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Taking Measure of Talent

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As business models change, the pressure to leverage the true value of human capital and better understand talent management grows.

Executive Report

IN TODAY'S KNOWLEDGE ECONOMY, an organization's workforce is its most important asset as well as one of its greatest investments. The management of human capital — the sum of a workforce's skill, knowledge and experience — is particularly important in a challenging economic environment, as companies push to improve top- and bottom-line performance while aggressively managing costs.

Yet in many companies there has been a lack of understanding and visibility into how human capital is managed — a shortage of analytical insights about where investments are made, what form the investments take, their impact, and how best to shift resources and practices. In a survey by Mercer, for example, CFOs reported that their organizations spent 36 percent of revenue on human expenses, but only 16 percent said they had anything more than a moderate understanding of the return on human capital investment. In a similar study of 3,000 senior managers, executives gave their firms low marks when describing the employee-related data they need for decisions. The gap between the data they needed and actual quality of the data they received, leaders said, was more than 50 percentage points.

Clearly, these business leaders, including HR executives, are concerned that they are not making decisions with the same rigor with which they make decisions about marketing, supply chains or product strategies. And without clear metrics and a deep view into data on the workforce, the organizations have not had business intelligence reporting on their key assets — and have not had access to insights to create strategies to drive better business performance.

There are clear associations between a company's financial performance and strong talent management practices when they are targeted to real business needs. A global study by McKinsey & Company found that companies that scored highest in global talent management practices earned significantly higher profit per employee — almost 30 percent — than those companies that scored lowest on the human capital measures.

A new 2011 report by the Aberdeen Group makes a more explicit tie between the technology and new analytic practices. The report said that companies with human capital management reporting and analytics solutions in place achieved an 11 percent or more increase per year in profits and a 6 percent improvement in revenue per employee in the same time period.

Companies with superior visibility into their workforce can target areas providing business leaders with insights for strategic decisions.

This unified data-driven approach can optimize both efficiency and strategic impact of human capital decisions, says Ravin Jusethan, a partner at Towers Watson and co-author of *Transformative HR: How Great Companies Use Evidence-Based Change for Sustainable Advantage*. He compares this move to an HR culture of inquiry and quantification to the shift to evidence-based medicine movement, where doctors design patient treatments based on large data sets about the efficacy of each treatment. Data-driven human capital management, using rich veins to data, can similarly help executives make better people decisions that ultimately lead to a sustainable competitive advantage.

“It hardly seems like a radical notion, but human nature is such that people, even doctors, do not always behave with scientific rationality, choosing instead to rely on instinct and what might have worked once before. By using evidence-based change, HR is better equipped to make decisions that are based on well-grounded evidence, rather than gut feel,” says Jusethan.

In making human capital management a competitive advantage, companies are now bringing together their HR databases, corporate financial statements, employee surveys and other sources in a unified view, and deploying analytic methods so that executives can get to vital questions, debates and answers in key areas such as:

- What are key levers in engaging and retaining the talent that are critical for the growth of the business units and the company? Where should key investments be made? How are dollars spent in development and training aligned with overall strategy?
- How can the organization understand the skills and capabilities in the current talent pipeline, forecast workforce needs, predict gaps and understand the viability of outsourcing as new strategies emerge?
- Where can companies quickly identify and deploy the right employees as growth opportunities arise around the globe? How can succession planning be better aligned with strategic goals?

The move to deploying business analytics as a key part of human capital management is still growing. Indeed in a recent talent survey by Deloitte, about 39 percent of the companies said they had pilot programs in deploying HR/talent technology, and 27 percent said they were implementing an HR technology strategy in the current year.

Those companies that have put implementations in place, however, are already reporting impact in areas such as reducing turnover, increasing engagement, designing more effective development plans and helping business leaders in making strategic decisions.

At Intuit, the financial and tax software firm, workforce intelligence has been key in identifying the most important drivers in the engagement and retention of engineers — who are the core of Intuit’s business — thus driving down costs of turnover.

Such information has clear bottom-line impact. Estimates of the total cost of losing a single position to turnover range from 30 percent of the yearly salary of the position for hourly employees, according to a research study from Cornell University, to 150 percent, as estimated by the Saratoga Institute, and independently by Hewitt Associates.

“With leaders focused on accelerating business growth through talent management, we can answer their questions about organizational make-up, about key jobs, and how to deliver the right experiences for employees to be engaged and productive,” says Jennifer Hall, vice president of HR at Intuit. “As an HR leader, I also can provide quantitative insights to make sure we consider long term talent strategies, as we solve short-term operational needs.”

At Flextronics, the electronics manufacturing services company with 200,000 workers in over 30 countries, “the ability to have a unified human capital view will be an important factor in the company’s talent strategy,” says Debi Hirshlag, vice president of human resources.

The centralization of global data helps Flextronics leaders gain an accurate picture of the talent pipeline, labor costs and skills as the company has weighed both consolidation and expansion opportunities globally.

The next goal is to unify information around all HR functions, including learning, performance, and career planning in order to offer individual development plans, says Hirshlag.

Hirshlag says, “this could be a major benefit, especially in emerging markets, where compensation is often the primary differentiator in selecting an employer and workers are eager for training. That’s talent management right down to the grassroots level.” She says, “we operate in some of the toughest competitive talent markets on earth. This could be a true competitive advantage.”

Such strategic deployments of workforce analytics are clearly moving the human resources leader from working as a manager of transactional data, to a key partner, with the CFO and senior leadership, in strategic decision making, says Jeremy Shapiro, co-author of *Competing on Talent Analytics* and a senior vice president of human resources at Morgan Stanley.

“It’s still new, in the sense that we’re just beginning to connect the dots in the data so that it can be used to make those decisions that make a huge difference,” says Shapiro. “But we have the potential to change the way we think about how companies are managed. And investors and analysts will be looking at this, asking for more transparency, so this practice can only grow.”

CONNECTING THE DOTS: LINKING PEOPLE, PERFORMANCE AND STRATEGY

As companies have shifted business models and searched for new revenues in the wake of the recession, many business leaders are adjusting their strategies to meet the shifting demands, requiring a major shift in talent deployment. At the same time, the pressures to quantify the true cost of human capital and better understand the talent management levers that produce superior results have increased.

The pressure to make the link between financial performance and talent management is expected to continue.

With key measures and data in place, HR leaders in these companies have the information that can quickly align strategy with execution. They are using HR technology systems and analytics to create a “workforce intelligence” that can be embedded in business processes ranging from staffing changes, compensation review, performance review and talent assessment to workforce planning. Deep contextual information can now be quickly assembled, on business units, talent pools or individuals, to understand and address challenges on a number of fronts:

Understanding and Controlling Costs

When HR technology emerged on the market, offering to automate and manage core workforce transactions such as benefits, attendance and payroll, much was made of the ability to reduce staffing and time costs. But companies that use integrated information are applying analytics on more strategic issues.

At Flextronics, company executives can access real-time data on compensation, performance, and tenure, which will then be overlaid by information on skills for workers at factories around the world, as they consider targets for expansion. They also will be able to review talent pools and employees’ language, education and ability to relocate, in order to understand what skills are inside the company versus which must be acquired through developing current employees or hiring. “Before we had an infrastructure in place, this information was decentralized, hard to gather, and in such a variety of formats that reporting and analysis were nearly impossible,” says Debi Hirshlag.

Companies that have visibility into their workforce capacity, costs, capability and quality are using this information to build flexible labor models. A recent survey of HR leaders found more than half of executives said they anticipate a shift toward the greater use of variable versus fixed costs, including the workforce. They expected to use techniques such as outsourcing, offshoring and the use of temporary workers. Understanding the need for such workers and the true costs is vital.

“When a leader asks me, ‘Where do I find the talent so I can deliver on the strategy,’ we can talk about the skills we have today, the skills we think we will need in the future, and then about various options for delivering that talent,” says Intuit’s Hall. Similarly, at Superior Energy Services, an oilfield service, the HR leader used predictive modeling — the process of creating a statistical model for predicting the probability of an outcome to identify the best chance of stemming turnover in its blue-collar workforce — leading the company to invest in more supervisor training and coaching.

The result? Turnover is down significantly in two of the three business units where new processes were put in place. “We were at 34 percent turnover in one, and we’re going to hit 26 percent to 18 percent this year,”

Ray Lieber, HR vice president at Superior Energy Services, told *HR Magazine* earlier this year. “Even an improvement of three to four percentage points will show up in the profit-and-loss statement.”

Similarly, by keeping track of satisfaction levels of delivery associates and modifying some practices, Sysco was able to increase retention rates from 65 percent to 85 percent, saving \$50 million in hiring and training costs.

In another industry, Caesar’s, the casino chain, uses analytics to evaluate the value of its health and wellness programs and its impact on employee engagement and the bottom line. According to a recent *Harvard Business Review* article, the data shows absentee days are down, engagement is up and preventive care visits to its on-site clinics have increased, lowering urgent care costs by millions of dollars over the past year. But Caesar’s is also watching just how much the increase in employee engagement will result in customer satisfaction and top-line revenue at each of its locations.

The ability to look at “total human capital costs” is a major benefit from human capital management, as companies can incorporate additional kinds of human resource data into their models. For example, at Saudi Aramco, *HR Magazine* recently profiled a project where workforce projections factor in the usual workforce costs and include the corporate resources required to recruit, hire and train new staff as well as mentor employees during their careers.

The pressure to make the link between financial performance and talent management in every area — from training to benefits to compensation — is expected to continue.

A recent study by the Society for Human Resources found that CFOs have significantly increased their involvement in HR since the recession. “CFOs are focused on cost expenses and maximizing the value of any expenditure,” says Paul McDonald, senior executive director of Robert Half Management Resources in Menlo Park, California. “The costs of human capital have risen in importance in many organizations, as revenue has been harder to come by.”

Forecasting — and Closing — the Gap in Supply and Demand for Talent

Despite high unemployment rates in the U.S. and elsewhere, many executives are experiencing talent shortages in key skill areas, such as engineering, that are key to innovation and growth. In a recent study by Deloitte, nearly three in four executives surveyed predict talent shortages in R&D, widely viewed as an engine for growth. The ability to forecast the talent pipeline and adapt is increasingly important.

Some companies, dependent on such highly trained engineers and scientists are using tools for workforce planning. A recent *Strategy + Business* article described how Dow Chemical mined historical data on its 40,000 employees to anticipate workforce needs throughout the chemical industry’s volatile business cycles. It forecasts promotion rates, internal transfers and overall labor ability. The company segments the workforce in different age groups and job levels, forecasts shortfalls, and has created a talent acquisition and development program to address shortfalls.

Likewise at Aviva, the U.K.-based financial services company, the HR leaders have used data on its 40,000 employees to analyze the current and future skills needed as the company refreshed its strategy. The information is crucial to the company, which has a strong focus on talent stewardship, to target development, whether by department, by region or by individual.

The pending retirement of baby boomer leaders, coupled with a shortage of high-skilled workers, has executives worried about their talent pipelines.

“How do we know we are developing the right skills, the right people for the future?” says Carole Jones, head of HR for Aviva. “Being a global organization, we have to define the very technical skills and abilities needed in a job, but also the skills that we can help them develop to be really excellent. When we can cut the data in a different way, we can see where we need to bring in talent, where we should focus development efforts.”

The company also can track managers’ participation in the development and promotion of employees, with a goal of identifying and rewarding those managers who have a good track record for developing talent.

At Intuit, Hall says the technology-empowered skills inventory for each employee, filled with data on education, previous jobs and skills, helps the organization create better development plans and helps employees develop a career path.

“As an employee, it helps me understand what I need to do well and where I need to grow, but it also helps me as a manager when I am providing coaching to members on my team,” Hall says. “We know there is a strong connection between an employee’s engagement and his/her perception that the company is committed to their work and career growth.”

Identifying and Developing New Leaders

In a complex, global business environment, the pending retirement of baby boomer leaders, coupled with a shortage of high-skilled workers, has many executives worried about their talent pipelines. According to *Talent Management* magazine, 60 percent of organizations report that developing this talent is their greatest challenge.

While every role in an organization aims at the mission, some jobs can have immediate impact on business performance. The organization needs to find people who can fill those roles and ensure there is a proper culture fit as well. All this comes down to having a clear picture of the skills, behaviors and competencies required to drive success.

At the Four Seasons hotel chain, “The ability to identify and develop leaders who are highly skilled, able to move to open positions and manage a growing number of hotels — currently 85 properties in 35 countries — is crucial,” says Mary Sullivan, vice president of HR. The company’s senior leadership sets aside time weekly to review global talent decisions. This is particularly important as Four Seasons frequently moves people to different properties so emerging leaders can acquire different experiences and skills.

With so many locations, people and skills in play, the HR technology system has helped Four Seasons build on its succession planning database with real-time data about the individual's compensation, development plan, skills, languages, personal preferences, and employee satisfaction reviews. While that helps inform decisions around talent moves, the company also is building online development programs that help employees understand and develop skills important to their leadership profiles.

"In the past, development and promotion opportunities rested in the hands of a very few senior people in the company, who had deep personal relationships with employees around the globe," Sullivan says. "As we have grown, that approach is not sustainable, and is likely subject to bias, simply because of scale. With the benefit of additional metrics on our people, and increased visibility of those metrics, we are able to develop a single lens into the talent decisions that we face — who is the best candidate, where do we have gaps in our talent pool, what work do we need to do now to satisfy future leadership needs."

Building a Strong Strategy for Attracting and Retaining Employees

In a highly competitive environment, it is crucial for companies to understand just who their key talent is, who is at risk for leaving and what strategies are best for retaining those employees. This has major implications for where companies should target incentives, focus on development and monitor employees, beyond the traditional performance review.

In the past, retention data has often been treated as a "lump sum" rather than providing segmented information to target investment. For instance, a 2008 survey from Hewitt's Human Capital Institute found that 92 percent of organizations measured total turnover and over 43 percent reported tracking turnover of high performers. Yet there are direct impact cash flow consequences on the bottom line for identifying where organizations have turnover, particularly in critical roles.

As Fred Reichheld, author of *The Ultimate Question 2.0* says, "Employee retention is not only critical for cost-efficiency, but an important factor in revenue growth as well, because of its direct link to customer acquisition and retention."

Getting the right information — beyond traditional HR data — in order to answer the right questions goes to the heart of workforce analytics. At Intuit, the company uses their technology and surveys to closely track employee engagement data, to examine the way that employees feel about their environment, their work assignment and their manager. Those numbers can then be compared with business outcomes and rates of attrition in each unit, as well as unit performance.

"We've always looked at overall attrition, but when you're able to break it down, you get the kind of visibility that allows you to see where more people are leaving and understand the reasons," says Intuit's Hall.

Such data reviews can surprise managers, Hall said, even when they think they are doing a good job delivering on their talent strategy — a function of workforce analytics that one HR leader calls "institutional myth-busting." At Intuit, for example, leaders know that engineers, who are crucial to the company, can clearly see growth opportunities by working on different projects and moving into different groups. But when the data was examined, Intuit found some groups of engineers were working three years or longer for the same manager — and not getting the needed exposure to new work. "That surprised us and some of our managers

too!” said Hall. “Typically you might look at high rates of retention in a unit as desirable, but insights from this data has led us to shift our mindset to consider the impact of mobility on long-term retention.”

CONCLUSION

It is clear that leading organizations are recognizing the value of a unified human capital management system, and those that are moving into implementation are already recognizing the benefits. Empowering managers and employees with the right information and business insights can have significant bottom-line impact. Research from Towers Watson, for instance, found that companies in the process of implementing integrated talent management programs are gaining a competitive edge with their ability to provide support for key talent decisions, automate talent management process, track costs and results of their human capital program, and reduce the effort of deploying effective processes, allowing HR to focus on business strategy.

The research also found these companies were:

- 18 percent less likely to experience problems retaining top-performing employees
- 33 percent less likely to experience problems retaining critical employees
- 18 percent more likely to be a high-performing organization

As the same research points out, integrated talent management remains very much a work in process. HR leaders, working with the CFO and other senior leaders, are just beginning to understand how they can exploit all the benefits of the technology that range from increasing employer agility in workforce deployment, to shifting reward designs, to developing a personalized delivery system for the career management and development programs.

In order to garner the full benefits, HR leaders, CFOs and other senior leaders will need to see human capital data as a strategic resource and use it to guide the questions that lead to the best decision making. It’s clear that just capturing and compiling human capital management data is not enough: Organizations will need the skill to turn the data into actionable recommendations and decisions that drive better business performance.

“You can have all the information and all the dashboards, but it will be a useless expense and exercise if the organization isn’t asking the right questions and monitoring the right numbers — the numbers that mean the most to that organization,” one HR leader says.

But few doubt the great potential in the ability to quantify human resource processes, integrate them with important company data and ask objective questions about what works best in human capital management.

“No organization I’ve worked with has an analytics-only method of managing, motivating and retaining employees,” says Jeremy Shapiro. “But early adopters have created tangible value for themselves by applying the right data and tools to people processes. Those are the companies gaining a hard-to-replicate competitive edge.”

People Are the New Bottom Line

A huge problem exists in many organizations: People can represent the largest expenditure for the business, but they are often the least optimized part of the organization — a situation largely due to inadequate talent management systems and practices that fail to deliver comprehensive visibility into the workforce. Rather than empowering the workers who deliver revenue and drive growth, the systems at most organizations are stifling these workers.

Given the importance of talent, why aren't business leaders demanding better workforce insight? Other areas of the business get timely, consistent and valid data — when business leaders want information on cash balance, inventory or the sales pipeline, that information is readily available. So why is it acceptable that data about people — the workers who make business run every day — be spread out in multiple disparate systems?

Fortunately, many executives are recognizing they don't know enough about their workforce. In fact, the importance of talent continues to surface in executive surveys. Take Deloitte's Talent Edge 2020 report, which observes:

“...as companies worldwide struggle to move beyond the great recession, many executives recognize the need to develop talent strategies to meet the demands of the 'new normal.' With trends such as globalization and the aging workforce gaining traction during the recession, global talent leaders are now focused on finding the right balance between economic realities and investment requirements as they position their companies for success in the next decade.”

We need to put the tools in the hands of the business leaders. Many HR organizations today are actively developing talent dashboards and deploying costly business intelligence systems for their business users. However, this approach doesn't go far enough because the resulting data is often disconnected and out of context of the business process it is informing. To deliver truly exceptional change, HR needs to provide business leaders with workforce intelligence in the natural course of business. Analytics should be available on their tablet devices and be deeply embedded throughout business processes such as a staffing changes, compensation review, performance review, talent assessment and workforce planning.

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