the starr conspiracy

Talent Management 2018

A CATEGORY AT A CROSSROADS

By: Steve Smith, Jonathan Goodman, and Lance Haun

"As you're reading this report, ask yourself what it would be like to work with a world-class advertising agency that also happens to know your industry this well."

Dear Reader:

The Starr Conspiracy is an advertising agency. Our 60-person company works primarily with human capital management (HCM) software companies, but also works with a wide range of other B2B enterprise software and services companies in areas like fintech, business intelligence, collaboration, data, and more.

The primary services we deliver to clients are **Strategic Consulting, Market Research, Message Development, Brand Creation, Advertising,** and **Marketing.** Our agency is composed of an innovative digital marketing group, an award-winning creative agency, and an influential team of about a dozen industry analysts who infuse our clients' marketing strategies with deep industry insights.

Our reports (like the one you're about to read) are read by tens of thousands of people around the world. They're so widely read, in fact, that we're sometimes mistaken for an analyst group like Gartner, Forrester, or IDC.

And though it's true that our analysts at The Starr Conspiracy are renowned for spotting industry trends and identifying category winners, we are not an analyst firm. *In other words, we do not work with companies to help them select and implement the "right" enterprise software and services.*

We work exclusively with enterprise software and services vendors to help them position their wares in the marketplace, build dominant brand recognition, and generate demand.

As you're reading this report, ask yourself what it would be like to work with a world-class advertising agency that also happens to know your industry *this* well. Would our strategies be more effective? Would our messages be more compelling? Would our brands be more differentiated? Would our campaigns build more brand recognition and drive more leads?

Since 1999, we have demonstrated the power of infusing award-winning marketing with deep industry expertise by helping company after company achieve market leadership in their segment. *When you work with The Starr Conspiracy, it's like you're working with a Madison Avenue advertising agency, a hot-shot digital group, and a Silicon Valley analyst all at the same time.*

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Thank you for reading this report. And thank you for your consideration of The Starr Conspiracy.

Sincerely,

Bret Starr
Founder and CEO
The Starr Conspiracy

P.S. If you would like to get to know The Starr Conspiracy, then we would like to get to know you. The best place to start is a 30-minute phone call with one of our sales directors. To schedule an appointment, call 817-204-0400 or email info@thestarrconspiracy.com and we will promptly schedule an introductory call.

Introduction

It's not a stretch to say that talent management was the category that defined the emergence of SaaS-based HR technology software. Talent management has been the bellwether category for HR technology since 2000.

Much of the early growth of Software-as-a-Service (SaaS) took off in talent management, followed by a spate of IPOs in the mid-2000s, and culminating in the billion-dollar acquisitions of the three market leaders in the category — **SuccessFactors, Taleo, and Kenexa by SAP, Oracle,** and **IBM,** respectively in 2011 and 2012. Other companies at the vanguard of this category — **Workday, Cornerstone OnDemand, Saba, Halogen,** and **SumTotal Systems** — were and continue to be signature brands in the space.

However, a funny thing has happened over the past several years that no one is really talking about. **The foundational product within talent management is performance management, and buyers have rapidly stopped believing in performance management.**

Hey, talent management — almost half of the buyers in a category stopped believing in the efficacy of your core product. How does this not have an impact on your viability as a brand?

46%
OF HR TECH BUYERS

"I believe traditional performance management is a waste of time for employers and employees."

THE STARR CONSPIRACY/NEXT CONCEPT HR ASSOCIATION RESEARCH, 2017

That's the elephant in the room right now, and we at **The Starr Conspiracy** think it's important to talk about it. We see talent management as a $16 billion market category that's at a crossroads. We see two possible scenarios:

1 The incumbent talent management solutions figure it out and maintain dominance.

We believe that the marquee brands in the category are not as far along as they should be, and there's no reason to be comfortable or complacent. We believe that talent management can reinvent itself. However, this isn't a foregone conclusion. To survive and thrive, companies need to up their game in innovation or acquisition. As a result, we see these brands at a crossroads — **they can evolve or risk diminution, or even replacement.**

2 Alternative approaches in employee engagement gain momentum and become a competitive threat.

Even though talent management players have already absorbed some alternative approaches from employee engagement, we still see more innovation coming out of this category. Employee engagement solutions have become a compelling alternative because they have been more willing to rethink the talent conversation. We continue to believe that employee engagement brands will bleed market share from talent management. How fast that happens remains to be seen. Does that mean employee engagement is on track to unseat the incumbent category solution?

While possible, it's not likely — for now.

There's breathing room for the major players — but not much. Today, the future of the category is wide open. In this paper, we're focusing on the positive. What will it take for talent management to get its mojo back? What do employee engagement solutions need to do to make the most of their moment?

We will break it down in the pages ahead. We'll also point out some trailblazing companies that are poised to shake things up in the near term and be game changers in the long term.

Talent Management
at a Crossroads

Talent Management at a Crossroads

If talent management is at a crossroads, it has become a victim of its own success. It sold the market a vision of how back-office HR software — and specifically performance management — could deliver strategic value to an organization. There was just one small problem: Talent management couldn't deliver on that vision.

Now, it's hard to pick up a copy of ***Harvard Business Review*** or an HR journal and **not** see an article about the failure of performance management and what's replacing it.

Even though **Talent Management 1.0** established the strategic value of human resources, the solutions did little to improve the attraction, development, and retention of talent. In terms of ROI, the most optimistic view is that automation of manual HR processes delivered a 2x to 3x ROI based on time savings, increased efficiency, and overall process improvement gains.

Contrarians might point out that talent management initiatives actually *created more work* with cascading goals, calibration meetings, and so forth.

However, talent management vendors sold the dream of transformative impact and ROI of 20x to 30x, while the link between business performance and talent management is still tenuous at best. So, the irony is that the talent management category sold a value proposition that it was unable to deliver. This inability has sown the seeds of dissatisfaction among clients and ignited the quest for alternatives.

Back in 2012 and 2013, it was easy to believe that talent management had arrived. **SuccessFactors, Taleo,** and **Kenexa** experienced billion-dollar-plus exits. **Cornerstone OnDemand** went public. Even in the HCM category, where talent management solutions were featured prominently, companies were humming along. **Workday** went public. **Ultimate Software's** stock took off.

The good times were rolling.

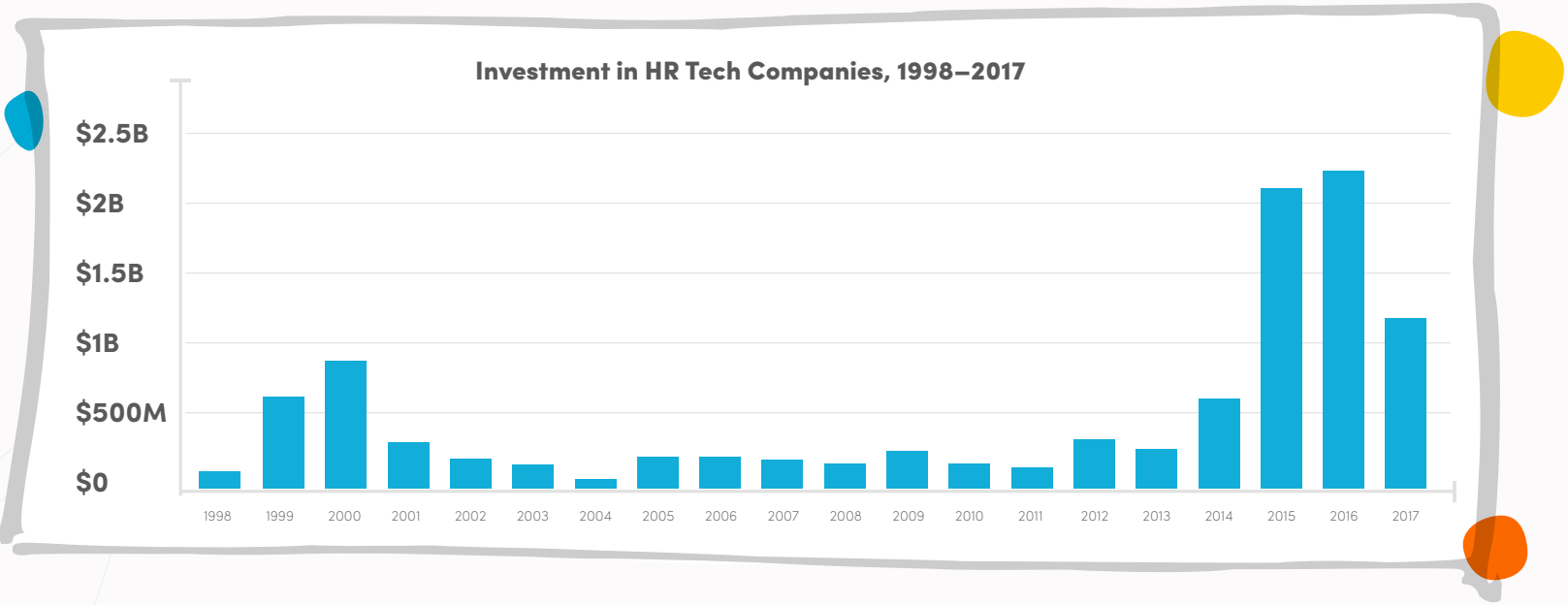
However, development of compelling alternatives to talent management were already chugging along, defined by five factors:

1. The foundational idea: The new world of work.

It's easy to forget how much our world has changed since the turn of the century. In many ways, the world of work in 2000 wasn't much different from 1980 or 1990. The entry of a new cohort into the workforce (the millennials), a global economic disruption in 2008, and the rapid explosion of mobile smart devices, broadband access, and social media have made the workplace of 2018 a very different place. A new era of work requires entirely new solutions, not just digital versions of analog systems from 20 or 30 years ago.

2. A unique investment environment: A dwindling number of areas to generate returns.

Enterprise technology has benefited from a lack of alternatives for investors, with global real estate markets saturated with investments and global interest rates still at historic lows. Since 2010, there have been very few areas where investors can put money and see any type of return except enterprise software. HR technology has benefited disproportionately from this growth — more money was invested from 2015 to 2017 than during the period from 1998 to 2014 combined. Over the next three years, expect employee engagement software to benefit disproportionately among HR technology software as investment in talent acquisition software becomes saturated.



3. A direction for growth: The return to profitability has come into vogue again as investors have grown tired of an endless march of market share growth.

Solid, publicly traded companies in HR technology such as **Workday** and **Cornerstone** have been punished into profitability by institutional investors. In the past year, activist investors and short-sellers have taken aim at even proven performers such as **ADP** and **Ultimate Software.** The goal is unrealistic — maintain both profitability and market-share growth. Delivering on the profitability component will be easier for some market performers than others. However, we are in the middle of a market dynamic that will reward — at least in the short term — bold bets on growth.

4. A strategic imperative: The collapse of market belief in traditional performance management is at hand.

Cutting-edge talent organizations are jettisoning the traditional performance review for more frequent feedback and alternative approaches. Even more conservative organizations are limiting the impact of traditional performance management if they still insist on using it. New employee engagement platforms are emerging that offer a compelling market narrative to the traditional approach. Expect this narrative to combine with a hunger for bold bets and lots of cash sloshing around to turn into headline-grabbing deals between now and 2020.

5. HR brings a stronger vision: The HR buyer knows what they want and are more comfortable buying it.

Yes, the HR buyer is still more collaborative than their peers across the board, but after a few purchases — and let's face it, a few mistakes — the HR leader is more willing to put their stamp on technology purchases. They'll ride or die with their choices, which makes it a high-stakes decision when they're zagging instead of zigging.

With these dynamics at play, is the fate of traditional talent management sealed? Not yet. There are still plenty of compliance-driven, defensive HR buyers available to keep this market intact for the foreseeable future. Of course, there are still companies using **PeopleSoft.** Simply surviving isn't necessarily something to brag about. However, talent management is an incumbent category and can still survive.

In the next section, we'll explore the moves that the category needs to make to thrive again.

What Could **Save Talent Management?**

What Could Save Talent Management?

If the decline of traditional performance management is the existential threat to the survivability of the talent management category, then successfully addressing the performance question will be central to survival. We believe it's worth focusing on why the category should survive, not if it will survive.

The decline of talent management does not mean the evaporation of a $16 billion market category. It will, however, mean reinvention for some and perhaps extinction for others. **The case for survival of companies in the talent management category is simple:**

1 SCALE

Size makes it easier to survive. When you're talking about **SAP, Oracle, Workday,** and other ERP/HCM players, the threat isn't life or death — the threat is market share. For the more pure-play talent players such as **Cornerstone OnDemand** and **Saba-Halogen,** the threat is much more real, but not insurmountable.

2 INCUMBENT STATUS

If you've learned two things from electoral politics (I know — hang with me), you know that everybody hates an incumbent, but incumbents are extremely difficult to unseat. For mainstream buyers, the "**devil you know**" card may prevent large-scale disruption to market share.

With all of this said, let's take an optimistic view of how talent management can reinvent itself. **Here are areas of opportunity:**

1. Transform the manager-employee conversation.

The annual performance review is, unfortunately, the most important conversation that a manager and an employee will have all year. We say unfortunately because, at its heart, the annual performance review is a defensive HR exercise in protecting the employer from the employee, not measuring or nurturing better employee performance. Or, more colloquially put, performance reviews are an ass-kicking for managers and employees for the benefit of HR and the company. Sort of. The process sucks. So what's the point?

The conversation is the point. An honest, informed dialogue can create trust. A recitation of ways that they have fallen short doesn't leave an employee feeling good about themselves. Besides, many of us still have moms to remind us how we've managed to disappoint. However, there are some basic rules to transform the manager-employee conversation:

- **Shorter is better than longer.** More short conversations, not just a few long ones. A long conversation becomes "the talk." And nobody likes that.
- **Weekly or monthly is better than annually or quarterly.** Regular conversations are inherently more casual and less intimidating for everyone. These conversations are also better for addressing positive and negative situations because of recency.
- **Individual is good, team is better.** Most employees crave feedback on their performance. However, team play is valuable. How an employee is supporting the team and meeting team commitments is vital.
- **Rankings are inaccurate and subjective.** Rankings are the cancer on the performance review. It's the Jeff Lebowski Factor: It's, like, your opinion, man. Most often, rankings are based on manager opinion and not on data or any objective measure. Let's be done with them. Rankings do not meet expectations. Termination recommended.
- **Perspectives informed by data are ideal.** Just one example: Pulse surveys give managers tons of perspectives to inform conversations in a factual, neutral way. More data, please. Especially of the longitudinal kind, which solutions like pulse surveys give in abundance.

- **Catch them being good.** Employees need to know that their managers saw that thing they did. Managers need to know that work occurs outside of their line of sight — which for managers of remote teams, is literally everything. A better mechanism to facilitate this conversation will help.

- **The process must benefit everyone.** Feedback can't just be about what you can do for the company. It needs to be about what the company can do for you.

- **Look forward, not backward.** Although it's important to recognize great work and course-correct substandard performance, the conversation will naturally become more upbeat and optimistic if it's more about the future than the past.

- **Decouple from compensation.** This is still (surprisingly) controversial, but employees tend to stop listening to valuable feedback if they're waiting to hear about their raise. We only bring this up because of the product ramifications.

- **Coach managers on coaching.** Let's be real: Most managers suck at coaching and giving effective feedback. Use AI to combine engagement data with competency and personality assessments. Workforce data holds a ton of potential to provide proscriptive, just-in-time data to managers to inform conversations.

While we know that every talent management company wrestles with these questions, it's not just the old guard. There's a new generation of "next-generation" performance management solutions coming into market, including **Reflektive, Zugata, Lattice,** and others. There's no shortage of innovative competition.

The question remains whether there's a new **SuccessFactors** among the bunch of upstarts — a category-busting player who changes everything. So far, no. But it's still early days.

2. Transform goal alignment.

Cascading goals simply don't work. They create far too much work for everyone involved, and by the time goals cascade down to employees, goals have changed, which creates cynicism and a "fuck it" mentality. Goal alignment is still essential to making the performance conversation meaningful. Goals are probably the best argument for not junking performance management altogether. However, serious streamlining is needed.

- **Fewer goals are better.** Choose your KPIs carefully. Typically, there are only one or two KPIs that truly correlate with organizational success at the individual or team level. Figure out what actually matters and junk the noise.

- **Make goals agile.** Business conditions change rapidly. Even if you effectively identify the one or two KPIs that matter, it's sort of like **Mike Tyson** once said, "Everyone has aligned goals until someone punches you in the face." Actually, Mike Tyson never said that. And if someone gets punched in the face, HR should probably be involved. Still, a good example of an upstart getting agile goals right is **WorkTango.** This company is getting market traction based mainly on a different approach to goals.

- **OKRs ... OK.** As **Patty McCord,** the former head of HR at **Netflix,** said recently, most HR best practices are shorthand for "whatever **Google** does." And so, you have OKRs, Google's famous Objectives and Key Results methodology, invading performance management. If that's your jam, go for it. But just because Google does it doesn't mean it will work for you. YMMV.

- **Involve employees.** The biggest problem with goal alignment is that it's a top-down exercise. Getting employees involved in establishing goals is the first step in getting them to own those commitments and actually get results.

- **Put more focus on teams.** Arguably, team goals are actually more valuable than individual ones because they guide collective performance and collaboration — plus, if your business rides on one individual performing, you probably don't need performance management. You don't need software to tell you to play LeBron James 40 minutes a game.

3. Increase employee-centricity.

If the "new world of work" has done anything, it's made ~~us all self-centered narcissists~~ the workplace more humane. For better or worse, it's all about the employee, especially when it comes to tech. Unfortunately, this is where some of the biggest challenges exist for traditional talent management players. Many of the innovations that will benefit employees the most don't always play nicely with legacy code bases. Theoretically, economies of scale would be an advantage for a larger player. But theory and reality are usually very different things. Which innovations will drive employee-centricity? The theme you will see below is context — how to customize information for managers and employees in the moment.

Mobile: It seems like major players should be there already in terms of mobile, but many of them just aren't — or their mobile implementation is so bad, they should take it out behind the server banks and put it out of its misery. Mobile is an area where upstart players run roughshod over the traditional talent management vendors. Don't expect it to change significantly without a major investment.

AI: Here is a red-meat buzzword for you. The current reality is that there's more talk than substance with AI. But consider this scenario: A top-performing employee moves farther away from the office. Because you know turnover risk increases the farther away from the office an employee lives, what if the employee's supervisor received an email after the employee filled out a change-of-address form, with retention recommendations such a market analysis of the employee's pay range and available high-potential-employee programs available. Information becomes push instead of pull for managers. A great current example out of the talent management space is **Saba's** TIM (The Intelligence Mentor), which is used to personalize development recommendations.

Bots: Buzzword, part the second. Bots have a lot of potential to automate the heavy lifting of front-line managers in eliciting feedback and helping employees feel heard in the performance process. One good recent example comes out of not the talent management space, but the recognition space. **Achievers** has done a great job of using a bot (Allie) to jumpstart conversations about engagement with employees.

Voice: Integrations with Apple's Siri, Google's Assistant, Amazon's Alexa, and other digital assistants are already here. Demand for HR applications of these technologies will grow as market demand for these assistants increases.

Competencies: Nothing puts most people to sleep faster than talk about competencies. Wait, don't leave! We assure you that the application of competencies is still very much relevant. If you look at how **Korn Ferry** has developed its Leadership Architect Global Competency Framework™, it's actually kind of cool. Yes, that just happened. There's significant potential to use AI to provide relevant employee insights to managers in the moment of need to guide productive conversations. However, the degree of difficulty may make cold fusion seem simple by comparison.

Behavioral assessments: Behavioral assessments can be quite helpful but have a high potential to be misused. A lot of people automatically equate behavioral assessments with **MBTI** and all of its accompanying baggage. However, better examples can be found from **Birkman, Hogan,** and other assessments that improve manager and employee self-awareness and facilitate communication based on knowledge of behavior, personality, and communication styles and differences. When integrated with competencies and AI to complement a performance conversation, there's huge potential benefit for organizations and employees.

4. Focus on development.

This isn't a new idea, and certainly a number of traditional talent management players, including **Cornerstone OnDemand, SuccessFactors, Saba, SumTotal Systems,** and other have cast their lot with development-focused performance. We wrote about this extensively in our recent **Learning Technology Buyer's Report.** Development is inherently future focused, which we think is a good thing, if you couldn't tell already.

However, where we see the biggest opportunity for employee development within talent management isn't the integration with traditional learning management, but rather informal learning that's bite-size, with a focus on hard skills as well as soft skills. **Degreed** is a great example of what's possible. One of its goals is to capture and leverage the informal learning employees do on their own — learning that too often goes under the radar. Other vendors like **Tribridge** are taking note with their own solutions to bring informal learning resources into the organization to share.

As millennials move into leadership positions, we believe that leadership development and soft skills will become much more in demand. And, as **Generation Z** enters the workforce, there will be a number of soft skills that you can't count on them having mastered. This is a generation that's less likely to have held a paying job or even have a driver's license by the time they enter the workforce. As a GenXer, I'll go ahead and apologize on behalf of my age cohort for our lack of parenting skills. We tried. Let's just blame the internet. **At least we did better than the baby boomers, right?** I kid.

5. Work in context.

As we move out of the HR Tech 2.0 world and into HR Tech 3.0, talent management won't be an application you go to; the functions and objectives will occur within the context of your work instead. That's why you hear everyone and their mom using the phrase "**Slack** integration" in Silicon Valley. And expect **Microsoft** and **Google** (and maybe even **Salesforce**) to continue pushing the envelope on these solutions as they both become more involved in HR tech.

In the near term, we expect players such as **MuleSoft** and **Red Hat** to play a significant role at the enterprise level. However, it will become imperative for the major ERP players to get good at this really fast. At the SMB level, expect to see talent and HCM players pushing further, faster. The stakes for getting this right (or wrong) are huge.

In regard to talent management software, we anticipate moving the talent conversation into the context of everyday work will facilitate an ongoing, open, meaningful dialogue between managers and employees. **When it happens, it will be a game changer for truly natural talent conversations** that can happen wherever and whenever.

6. Increase transparency.

We could almost play Buzzword Bingo with all the ones we've thrown out just in this section. But hell, here's another one: transparency. In a lot of ways, this is one of the most difficult aspects of evolving the talent conversation because this isn't as much a feature (although it will have significant ramifications on product features), it's a mindset — and in some cases, a complete mindshift. As an organization, do you trust people or do you fear them? Transparency is the fulcrum in the evolution of talent management.

Transparency requires trust and the implications are myriad. Do employees trust an organization enough to be open and vulnerable about their weakness in a performance conversation?

What about at the organization level? Let's look at an example of how mindset has an impact on functionality. This is a point that comes from **Tamra Chandler,** who writes and consults extensively on how to overhaul the performance management process. One of her key points is this: Pay for capabilities, reward for contributions, reward equitably. When you actually think about that, it's not a small statement. Questions about pay and fairness are probably the No. 2 derailer of performance conversations after the subjectivity of performance rankings. Do you trust employees enough to provide open access to information such as pay ranges and promotion criteria? That's real transparency.

This isn't a simple question to answer, but it's vital for software companies to think about how product impacts process and the cultural ramifications that occur.

7. Make connections to business outcomes.

Here's the dirty secret of everyone in talent management: Everybody sucks at analytics. After years of talking about predictive analytics, after investing millions (if not more) in programming, product, and integration, very little progress has been made with connecting talent initiatives to business outcomes. **Shhhh — don't tell your CFO that**.

There are some glimmers of progress with both **Visier** and **One Model.** However, this state of affairs isn't likely to continue long term. We anticipate more innovation to come from small players and new entrants. We also anticipate that the major players will end up partnering until they can homegrow a solution or simply buy their way to a solution. No judgment, and buyers won't ultimately care. Whatever *actually* works.

If talent management wants to rescue its category, performance management needs to be rehabilitated or evolve. We offer these suggestions in the spirit of constructive criticism.

However, there is a contrarian point of view: Is talent management even trying to solve the *right* problem?

What Could **Replace Talent Management?**

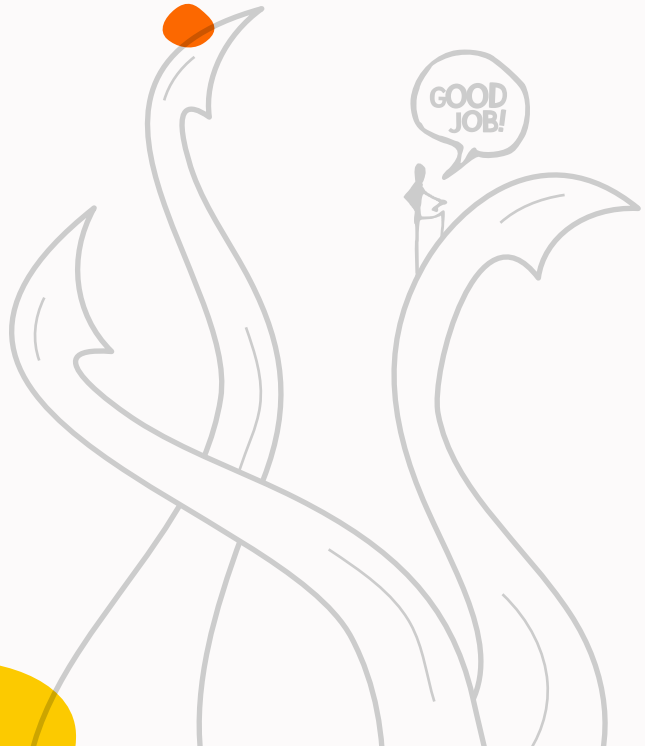
What Could Replace Talent Management?

What is the problem that talent technology should solve? In the traditional talent management approach, the pain point is giving employers a better way to evaluate, quantify, and rank performance and develop the formal hard skills of employees. The presumptions are management and control.

The alternative point of view is the argument for **employee engagement.** Do you believe the problem being solved is how to get employees to bring as much of their passion and talent to work as possible? Even if you don't believe in the software solution, creating the conditions for great work to happen probably won't ever go out of style. If you believe in engagement, the presumptions are freedom and trust.

It requires a more oblique approach to performance, such as:

- Recognizing and appreciating great work
- Reinforcing positive behaviors
- Measuring, surfacing insights from, and reacting in real time to changes in employee sentiment
- Encouraging organic manager-employee conversations
- Nurturing informal learning
- Improving employee well-being and resiliency
- Facilitating internal communication



In 2016, **The Starr Conspiracy** produced a brandscape on the employee engagement category. We saw a new category coming together that could create a credible alternative to talent management because engagement solutions were more attuned to today's working styles. We haven't changed our mind. If anything, we see increasing traction with these solutions and the rapid expansion of new employee engagement platforms that are potential alternatives to talent management.

These integrated engagement platforms are emerging out of these categories — and their interaction and coalescence:

1. Recognition:

Players in this segment come from the traditional recognition industry in large part but have a strong focus on social recognition.

The Players:
Achievers, BI Worldwide, Inspirus/Sodexo, Maritz/CultureNext, and **O.C. Tanner**

Noticeably absent:
Globoforce, which we do not see making a play in this area

Worth noting:
YouEarnedIt, an upstart player with a unique business model and significant market traction, and **Brand Integrity,** a small but growing player

2. Well-being:

Players in this segment are focused on newer, tech-driven well-being players rather than the services-driven wellness space.

The Players:
Limeade and **Virgin Pulse**

Noticeably absent:
Fitbit, which has the size and scale to compete

Worth noting:
meQuilibrium, a Boston-based engagement and performance company with resilience training for employees, teams, and organizations to reduce employee stress and create more agile and product teams

3. Measurement:

Players in this segment are focused on newer, tech-driven survey players rather than the consultant-driven annual survey players.

The Players:
Energage and **Quantum Workplace**

Noticeably absent:
Gallup, which has the potential to become a major player very quickly

Worth noting:
Culture Amp, Glint, and **motivationWorks** have the funding and the emerging product set to compete

4. Employee communications:

Players in this segment are focused on the still nascent subcategory of **employee communications,** but with a tech rather than a services focus.

The Players:
Bonfyre and **Reward Gateway**

Noticeably absent:
Willis Towers Watson, which has the potential to become a major player very quickly

Worth noting:
GuideSpark, which has a strong tech platform but is taking a pure-play approach to employee communications

5. Next-generation performance:

Players in this segment are focused on building a clear replacement for talent management rather than an alternative.

The Players:
HighGround and **Reflektive**

Noticeably absent:
Any company from talent management or HCM

Why do employee engagement solutions present a viable alternative to traditional talent management? **Many reasons:**

1. For engagement, recognition beats reviews:

If you believe employee engagement creates business value, there's plenty of research that exists to prove that social, in-the-moment recognition of high performance correlates with employee engagement. The connection between performance reviews and higher performance and business value is much more tenuous. As a result, we weren't surprised when our 2017 research showed that 46 percent of HR technology buyers believe that traditional performance management is a waste of time for employees and employers.

After extensive market education by recognition brands Achievers and Globoforce over the past eight years, HR technology buyers have clearly bought into the value of social recognition. Furthermore, buyers have also bought into the value of non-monetary forms of recognition. This interest has driven growth for recognition platforms that don't necessarily require product catalogs and investing in points that have a monetary value. You can see this in the market in several different ways:

- **Traditional providers:** Achievers has been at the forefront of establishing the value of nonmonetary social recognition. It has been playing a strong user adoption angle — non-monetary recognition drives frequency of use and frequency of use drives engagement. **O.C. Tanner** has also taken great strides in incorporating non-monetary adoption into its delivery methodology as well.

- **Pure-play recognition technology providers:** The market is demonstrating strong demand for social recognition software decoupled from rewards. **YouEarnedIt,** an Austin, Texas-based company, is the player experiencing the most rapid growth in this segment.

- **Measurement providers: Energage** is a new entrant in the platform race out of the Philadelphia area. It has taken a different approach to recognition with its Connect product. The result is a nice complement to its other products that facilitate the feedback loop between manager and employee.

- **Well-being providers: Virgin Pulse** delivers a version of recognition through its Engage product that focuses on sustaining behavior change.

2. Measurement with purpose:

Measuring engagement on a regular basis — primarily using pulse surveys as a mechanism — is gaining traction broadly in the engagement market. There's a good reason for this. The insights that can be gleaned from this data grow as the data set gets larger over time, allowing for more granular segmentation of audiences and more meaningful insights from the data.

However, there's a risk of measurement for measurement's sake. What are you doing with the data? Can you take action? Those are questions a lot of CFOs are asking HR buyers who have become enamored with these solutions. Unfortunately, a lot of measurement providers don't have a really good answer. But there are exceptions to the rule.

- **Achievers**, with its acquisition of **RoundPegg,** has woven measurement technology into its best-in-class recognition platform to yield engagement insights that are connected to clear next steps in recognition.
- **Energage** has gone further in adoption facilitation of the feedback loop between manager and employee with its Act and Coach products. They provide clearer, more concrete next steps than other, better-known feedback solutions.
- **Glint** is incorporating AI to generate manager recommendations from its Action product. The recommendations lead to the development of trackable action plans for employees. It's still early days for this product, but it shows lots of potential.

3. A better employee conversation:

Poor manager-employee conversations were the downfall of traditional performance management. In the annual model, aspirations and grievances were crammed into a one-hour conversation that was equally anticipated and dreaded. No one was happy with the results. The conversations were frequently demotivating — "meets expectations" is not a motivating phrase — and suffered from recency bias. It's little wonder that everyone is happy to move away from this organizational kabuki exercise.

However, something has to replace the traditional approach. There needs to be a process for delivering feedback to employees, coaching and mentoring them, and getting them on a career track. In other words, facilitating the manager-employee conversation is still an organizational need. Many emerging employee engagement solutions are tackling this head-on.

The most frequent evolution in the conversation is more frequent check-ins between managers and employees. However, simply talking more often without delivering a better set of tools won't change anything. Here are a few companies providing those much-needed tools:

- **Quantum Workplace** has probably gone the further than any existing player to develop an end-to-end performance conversation that unites recognition, one-on-one feedback, goal alignment, and 360s. Quantum then combines this functionality with its deep engagement benchmarks from its pulses and surveys and integration capabilities with **Workday, ADP, Microsoft, BambooHR,** and **Namely** HRISs to create the current class-leading solution in next-generation performance conversations.

- **WorkTango** has built its entire product around delivering effective, agile performance management that enables managers to be great coaches. Arming a manager with the real-time voice of employee insights makes frequent check-ins, agile goal management, and employee growth plans easy.

- **Reflektive** has an opportunity to be a category leader in next-generation performance conversations but is taking a more conservative approach — more of an evolution than a revolution. With real-time feedback, goal alignment, check-ins, and performance reviews, Reflektive will make a safe choice for many buyers looking to do something different.

- **Culture Amp** is taking a softer approach to performance conversations that turns the traditional approach upside-down. Its tools allow managers to take insights from 180s and 360s to show individuals, managers, and teams strengths and areas for improvement. Culture Amp also makes it easy to offer and request feedback as an individual and use insights to frame learning and development programs.

- **Joyous** uses short push interactions to prompt managers and employees alike to share feedback in the moment. That, along with functionality that makes it easy to drive broader insight from these microinteractions, makes it closer to a modern-day performance tool.

4. Employee-centric informal learning:

As we defined in our recent research on learning technology buyers, next-generation learning is more mobile, personalized, and available in the moment of need. Learning is an essential complement to performance in many ways:

- Developing managers to be better coaches and mentors
- Enabling employees to improve knowledge, skills, and capabilities to improve in their jobs and roles today
- Communicating to employees how to participate in and get the most out of the performance process
- Preparing employees for tomorrow with future-focused career, skills, and competency development

There are already a number of solutions taking steps to facilitate the employee engagement journey.

Vistance is a learning platform that has been designed specifically to complement the engagement journey. It takes organizational KPIs that are driven by operational, financial, and HRIS data, and ties these to the development of recognition and engagement behaviors that improve performance.

Pathgather is designed to unify all of the learning that goes on in an organization — the apps, websites, courses, and learning systems. The result is learning that supports individual performance with speed and agility.

Trivie is a mobile informal learning solution that builds on a consumer-grade user experience to reinforce learning over time. It's a perfect complement for managers and employees to develop coaching and feedback skills that make successful performance conversations.

5. Engagement-focused human capital management (HCM):

An interesting trend is emerging in HCM that clearly separates the enterprise and SMB markets. At the enterprise level, HCM platforms are a walled garden and want to have an on-platform solution for just about everything. However, HCM solutions in the SMB, such as **Gusto** and **Zenefits,** are focusing on an open-platform ecosystem approach that allows them to focus on core functionality such as payroll and compliance, but plug in partners for everything else.

However, both enterprise and SMB HCM are mostly ignoring employee engagement technologies — **at their peril.**

At the enterprise level, there are some inroads — **ADP** bought **The Marcus Buckingham Company** early in 2017. However, engagement is mostly at a standstill for these players until they decide to buy their way out of the problem. At the SMB level, there are currently a few players that have put employee engagement front and center in their solution. **Vibe HCM** has been around for years but has put engagement at the core of its platform for small and midmarket players. A new entrant is **bob,** an Israeli startup that features a beautiful consumer-grade UI and delivers engagement insights to business leaders and managers. As bob enters the U.S. market in 2018, it could upend the expectations about what functionality an SMB HCM solution offers and what it doesn't.

6. Better employee communications:

A funny thing happened in employee communication over the past 20 years — **pretty much nothing.** In spite of the entire SaaS revolution taking place, employee communications today isn't significantly different than it was in the mid-1990s. It's still mostly consultant-driven and top-down, in spite of the addition of websites, email, apps, and online video.

Employee communications is an overlooked variable in the employee engagement equation for now, but not for much longer. In 2018, we anticipate the emergence of a new subcategory of employee engagement called **employee communications.** However, the definition of this category is still up in the air. Will it be merely an extension of intranets and employee portals? (Hopefully not!) Or will it be something different altogether? Here are a few ways it could go:

GuideSpark is hardly a startup — it's developed significant traction with a platform focused on videos for benefits, performance management, and other employee programs. However, the new GuideSpark Communicate Cloud platform is something altogether different and is the culmination of a significant pivot for the company — it's a marketing automation engine for HR that's designed to improve user adoption of HR technologies and initiatives. With turnkey campaigns and content available, it could be a game changer for employee communications.

Reward Gateway is already a significant player in employee engagement in the U.K. and Asia-Pacific, with a focus around benefits, or as we Yanks would call them, "perks." However, in the U.S., Reward Gateway is taking a different approach and leading with its strength in employee communications and delivering a consumer-grade employee portal and the jumping-off point for employee engagement solutions, such as recognition and measurement. It's a different, fresh approach that's already seeing traction in the U.S.

Bonfyre is leading with a collaboration-based approach to employee communications that is meant to drive user adoption of its solution as a gateway to its feedback, measurement, and recognition solutions. Based on early client wins with major enterprise accounts, Bonfyre may have identified a winning formula.

7. Connection to purpose:

Corporate social responsibility (CSR) is a growing but sometimes-overlooked aspect to employee engagement because it sits in a bit of a no man's land. At the enterprise level, it sits squarely in its own area as almost a PR function for an organization. However, as it has become a more important function of employer branding, it also serves an employee engagement purpose. Turns out that lots of employees today want to work for employers that are doing good and giving something back.

For the time being, CSR that is more focused on employee engagement has a big-time buyer problem. Existing enterprise CSR functions are looking at these solutions and seeing HR programs. HR buyers are looking at these solutions and seeing CSR programs. The CSR solutions themselves are stuck in the middle and struggling to get traction. We see this problem getting solved as HR sees its role within CSR more clearly — probably because of its employer-branding benefits first. However, it's still early days for CSR in the employee engagement equation.

Here are a few brands to note:

- **Benevity** is the clear leader in CSR's charge into employee engagement and HR with solutions focused on workplace giving, fundraising, volunteering, and grants management.
- **WeSpire** uses its platform to connect employees with their co-workers around causes that matter to them, take action, and stay informed around the employer's initiatives. On the back end, the platform can measure the employee impact on company goals and impact on engagement.
- **Verb** is an early stage startup that has created a talent development platform that combines leadership and skills development with social impact opportunities.
- **JouleBug** is an app-based solution that gamifies the reinforcement of sustainability behaviors at home, at work, and at play (think "turning off the lights when you leave the room"). It's already generated impressive results with several 100,000-plus-employee companies.

8. The experience layer of compensation:

There's an interesting disconnect occurring in the world of rewards and compensation. Although surveys clearly show that millennials value spending money on experiences rather than things or merchandise, organizations focus little to no attention on experiences as rewards or compensation for employees. Now that millennials have become the largest cohort in the workforce and organizations everywhere are fighting to attract, retain, and motivate these workers, this gap is somewhat shocking.

The biggest challenge is in delivering personal experiences at scale. It's easy for an individual to plan a nice experience like a fine dining experience or a sports event for someone they know. But to do this for thousands of people across an organization, the personal touch gets lost and the need for audit trails, tax reconciliation, and cost controls becomes much greater. Although many companies have tried to do this in the past, there's only one in the market that we see managing to make this work at scale: **Blueboard.** Its success and growth were part of the reason it won the *Next Great HR Technology Company* contest at the **2017 HR Technology® Conference and Exposition.**

Now, will *other* rewards and compensation companies follow?

9. Connection to the customer:

The holy grail for many employee engagement adherents is drawing a straight line from employee engagement to customer engagement. There's a fairly compelling amount of research and real-world experience that shows how companies with engaged employees perform better than those with employees who are less engaged — higher revenue and profitability per employee, better customer satisfaction, etc. However, most of this data is correlative rather causal. In other words, most companies that focus on employee engagement do it because they believe it works, not because they can draw a direct line to ROI.

However, there are players in the market that are closing this gap and taking strides toward clearly connecting employee engagement with customer results:

- **CultureNext** by Maritz offers a full-fledged employee engagement platform with recognition, surveys, and analytics, backed with a strong base in behavioral and data science. However, its ability to tie these solution into Maritz's best-in-class customer experience solutions has the potential to be an industry-leading solution, even if it is still early days.

- **Brand Integrity's** engagement platform ties together social recognition with employee and customer surveys in a way that clearly ties employee behaviors to results.

The Fast 15 for Employee Engagement: Upstarts to Watch

Employee Engagement Upstarts to Watch

Today there are hundreds of companies doing great work to expand what's possible in employee engagement. However, we've decided to focus on a handful of companies that we see doing things truly different that have an opportunity to redefine what the employee engagement category can be.

Some of these are early stage startups that are just now achieving product market fit. Others are mature companies that are blazing new trails. However, all of them are doing things differently in noteworthy ways.

1. **Blueboard**
Experiences compensation is a high-value and often overlooked aspect of the engagement equation. Look at **Blueboard** to change organizations' perspectives about experience and transform service delivery into a software package.

2. **bob**
So far, human capital management solutions have evaded the employee engagement wave. Look at **bob** to offer a very different set of tools, going beyond compliance to deliver the information that talent-minded business leaders need.

3. **Bonfyre**
Starting with a high-adoption employee communication platform is a gateway into its employee engagement platform. **Bonfyre** is posting impressive user adoption rates in early customer successes.

4. **Brand Integrity**
Connecting **NPS** and **eNPS** in an engagement platform doesn't seem like it should be rocket science. However, the Rochester, N.Y.-based employee engagement platform is generating some impressive results connecting employee engagement with operation results.

5. Energage

This Philadelphia-area company formerly known as **WorkplaceDynamics** has been a leader in engagement surveys for years. Now with the addition of coaching and recognition tools, it's putting a compelling set of tools in the hands of managers to better facilitate conversations with employees.

6. GuideSpark

With its Communicate Cloud platform, **GuideSpark** has become the marketing automation system for HR, making it easy to manage and measure content and campaigns and drive employee engagement.

7. JouleBug/Shine

When it comes to **CSR** and well-being, these guys have managed to take a light, gamified approach that makes it fun to learn and reinforce positive behaviors.

8. meQuilibrium

In our research last year, **72 percent of HR tech buyers** said they believed the pace of work today makes it difficult for employees to manage stress. This Boston-based engagement and performance company is in the sweet spot to help employers address this issue by getting at adaptive thinking styles that are at the root of performance.

9. Reward Gateway

Leading with a slick employee communication portal that complements existing intranet technology has proved an effective entry point into its employee engagement platform.

10. Verb

This Austin startup spun out of Dell with a talent development platform that combines skill development with social purpose. We see this combination of **corporate learning and CSR** as one of the hottest areas for growth in the engagement space.

11. Vistance

Developing managers and employees to participate productively in engagement conversations has been overlooked by many learning and development solutions. **Vistance** has the potential to change the game by delivering meaningful training to enhance the value of engagement initiatives.

12. WeSpire

We think this early stage Boston company has a winning combination for the creation, management, and measurement of employee engagement campaigns for sustainability, social impact, culture, and well-being.

13. WorkTango

The biggest problem with goal alignment is the inability of the process to keep up with business needs. With an agile approach to goals and an intense focus on **manager enablement** and **executive visibility,** it's easy to see why this Toronto startup is growing rapidly.

14. YouEarnedIt

After a decade of thought leadership and research about the value of social recognition, it shouldn't be surprising that a solution like **YouEarnedIt** is successful. Buyers have clearly been looking to purchase social recognition software without the requirement to invest in the points.

15. Joyous

Former **Sonar6** founder Mike Carden was behind one of the most polarizing, exciting brands and truly different UIs of **Talent Management 1.0.** Don't be surprised if he does it again. With his new company, he has brought together pulse surveys, performance, and feedback in an incredibly fresh, friendly user experience.

Conclusion: Where Do We Go From Here?

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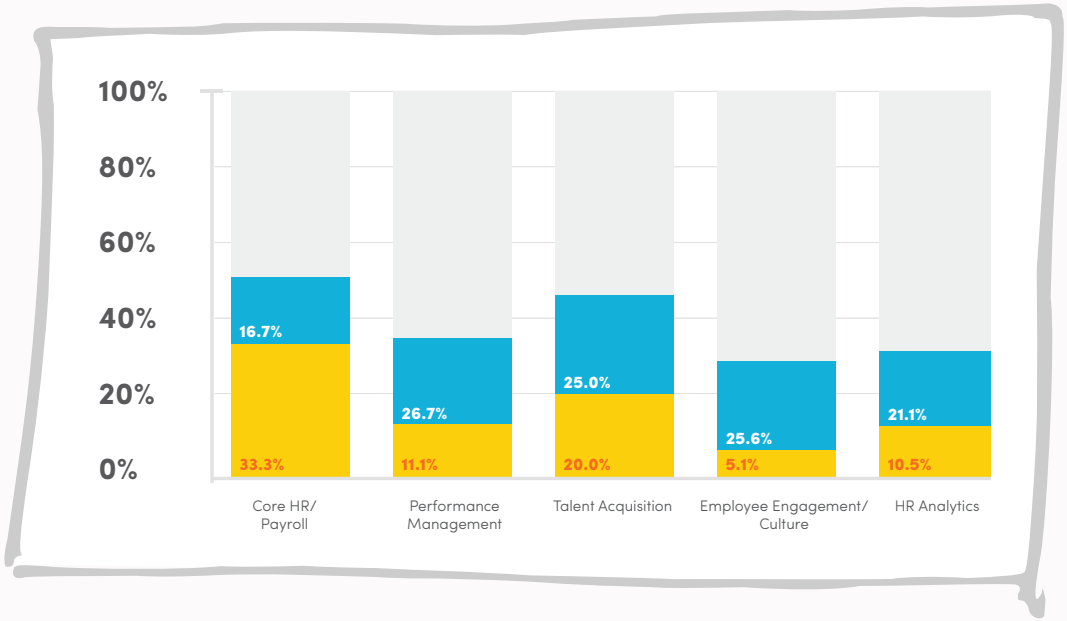
The Starr Conspiracy's 2017 research on HR technology buying behaviors showed that there's a lot of market share up for grabs. One-third of buyers say they're looking to replace a performance management system or implement one for the first time. Also, a quarter of the market is looking to purchase an employee engagement solution for the first time. It's anybody's ball game.

If talent management players are able to stabilize and solidify their position, they will need to take great strides this year, and not only on the innovation and acquisition fronts. They will need to begin to tell a compelling story to the market that tells buyers how they improved, why they're better, and how it's ultimately to the benefit of buyers and users to stick with the incumbent.

However, this could be the year when employee engagement systems solidify their status as the compelling alternative. Telling a tale of innovation that **convinces buyers to make a change without taking a risk** will be key.



We have a solution in place we plan to replace

It's likely we'll purchase a solution for the first time in the next 12 months

Conclusion: Let's Talk

As you can see, 2018 will be a pivotal year for talent management and employee engagement vendors. The Starr Conspiracy is ready to help.

For companies looking to lead the way, **let's talk.** We can help you make the right moves with an integrated marketing strategy, message, brand, and promotion.

LET'S TALK

About The Starr Conspiracy

The Starr Conspiracy is a full-service digital agency that helps HCM industry innovators propel brand awareness, drive leads, and eat market share like nobody's business. We're not your typical marketing and advertising agency — we meld digital advertising, brand innovation, and industry insights to change categories, industries, and — yes — even the entire notion of B2B marketing as we know it. Revolutionaries hell-bent on shaking things up are welcome. Conformists, please stay home (you'll hate working with us, anyway).