



## How Do You Know if Your Talent Management Strategy is Creating Value?

By Jason Livingston, Jay Richey and Chris Kirsanoff, Oracle

**K**eeping up with the speed of business is no small task. Organizations today have constant and increasing pressures from shareholders, stock analysts, customers, and employees to execute better, faster, and cheaper, while continuing to increase value. Yesterday, the talent pool was shrinking and HR organizations rushed to figure out where they would find future workers. Today, well...have you seen the unemployment rate lately? How about your nest egg? Not as golden as it was two years ago, is it?

So those baby boomers and high performers who were predicted to retire or leave a few years ago are sticking around, for now. The C-level has come to HR with an entirely different list of demands including how to reduce costs, analyze early retirement packages, find alternatives to layoffs, or manage reductions in force – not necessarily based on line of business performance, but rather the Jack Welch concept of trimming the bottom 10 percent. And the challenge with that task is identifying the correct 10 percent, which usually crosses the enterprise. How are you able to precisely identify that 10 percent? Do you have a true enterprise performance management process to support this new world of strategic talent management? Will it be able to manage the boomers and high performers by integrating to career and succession planning? Can you alter compensation and benefits packages based on levers

such as tenure, performance and skills? Do your learning and development programs support the business plans?

And tomorrow's challenges will be different still. The baby boomers will eventually retire, the job market will bounce back, and your top performers, who have endured increasing work and flat or reduced salaries, may still exit your organization in hopes of better work and income. Each industry has been affected differently by the global recession, and some will recover before others, creating a perfect avenue of escape for some high performers. The million dollar question is how to prepare for a constantly changing set of challenges and succeed!

The natural cycle of talent management creates an ever-changing priority list coming from multiple directions. For an HR organization to adequately respond to the demands, it must address the entire talent lifecycle as a whole, even if the mission-critical process is a subset of that lifecycle. Individual teams operating in silos, recruiting or learning and development, for example, will only be able to manage the transactions they are responsible for – and nothing more – creating a big gap in any truly successful talent management strategy. Creating an effective talent strategy can only be accomplished by working as one talent management team. Despite what has been written in recent years about the C-suite's lack of interest in HR, they really do care. They just don't react to HR terminology. While terms like "employee engagement" don't resonate, terms like "increased numbers of high-performers," "reduced voluntary turnover" and "lower costs" definitely do.

Both HR and IT have a critical role in addressing the expectations that the C-level has of HR and the Talent Management organization. You need integrated processes with an application/infrastructure backbone to support them. While the CIO may have a systems focus with a lack of sympathy for HR needs, his/her demands actually will enable HR to gain better process focus.

So, where do you start? How do you create a talent management strategy that adds value to your business, or validate the one you have? A successful talent management strategy depends on four critical elements:

- Alignment of talent management and business goals;
- Alignment of talent management business and technology strategies;
- Integration of talent management processes, systems and data (this is key!); and,
- Development of a solid talent management analytics strategy.

### Alignment of Talent Management and Business Goals (TM + LOB)

First, the goals of the Talent Management organization must align with the overall business goals of the organiza-

tion, making the talent management team a strategic partner with the lines of business. This is the only way to establish a foundation whereby the success of the talent management initiatives can be measured in a meaningful way, i.e., contribution to organizational business goals. For example, goals for recruiting new talent should support the skills and experience required to drive the organization's business plans over the next 3 to 10 years. Goals for learning and development should also support the development of these skills. Succession planning goals should focus on jobs and positions that achieve future business goals, not just this year's goals. With this alignment, talent management becomes a strategic business partner rather than a functional silo within the organization.

## **Alignment of Talent Management Business and Technology Strategies (TM + IT)**

Second, the talent management strategy must be in alignment with the organization's technology strategy. There are a variety of technologies available to support talent management processes. However, support from the organization's IT department is fundamental to the successful deployment and long-term success of these technologies. Therefore, it is critical that the owners of the talent management and IT strategies discuss how their respective strategies will support each other. For example, if IT has a key initiative to globalize and consolidate technologies and vendors, this will have an impact on how the Talent Management organization does business and the technologies it uses to support its processes. Similarly, IT will likely have specific time lines and budgets for acquisition of new technologies, upgrades, etc. This will also have an impact on talent management technologies, including the Software-as-a-Service (SaaS) versus on-premise debate. While SaaS is the current fad, the idea boils down to lease versus own, similar to the debate you have with automobiles. After determining the projected use of the system in terms of life-expectancy and user count, an ROI analysis will help an organization determine the best approach. By working together and developing a joint strategy, TM and IT can help ensure that all needs are met to the greatest extent possible. Additionally, a governance agreement needs to be put in place for shared ownership/partnership on decisions that affect both areas to help ensure success for everyone.

## **Integration of Talent Management Processes, Systems and Data (TM + IT + Technology)**

Third, the Talent Management organization must focus on the integration of talent management processes, systems and data. Talent management can no longer be a group of disparate functional silos, because it is impossible to support key business goals in that manner. In addition, there is simply too much information to leverage across talent management functions. For example, employee data gathered during the recruiting process should automatically be utilized throughout the performance, learning, compen-

sation and career planning processes; there should be no reason to re-collect or re-input that data at any time. Results of performance review processes may drive learning assignments and compensation decisions, but they should also be used to analyze recruiting practices. Similarly, succession plans should also drive recruiting and learning and development activities. And all of the talent data should be fully integrated with the Core HR and Payroll systems to allow for a consistent and long-term view of employees regardless of where their career takes them within the organization. Ideally, the talent systems and core system should share a common data model to ensure consistency in processing and, ultimately, reporting and understanding results.

## **Development of a Solid Talent Management Analytics Strategy (TM + CIO)**

Finally, a successful talent management strategy will, ultimately, rely on a solid analytics strategy. The Talent Management organization must understand how it will measure the success of its own strategy, and how that success contributes to the goals and success of the organization. This requires the organization to establish key metrics for talent management success, and to tie those metrics to organizational goals. Once these metrics are established, the Talent Management organization must develop a strategy for gathering, organizing, analyzing, and presenting the appropriate data. Once again, this requires effective business processes, systems and data. Effective business processes will support gathering and maintaining/updating the data required for analysis. Effective systems will provide the mechanism for gathering and sharing that data. Of course, an effective analytics system will also be required to support the analysis of that data. Effective data means that the talent management system should share a common model. With these components, an analytics strategy will help the Talent Management organization prove its effectiveness and strengthen its position as a strategic business partner.

## **Talent Management Value – Using the Systems and Strategy to Drive Business Goals and Reap the Rewards**

So, now let's talk about measuring the value of an integrated talent solution. There are a number of ways to look at the value, so let's start off with a simple classification of

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soft versus hard value measurements. Soft benefits are those that are difficult to measure, but universally agreed to be present, like increased morale. Hard benefits are the ones you can measure more easily, like reducing a specific cost. In between you have things like productivity savings, which can be calculated but are sometimes difficult to measure without doing exact studies on how employees actually spend their time, so for this category you typically want to make an “educated guess” (based on agreed assumptions) and get consensus on the results from all stakeholders.

First, let’s start with some discussion on costs. Before you can fully understand the benefits of talent management, you need a clear picture of what the system has actually cost. Without that, you are only seeing half of the equation. When picking your talent system, you need to look carefully at all the costs associated with the system, which go beyond just the software costs. You need to consider hardware requirements (cost and maintenance), labor requirements to maintain the system, or multiple systems if you use a best-of-breed approach, long-term outsourcing/SaaS costs (go out at least five years), and up-front consulting and implementation costs.

Now let’s turn to the benefits side of the equation. What did you get for your money? Talent management can create a number of quantifiable benefits, which can be mapped directly to a financial impact for the organization, and improvement of the bottom line.

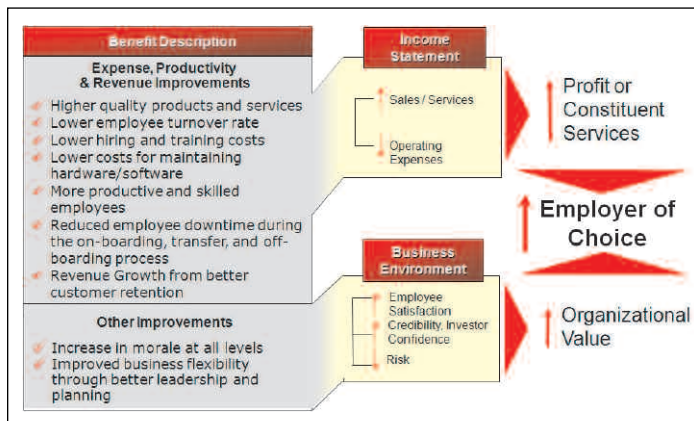


Figure 1. Examples of how Talent Management Benefits affect your Bottom Line.

Referring to Figure 1, the upper boxes identify most of the “hard” benefits you will want to investigate when considering a talent management solution. These items primarily reduce sales, general and administrative (SG&A) expenses for an organization. Sales, general, and administrative is the common accounting term for any “operating expenses” – so reducing a particular cost. Additionally, you will want to look for areas of functionality in the system that are going to reduce the amount of time required to complete certain tasks, which will create productivity gains for employees, managers and HR/talent management support staff. These indirectly reduce operating expenses as well by increasing the amount of work that can be

performed without adding additional staff, in essence keeping labor costs down. And lastly, you might be able to measure improvements to revenue, but these are typically an indirect benefit, such as improving customer retention through better service (by having a better trained staff) – a benefit that could be measured through satisfaction surveys over time. You should also take a good look at the usability of the software. Next generation applications are starting to include Web 2.0 capabilities, such as *hover over content* and *type-ahead search*, which will save an incredible amount of time by users, giving your organization a huge boost in productivity. Again, this would help to keep labor costs down. All of these areas affect the income statement and overall fiscal health of the organization.

Other improvements, noted in the lower boxes, are typically “softer benefits” and include items such as increased employee satisfaction, increased credibility and lowered business risk. These help add up to becoming an “employer of choice,” which adds to organizational prestige. They are typically areas of benefit that are harder to measure or quantify, but everyone typically agrees that they exist.

## The Benefits Sound Great, But How Do I Know They Are Real?

This is the million dollar question when it comes to any software investment, and in talent management this is extremely important since you are dealing with what is typically every organization’s largest expense and investment – people. The benefits we’ve outlined in this article are real, but you have to understand them and believe in them. The easiest way to do that is to put some simple calculations around them that everyone can examine and accept as reasonable. Here are a couple of examples that should help you get started. The key here is to not get lost in the equations, but come up with a method of measuring them that is simple enough to grasp while remaining reasonable and believable.

### Sample benefit #1: Reducing Incentive Compensation Overpayments

In this example, let’s assume you are integrating an incentive compensation solution into your talent management system. You know you have overpayments to sales reps in your old system due to the number of adjustments that are made to compensation, and you want to reduce or eliminate this expense (On average, companies without solid SIM solutions overpay commissions by three to eight percent – MarketScope for Sales Incentive Compensation Management Software," Gartner, July 2008). Assume your annual overpayment is three percent of total incentive compensation, your total incentive compensation payout annually is US\$40 million (based on US\$2B in annual revenue, with incentive pay = 10 percent), and you expect salaries to increase one percent per year. This gives you an annual overpayment of US\$1.2M per year (3% x \$40M). If the new system

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only reduces this to two percent overpayments per year, you save roughly US\$400,000 in the first year. The rationale for the improvement is that integration to source data, forced workflow approvals and commission plans, which are updatable by support staff, will reduce calculation errors.

### Sample benefit #2: Improving time needed to apply for a job internally

This is a labor productivity example, where online tools, Web 2.0 functionality, and self-service allow an employee to reduce the amount of time required to research and apply for a job internally. Let's assume employees spend an average of eight hours researching and applying for a job, and with the new tools above, it will allow them to shave off two hours per year in this process (easier access to job descriptions, self-service tools to apply, perhaps discussion groups or chat functions available to learn more about the job from your desk). Let's assume an average salary of US\$40,000 (burdened) for each employee in an organization of 10,000 employees, and 1,000 of them apply for another position a year. If each employee works an average of 1,880 hours per year, this equates to about US\$21 per hour burdened. The math is simple after this – 8hrs x 1,000 applications = 8,000hrs x \$21 = \$170,000 (approx). If you improve this by two hours, you have: 6hrs x 1,000 applications = 6,000hrs x \$21 = \$128,000 (approx). This yields a first year savings of approximately US\$40,000, or the cost of one employee. Carry this out over five years with a one percent salary growth rate and you have around US\$200,000 in savings.

These are just a couple of quick examples of how to start measuring your benefits and adding them to your business case.

### Building the Business Case for Integrated Talent Management

In today's incredibly competitive business climate, organizations must excel at the fundamentals of talent manage-

ment to stay competitive. From the onset of this recession and now (hopefully) as we climb our way out of it, it has become evidently clear that to be successful you must have a sound, robust talent strategy that can withstand swift changes in priorities and accommodate the diverse needs of a business. The organizations that have realized that vision and are in execution mode will not just survive through the bear market, but will survive for the long-term. If you don't feel your organization has achieved this vision quite yet, break down your approach into the four key elements of a successful strategy. These elements are the required foundation for a dynamic strategy that withstands constant change. The value of executing integrated talent is real and measurable. From improved compensation calculations, higher employee engagement, lower turnover, targeted hiring practices, increased productivity and lower costs, these benefits are being realized by organizations with the foresight to maximize the opportunity.

### About the Authors



Jay Richey brings more than 20 years of consulting, marketing, sales, and operations experience in the technology, public sector, and entertainment industries to his role at Oracle as part of the Human Capital Management Applications Marketing team. Prior to joining Oracle, Richey managed the business operations side of the State of Georgia's state-wide PeopleSoft HR/Payroll and Financials system. Previous to this, Richey was with The Hunter Group (now CedarCrestone) as a practice manager for both financials and HRMS implementations in both the public and private sector. He also managed the public sector vertical for Hunter in the Southeast U.S. Richey has implemented financial management systems for Turner Broadcasting and worked for the U.S. government in both operational and diplomatic roles.



Jason Livingston is a manager in Oracle's Talent Management Consulting Practice. He has 13 years of experience in solution design and development, including 10 years of PeopleSoft HCM consulting, specializing in talent management best practices. He has co-authored several white papers, regularly presents at HR user conferences, and works with many of Oracle's integrated talent management customers and prospects.



Chris Kirsanoff is the solution architect in Oracle's Talent Management Consulting Practice. He has more than 15 years experience in technology consulting and implementation, and he has been managing and implementing talent management solutions for 10 years. Prior to joining PeopleSoft six years ago, he worked in both the public and private sectors.