WHERE IS THE ROI FOR TALENT MANAGEMENT?

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Smarter People Investments

At a time when more money than ever is being spent on human capital technology and consulting, there seems to be scant data regarding the return on this investment as it relates to hiring, talent development and employee retention. The financial implications of talent management — improved quality of hire, greater productivity, reduced attrition — are enormous. It's simple logic that better hires will drive greater sales, service and ultimately economic profit. But ask your typical HR professional to explain results tied to such metrics, and the response usually includes a wide-eyed stare and murmurings that "systems don't talk," the "data is bad" or "we don't track that."

But is it really worth the time and effort?
This article addresses these questions:

- **How significant are the financial implications of talent management?**
- **How have we gotten to a place where it's so hard to measure results?**
- **What's the best approach to get from having no measures, to having consistent, value-added HR analytics?**

In our current economy, it is clear that talent rules.

Companies with the greater share of smart employees are winning. Shareholders pay much more than book value for companies with intangible intellectual capital. Compare the net worth of Facebook, Linkedin, and Google to that of General Motors, Best Buy and Caterpillar. Companies are deriving more and more value from the intellectual capabilities of their teams. "Knowledge workers" are to 2020 what manufacturing was to 1970. Except this group is in much shorter supply and is much more mobile.

Research from Corporate Leadership Council underscores the value of a great hire. A "superstar" produces 12 times more than an average performer. And a "star" performer is three times more productive.

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On the flip side, a bad hire actually hurts corporate performance. And let's pile on more data: A Deloitte 2012 study showed that **the cost of recruiting, hiring, and training a new professional employee can vary from two to four times the position's annual compensation**. Does that make sense?

Well, consider that every Googler is in effect expected to grow their fair share of the company's market value, which averages about $5.5 million per employee. On the other hand, on the industrial side, the market cap per employee at General Motors is about $250,000. Investment in human capital has taken main stage for good reason, but HR is still overly entrenched in an industrial context where labor's role was to support the value driver of that age — manufacturing assets. Today, intellectual capital is the value driver and HR has not yet been able to adjust to this new context.

You don't need to hire the very best for every role, but it's critical to do so for key leadership and revenue-generating positions. In fact, as Marijn Dekkers, the chairman of Bayer, was quoted in PwC's *Key Trends in Human Capital 2012*: "What is changing among Western companies is that the ability to hire, develop and retain talent has become a major point of competitive differentiation."

So with all this data — and the dramatic advancements in human capital technology, processes and data — it must be easy to track return on corporate investments related to talent management, right? Wrong. Consider these points, based on different PwC and McKinsey 2012 studies:

- 78% of CEOs plan to make changes in their talent strategy.
- Only 31% of CEOs surveyed said they were confident that they have the talent needed to grow their business in the near future.

- For the last few years — and looking forward — the priorities of CEOs related to talent hasn't changed:
  - Leadership Development
  - Succession Management
  - Talent Acquisition
  - Talent Retention
  - Strategic Workforce Planning
- The majority of CEOs believe human capital information is important but don't receive adequate data.
- And perhaps, most shockingly: **Only 32% of HR leaders have high confidence in their strategy or actions**.

Where else, within the confines of the corporate world, are huge investments made on a daily basis without the ability to quantify value, worth or results? Companies have calculated the cost of producing an invoice and how many pennies can be saved by sending versus discarding them. Supply chain systems have grown so complex, measurable and predictive that supplies can be tracked minute by minute as they travel across the world to their destination. Yet every day, employees are hired, talent systems are implemented, performance reviews completed, training boxes checked, and so on. All without the ability to measure their true effectiveness.

The Real Reason Why HR Doesn't Have A Seat At The Table

There are several reasons for this fundamental flaw in the way companies measure the effectiveness of their talent efforts — and much of it lies with the Human Resources function, according to the studies previously mentioned. There are three reasons why measurable progress related to talent management efforts, outcomes and predictability have been limited. Behind each of these headings is a story about how we've gotten to this place — and clues for what can be done to turn the ship around.

1 Lack of HR capability

Many corporations have few, if any, strategic positions dedicated to HR. They require that these positions take responsibility for a wide range of administrative burdens related to the processing of employee transactions throughout the company. The demands aren't financial or analytical in nature, because the companies don't position the function as such. Overwhelmed with personnel-related administrative responsibilities — and few demands tied to strategy or measurement — individuals in these roles are viewed as having low "authority." In turn, this causes them to struggle establishing credibility, assessing strategic opportunities and driving results-based change.

2 A Support Function Mindset

When jobs are tactical in nature, they appeal to people who like tactical work. Many HR professionals, when surveyed (and as reported in The New Talent Management Network's 2013 "State of Talent Managers Report"), indicate a preference for administrative, non-strategic work. They often have a low tolerance for risk and a limited sense of what they care to "own" or have authority over. Other studies indicate that HR professionals have a lack of confidence in their own skills and abilities, which (in general) leads to choosing administrative work over more strategic, analytical career opportunities. It's not a leap to tie these results and conclusions to the point from an unrelated study, already shown above: Only 32% of HR leaders have high confidence in their strategy or actions.

3 Inability to Link ROI to HR Work

And here is where it all comes full-circle. Non-strategic, administrative jobs attract tactical-minded people who prefer more rote, task-driven work. Couple this with the bona fide difficulty of obtaining accurate, people-related data (e.g., quality of hire, cost of attrition, ROI of learning investments, etc.) and you end up operating without understanding the value of your investments or recommendations for change. These leaders are unable to gather and use data to create business cases or build a "burning platform" for significant changes or investments in their company's talent strategy.

To further illustrate the reason HR lacks strategic leadership skills, consider these findings from that same "State of Talent Managers Report":

- Most HR incumbents are in the function because they want to help people
- Only 18% aspire to be CHROs
- 68% consider themselves to be "top performers," yet...
- 69% stated the have only a "slight" understanding of their company's business

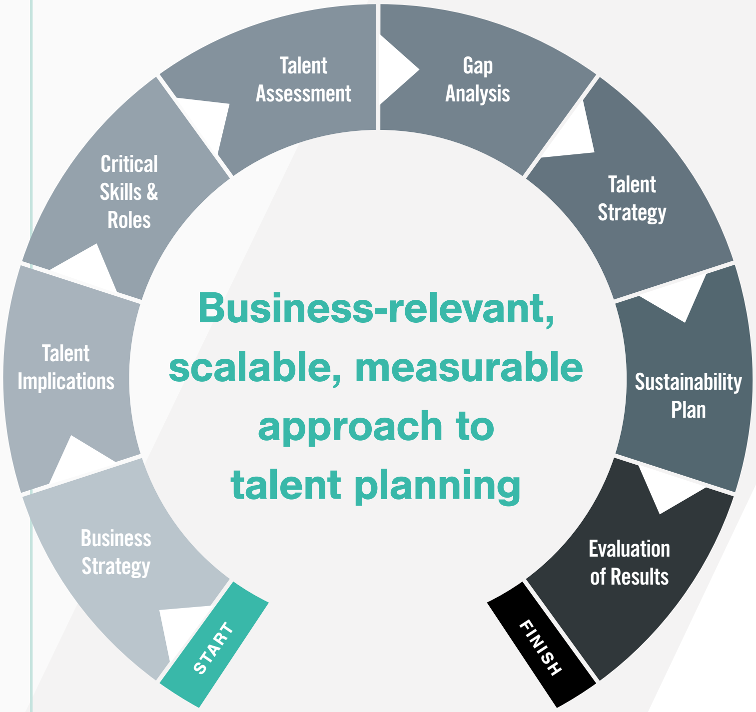
This survey data indicates that HR professionals' aspirations are measured, and their preference is more humanistic than capitalistic. Simply put, their love for and interest in people outweighs their love for and interest in the business. The profession is far from transitioning to the appropriate balance for an intellectual capital economy.

The Path for Improving

The path for improving doesn't lie solely within HR. It also lies with CEOs, COOs and CFOs. To contrast the industrial world with an intellectual capital one, manufacturing operations requires connectivity with Finance to understand what level of "investment" in manufacturing equipment makes economic sense and to jointly track the impact of those decisions. Likewise, it behooves HR to court Finance in a similar effort to understand how and to what extent financial results depend on human capital. In the absence of similarly common direction, HR is left as the tail trying to wag the dog.

When the C-Suite demands the same level of measurement and results from HR as it does from Finance, IT, Supply Chain, R&D, etc., the function will finally evolve and significantly upskill incumbents. HR should be responsible for the Talent Strategy in a way that is practical, scalable, measurable and technology-enabled. Nothing else should distract them from determining the answers to these questions:

- What are the talent implications of our business strategy?
- What is the state of our current talent? How accurately and thoroughly do we measure performance, potential, readiness and preferences? How sustainable and effective are these assessments?
- What will our specific talent needs be in the future — by role, functional area, emerging skill set, etc.?
- What is the plan for closing the gaps between our current and future states? To what extent should we "build" (develop from within), "borrow" (leverage contingent workers) or "buy" (acquire the talent in a traditional sense)?
- As a company, what do we currently do best? Build, borrow or buy? What will we need to do best two, five, ten years from now? How do we get there?
- How do we measure progress, activities, outcomes and return on our talent investments — including the people we hire?



If you're new on this journey, here are some recommendations to consider:

- Gain C-suite understanding, sponsorship and participation
- Focus on getting the process right first, before solving the technology need
- Start with your most "mission-critical" positions
- Strive for measurable progress, not perfection
- Don't neglect the details that will derail the desired outcomes

If you're further along, focus on these higher level results, suggested by PwC's "Key Trends in Human Capital 2012" study:

- Align your business plan and your talent strategy on a regular basis
- Face the future by looking at where your business is headed
- Pay attention to pivotal roles
- Focus on the financials and make measurement and predictive analytics a part of your plan

Regardless of where you are on the talent management continuum, **now is the time to be bold and reexamine the way you're managing talent within your organization**. Leaving it unchecked and unchanged will slowly chip away at the value and success of your business. ■

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Talent Growth Advisors, LLC is an Atlanta-based human capital consulting firm that helps companies drive improved results in talent acquisition and talent management.

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