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# Effective Talent Management Has Become an Essential Strategy for Organizational Success



HR. Payroll. Benefits.

# Introduction

This white paper has several purposes: 1) present a basic understanding of what talent management is and why a talent management strategy is vital to just about every employer; 2) show why and how organizations should measure the effectiveness of their talent management strategy; 3) examine the relationship of effective talent management to increasing owner/shareholder value; and 4) present ways to support a talent management strategy with technology that can help you achieve competitive advantage.

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## What is talent management?

In the broadest sense, talent management has been described as “a deliberate and ongoing process that systematically identifies, assesses, develops and retains talent to meet current and future business needs and objectives.”<sup>1</sup> Stated another way, it is about putting the right people with the right skills in the right position at the right time. Talent management begins as soon as recruiters identify potential hires and continues throughout a person’s tenure as an employee of the hiring organization.

## Why do employers need to develop a talent management strategy?

- First, talent and leadership continue to be scarce. Fewer qualified workers and leaders are entering the workforce to replace aging workers and leaders who are leaving to retire. According to The McKinsey Quarterly, the business journal of management strategy thought leader, McKinsey & Company, “Ten years after McKinsey conducted its War for Talent research, the 1997 study drawing attention to an imminent shortage of executives, the problem remains acute – and if anything has become worse.”<sup>2</sup>
- Secondly, talent management practices of the 20th century need to be rethought to keep pace with the reality of a rapidly changing 21st century business environment. Peter Cappelli, a management professor at the University of Pennsylvania’s Wharton School of Business, explains, “You didn’t have to make year-end adjustments back then. But these days, demand can change within a year. Authority and accountability are pushed onto individuals and not systems, and career mobility across companies is high.”<sup>3</sup>
- Lastly, the way you manage talent can be a game-changer for your organization as business owners and shareholders comprehend the link between keeping the best talent and achieving the best results. As the Human Capital Institute reports, “More investment analysts and company directors are demanding to know about engagement levels, segmented turnover data, and the types of developmental opportunities for top talent.”<sup>4</sup>

## Should an organization measure its talent management strategy?

Successful organizations evaluate the worth of every investment. Talent management is no exception. The question is not whether you should apply metrics to measure the impact of your investment on performance. It is purely a matter of selecting which metrics will make the most sense for your organization. For example, an advertising agency may focus heavily on revenue per full-time employee. A hospice may focus on how much it costs and how long it takes to hire

full-time visiting nurses. For a manufacturing company, the emphasis might be on how much time it takes new employees to cross the threshold into full productivity.

## Is talent management an objective or a journey?

Much like a company’s commitment to provide world-class service to its clients, effective talent management is far more than a business goal or objective with a beginning, middle, and end. It involves a perpetual journey toward consistently higher levels of performance efficiency – a process that helps employers succeed by staying ahead of the curve of an ever-changing business environment. In some cases, this may involve strategically leveraging workplace trends for long-term benefits. For example, according to a report in HR Magazine, home improvement retail giant, The Home Depot, prefers to focus its staffing activities on attracting older workers, because it feels older employees are a stable and available, high-quality talent pool.<sup>5</sup>

## Can the integration of technology into your talent management strategy help you to move more efficiently toward your goals?

Talent management, supported by integrated technology solutions, can be a real process changer. For example, integrated solutions should allow personal data collected during recruitment and onboarding to seamlessly populate applications such as payroll, core HR, and benefits administration systems. An integrated talent management suite allows managers through C-Level to make talent decisions using real-time data such as such as available bench strength and readiness, which can mean the difference between keeping and losing top talent to competitors. It is essential to always keep in mind that talent management is about meeting the strategic needs of the organization by having the right people positioned in the right jobs now – and ramping up top talent for future assignments that will help the organization meet or exceed its down-the-road goals. A significant danger is in making talent management techno-centric, when managers form the impression that technology itself will make strategic decisions for you. Technology itself does not constitute a talent management strategy. While the right technology can be a very valuable tool, people ultimately are the decision-makers.

# Actively Engage the Components of Talent Management to Maximize the Length and Quality of the Employee Life Cycle

For every organization, the bottom line is to attract and retain the people they need for the long term. That's no short order says one global consulting firm who predicts that 75 million workers in the United States will retire in the next decade and be replaced by a talent pool of just 45 million. <sup>6</sup>

In the face of this talent shortage, how do you achieve your long-term talent management goals? By creating a talent management strategy – a blueprint or master plan that helps you to identify, evaluate, develop, and keep individuals who can bring the special and sometimes unique skills you need to help your team succeed.

An effective way to understand the broad concept of talent management en route to developing your own talent management strategy is to recognize its basic components – applicant management, performance management, learning management, compensation management, succession planning, and social networking. Once you have gained an understanding of each area and have developed a strategy (you'll find plenty of advice from consultants and vendors on how to physically draft one), then it is time for your consistent, active engagement in each area to maximize the quality and length of the employee life cycle for your top talent:

**Applicant Management** – provides a view to the talent pipeline and tracks applicant progress from the time they apply for a position and interview to the ordering and retrieving of assessment and background screening results through onboarding.

**Special Tip:** Establish separate strategies to fill your high-volume and low-volume positions.

**Performance Management** – motivates and supports employee performance, and aligns individual goals with department/group objectives and the strategic goals of the entire organization.

**Special Tip:** Plan regularly scheduled performance reviews – perhaps twice a year – to provide your organization with an opportunity to identify and nurture top performers. This will also allow you to reinforce alignment with management goals, reward your best performers with higher compensation, and present them with more challenging objectives to benefit the organization.

**Learning Management** – creates, delivers, and manages personalized training via blended learning programs to help employees contribute fully by attaining and mastering higher individual competencies for current and future roles.

**Special Tip:** Utilize personalized "learning maps" that enable employees to develop specific core skill competencies for future as well as current roles.

**Compensation Management** – rewards behaviors and outcomes that the organization desires and requires most.

**Special Tip:** Adopt a "pay for performance" compensation plan that ties individual goals and achievements to the organization's objectives and performance. If you already have such a plan in effect, keep refining it for maximum benefits for top employees and your organization.

**Succession Planning** – identifies and prepares individuals to replace people who leave the organization or move to other positions within the organization.

**Special Tip:** Identify key positions at every level from the corner office through each department, begin your "what if" planning before essential people leave current roles, and consistently update your key positions list, including any changes to a position's required competencies and requirements.

**Social Networking** – enables more effective on-boarding, greater workplace collaboration, improved employee performance, innovation, organizational memory, professional networking, and better communication across the employee base.

**Special Tip:** Automate and integrate your social networking capabilities to achieve real-time access to people and information that can give your organization a competitive edge. Integration also helps to avoid the danger of "siloeing" people and applications through manual processes or standalone automated applications.

Talent management strategies are typically the product of customized local thinking. Expect no universal template that provides a silver bullet plan. According to Ernst & Young, "Talent management programs run the gamut of maturity, sophistication and complexity. The most basic 'program' simply focuses on identifying individuals to fill open positions. At the other end of the continuum is a fully integrated approach that addresses all facets of the employee life cycle in advance of need and based on readiness, competencies and experience." <sup>7</sup>

## Measure Results – ROI is a Requirement

What do the following examples have in common?

- A leading retailer doubles its number of stores and wants to know if the move is resulting in more customers and increased revenues.
- A growing airline increases its flight schedule in search of greater market share and wants to know if more travelers indeed are choosing its flights over those of the competition.
- A large restaurant chain offers free appetizers with dinner and wants to know if that investment is growing the total number of return patrons and those that spend over a specific amount per visit.

Answer: Successful organizations always measure the effectiveness of all their strategies. In each case, the business applies "metrics" – i.e., a system of measurement – that are relevant to their business or industry to determine their return on investment (ROI).

Some organizations create specific measurements that apply to their unique corporate cultures. In an HR Magazine article, Nancy R. Lockwood observes, "Pfizer, for example, developed three primary talent management objectives – strength of leadership team and pipeline, robustness of talent management processes, and development of talent mindset and values – with corresponding drivers and metrics. One metric used to evaluate the robustness of talent management processes is the percentage of key position holders with individual development plans."<sup>8</sup>

Metrics, in fact, help you understand the success of your program, justify the ROI, and are the best way to communicate data to C-Level executives. These measurements of progress are a key part of their lexicon and technology is bringing that information to them 24/7 on their laptops, desktops, and PDAs.

Notes The Boston Consulting Group, "Many executives today have 'dashboards' on their computer desktops that provide a quick picture of their company's traditional financial and business performance metrics. These dashboards should also highlight quantitative and qualitative HR metrics. Quantitative metrics could include employee attrition, recruiting success, or the value added per person – a new measure of productivity. Qualitative measures might include scores from employee surveys assessing leadership and employee engagement."<sup>9</sup>

## Is Talent Management a Proven Organizational Success Strategy?

Yes! Talent management is a successful business strategy – for organizations that see it as a long-term commitment.

Reflecting on the realities of the post-2008 economic environment, the chief executive of a professional training and coaching company said that talent management strategies by definition must remain long-term, insisting, "The talent leader's focus goes beyond surviving until 2010; it's about thriving in 2015 – a goal only met with a solid leadership team and strong bench strength."<sup>10</sup>

Some impressive household names from the corporate world also agree with that long-term view. Reports Ed Frauenheim in Workforce Management, "Despite an economy in turmoil, millions of jobs lost and sagging employee confidence nationwide, there's no reason to panic, say HR executives at some of the largest corporations in the world. The top people officers of McDonald's, Coca-Cola and Caterpillar are largely sticking to strategies for talent management developed before the recession got ugly in late 2008."<sup>11</sup>

Moreover, employers that adopt and consistently renew their commitment to and investment in long-term talent management are doing all they can to have high visibility among available best-in-class talent. In his article on talent management, Frauenheim quotes Caterpillar's Chief HR Officer, who emphasizes this view: "We're still going to spend \$1.5 billion on research and development this year. So we know that we have to have a good pipeline of engineers in the good years and the bad. And we're absolutely committed to keeping that going."<sup>12</sup>

**Measuring the success of talent management is no exception. Standard talent management metrics, which connect investments in human capital with the immutable facts of financial performance, might include:**

1. Overall talent retention rate
2. Cost to hire talent
3. Time it takes to hire talent
4. Average tenure of new hires
5. Time to full productivity per full-time employee
6. Revenue per full-time employee
7. Impact of voluntary and involuntary employee loss rates on revenue
8. Diversity statistics
9. Number of senior positions and the depth of bench strength
10. Number of promotions made from within the organization

There is mounting evidence that draws a distinct relationship between great talent practices and better shareholder returns. Some of the best substantiation has been gathered by the strategic advisory firm The Hackett Group, which backs up with solid research the strong, intuitive case for developing and retaining a talented workforce.

Their research reveals, "Companies with top-quartile talent management outperformed typical companies across four standard financial metrics. They generated EBITDA (earnings before interest, taxes, depreciation, and amortization) of 16.2 percent, versus 14.1 percent for typical companies. This gap netted a typical Fortune 500 company (based on \$19 billion revenue) an additional \$399 million annually in improved EBITDA. On average, top talent management performers also generated \$247 million annually via a 22 percent improvement in net profit margin, \$992 million annually through a 40 percent improvement in return on assets, and \$340 million annually via 27 percent improvement on equity."<sup>13</sup>

Presenting additional evidence of the value of effective talent management from more of a "survey" perspective are the various "Best Companies" lists published by business news and information outlets. Chief among these forms of recognition are FORTUNE Magazine's annual "Most Admired Companies" lists. Each year, the magazine surveys thousands of executives and industry analysts, asking them to evaluate publicly held firms by applying nine benchmark qualities to test how much recognition each company should receive.<sup>14</sup>

The connection to talent management is readily apparent. Two of the nine qualities highlighted by FORTUNE – the ability to attract and retain talented people and long-term investment value – are the basic cause and effect of a successful talent management strategy.

# How to Plan and Activate a Talent Management Strategy

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Successful organizations know their talent management needs because they have designed and implemented a viable talent management strategy. Here are some ways HR leaders can go about planning and activating a talent management strategy.

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- 1.** Engage your top leaders – including your CEO. Explain why your organization needs a talent management strategy, outline your goals, tell your leaders how you will measure success, and ask them for their full support.
- 2.** Assign a talent leader. Designate a senior-level person to develop, consistently update, and champion your organization's talent management strategy.
- 3.** Audit key positions and required competencies. This will help you understand your talent bench line – existing talent (headcount and skills) to meet current goals.
- 4.** Map out future needs. Involve talent management in your organization's strategic planning meetings to determine talent requirements for future needs.
- 5.** Use automation to improve processes and workflow. Support your programs with technology, but do not expect technology to be a surrogate decision-maker.
- 6.** Put relevant metrics in place to measure success. Regularly share results with your organization's senior leadership with recommendations for improvement.
- 7.** Launch your talent management strategy with direct CEO support. Ask your CEO to personally announce your organization's talent management strategy. This will signify the strategic importance of talent management planning and programs to everyone in the organization.

Organizations are increasingly turning to technology and technology-assisted processes to help achieve maximum benefits from their talent management programs. According to the results of a 2009 Watson Wyatt survey, more companies are planning to convert some or all of their existing talent management processes to automated, integrated solutions. The consulting firm reports that about a quarter of firms surveyed have said they intend to avoid the temptation to integrate existing technologies and "will start from scratch with a new integrated suite."<sup>15</sup>

The key question for these firms and others like them is how they prefer to achieve that goal.

Organizations can support an integrated talent management strategy by building, staffing, maintaining, and upgrading an in-house system. Or they can choose a service provider partner that can offer technology and services in a model that reduces IT costs, while increasing administrative effectiveness. The decision to go one way or the other depends on hard-dollar factors that may range from headcount to total cost of ownership, as well as C-Level preferences based firmly in an organization's business culture.

Business cultures that embrace in-house ownership place significant emphasis on maximum control and customization. While a business leader or manager may place high value on these beneficial factors, it also comes with a price. For example, system ownership includes more than keeping a system running and providing data to users. Among other things, it also includes responsibility for hosting, upgrades, and maintaining the regulatory compliance and security of every aspect of the talent management process, from recruiting and onboarding to compensation and performance management.



On the other side of the coin are employers who typically look to minimize their investment in hardware, software, and staffing through a service provider relationship, which may include a hosted or software-as-a-service model as well as direct support for HR practitioners. Equally important, a service provider relationship essentially shifts the cost and risk of system ownership to the provider. Client companies generally pay a monthly subscription to use the solution (or suite of solutions). System maintenance, software upgrading, and other costs are the responsibility of the provider.

## Selecting a Service Partner

Employers that prefer service-based solutions should consider a provider that has a leading reputation for delivering products and services to best meet their expectations. If you select a service-based approach, opt for an integrated suite of automated solutions over standalone applications for maximum workflow and efficiency. Equally important, be sure to integrate your talent management suite with the broader set of HR applications, such as HRMS.

The integrated user experience should extend from employees (self-service access to the data they need) to integrated reporting across systems, which would benefit your practitioners.

ADP is one of the major providers of business outsourcing solutions in the marketplace. It offers a focused set of market-leading services that address payroll, HR, and benefits administration – including an integrated talent management suite. The suite – which complements ADP’s HR and payroll services – focuses on applicant management, performance management, learning management, compensation management, succession planning, and social networking. ADP is well-positioned to integrate the talent management suite with segment-specific HR applications, because the company’s capabilities consistently focus on serving the specific needs of organizations of all sizes – small, mid-size, and large organizations.

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## Are You a Likely Candidate for an Outsourced Talent Management Solution?

Can I improve my organization with an automated, integrated talent management solution suite? If after reading this white paper you are still not sure, consider these specific follow-up questions:

1. Do we have a productive, cost-effective talent management strategy in place?
2. Does our strategy engage automation and integration to reduce manual administrative tasks and improve workflow?
3. Are we confident that our talent management-related administrative processes comply with government rules and regulations?
4. Are we utilizing the right metrics to measure the success of our talent management strategy?
5. Have we established a targeted return on investment for our talent management programs?
6. Can our C-Level decision-makers access the information they need to measure our talent management effectiveness?
7. Are we confident that our talent management programs give us a competitive advantage?

If you responded “no” to just one of these questions, your business might well be a candidate for an integrated talent management solution. Responding “no” to more than one question increases the likelihood that your organization may benefit from an integrated, automated solution.

There are hundreds of books, articles, blogs, and other information sources that will help you to define, dissect, and employ talent management tips, techniques, and tools. However, while evidence indicates an urgent need for employers to adopt a talent management strategy, precisely how to convert concept and planning to action and results remains elusive for some.

One observer aptly concludes, “Talent management is a term in search of a meaning. For some people, it means the same as succession planning; for others, it means seamlessly-integrated efforts to attract, develop and retain the best people; and, for some people, it means efforts designed to integrate all components of an organization’s human resources system to attract, select, develop, appraise, reward, and retain the best people.”<sup>16</sup>

After reading this white paper, you may conclude that, while every employer needs effective and productive talent management, it means different things to different companies. When all is said and done, talent management is what you define it to be – a tailor-made strategy that works for your organization.

# Points to Consider

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**A.** Every employer needs to understand the importance of talent management and should develop a strategy to attract and retain the talent that the organization needs to succeed.

**E.** Organizations should use talent management technologies to view and set talent management roadmaps, but not rely on them to make talent management decisions.

**B.** Organizations can gain a competitive advantage by actively engaging the core components of talent management— performance, compensation, and learning management; succession planning; and active collaboration with your social networking resources.

**F.** Tools that automate and integrate the administrative aspects of the talent management help to streamline processes and engage C-Level decision-makers.

**C.** Like every other strategy that requires an investment of time, money, and other resources, you should measure the success of your talent management strategy with metrics that are strategically relevant to your business.

**G.** A service-based solution will enable you to gain the benefits of technology without the costs and pitfalls associated with direct ownership of technology, systems, support staff, and compliance requirements.

**D.** Talent management is an ongoing journey or process, not a static business objective. Pressure from your competitors and rapid changes in the global marketplace will continually create change and demand your constant attention over the long-term.

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## About ADP

Automatic Data Processing, Inc. (NASDAQ: ADP), with nearly \$9 billion in revenues and approximately 570,000 clients, is one of the world's largest providers of business outsourcing solutions. Leveraging 60 years of experience, ADP offers the widest range of HR, payroll, tax, and benefits administration solutions from a single source. ADP's easy-to-use solutions for employers provide superior value to organizations of all types and sizes. For more information about ADP, or to contact a local ADP sales office, reach us at 1- 800-CALL-ADP, or visit the company's Web site at [www.adp.com](http://www.adp.com).

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## Notes

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