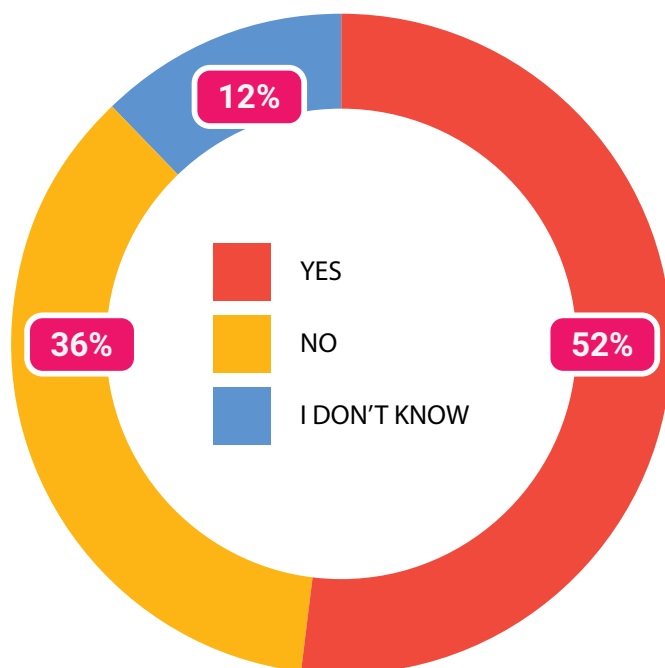
Smaller companies do not necessarily have small recruitment challenges

Finding Two: Retention, particularly for entry level jobs, remains challenging
for most of the organizations with under 1,000 employees.

Getting the right person or employee in the right job is the first step in effective
talent management practices. Once you have a great employee, you want to make
sure you keep them, especially if attracting them in the first place is difficult.
These survey findings are another indicator that today's labor market is tightening.
They also imply that many organizations need to improve their employee retention
strategies.

Survey Question: It's not always easy to retain talent — is retention an issue
at your company?

3%

42%

55%

YES

NO

I DON'T KNOW
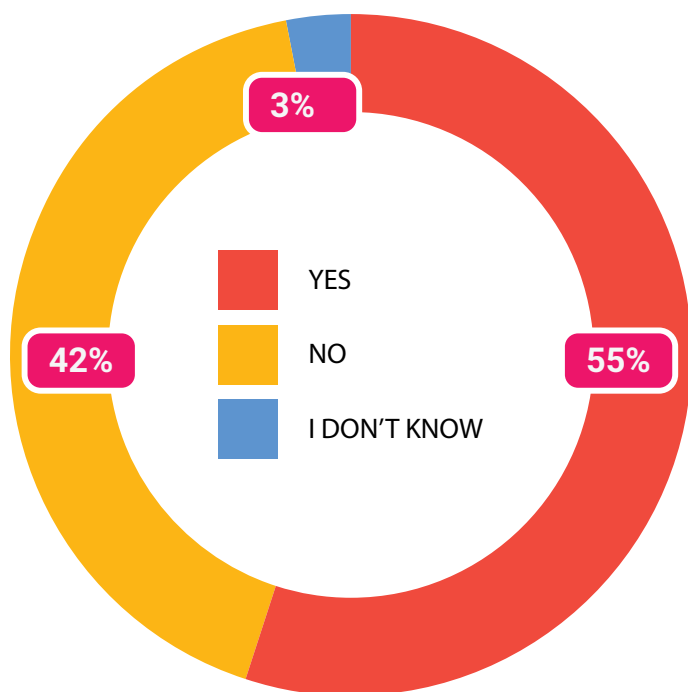
**As with
recruitment,
retention is
often an issue**

But where are organizations suffering the most retention pain? Judging from the
survey results, the answer is clearly in the area of entry-level jobs. Since these
jobs tend to be compensated at lower levels, greater churn rates among them
is understandable. And if recruiting such employees is difficult, as some of the
survey data implies, then this becomes an ongoing and circular problem.

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Survey Question: At what level do you find employee retention the most difficult?

- ENTRY LEVEL — 68%
- MANAGER — 26%
- DIRECTOR — 4%
- C-SUITE — 2%

(0% 10% 20% 30% 40% 50% 60% 70% 80%)
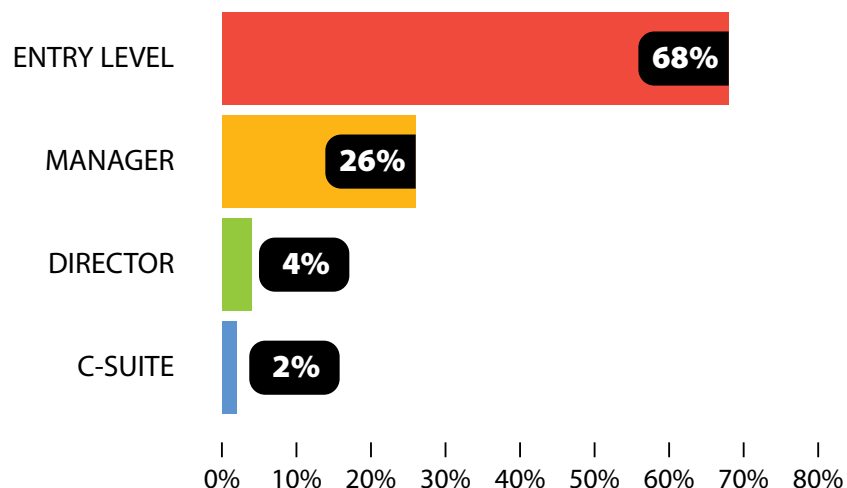
The retention of entry-level employees is especially problematic

The costs associated with turnover can be very high indeed, and it's a cost that rises in tandem with salaries. One study from the Society for Human Resource Management indicates that employers tend to spend six to nine months of an employee's salary in order to recruit and train their replacement. Another study suggests that the cost of losing an employee ranges anywhere from 16% of compensation for hourly, unsalaried employees, to 213% of salary for a highly skilled position.

Although the survey responses indicate relatively few of our participants identify the recruitment of C-suite employees as their organization's primary challenge, even one such lost executive can be very costly when looked at in terms of the proportion of a salary.

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Employer Branding Is a Problem for Many

Finding Three: Nearly half of participants suggest their organizations have problems with their employer brands, and this might be exacerbating recruitment problems.

When we asked our panel of HR practitioners if their employer brand is attractive to all generations, about half answered in the affirmative. The rest (48%) either said their brands were not attractive to all generations or that they didn't understand the concept of employer brand. Since about half of respondents view the attraction of candidates as an issue and nearly half suggest their branding could be improved, there may well be a connection between these two findings.

Survey Question: Would you say your employer brand is attractive to all generations?

3%

YES

NO

WHAT'S AN
EMPLOYER BRAND?

45%

52%
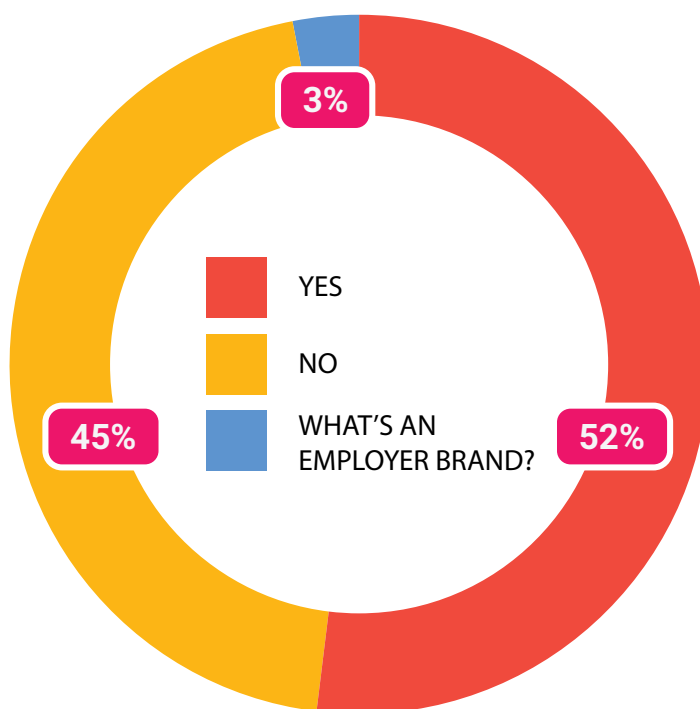
Employer brands may play a role in recruitment and retention problems

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Mentoring and Succession Planning Programs Are Associated with Fewer Retention Issues

Finding Four: Mentoring and succession planning are not widely adopted.

Only about two fifths of respondents said their organizations have a succession plan in place, and an even smaller proportion have mentoring programs.

Of course, neither practice is new. Mentoring has been a standard part of the broader talent management and development vocabulary since businesses first emerged. It even has roots in antiquity, e.g., Socrates and Plato. Meanwhile, succession planning has been deemed a talent management best practice since at least 1990[1], and its origins can be traced to the early 1970s.

Both programs are associated with leadership development and learning, and both have been associated with increased employee retention. The U.S. Office of Personnel Management, for example, reports that "mentoring has been found to influence employee retention because it helps establish an organizational culture that is attractive to the top talent clamoring for growth opportunities."

As for succession planning, some research links it to the retention of high potentials and even top executives. One analysis of succession planning, for example, found that "firms with succession plans are less likely to experience a forced CEO turnover, more likely to pick an insider successor, and less likely to appoint an interim CEO….These statistics provide some preliminary evidence that the presence of a succession plan may have important consequences for the nature of CEO turnovers."

1 See "Effective Succession Planning, Ensuring Leadership Continuity and Promoting Talent from Within," by William J. Rothwell, American Management Association, 2009.
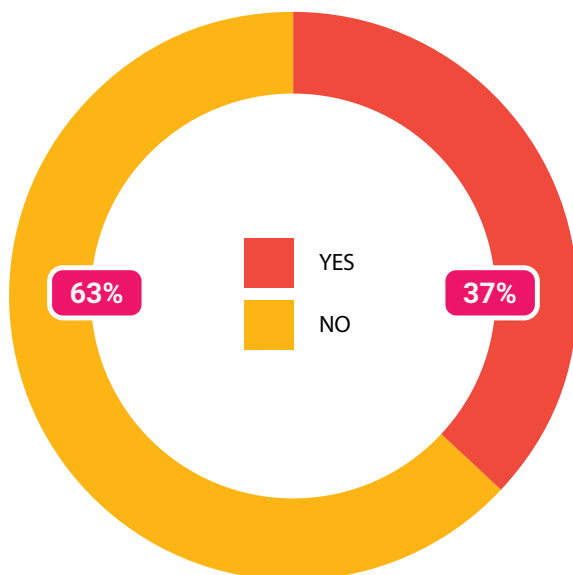
Survey Question: Do you have a succession plan in place?

YES
NO
I DON'T KNOW

3%
54%
43%
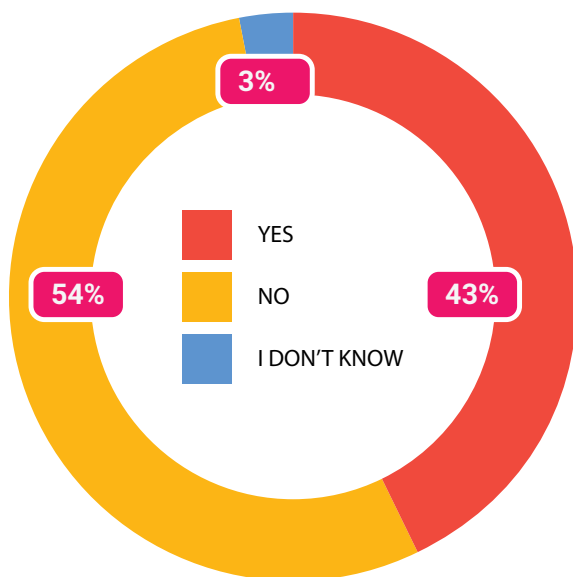
Most participants say their organizations do not have succession plans in place

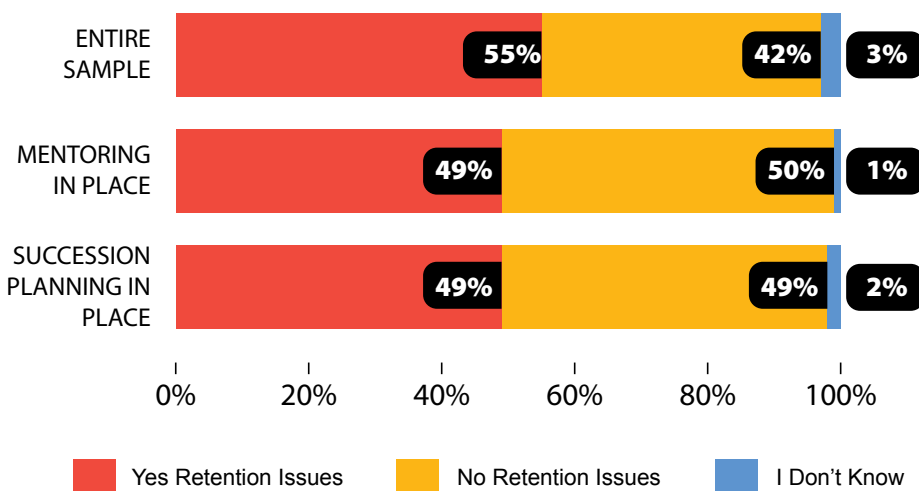**Survey Question:** Do you have a mentorship program in place?

YES
NO

63%
37%

A little more than a third of participants say they have a mentorship program

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Finding Five: The use of mentoring and succession planning appears to be related to retention issues.

Our research also suggests that organizations using these practices tend to have fewer employee retention problems. When organizations use mentoring, the percentage of survey participants who say that they have "retention issues" drops by six percentage points, and the percentage who say they do not have such issues increases by eight percentage points.

Similar findings are apparent with the succession planning data. Generally speaking, having a succession planning program is associated with having fewer retention issues. We must be careful not to over-interpret the data. We cannot say that these programs drive retention, but the data does support the idea of possible relationships.

Succession Planning and Mentoring Programs in Relation to Employee Retention

|	Yes Retention Issues	No Retention Issues	I Don't Know
ENTIRE SAMPLE	55%	42%	3%
MENTORING IN PLACE	49%	50%	1%
SUCCESSION PLANNING IN PLACE	49%	49%	2%

These two types of programs may help organizations retain workers

Talent Management Systems Are Not Widespread and Usage Is Linked to Organization Size

Finding Six: Despite the proliferation of talent management systems available to organizations, two-thirds of the participating organizations do not use one.

There are over 180 talent management applications on today's HR technology market. Additionally, many of the traditional HRIS systems now include talent management elements or modules. In other words, there is no shortage of options for organizations looking for a technology-based solution to their talent management challenges. Many of these solutions specifically target the audience for this survey – organizations with fewer than 1,000 employees. So, the low adoption rate (34%) of this technology among our survey participants is interesting.

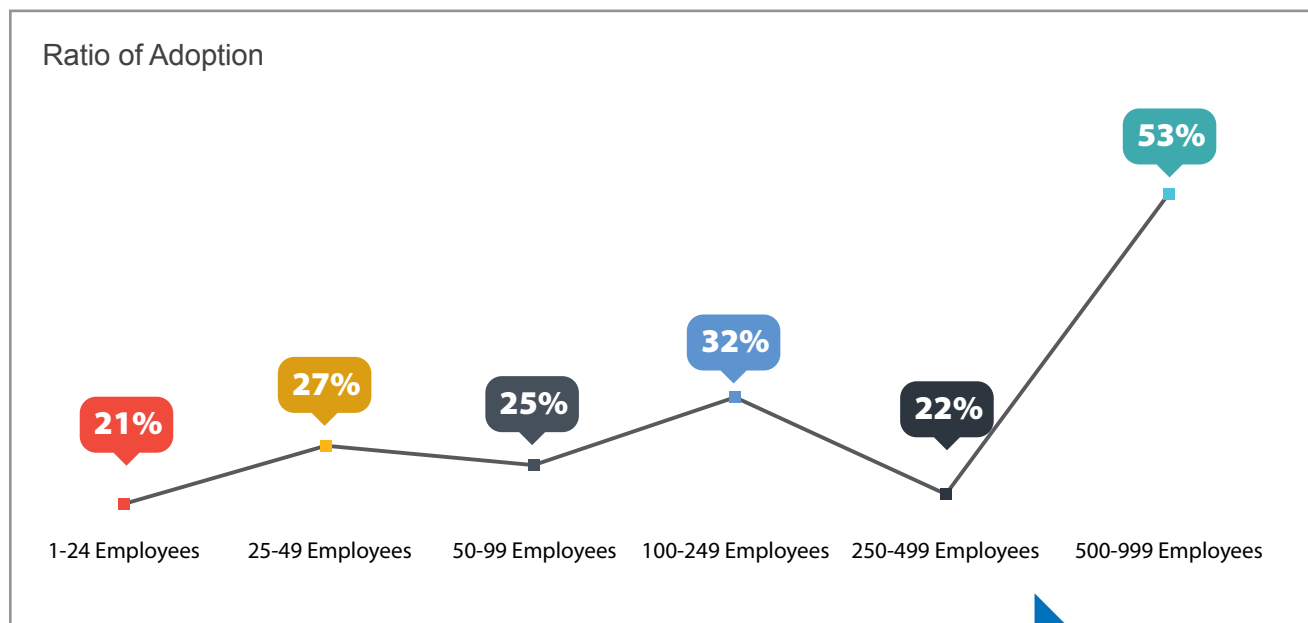**Survey Question:** Do you currently have a Talent Management System?

66%

34%

YES

NO
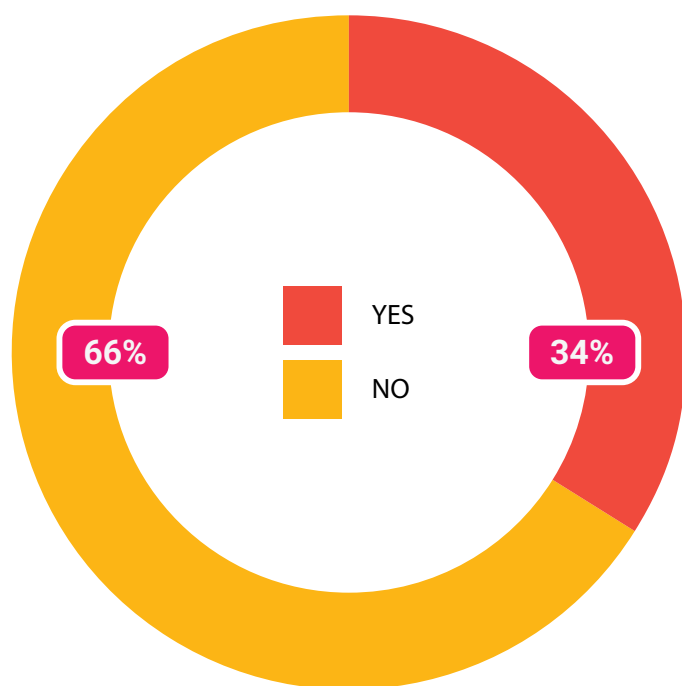
> **Most participants say their organizations do not have a talent management system**

Does size of company make a difference? The rate of adoption is fairly even by organization size until we view the largest cohort of employers in the survey sample—those with 500–999 employees. At this size, a slight majority use talent management systems, which represent a big jump from the one-third level of adoption for the entire survey.

There are a range of likely explanations for the discrepancy, from budget and resources to complexity of talent management issues for organizations with more than 500 employees.

Ratio of Adoption

| 21% | 27% | 25% | 32% | 22% | 53% |
| 1-24 Employees | 25-49 Employees | 50-99 Employees | 100-249 Employees | 250-499 Employees | 500-999 Employees |

Another element of the adoption of talent management systems is the maturity of the system's usage within our survey sample. The responses to this question reveal a market that is not very mature. Nearly two-thirds of the participating organizations have used a talent management system for four years or less.

It's possible that many smaller companies could improve their ability to manage talent though the adoption of an appropriate talent management system. The vendors in this space may have opportunities to expand among smaller businesses as well as to educate their relatively inexperienced current clients on the best practices in using technology to deliver results.

Size does make a difference when it comes to the adoption of talent management systems

Survey Question: How long have you had a Talent Management System?

0 to 4 Years

5 to 10 Years

38%

62%
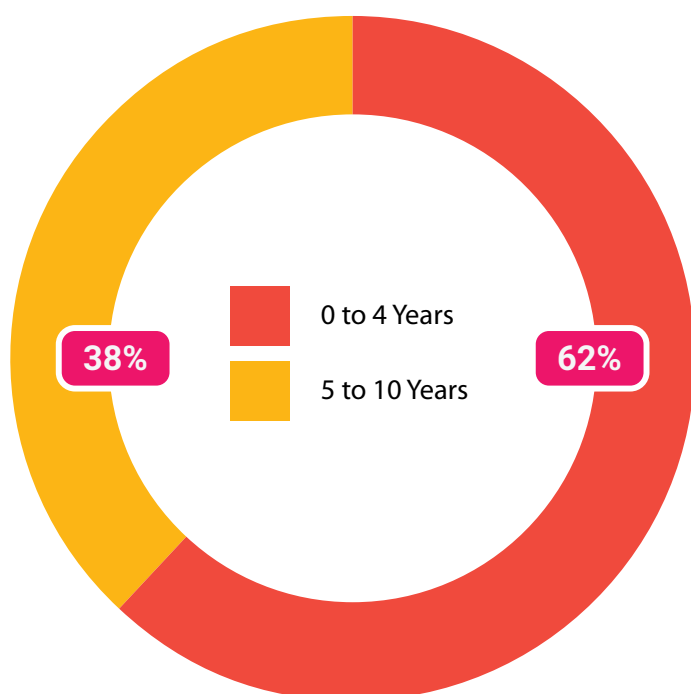
Even among the minority that have a talent management system, most have acquired their systems sometime in the last four years
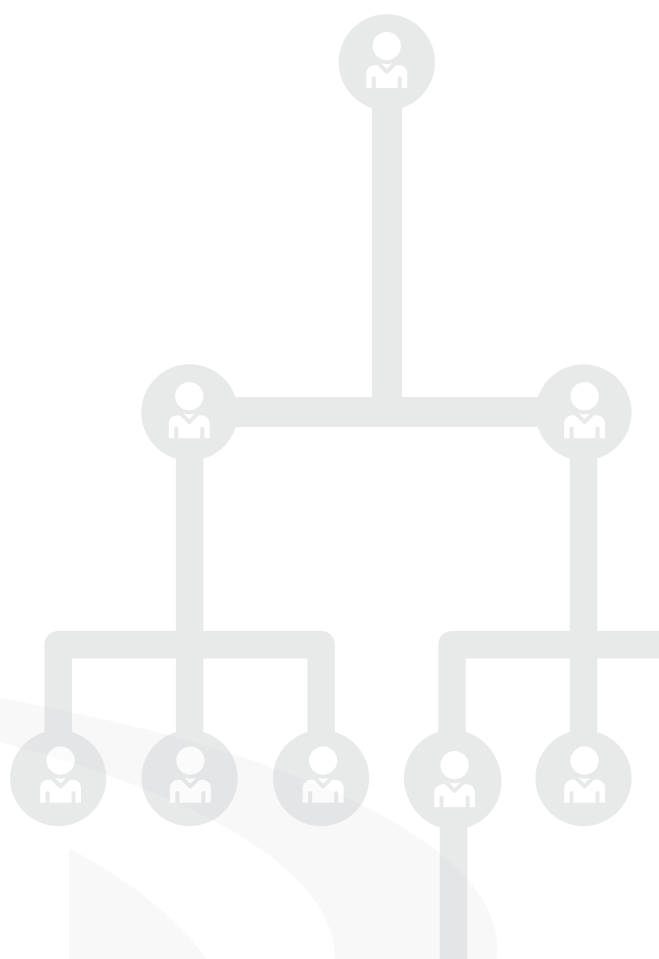
Most Hiring Is External and There's a Shortage of Real-Time Feedback Internally

Finding Seven: Most organizations do most of their hiring externally.

Only about a quarter of the participants' organizations make half or more of their hires internally, which means that most respondents work in companies where most of the hiring is external.

There are many factors that can influence these decisions, but the broader management literature does suggest benefits to hiring internally. Current employees already understand your culture, business and industry. This "native" knowledge can help substantially shorten the learning curve, thereby leading to a fully productive "new" hire more quickly. Additionally, you already know your current employees. When a highly talented and engaged employee wants to move to a new internal role and is successful, other employees may recognize the reality that your organization offers a long-term career development opportunity for them, too.

Survey Question: What percentage of your hiring is done internally each year?

Category	Value
50%	24%
40-49%	8%
30-39%	5%
20-29%	13%
10-19%	16%
0-9%	34%

(x-axis: 0% 20% 40% 60% 80% 100%)
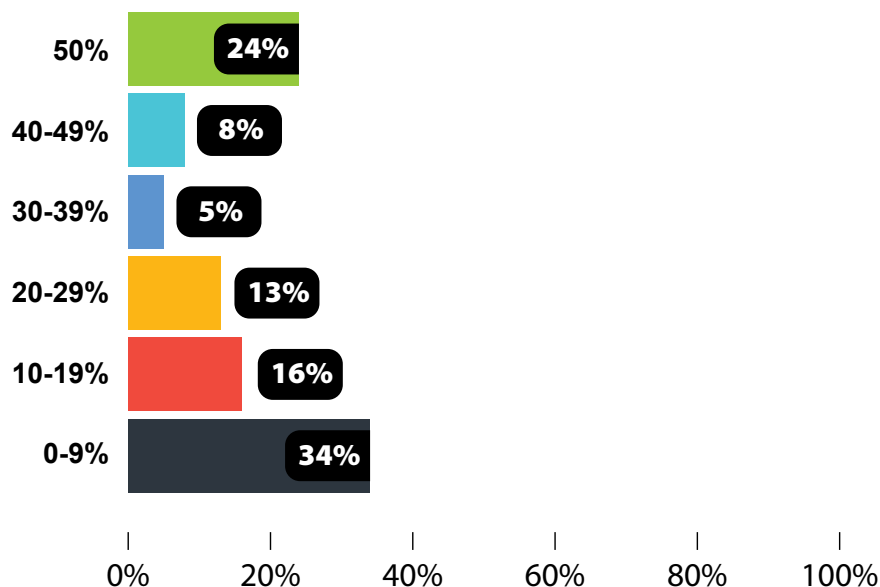
> **About a quarter of respondents hire half or more of their employees internally**

Finding Eight: Slightly more than half of the participants indicate they have programs for "real-time" feedback.

The emergence of "real-time" feedback as a best practice in talent management has been a long time coming. For years, HR practitioners have wrestled with the fact that annual performance reviews too often demotivate employees. In response, more companies are adopting real-time feedback methods and systems into their performance management systems.
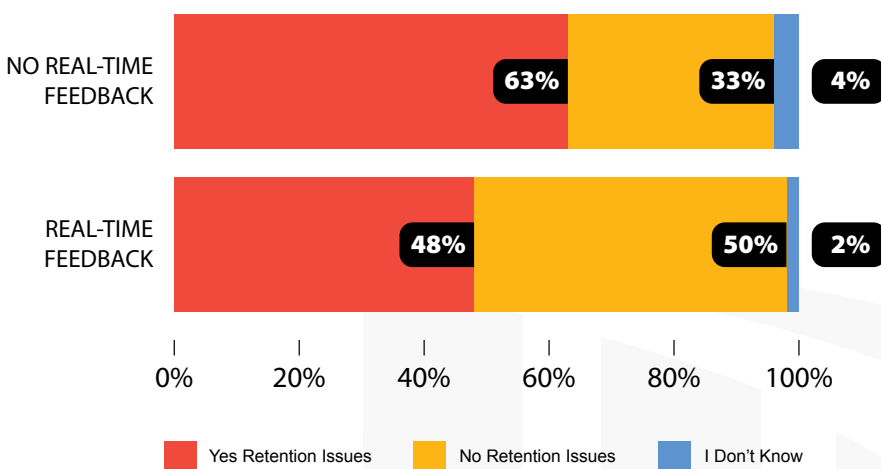
Survey Question: Does your organization have a plan/strategy for delivering employees real-time feedback?

NO

WHAT IS REAL-TIME FEEDBACK?

YES

51%

46%

3%
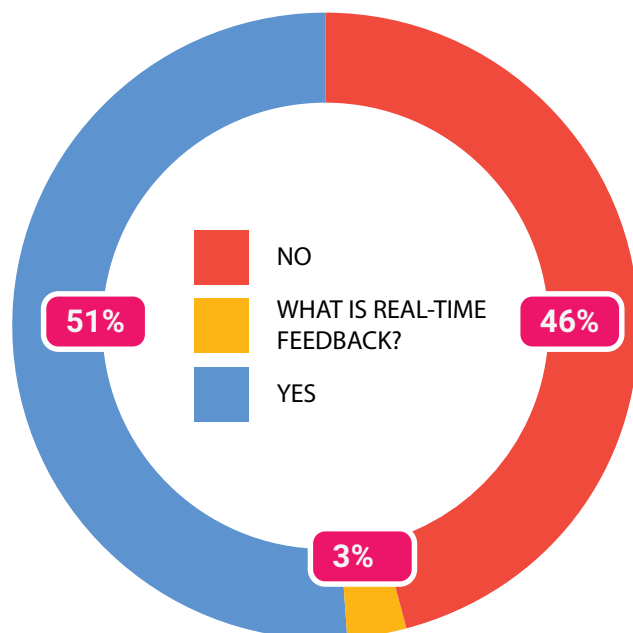
Many organization still fail to use real-time feedback

Much like the responses about mentoring and succession planning, having a system for delivering real-time feedback is associated with fewer retention issues. Whereas 50% of respondents who say their organizations use real-time feedback do not have retention issues, the same is true for only 33% of respondents that fail to use such feedback. This is a 17 percentage point difference. While it would be a mistake to read too much into this data, it does raise the possibility that organizations that are more focused on these types of talent management initiatives are benefiting in terms of employee retention.

Real-time Feedback Appears to Influence Employee Retention Issues

NO REAL-TIME FEEDBACK: 63% | 33% | 4%

REAL-TIME FEEDBACK: 48% | 50% | 2%

0% 20% 40% 60% 80% 100%

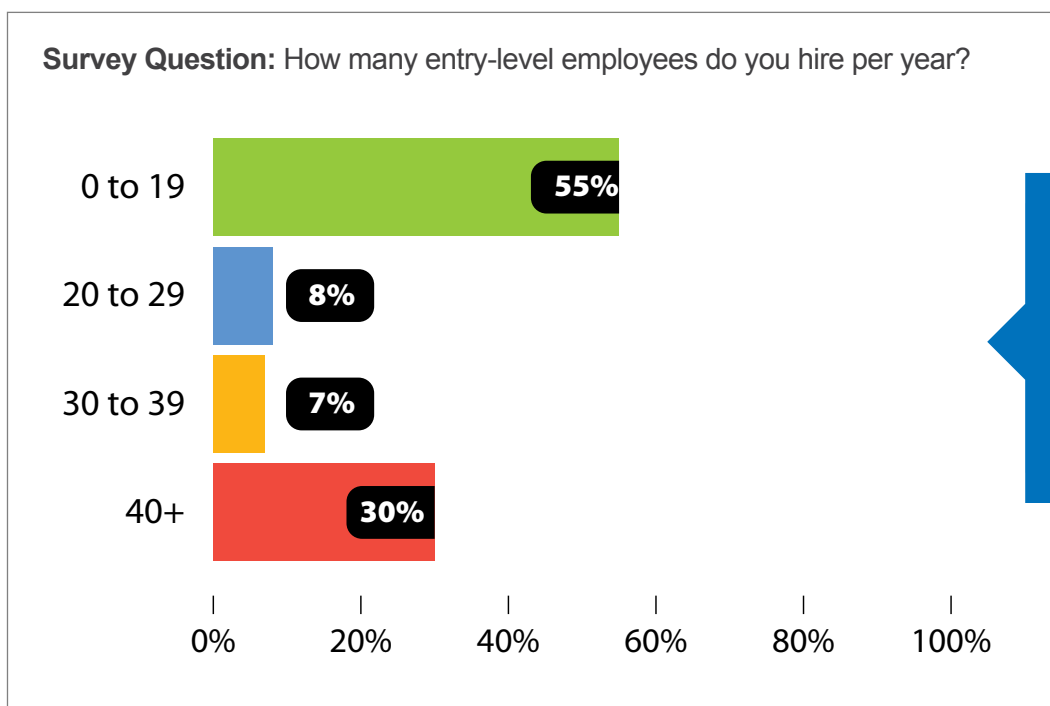Yes Retention Issues   No Retention Issues   I Don't Know

Organizations using real-time feedback are less likely to report retention issues

There's Been Substantial Hiring Among Small and Medium-Sized Organizations in Recent Years

Finding Nine: Hiring over the last year focused primarily on entry level and manager level employees; however a substantial number of participants hired multiple C-suite employees, too.
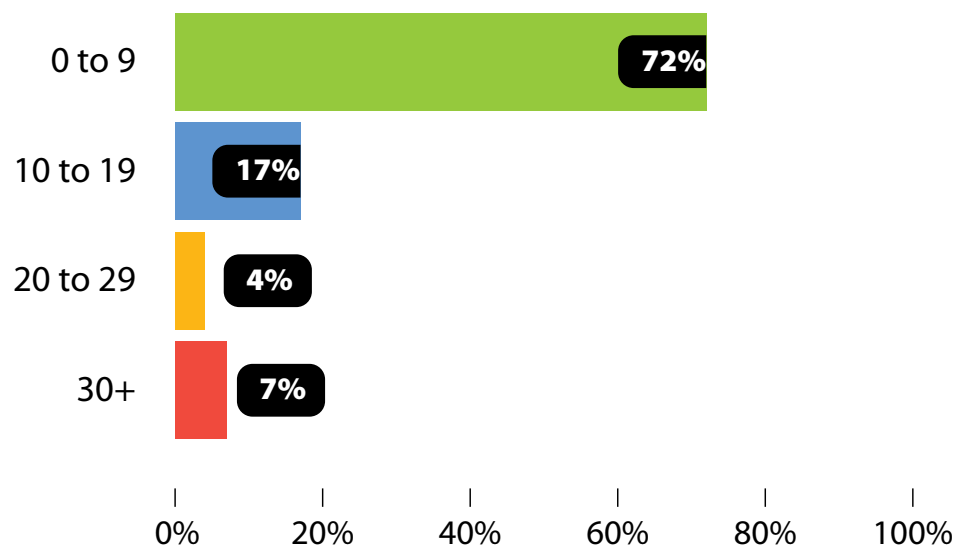
Most job growth in the U.S. economy over the last several years has been due to hiring by small and mid-sized companies, reports _Forbes_, citing data from the U.S. Small Business Administration. These are the types of organizations we surveyed.

To gain greater clarity into the hiring process, we inquired about the number of hires at the entry and managerial levels. The following graphs illustrate the reality that smaller businesses are adding jobs at a solid rate, and the people being hired are not just entry-level employees.

Survey Question: How many entry-level employees do you hire per year?

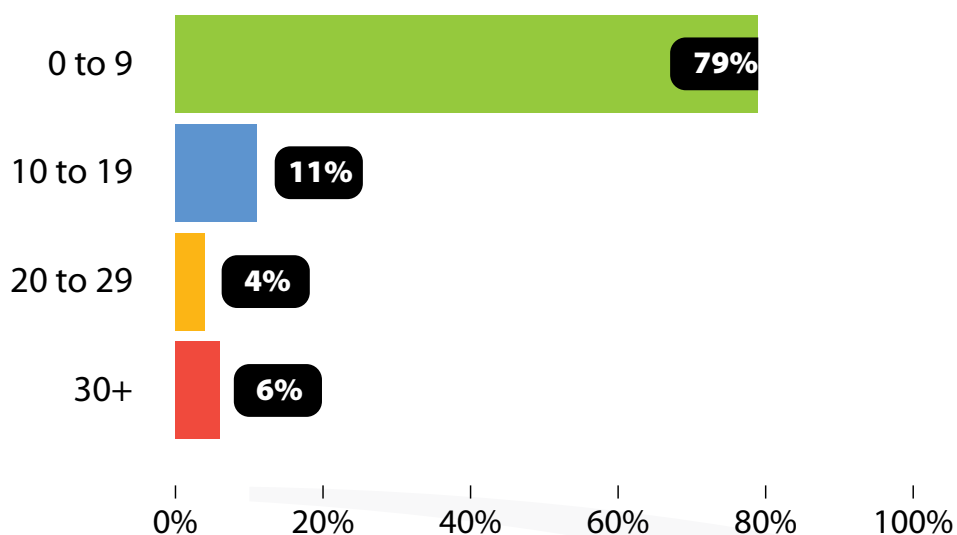| Category	Percentage
0 to 19	55%
20 to 29	8%
30 to 39	7%
40+	30%

Most organizations make multiple hires at the entry and managerial levels each year

Survey Question: How many manager-level employees do you hire per year?

Category	Percentage
0 to 9	72%
10 to 19	17%
20 to 29	4%
30+	7%

(Bar chart x-axis: 0% — 20% — 40% — 60% — 80% — 100%)

Survey Question: How many C-level employees do you hire per year outside of your company?

Category	Percentage
0 to 9	79%
10 to 19	11%
20 to 29	4%
30+	6%

(Bar chart x-axis: 0% — 20% — 40% — 60% — 80% — 100%)

Key Takeaways

- **Examine and, if necessary, burnish your employer brand**. Making sure your brand is attractive can help attract high-quality candidates for open jobs, and it may also aid retention. Employer branding requires a consistent effort to communicate and demonstrate the value of your organization. You can accomplish this with newsletters, a website, an intranet, social media presence, discussion boards and a variety of other activities to boost employee morale and create a sense of community within your organization.

- **Conduct a needs assessment in regard to talent management systems**. Such technology tools and applications could help reduce the administrative burden associated with workforce management, especially among growing organizations. Organizations that have not been using their systems long should assess the degree to which they're deriving maximum benefit from the technology. If they are not, they should make an effort to use those systems more effectively and efficiently.

- **Consider your development and communication initiatives**. Succession planning, mentoring and providing real-time feedback are not widely adopted among small and mid-sized organizations. Improving existing programs or adopting new ones might help improve employee retention.

- **Link development programs to internal hiring.** Developing internal talent may pay dividends not just in current jobs but in future promotions and lateral transfers. The advantages to hiring internal candidates for open positions can be significant. For instance, current employees will have a shorter learning curve, because they already know your business and industry. Internal candidates are known quantities in terms of their attitudes, work habits and ability to learn new things. Last, hiring from within helps demonstrate there are opportunities for advancement and growth, which in turn, can help boost employee engagement.