Creating an agile workforce

Leading practices in transforming talent management

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The heart of the matter

What is the difference between an efficient organization and an agile organization?

Today's business success hinges on strategic agility and the ability to execute in a timely manner. In a continually evolving global business environment, opportunities for growth are juxtaposed against a shrinking pool of high-performing talent that can quickly seize those opportunities.

The ability to anticipate talent needs, optimize a talented workforce, and keep retention rates high—despite constant change—is the key to a company's sustainable competitive advantage.

According to the PricewaterhouseCoopers 11th Annual Global CEO Survey access to talent remains a major issue. Less than half of all CEOs agreed that their HR teams were equipped to handle the change required to compete for talent.

A critical component to business success

Once thought of primarily in terms of cost, people in successful companies are now being valued as rich sources of talent, skill and diversity. Although many organizations have focused on improving the efficiency of the talent network, their HR departments often lacked the agility to provide strategic direction in effectively managing human capital.

Traditionally, an organization's talent management solutions were handled separately from its business strategy. This approach has resulted in many organizational, business process and technology silos that frequently fail to provide a holistic view of a company's talent portfolio and formulate a strategic direction.

Today business strategy and talent management are linked as an integrated talent management framework combining organization, business process and technology. The most successful organizations manage their human capital and talent as strategic assets. This is achieved by aligning the workforce with business objectives and by using measurement to drive decisions, monitor performance and improve results.

> "Three-quarters of CEOs say that lack of key skills is one of the biggest threats to their business (rising to 86% in Asia Pacific)."
>
> PricewaterhouseCoopers 11th Annual Global CEO Survey

An in-depth discussion

Talent management requires a meaningful profile of metrics that can be applied across the enterprise.

Talent management: moving from administrative to strategic

We define talent management as a strategic set of integrated business processes that manage the planning, acquisition, development, retention and advancement of talent to achieve business goals and optimize performance.

Moving your organization to a more flexible talent management model to facilitate sustainable change and competitive advantage requires HR to transition from an administrative to a strategic approach. Viewing talent management processes and initiatives as a system of interrelated parts enables company executives to take a more holistic view of talent management. This allows them to strategically leverage and better position talent for greatest business advantage.

Talent management can be thought of as an investment portfolio in that each element should be measured against its impact on the overall portfolio. The portfolio should be balanced and adjusted to accommodate changes in the marketplace.

An integrated approach to talent management (people, process and technology) is ideal for both the forward-thinking organization looking to expand its talent management scope, or for an organization exploring talent management for the first time.

Integrated talent management gives organizations the functional resources and optimal decision-making capabilities necessary to strategically support evolving business strategies within a consistent, end-to-end framework. This system empowers the organization with insight, agility, efficiency and consistency in regard to talent management.[1]

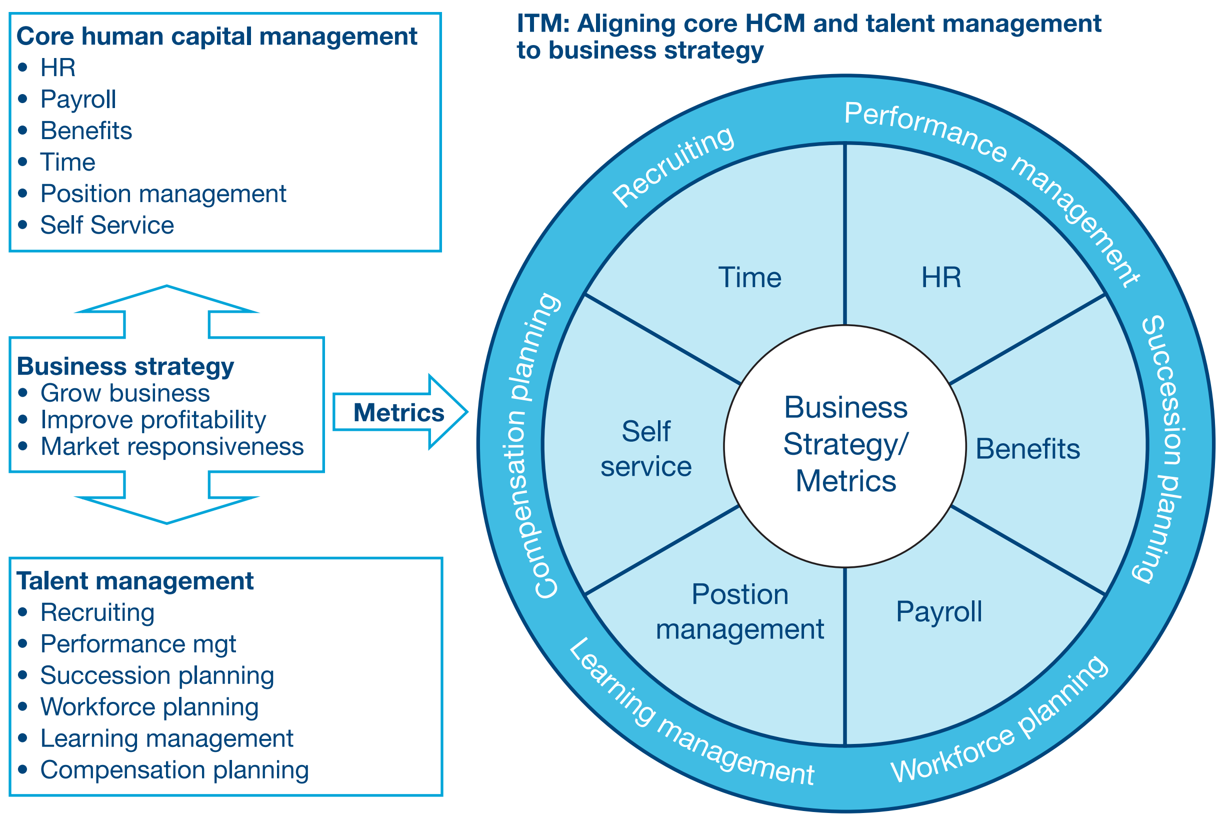
[1]Oracle Corporation whitepaper, "Integrated Talent Management: Extending the Value of a Strategic Framework, March 2008

From human capital management to integrated talent management

Many companies have focused on improving their core human capital management (HCM) functions including payroll, benefits, time management, and position management. The next step in the evolution from administrative to strategic is to align your core HCM with your talent management as depicted in Figure 1.

This integration can help you automate the processes, measurements and analysis required to streamline business operations, and provide the information required to make critical talent management decisions globally. This is vital as HR must have a continuous flow of information to assess and measure performance against business objectives in real-time. The HR function can then execute against strategy leveraging its organization, talent management processes and technology. Establishing a set of metrics that measure the performance of HR against business objectives is an essential component of an integrated talent management framework.

Figure 1: Evolution from human capital management to integrated talent management



The importance of establishing enterprise-wide metrics

Measurement is essential if talent issues are to be taken seriously. The continued adoption of enterprise resource planning systems is actually a boon to the measurement and tracking of talent. With a properly configured ERP system, management has access to the long-term performance history of individuals making it easier to track and measure the development progress of employees.

Knowing where to begin in establishing enterprise-wide metrics is often the most difficult part. Companies are still struggling with the steps required to define and gather metric information, and sometimes they make the mistake of pursuing a business intelligence solution before defining what they want to or need to measure. This is truly the proverbial “cart-before-the-horse.” Two approaches have been found to work well.

Independently defining and measuring success metrics

One approach involves requesting that leaders begin reporting on metrics that they believe measure the success for their organization. These reports can be shared across the organization to provide valuable insight and inspire other leaders’ ideas. Over time consolidation and standardization of metrics occurs across the organization. This takes time and commitment, but can result in metrics that are tailored to the specific organization.

The challenge to this approach is that organizations do not operate in a vacuum and need benchmarks to verify their effectiveness in the market. For example, if an organization is comfortable with a 5% annual growth rate, but its competitors are growing at rate of 20%, looking at the metric alone is of little use. Therefore, the organization must compare industry benchmarks to see whether they are actually below where they should be against their competitors.

Leveraging proven metrics

Another approach, such as the PwC Saratoga Onsight program, helps organizations leverage metrics already proven to measure effective talent management efforts. The Onsight program can help establish where an organization stands compared to existing industry benchmarks and best practices.

For example, PwC Saratoga would work with an organization to select metrics that link to today's significant HR and workforce strategies. After selecting specific metrics, data collection begins, which feeds into a Workforce Diagnostic System. An organization would collect and submit data annually or quarterly, according to instructions provided by PwC Saratoga for that process. A presentation is created, based on a results analysis and review that depicts the story behind the data, which provides insight regarding next steps. The benefit of pairing with metrics professionals, such as Saratoga, can dramatically accelerate the value received from a business intelligence system.

Obtaining benchmark data

Leading practice organizations make the investment to get relevant and accurate benchmark data to determine areas of improvement and set priorities. For example, PricewaterhouseCooper's Saratoga benchmarking breaks out the data in the following categories to get the most accurate data assessment:

- Industry
- Region of the country
- Revenue
- Headcount size
- Revenue growth
- Profit/Not-for-profit
- Percent of unionized workforce

The benchmark results presented in the following pages represent the all-industry medians, which are the midpoint values for all organizations in Saratoga's database. In 2006, the companies in the database had an average of $5.1 billion in revenue and more than 16,000 employees. Individual demographic groups, especially industry groups, can demonstrate substantially different results than the all-industry median. For companies planning a talent management initiative, benchmark data pertaining to the demographic factors listed above should be obtained.

Talent management metric categories

The following talent management metric categories include a complete set of metrics that have helped executives measure how well their organization manages talent. High-performing organizations benchmark:

- Acquisition
- Development
- Reward
- Retention

A number of these strategic metrics rely on information that cannot be easily obtained across functional silos. The ability to facilitate the flow of relevant information throughout the talent management process can improve the relevance and meaning of the metrics.

Acquisition

Recruiting efficiency and effectiveness are the keys to building a flexible talent management model. As the talent crisis looms, competition for the best people becomes more intense. Speed plays a large role as many quality candidates are lost to a competitor who has a more agile recruiting process. Capturing talent cannot be measured on speed alone because hiring the wrong talent is detrimental to an organization's health.

Also important is how the organization brands itself. The recruiting experience enables candidates to gauge the value the organization places on its people and what to expect from a potential employer. Therefore, this is the time to focus on building relationships between the candidates and the organization, and communication is a key success factor. All too often, candidates feel they have gone to limbo while the organization's recruiting process lumbers along. This lack of communication can indicate that an organization does not place ample value on its people.

As shown below, the percentage of offers accepted by employees has dropped three consecutive years, falling from 94.8% in 2003 to 91.0% in 2006. This may reflect several possible trends: Increased competition for talent as the available pool shrinks or changes; and a combination of inadequate compensation, benefits, perks, culture and opportunity being offered to the candidate. Consequently, the importance of a holistic approach to talent management cannot be underestimated.

Examples of key talent acquisition metrics include:

- **Rehire percent**—A new metric for 2008 to provide the percent of external hires that previously worked for the organization. A 2008 survey conducted by Saratoga reported that the rehire percent median was 7.7% of hiring activity in 2007 with a range of 3.7% to a high of 13.7%.
- **Referral hiring percent**—Percent of total hires that joined the organization via an internal employee referral. Across all industries, the referral hiring benchmark may range from 11.5% to 27.5% with a median of 20.4%.
- **Internal management hiring**—Source Percent of Management requisitions that were filled by internal management candidates. Across all industries, the internal management hiring metric benchmark may range from 40.7% to 79.1% with a median of 50.0%.
- **Offer acceptance rate**—Percent of offers extended to candidates that were accepted. Across all industries, the offer acceptance rate benchmark may range from 87.6% to 95.6% with a median of 91%.

Development

As competition for external candidates intensifies, developing internal talent becomes increasingly important. This is crucial for many reasons. Employees look at opportunities for development as a measurement of an organization's commitment to them. It can be a key retention driver when coupled with career advancement opportunities. Many organizations find that new employees who engage in development activities within their first six months are likely to be more engaged and stay longer. Organizations also gain from investments in development by setting the direction for internal talent. Executed properly, development programs can improve the bench strength as more people in leadership roles become eligible for retirement.

Saratoga sees organizations responding to this challenge by focusing their energy and resources on two key employee segments: leaders and high performers. The metrics below show an increased percentage of key roles where either one or two unique succession candidates have been identified per role. Comparing the 2004 and 2006 results, the median company nearly doubled the number of roles with at least one successor for each role.

Examples of talent development metrics include:

- **Improved performance rating index (also available for consistent and decreased)**—Percent of employees who received improved performance ratings compared to the previous year. Across all industries, the improved performance rating index benchmark may range from 14.1% to 40.6% with a median of 21.2%.
- **Executive stability ratio**—Percent of executives with three or more years of service. Across all industries, the executive stability ratio benchmark may range from 65.2% to 90% with a median of 82.2%
- **Average tenure in current management position**—The average time that managers and executives have been in their current positions. Across all industries, the average tenure of the current management position benchmark may range from 2.6 to 9.9 years with a median of 4.5 years.
- **One or more candidate succession planning depth (also available three or more candidate succession planning)**—Percent of key roles that have a succession pool of one or two unique candidates. Across all industries, the benchmark for one or more candidate succession planning depth may range from 45.8% to 85.7% with a median of 61.3%.

Reward

Financial rewards alone do not attract top talent. However, the associated costs still continue to rise including primary employee benefits such as health insurance. Increasing compensation cost is likely due to the growing competition for key talent and the importance of retention. The measurement of these programs is critical to management. Organizations must understand the nature of these costs and how to control them. Rewards should have a direct correlation to an employee's performance. They should also have a positive impact on the retention and attraction of new talent.

According to PwC's US Human Capital Effectiveness Report, for the fifth consecutive year, organizations have invested a greater amount in employee compensation and benefit costs (collectively referred to as labor costs) to generate each dollar of revenue. Labor Cost Revenue Percent has steadily risen from 24.1% in 2002 to 29.8% in 2006.

Examples of key talent reward metrics include:

- **Average time to promotion**—The average number of months required for an employee to be promoted. Across all industries, the average time to promotion benchmark may range from 21 to 50 months with a median of 36 months.
- **Career path ratio**—Percent of employee movement (transfers and promotions) within an organization that is upward (promotions). Across all industries, the benchmark for career path ratio may range from 35.6% to 66.7% with a median of 52.9%.
- **Variable compensation percent**—Percent of compensation costs dedicated to variable compensation. Across all industries, the variable compensation percent benchmark may range from 9.0% to 22.0% with a median of 15.6%.

Retention

Although low turnover rates may appear to be a positive sign at first glance, examining what drives these rates is essential. As a larger portion of the workforce becomes eligible for retirement in the coming years, employees may be staying in their current positions to maximize pension benefits or simply to avoid a major change before retirement. Organizations that have taken the appropriate steps to replace retiring employees and transfer their knowledge and skills will be more competitively positioned.

An integrated approach to talent management combined with business intelligence gathered by using technology also enables senior management to correlate metrics such as turnover rate and succession planning for talent development.

Key components of a successful retention strategy include retaining high-performing employees and developing new talent who will become those high-performing employees. The current bench of high performers sets the bar for the new hires. High performers serve as examples of success for the organization. Organizations must seek to encourage lower performing or newer employees to model the behaviors of the high performers. However, new hires require time to truly add value to an organization.

One area that should be monitored is the retention rates by tenure and performance. Decreasing retention among employees with high performance and less than three years of tenure could signify a future problem with leadership bench strength. New hires comprise the “farm leagues” of an organization where the talent of the future is developed and fostered. Ensuring “farm league” employees progress requires processes where learning, performance management, profile modeling and retention tactics such as compensation programs are combined to deliver results.

Total turnover rates have dropped three years in a row to 13.9% in 2006.

Examples of key talent retention metrics include:

- **One to three years of service voluntary separation rate (available across lengths of service)**—Percent of headcount with one to three years of service that voluntarily left the organization during the survey period. Across all industries, the benchmark for one to three years of service voluntary separation rate may range from 9.9% to 22.0% with a median of 15.1%.
- **Cost of voluntary turnover**—Average cost to the organization to replace each employee who voluntarily separates. Across all industries, the cost of the voluntary turnover benchmark may range from $26,290 to $58,195 with a median of $42,830.
- **High performer separation rate**—Percent of high-performer headcount that voluntarily or involuntarily left the organization during the survey period. Across all industries, the benchmark for the high performer separation rate may range from 3.7% to 9.4% with a median of 5.7%.

The role of technology

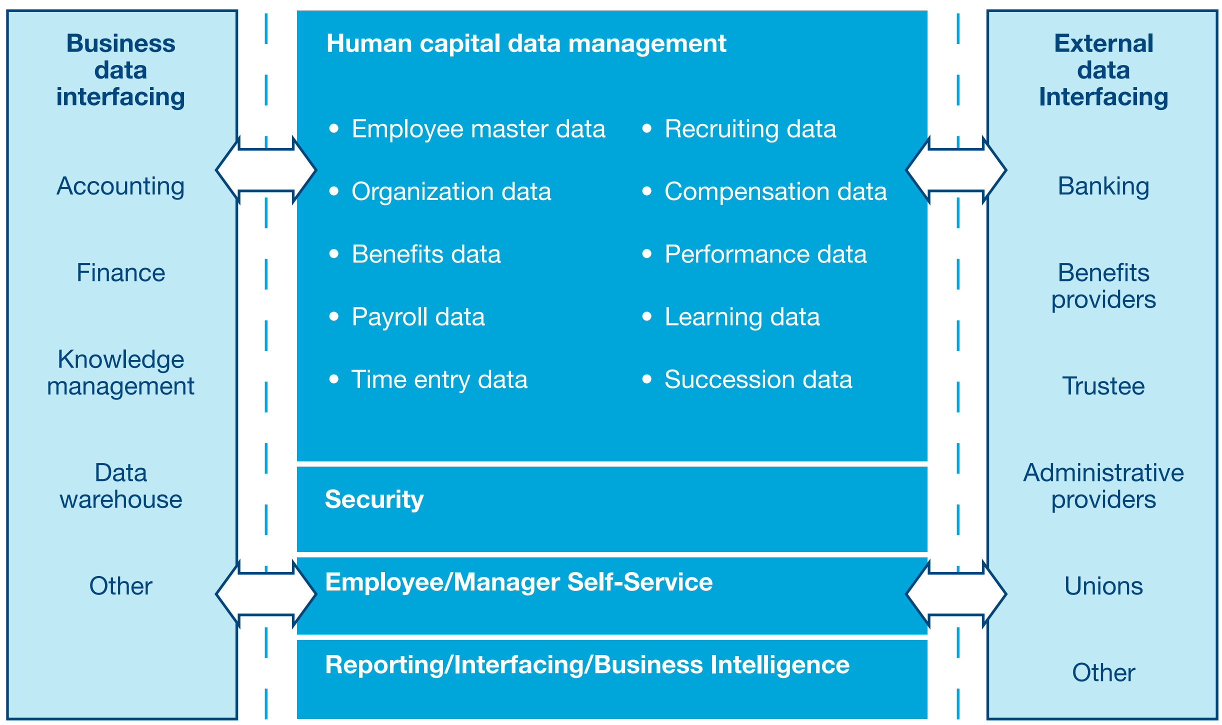
Technology is a crucial component of an integrated talent management initiative. With the advancement of technology and software functionality that supports this purpose, organizations can obtain reliable, real-time data for measuring and managing talent. It also empowers HR to provide a well-executed delivery of HR programs and management support to the businesses, resulting in lower long-term total cost of ownership. By deploying talent management technology, companies can significantly reduce the amount of time and labor costs associated with administrative or transactional activities.

High-performing organizations avoid the pitfalls of cobbling together disparate talent silos

It is extremely difficult to stitch together distinct point solutions into a seamless talent management process. Each application may require different technologies, definitions of people attributes and approaches to talent.

To deliver value, the talent solutions should be designed to fully integrate with each other and with the core HCM system that serves as the hub of the talent management process. New capabilities in talent management modules have inspired many organizations to upgrade to the latest releases of their core HCM systems. After exploring other options, many organizations are now considering upgrades as the optimal future path.

Figure 2: Integrated HCM technology solution



What this means for your business

Companies that successfully align their talent management strategy with technology to effectively manage their talent needs will be the marketplace leaders of the future.

Steps for transforming talent management

In the last decade, business leaders worked to create efficiencies and cut costs through increased technology investments and sweeping standardization programs. For a time, that strategy created advantage, but it also sapped flexibility. Companies are now riddled with inflexible systems and processes.

Before embarking on a talent management initiative, executives should ask: "Have we evaluated our company's current IT platform in the context of likely change?" and, "Do we have a well integrated technology foundation that can support change on a continuing basis?"

In reality, most companies' performance improvements efforts for human capital and talent management programs are in various stages. Efforts are typically initiated with targeted improvement efforts. Most companies are not in a position to replace their entire infrastructure in one large transformation project. Rather, they must find a cost-effective way to make continuous improvements without hindering the company's ability to conduct business.

Leading practice companies start by creating a blueprint or a high-level roadmap focused on how and where unique, differentiating value is created. Senior management can then establish the right balance between standardization and flexibility within the context of the company's overarching business strategy.

PwC's integrated talent management methodology

To align talent management with business strategy, create an "integrated future state" talent management approach based on the model shown in Figure 2. Develop a clear understanding of your organization's top business objectives, talent management needs, and stakeholder requirements. Establish the degree of transformation required to achieve business objectives. Gain senior level management buy-in, which is a critical factor to the success of a talent management transformation initiative.

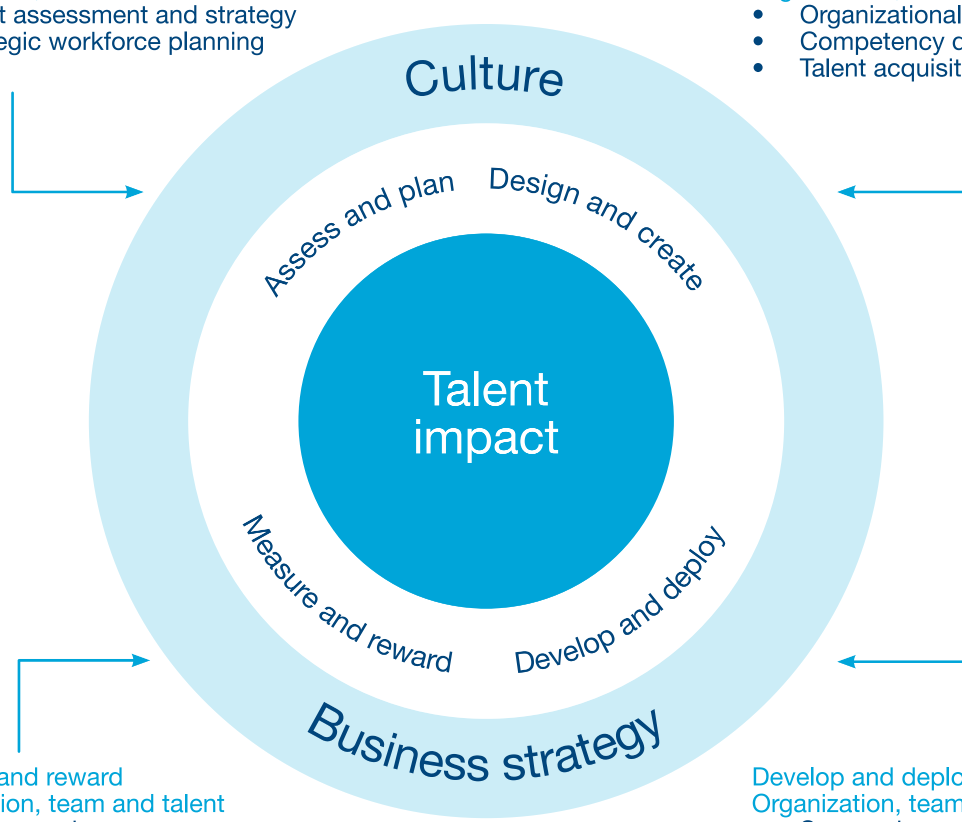
The following steps are a methodical approach critical to attaining success.

- **Assess and plan**—Identify the key gaps between your current approach to talent management and your desired future state. Benchmarking your organization's current state will help quantify performance and cost improvement areas. Draw from similar corporate and public-sector organizations and leverage the innovative approaches that have worked elsewhere. Then create your talent management blueprint or roadmap to establish a phased approach to talent management transformation, including short- and long-term goals, objectives and milestones. This is also the time to define key talent management metrics for continuous assessment of your talent management posture.
- **Design and create**—Talent management transformation requires an integrated approach that optimizes organizational structure, processes and technology. Design the end-state model by defining the talent management service model, including your data management strategy and outsourcing options. Also evaluate technology solutions including upgrade options or adding new functionality to automate manual processes, provide business intelligence and improve management reporting. In addition, redesign talent management business processes to eliminate redundancies, improve workflow efficiency and maximize the advantages of the new technology. In the design, include the governance structure for managing internal and external organizations, such as outside recruiters. Before embarking on the deployment phase, establish a communications strategy focused on each group of stakeholders, define project roles and responsibilities, and develop a plan for training.
- **Develop and deploy**—Using your blueprint or roadmap as a guide, build the talent management workflow processes to support the new talent management service delivery model. Upgrade and integrate your technology infrastructure.
- **Measure and reward**—Conduct periodic assessments of your talent management program. Leverage scorecards and metrics to measure efficiency and effectiveness of talent management initiatives.

Figure 3: PwC's integrated talent management methodology

Assess and plan
Organization, team and talent
- Talent assessment and strategy
- Strategic workforce planning

Design and create
Organization, team and talent
- Organizational design
- Competency design
- Talent acquisition



Measure and reward
Organization, team and talent
- Total rewards
- Performance management

Develop and deploy
Organization, team and talent
- Succession management
- Leadership development
- Learning

Oracle suite for talent management/ PeopleSoft enterprise

Establishing appropriate technology investments for each talent management process to maximize the ROI for the whole system is harder to achieve when deploying single-point solutions. To complicate matters, the business context is always changing, which requires constant monitoring and tweaking of investments in the talent management system.

An important trend in talent management is the emergence of integrated talent management platforms, which are stemming from the convergence of multiple single-point solutions. This trend is predicated on several key benefits that come from an integrated talent management solution: cost savings associated with having one technology platform and resources to support it; improved data integrity and quality for strategic decision making; the ability to derive cross-functional strategic measurement and identify the attributes of top performers; increased employee productivity and lower HR administration costs; provides management the agility to deal with significant changes in workforce demographics. The net result is that the organization has integrated processes and technology to optimally manage its investment in talent.

An integrated talent management information system that collects, integrates and presents information is essential for analyzing the talent management system's functionality. The main benefits of integrating talent management systems include:

- **Better data integrity and integration**—According to a March 2006 whitepaper, Enterprise-wide Talent Management, by HR.com and sponsored by Oracle, although one of the top requirements for a leading practice solution is the ability to integrate with the Human Resource Management System (HRMS) of record, over 75% of leading practice systems purchased are not integrated after implementation. In addition, the cost of integration can add another 20-30% onto the purchase price, including consulting and internal IT resources. Disparate systems also are frequently linked to issues with data integrity and it is impossible to get a complete view of the enterprise's talent management information. Oracle's approach to talent management is one example that delivers the platform on a common system or provides vendor-supported connections among the systems so they perform in a unified manner.

- **Ease of use and interface**—For the user interface, having the same navigation is substantially easier for training end users. Although HR users may be "super users," the power of these tools is really derived from line managers getting involved and implementing them to manage their employee base. For them, ease of use and simplicity are major factors to consider. Many of these systems are over-engineered and can be confusing for line management. Another tactical benefit is the common user interface. Applications are more easily adopted into an organization when they have common user interfaces, and less training is required to deploy new functionality.
- **Lower cost of ownership**—An integrated platform with the core HRMS for all technical and performance-related issues significantly lowers upgrade and integration costs. It also simplifies the assignment of accountability and responsibility. Although adding niche vendors (talent acquisition, contingency workforce, and performance management) for each functional unit can deliver a robust corporate solution, ultimately this results in a substantially higher cost per user than a consolidated and integrated software platform. Even in a "software as a service" model, corporations are ultimately paying for hardware that is still not integrated.

  Working with multiple, independent solutions, requires multiple hardware configurations, software applications, and the infrastructure (web servers, application servers, and databases) to support it. This also means IT resources required to manage and support these solutions cannot be optimized across the enterprise. It may not be cost-effective to cross-train the technical resources across the various platforms and skills are more specialized so they are also more difficult to coordinate.

  When systems are integrated by design, organizations do not have to expend resources on integration. This also means that economies of scale can be leveraged. Systems that rely on defined hardware and software to support all functionality means less hardware and fewer headaches. In addition, when the system is based on a common user interface and technology, fewer technical resources are needed when shared skill sets are used and therefore can deliver high levels of service.

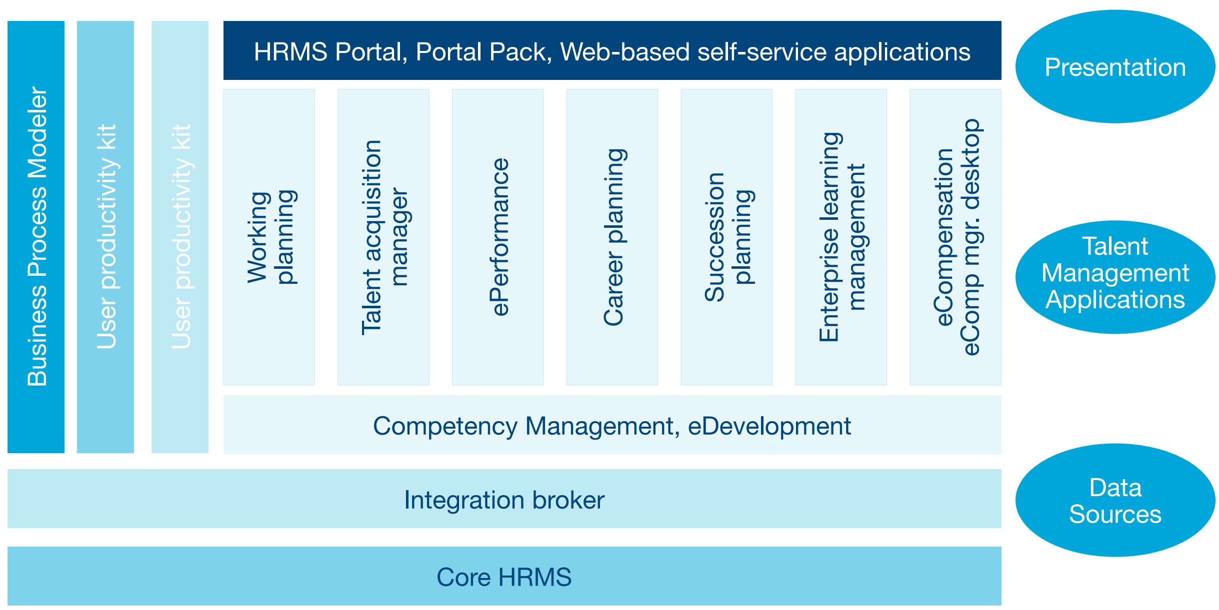
Costs of decision support systems also are decreased when one true source of reliable talent management data exists and can be shared across the enterprise. The cost benefits of initially gathering the data are just the beginning. The benefits really come into play when data reconciliation is reduced and the information's validity is maximized. Disparate talent platforms provide quite a different scenario.

Robust functionality to address all aspects of the talent management portfolio

Oracle's solution is an example of how an enterprise can deploy a fully integrated talent management solution that addresses all aspects of the talent management portfolio with robust functionality. Figure 4 illustrates the Oracle solution as it maps to Gartner's model for a complete talent management solution. There are three key elements which include the presentation layer, talent management applications and data sources. As shown, most of the talent management applications share a database with the core HCM system.

Tools such as PeopleSoft Enterprise Learning Management use real-time messaging to synchronize with the rest of the PeopleSoft talent management applications and the core HCM system. The presentation layer provides a standardized user experience through the web presentation layer. This web presentation layer also provides the front end to deliver Oracle's business intelligence capability.

Figure 4: How Oracle's solution maps to Gartner's model for a complete talent management solution



Source for Gartner's model: Gartner whitepaper, Talent Management Application Suites Can Enhance Workforce Effectiveness, 14 June 2005

The business benefits of applying a holistic approach to talent management

When talent is aligned with strategy and metrics, and both are supported by an integrated technology platform, a company becomes optimally positioned to compete for, retain and develop the highest performing talent. This facilitates the greatest competitive advantage to the business as it grows and changes over time.

Integrated talent management—people, process and technology—ensures organizations have the range of functional resources they need coupled with optimal decision-making capabilities for strategically and consistently handling business issues. Transforming talent management into a high-performing strategic asset is possible with an integrated framework that aligns strategy, assesses capabilities and incorporates process improvement and automation.

Technology and automation provide strategic benefits including lower cost of system ownership, increased employee productivity and decreased HR administration costs. Automation also facilitates more robust analysis and reporting capabilities enabling management to make better and more timely decisions regarding the management of human capital.

The importance of applying a holistic, integrated approach to talent management to align strategy with business objectives cannot be understated. A meaningful profile of metrics yielded from an integrated talent management solution enables executives to proactively manage the business and stay ahead of ever-changing workforce demographics and market demands. For example, managers can use this data to better leverage and groom internal resources for leadership roles rather than relying only on hiring outside candidates from an increasingly competitive environment. Without metrics, organizations risk failure to sustain growth, secure succession, attract emerging talent, retain top performers, and weed out poor performers.

The culmination of all of these efforts results in an integrated set of processes that enables an organization to optimally manage its investment in talent, and allows it to remain flexible as it rebalances its talent portfolio in anticipation—rather than reaction—to changing market conditions. An agile workforce delivers significant advantages in achieving greater business success.

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To have a deeper conversation about how this subject may affect your business please contact:

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