

Making HR More Strategic:

Top 6 Reasons Behind the Rapid Adoption of Talent Management Systems

Today's business climate is forcing a shift in the role HR plays – from administrative support to strategic manager of an organization's greatest asset – its people. Learn about the key drivers behind the shift and the vital role talent management systems are playing in supporting HR's transformation.



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The Popularity and Growth of Talent Management

Bersin and Associates, in their January 2008 *Talent Management Suites, Market Realities, Implementation Experiences and Vendor Profiles*, estimate that the market for talent management systems, covering e-recruitment, learning management systems, employee performance management, succession planning, and compensation management, was at \$2B for 2007, and expect it to grow by approximately 20 percent annually.

IDC's reports and predictions also paint a growth picture for talent management systems. In their report *Worldwide Workforce Performance Management 2008- 2012 Forecast: Still a Hot Market*, IDC estimates that the global market for workforce performance management software and services (the performance management segment of Talent Management) reached \$1.6 billion in 2007 and will increase at a CAGR of 10.1% to \$2.6 billion in 2012.

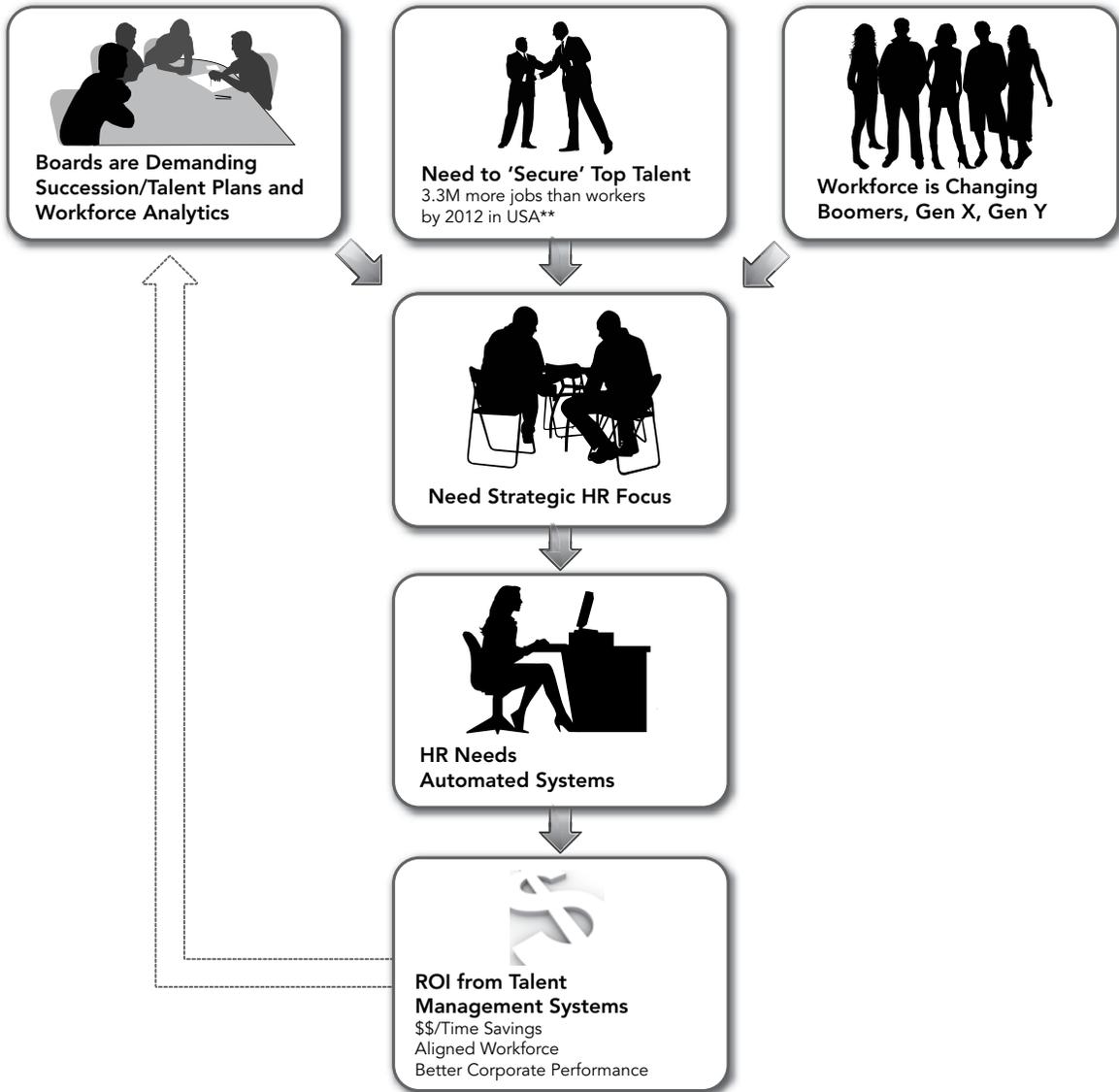
Introduction

The industry research is clear; Talent Management is the fastest growing segment of the Human Capital Management market. This paper aims to explain why it has become so popular – and why companies like yours are deploying Talent Management systems at record rates.

While research tells us “how fast” the Talent Management market is growing, this white paper explains the drivers behind this growth. It also explores why Talent Management has become a strategic imperative that underpins your company's ability to achieve its overall objectives and ultimately improve bottom line performance. It covers the top 6 reasons why Talent Management is an important investment for your company today.

Why Should HR Care?

Good question! The diagram below paints a compelling story of the business drivers for talent management systems in companies of all sizes, around the globe.





In organizations of all sizes, the need for company-wide succession planning is increasingly critical.

Failing to manage your company's talent pool is "equivalent to failing to manage your supply chain."

Reason 1: Boards are Demanding Succession/ Talent Plans and Workforce Analytics

The need for company wide succession planning and workforce analytics are two very strategic areas that are fueling the demand for talent management applications.

It's no wonder why.

Since Sarbanes-Oxley, CEO succession has become a major concern. In fact the National Association of Corporate Directors (NACD), surveying both public and private companies, has repeatedly noted corporate performance and CEO succession as two of the top concerns for boards. With an estimated one in five Fortune 500 senior executives eligible for retirement now, the need for effective succession planning is paramount.

However, organizations who believe they have succession planning covered because they have identified a replacement for each senior leader on their org chart, are short sighted. The International Consortium for Executive Development Research surveyed human resources executives at over 40 large global organizations in 2007 and found that while they are broadly prepared for change at the executive level with formalized processes, 97 percent did not believe the broader organization had a free and flowing talent pipeline.

In organizations for all sizes the need for company-wide succession planning is increasingly critical, going beyond determining who is next in line to step into the executive suite. Companies who do not address the issue are finding themselves ensnared in an endless recruiting cycle, which is not only costly, but also impacts productivity and employee engagement.

The most recent thinking on succession planning is focused around developing talent pools – which involves identifying and developing high-performing employees across all key functions in the organization, rather than merely naming a few of them as executive replacements. In this model, high-potential employees are placed in talent pools and then prepared, through various means, for possible advancement. The talent-pool approach has become the best-practice for succession planning because it allows organizations to establish a large number of employees who are preparing for promotion, making them more likely to stay loyal and aligning their skills with the organization's strategic plan. The organization commits to helping these individuals prepare to take on greater responsibilities, and monitors their current performance and growth as they meet new challenges.

As Wharton School of Business Professor Peter Capelli asserts in his new book *Talent on Demand*, failing to manage your company's talent pool is "equivalent to failing to manage your supply chain." Boards are increasingly looking to HR to provide analytical data on everything from retention to skill gaps, and talent plans that align with strategic plans, to ensure that companies have the talent and skills they need to achieve their strategic goals. *The Global Human Capital Study 2008*, published by IBM, notes that organizations can meet the need for a broader company-wide talent pipeline via talent management software that can help identify current gaps and provide insight into planning processes.



A shortage of skilled and talented workers has become the most pressing concern among employers.

Reason 2: There's a Need to Secure Top Talent Now

Statistics on the growing global labor shortage are not news to most.

By 2012 there will be a 3.3M shortage of skilled workers in the U.S. alone.

In *Occupational Employment Projections to 2008*, U.S. labor economist Douglas Braddock, estimates that from 1998-2008, "more job openings are expected to result from replacement needs (34.7 million) than from employment growth (20.3 million)". In addition, the U.S. Bureau of Labor and Statistics estimates a baby boomer retirement wave over the next five years when 76 million will leave the workforce – that's 10,000 retiring each day!

- 50% of the U.S. government workforce is eligible to retire now.
- 55% of today's registered nurses are expected to retire between 2011 and 2020.

Elsewhere in North America, the situation is much the same. The 2006 Canadian Census indicates that, with the oldest population in the Americas, in ten years, more workers will be leaving the Canadian workforce than entering it.

Those who believe the problem is far off should think again. According to the 14th annual *Top Five Total Rewards Priorities Survey* findings released by Deloitte and the International Society of Certified Employee Benefit Specialists (ISCEBS) in 2008, a shortage of skilled and talented workers has become the most pressing concern among employers, supplanting the perennial leading problem: rising healthcare costs.

The skilled labor shortage problem is compounded by the fact that retiring workers are typically in experienced management or technically complex positions, and the pool of workers immediately following them is much smaller.

Many HR leaders are already experiencing the effects of the talent shortfall at their companies. A shortage of experienced accounting and finance professionals, for example, continues to affect employers globally. Robert Half's 2008 *Global Financial Employment Monitor* reports that for the second consecutive year, more than half (56 percent) of the finance and human resources managers surveyed worldwide reported difficulty finding skilled job candidates.

Manpower's 2008 annual *Talent Shortage Survey* reveals that already, 31 percent of employers across the globe are finding it more difficult to fill jobs. The top four areas most in-demand are: skilled manual trades; sales representatives; technical workers in the areas of production/operations, engineering and maintenance, engineers; and management executives.

IDC's *Talent Pulse Survey 2007* also shows the need to secure talent as high priority, with the top 3 talent challenges for organizations being: the retention of top talent, the impending labor shortage, and lack of a leadership succession plan, respectively.

The skilled labor shortage problem is compounded by the fact that retiring workers are typically in experienced management or technically complex positions, and the pool of workers immediately following them is much smaller.

Add to this the expense of replacing those who leave or retire. Consider statistics from the American Management Association: they estimate that the costs associated with losing an employee and hiring and training a new one can vary between 25 and 200 percent of annual compensation (the higher the position the higher the cost). Without a plan of action in place, the loss of experience, continuity and "corporate memory" can be severely costly and damaging.

The ability to attract and retain skilled employees is critical to your organization's survival, let alone its success. The right talent management system can provide you with a consistent, valuable and easy means to help increase employee satisfaction and in turn, drive retention of top talent, because it:

- Allows managers to give employees meaningful feedback on a regular basis.
- Enables you to align organizational and individual goals so that employees see how their work matters to the organization.
- Ensures you can reward, recognize and appreciate employees in a fair and consistent way.
- Supports employee development and career progression.
- Helps you identify top performers and provide them with appropriate rewards and development opportunities
- Identifies organizational skill gaps or shortages so you can address them before they become critical



Managing the new generation of workers requires the integration of Gen Y workplace priorities into corporate cultures.

Millennials' desire to advance quickly and their demands for real-time ongoing feedback in the work environment are important considerations for managing talent and planning for succession.

Reason 3: Keeping the Changing Workforce Engaged – A New Strategy is Required

A demographic shift is taking place in our workforce that is profoundly affecting talent management practices. As the majority of the current workforce ages and Baby Boomers begin to move into retirement, Generation Y - otherwise known as the Millennials – is entering the workforce. This group is estimated to be at least as large, if not larger than the Baby Boomers. By the year 2012 – the well touted annum at which the workforce shortage will peak – Gen Y workers will have filled the 18-34 age group. According to the U.S. Bureau of Labor Statistics, this means that the number of younger adult workers will increase by 10% between 2003 and 2012 while the number of workers aged 35-44 decreases by 6%.

Managing this new generation of workers requires the integration of Gen Y workplace priorities into corporate cultures. A report by New Strategist Publications *The Millennials: Americans Born 1977 to 1994*, confirms their expectations as workers.

Gen Y, as a group, has grown up being told they can do anything, and having access to technology that provides them with immediate answers. They need to know that what they do matters, and expect to be compensated and valued for their contributions. Millennials' desire to advance quickly and their demands for real-time ongoing feedback in the work environment are important considerations for managing talent and planning for succession.

Bruce Tulgan, author of several books on managing millennials, suggests:

- Give them frequent, meaningful feedback. This ongoing dialogue tells them what they are doing well and how they can improve. Annual performance reviews are not sufficient.
- Ensure that rewards and recognition are tied to performance.
- Provide coaching and development to help them meet their high performance expectations and support their desire for career advancement.

Millennials are also the most education-oriented generation in history. They expect ongoing development opportunities and training as part of their work life. The ability to create their own development and career paths gives them a sense of control, and provides them with a realistic picture of their progress with your company.

It is also important to note, as IDC reports in their *Worldwide Human Capital Management 2008 Top 10 Predictions* research, that these newer employees expect transparent and speedy HR processes and will vote with their feet in case of disappointment.

These requirements make it all the more important for your organization to have tools and systems that automate talent management processes and create efficiencies in providing ongoing feedback, development plans and goal alignment.



“HR today sits smack-dab in the middle of the most compelling competitive battleground in business, where companies deploy and fight over that most valuable of resources – workforce talent. The long held notion that HR would become a truly strategic function is finally being realized.”

Reason 4: Companies Need HR to Play a More Strategic Role

Succession planning, talent retention, managing the generations... With issues such as these around human capital and talent taking up so much of today's business headlines, the role of HR has never been more relevant.

As Matthew D. Breitfelder and Daisy Wademan Dowling state in their recent Harvard Business Review First Person article *Why Did We Ever Go Into HR?*, “HR today sits smack-dab in the middle of the most compelling competitive battleground in business, where companies deploy and fight over that most valuable of resources – workforce talent.” They hold that “the long held notion that HR would become a truly strategic function is finally being realized.”

Increasingly, HR leaders are being called upon to work with their CEO, board, and other business leaders to help their organizations achieve corporate goals by strategically addressing the associated talent challenges. Having actionable intelligence around employee performance, development and talent, becomes a critical enabler.

Knowledge Infusion, in their white paper *How to Buy a Talent Management Suite*, states that: “With people-related costs approaching 60 to 70% of an organization's revenue, companies are scrutinizing their human capital management practices, expecting human resources (HR) to play a more strategic role in achieving business success.”

Analyst firm Bersin & Associates in their January 2008 report *Talent Management Suites, Market Realities, Implementation Experiences and Vendor Profiles*, asserts that one of the biggest challenges facing HR as it strives to integrate talent management processes is the need for information. They state that HR needs to be able to identify:

- *What skill gaps exist and in which parts of the organization?*
- *Where do organizational performance gaps exist and why?*
- *Which managers are performing their tasks well and which are not?*
- *Who are the “high-potential employees” and what are their next development assignments?*
- *What are the key competencies of high performers, and how can we attract and recruit other such people into our organization?*

Unfortunately for most companies, the information that would allow HR to answer these strategic questions is inaccessible. It is sporadically gathered on paper appraisal forms and filed away, or known anecdotally by line managers; HR has no way to aggregate and analyze the data. Without this data available online – they also can't easily see or deal with exceptions. HR is relegated to being reactive rather than proactive.

IBM's *Global Human Capital Study 2008* maintains: "If the workforce is truly to be valued as an asset, much like financial capital or brand equity, the entire C-suite, not just HR, will need more robust and accessible information about current and future talent needs, employee productivity and resource availability."

"Companies have been investing in tools to better manage other business process areas. Now it is time to treat human capital as the asset that it is."

In *Making HCM Strategic; Aligning the Workforce With Business Goals*, analyst firm AMR states: "Companies have been investing in tools to better manage other business process areas. Now it is time to treat human capital as the asset that it is. Having this information will allow HR leaders' insights, and subsequent recommendations, to be taken seriously enough to influence business strategy and drive transformation efforts."

No longer just lip service... a company's ability to achieve its goals is entirely dependent on the quality of its people. Effective talent management is ultimately the key to all corporate success. The administrative burden of paper-based appraisals, inconsistent processes, and lack of data insight into performance undermines HR's desired and deserved role as a strategic corporate contributor. Tools like employee performance management, automated pay-for-performance, best practices succession planning, and learning management systems that are completely integrated and offer real insight into employee performance can fill the information gap for HR, and help provide the keys to the boardroom.



Reason 5: HR Needs Automated Talent Management Processes

As HR starts playing a more strategic role that requires workforce analytics, they need to move their talent management processes online, not only to gain access to strategic data, but to free them from the administrative burden they currently carry. Automation of talent management processes is the first step HR must take to enable them to play the vital strategic role their organizations need.

In their *Worldwide Human Capital Management 2007 Top 10 Predictions*, IDC states "Indeed, the future of business is going to

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“The future of business is going to require a more data-driven, fact based method to hire, pay, and reward top performers.”

require a more data-driven, fact based method to hire, pay, and reward top performers.” HR, and organizations overall, need access to critical data on competencies, goal progress and alignment, employee development, retention risks, and more to be able to harness the power of their workforce and manage both current and future talent needs. Data they just can't get from manual, paper-based processes.

The HR department has traditionally been relatively underserved in terms of devoted IT resources and budget. A talent management solution should address the human resources department's unique requirements for simplicity and ease of use, and be self-administered, flexible so that it can be owned by HR, not IT. To be successful, HR requires the ability to rapidly implement and deploy, without stretching IT resources.

Simplicity and ease of use ensure a higher rate of acceptance and employee engagement with the system. Employees - younger workers in particular - are prepared to embrace technology as a performance management enabler, facilitating both the process and data capture. But they have little patience for awkward, difficult to use or poorly integrated systems.

Some companies still consider developing their own in-house solution, but home-grown systems rarely match the ROI delivered by current applications available on the market. Companies must consider whether they want/need the development and maintenance of talent management applications to be a core skill, and whether they have the expertise to automate HR best-practices both today and tomorrow, as well as the time they have to wait for the development and testing of home-grown applications. Commercially available automated Talent Management applications can be implemented in a matter of weeks.

Many HR groups have addressed their varied talent management needs with individual, point solutions from a host of different vendors. The result is often a hodge-podge of systems that are not fully integrated. Performance management forms the cornerstone of all talent management activities and therefore must be closely integrated with other modules in order for HR and management to reap the benefits of data aggregation and analytics, so they can effectively identify, reward, develop and retain top performers and manage their workforce to support corporate strategic goals.



“Organizations that have fully automated their succession planning efforts experience performance improvements at an order of magnitude greater than those who do not.”

Reason 6: ROI from Employee Performance and Talent Management Systems

The automation of talent management functions not only saves time for HR and management, but can deliver a rapid payback in terms of return on investment. Impressive ROI in turn provides additional strategic value to HR leaders and their companies.

A straightforward method of calculating ROI for this type of investment involves calculating the cost of the way things like performance appraisals, compensation adjustments, succession and learning management are done currently, estimating the cost of implementing a talent management solution that would automate these functions, calculating the difference, then dividing that by the cost of the purchase.

However, you may also want to factor in some other “soft” costs and savings, which are a bit harder to quantify. In addition to time and cost savings, an automated employee performance and talent management system can help your organization:

- Improve the quality and consistency of feedback employees receive, resulting in improved performance
- Improve goal and workforce alignment, driving better corporate results
- Provide more comprehensive and effective employee development planning, resulting in improved performance
- Increase employee satisfaction
- Increase employee retention

If any of these areas present challenges to your organization today, or if you have key corporate goals to address any of them, it would be wise to estimate the savings related to improvements. For example, increasing employee retention can save you in recruiting and onboarding costs; reducing turnover, by even a few employees a year, can amount to significant savings.

Here is just a sampling of the savings some of Halogen’s customers have realized by automating their talent management processes.

Company	Savings
Amcors Sunclipse	\$300,000 in labor alone
Carhartt	120% ROI
CentraState Healthcare System	575 hours per year by direct managers alone
Galderma	\$10,000 annually in administration time alone
Howard Regional Health	164% ROI in terms of net cost savings
O’Sullivan Creel	At least 386 hours of billable time each year
Reno Sparks Convention and Visitor’s Authority	Cut the time spent by HR in managing the annual appraisal process by 75%
South Bend Medical Foundation	200% ROI within three years
Van Meter Industrial	Overall annual cost savings of 85%

“Both smaller and larger companies who invest in talent management practices are more likely to outperform their industry peers.”

When the right solution is implemented and used throughout the organization it can lead to a more aligned workforce and better corporate performance. Industry research supports this.

Analyst firm Aberdeen Group in their 2007 report *The Looming Leadership Void: Identifying, Developing, and Retaining Your Top Talent* notes: “Organizations that have fully automated their succession planning efforts experience performance improvements at an order of magnitude greater than those [who] do not.”

In their 2008 study *Integrated Talent Management*, IBM Institute for Business Value found that “both smaller and larger companies who invest in talent management practices are more likely to outperform their industry peers.”

And in their white paper, *Leadership Development ROI: using Talent Management to Drive Firm Value*, Jackson Leadership Systems cite research that finds that “organizations that have strategically aligned talent management, succession planning and executive development systems have significantly higher financial performance than those firms that do not.”

Conclusion

Regardless of the product or service your organization delivers, ultimately your company's ability to achieve its greatest results is based on its people – their productivity, their motivation, and the alignment of their day to day efforts with the organization's strategic objectives. The right Employee Performance and Talent Management system can help ensure:

1. HR is addressing board and executive requirements for talent and succession planning, and workforce analytics.
2. Your company is securing and retaining top talent.
3. Your company provides ongoing feedback, organizational goal alignment, professional and career development opportunities, and performance based rewards to meet the needs of your multigenerational employees.
4. HR has the strategic talent management data it needs to support organizational goals and initiatives.
5. HR's administrative burden is relieved so they have time to focus on more strategic activities and analysis.
6. You see a positive and rapid return on your company's investment.
7. Your HR team can support the organization's strategic plan with an aligned talent plan.

Next Steps

1. Have an honest look at your current processes and systems. How efficient are they? How effective are they? Ask yourself what strategic activities you're not working on because of the ineffectiveness or inefficiency you're currently facing.
2. Build a business case to improve your results. This will mean establishing a definition of the cost and value of the program.
3. Assemble the program and plan. Once you have buy-in from your executives, define your program and communication plan. You'll need to address how to improve the effectiveness of your process through a defined program. Ensure that this is well understood across different levels and areas of your company.
4. Once your criteria are established – IT environment, pricing, flexibility, functionality, support and service levels – evaluate available solutions. No one solution suits every organization.
5. Adopt a solution. Engage your employees, create a consistent unified process, and help transform the way your company thinks about and executes talent management.

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