

# Tackling talent management

How organisations  
can achieve better  
returns on their  
talent management  
investment

Many organisations avoid addressing human capital issues, preferring to focus on more 'tangible' initiatives such as structural cost saving or outsourcing. The reality is that tackling talent management is no easy undertaking, but if you get it right, the results feed straight through to the bottom line >>

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## Executive summary

*So you've cut costs and reviewed your go-to-market strategy. Why not turn to the tougher task of getting a better return on your human capital?*

*This might first appear counter-intuitive. Putting time and money into such an intangible project, in a climate where management is focused on getting immediate, tangible returns might at first seem unwise.*

Yet our research shows that the organisations making serious, structured investments in talent management also get the best results. The reason is simple. When you know what jobs require, find the right people to fill them, engage employees well and manage their development, you get better performance. Performance which has been shown to feed straight through to the bottom line.

There's no blueprint for talent management. Each organisation must fit its approach to its immediate needs and strategy.

But there are some good practices. Not least of which is seeing talent management as the way to connect up individual people management practices so that they all pull in the same direction.

In the best organisations talent management is more than the sum of its parts. It's what ensures the alignment and clarity needed from people to collectively deliver on an organisation's strategy. It's how they renew and re-energise themselves so they keep winning in the future and adapt to changing markets and challenges.

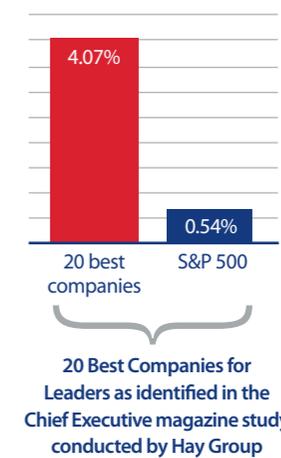
**70 per cent felt their approach to talent management needed to change.**

## Tangible results from an intangible asset

Many organisations shy away from the 'softer', people side of the business equation. It's messy – and hard to get right. However there's a significant financial return for firms that do engage with it. In our annual survey with Chief Executive magazine, the 20 Best Companies for Leaders consistently outperform their peers in terms of return on share price.

### Is it worth it?

Five-year Avg. Total Shareholder return

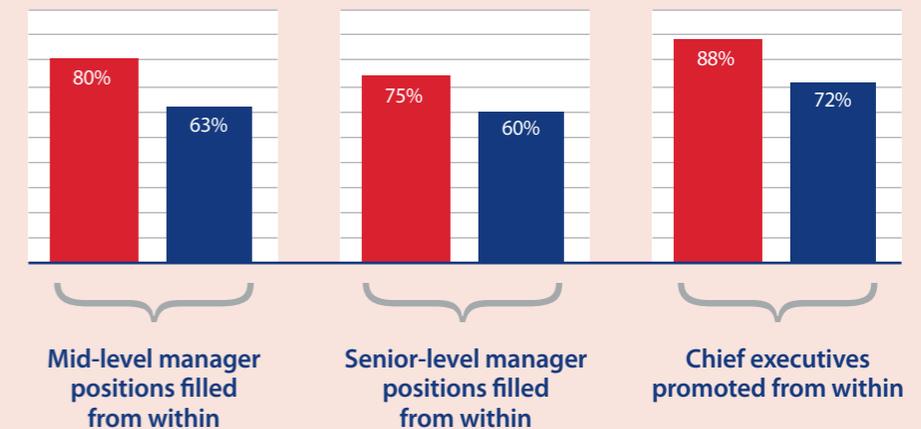


This equates to a dividend of many hundreds of million dollars for some. It helps explain why more than two-thirds of company valuations are based on the 'softer' intangible assets: knowledge and know-how, brand, key relationships and their pool of talent. It also explains why helping manage talent better is the most rapidly growing part of Hay Group's own business portfolio.

As the 20 Best Companies for Leaders show, talent management pays. The same survey also reveals that the organisations that get it right operate a virtuous circle, generating a return on their investment in talent. These firms fill more senior positions from within, strengthening their culture as well as saving on external recruitment costs.

**Key:** 20 best companies (Red bar)  
Rest of the companies (Blue bar)

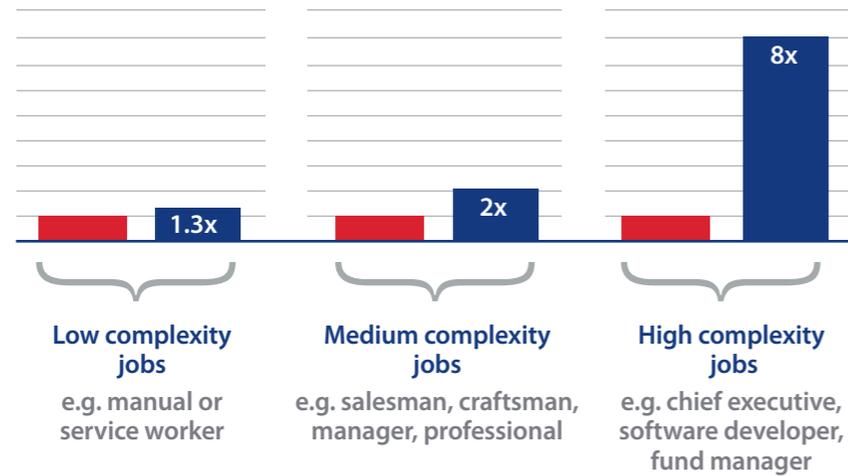
Source: Chief Executive magazine Hay Group 'Best Companies for Leaders' survey



## The talent bonus

Many leaders intuitively know finding and growing high potential employees pays dividends. This intuition is backed up by work psychology meta studies, which look at trend results across all published research papers. For example, Hunter & Judiesch's research quantifies the performance differential between average and high performers across a range of jobs of varying complexity.

Less than 25 per cent believed their talent processes would deliver the leaders they needed.



**Key:** Average performers (red bar), Top performers (blue bar)

Source: *The Psychologist* Vol 22, No 9, Sept 2009, citing *Journal of Applied Psychology*

### The value of talent management: some headlines

- In Hay Group's Best Companies for Leaders study, those with the best talent management practices outperformed the rest by eight times total shareholder return.
- In a study by the *Institute of Work* on manufacturing, 20 per cent of the variation in productivity and profitability was down to better people management. What's more, this was a better predictor of profitability than strategy, technology or R&D.
- According to global pollsters Gallup, 'engaged' employees in the UK take an average of 2.69 sick days per year; the disengaged take three times as much.
- It is often quoted that people leave poor managers not poor companies. Employees working for talented leaders are 87 per cent less likely to leave, a huge advantage when replacement costs equal on average 1.5 x annual salary. *Corporate Leadership Council*
- In organisations with strong talent and engagement practices, 67 per cent versus 33 per cent advocate their company to others. *Gallup*
- Staff in local authorities rated as 'excellent' for talent management had much better results than those in weak or poor local authorities. *Mori*

Source: 2-6: Macleod, David; Clarke, Nita, (2009), *Engaging for success: enhancing performance through employee engagement, a report to government*, London, United Kingdom.

## Why organisations fail to achieve ROI from talent management

*The research – and our consulting experience – shows that there's clear, measurable value in talent management. However not all organisations invest in the right way to reap the benefits from it.*

In our experience, there are many common challenges to meaningful, effective talent management. Here are the top ten.

Only 19 per cent agreed with: we treat our talent management process as seriously as we treat our annual budgeting process.

- No clear vision by senior leaders on what talent management can do for the organisation
- No clear, future-focused definition in terms of what to aim for – what success 'looks like here'
- Talent management seen as the function of HR, not a business accountability supported by HR
- No distinctive talent proposition that differentiates from the competition, or one disconnected from reality
- The wheels of talent management spin but don't mesh – line managers fail to address underperformance, even when chronic
- Focus is mainly on development as the easy default option, at the expense of tough measures to get better deployment
- Not enough 'quality' time devoted to talent management
- Line managers confuse performance with potential
- Aspirational values and behaviours bear little relation to what's rewarded
- Lack of talent management infrastructure and online systems

## Talent management priorities are changing

Put your best people on your biggest opportunities, not your biggest problems.

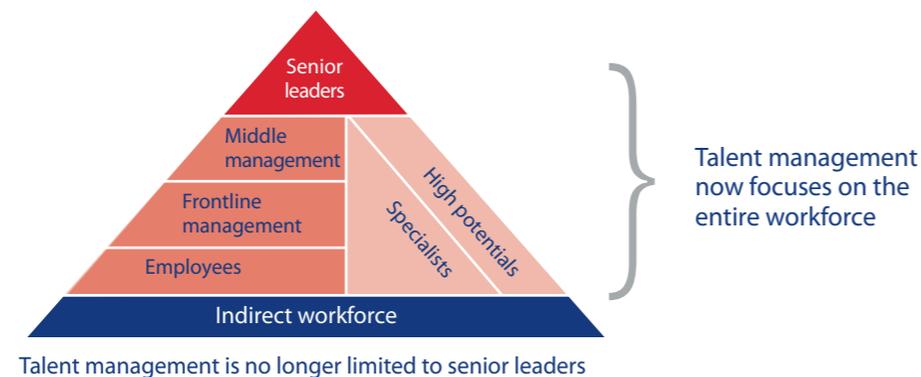
### It's a route out of the downturn

The economic crisis has led to a new focus on talent management. Organisations want to ensure that their efforts reflect strategic shifts in the marketplace, so that talent is aligned with new ways of operating and making money.

So in place of a reactive, tactical approach, firms are thinking more strategically, for example, identifying new target cultures, values and behaviours and integrating these so that they actually deliver. Talent management is also becoming less focused on the top levels of the organisation. The preferred approach is to include the 'engine room many', as well as specialists and contract workers. Engagement is also now seen as a key driver of performance. Helping leaders build engagement is now seen as a talent management issue.

The message from our research is that the best organisations are clear about what talent management means for them and how it will pay them a financial dividend. Taking a similar position, we see talent management as:

*The connected disciplines put in place to deliver competitive advantage through the effective management of an organisation's human capital. Those activities ensure you have the right people, at the right time, engaged in the right way, to deliver on your strategy now and in the future.*



A talent review can be both the burning platform and development bridge to the future.

### Talent management builds organisations that endure

Talent management helps organisations achieve sustainability and longevity. It's sobering to realise that of the firms that made up the FTSE 100 when it was inaugurated in 1984, just 23 survive today and even fewer exist in anything like their original form. The recent demise of some established household names only serves to emphasise how short-lived success can be.

As a result, there is a dawning realisation that only by getting talent and succession management right can organisations reinvent themselves to keep winning now and on into the future.

### Talent management helps organisations change

In Hay Group's experience, organisations – and not just the major banks – are increasingly seeking help to realign their cultures after major market and strategic shifts. They want to move towards more effective ways of operating and they want to ensure they get the best return from their prized assets – their people.

We are witnessing a desire by organisations to create a new definition of who they are and what they need to be to win. They want to redefine what success looks like. And they want new values and behaviours to help them get there.

For some, it's the realisation that as their market strategy and ways of operating have shifted, so too must their approach to managing talent. This involves gaining consensus around new goals and success factors. For others, change might be brought about by the arrival of a new CEO, the drive for better financial results, a merger or acquisition or responding to government cutbacks. Whatever the reason, the common theme within talent management is a desire to reassess what has to be done differently in order to get a better return from human capital.

“More than two thirds of company valuations are based on their 'softer' intangible assets: knowledge and know-how, brand, key relationships and their pool of talent.”

## Fit for purpose, not just best practice

Only one in five CEOs is confident their current approach to talent management can deliver the leaders they need.

There's no single, 'right' way to tackle talent management. The appropriate approach varies from organisation to organisation. Hay Group's experience has taught us to avoid fixing on one answer. For some organisations, it works to have talent management focused on an exclusive senior few. For others it pays to be more inclusive of the productive many. In some organisations, the focus needs to be on development; in others the best return may come through better sourcing, assessment and deployment.

The challenge is to understand what underlying business issues a change in talent management is trying to resolve. Solutions must be fit-for-purpose, rather than simply best practice. The key is to understand where each organisation is on its journey and what it's aiming to achieve by upgrading its talent practices.

Those organisations seen as best-in-class for managing talent do it in a 'joined up' way. They increase the quality of their people but they also think about how changes in one area affect the total system.

The key to effective talent management does not reside within one function or process, for example, reward incentives or development programmes. It requires a holistic approach that: incorporates how the organisation is structured and organised; accounts for culture and 'how things get done around here'; and connects with performance management and succession planning. More often than not, talent issues need to be considered from a whole system perspective, what Hay Group calls the 'seven levers' – elements that have to be aligned if change is to feed through to better results.

### The 'whole system' perspective

Considering your business and talent strategy in relation to all 'seven levers' is essential to deliver the 'talent dividend'.

Pure experience suggests that while some organisations tender for integrated talent management solutions, conversations are more likely to start around a specific issue. However more often than not, talent questions still need joined up solutions that consider the presenting issue from a number of different perspectives.

### Some sample issues

- Our strategy, ways of operating, values and behaviours no longer seem to deliver the results we need or our market and customers demand.
- Our development programmes aren't delivering the quantity and quality of leaders we need to succeed.
- We're struggling to attract the 'millennium' generation and our competitors are stealing a march on us.
- Our high potentials aren't meeting the expectations and demands we have of them as leaders.
- Our reward policies don't seem to be driving the behaviours we're paying for.

“Your people are not your greatest asset. The right people in the right roles are.”

### Systems-thinking transformation



## Benchmarking best practice

Our experience of working with many hundreds of organisations – local, global, public, not for profit and private – suggests there is a spectrum of developing practice in relation to talent management. It ranges from limited succession and talent management to ‘cutting edge’. We have charted the best

practices. ‘So’ refers to practices focused around strategic orientation or ‘so what?’ ‘Know’ refers to knowing what you need, what you’ve got and what it’s good for. ‘Grow’ is about building capability. ‘Flow’ refers to getting talent to where it’s needed and can make the most difference.

Use this table to judge where you are on your own journey – and identify appropriate next steps.

		Limited	Developing	Pockets of best practice best	Integrated	Cutting edge
So	Talent strategy	No plan/initiating	Talent plan aligned to business strategy	Talent plan essential part of business strategy	Talent strategy and business strategy are integrated and consistent	Business strategy is informed and influenced by our talent insight and predictions
	Employer brand	Beginning to develop one	Have a proactive employee value proposition	Employer of choice with clear value proposition	Are the leading employer of choice for the talent that we need now	Able to adjust our employer brand and employee value proposition to meet our evolving business and talent requirements
Know	Attraction	Frequent challenges in getting the right people	Sometimes find it difficult to attract the talent needed	Able to attract some of the talent needed, some of the time	Generally able to attract the talent needed most of the time	No issues; talent availability helps us advance our goals
	Selection	Ad hoc, subjective	Some roles defined, solitary line manager views predominant	Talent discussed through dialogue in talent forums, (but little data)	Most talent discussed through dialogue in talent forums includes objective, benchmarked data	Objective talent dialogues permeate whole organisation, measures are calibrated and comparable
Grow	Development	Ad hoc	Tactical development but return not measured	Significant investment and coordinated, some ROI	Interconnected and linked to business strategy and organisational weaknesses	Talent and leadership programmes deliver tangible benefits to the organisation and its people
	Measurement	Few	In place, but little ROI analysis	Investments are known, return often intangible	We know how much we invest in talent and what return we get for each element	We make informed business decisions about where we place our talent investments and are able to predict the returns
Flow	Retention	We typically struggle to retain our talent	We can retain some of our talent some of the time	We can retain selected talent	We can retain most of our talent most of the time	We retain our talent all of the time and proactively manage turnover
	Leadership support	HR monopoly	HR leads, senior management supports	Senior manager sponsorship, HR managers	Talent is a regular item on senior team's agendas	Senior managers devote substantial amounts of their time to talent; rewards linked to talent KPIs
	Systems	Limited, ad hoc	Some systems have been independently developed but don't 'talk'	Most systems have been created, rolled out, are effective and integrated	Full suite of efficient, effective and integrated service delivery capability	Our systems are flexible and have industrial scale capacity

## How Hay Group has helped clients with cutting-edge practice

### Measuring and developing executive bench strength

As part of the ‘know’ component, best practice companies regularly assess how their executives compare to peers in other industries or competitors, through an executive talent review. Working with clients such as Vodafone, Novartis and BAE Systems, Hay Group has developed innovative approaches to help them benchmark their talent against others who have faced, and overcome, similar strategic challenges.

### How this works

- Articulate your strategy and identify a sample of executives from our database who have effectively implemented similar strategies
- Compare the benchmark sample with your people to identify strengths and vulnerabilities in the population.

### Identifying the right people for critical roles

Your people are not your greatest asset. The right people in the right roles are. World-class organisations identify best candidates for senior roles and get the right people on to succession plans using robust, objective assessment processes. We help:

- identify the critical roles and their key requirements
- carry out in-depth, interview-based assessment of candidates against role requirements
- identify the strongest candidates and the risks associated with each
- feed back results to candidates and support best deployment and succession decisions.

### The benefits of this rigour are:

- better selection and succession planning decisions, leading to higher performance in the role
- less time wasted on political wrangling around appointment decisions
- objective data that leads to clearer decision making.



## The Hay Group difference – seeing the big picture

*Our breadth and depth of expertise enables us to align talent management initiatives with reward, organisational effectiveness and leadership activities.*

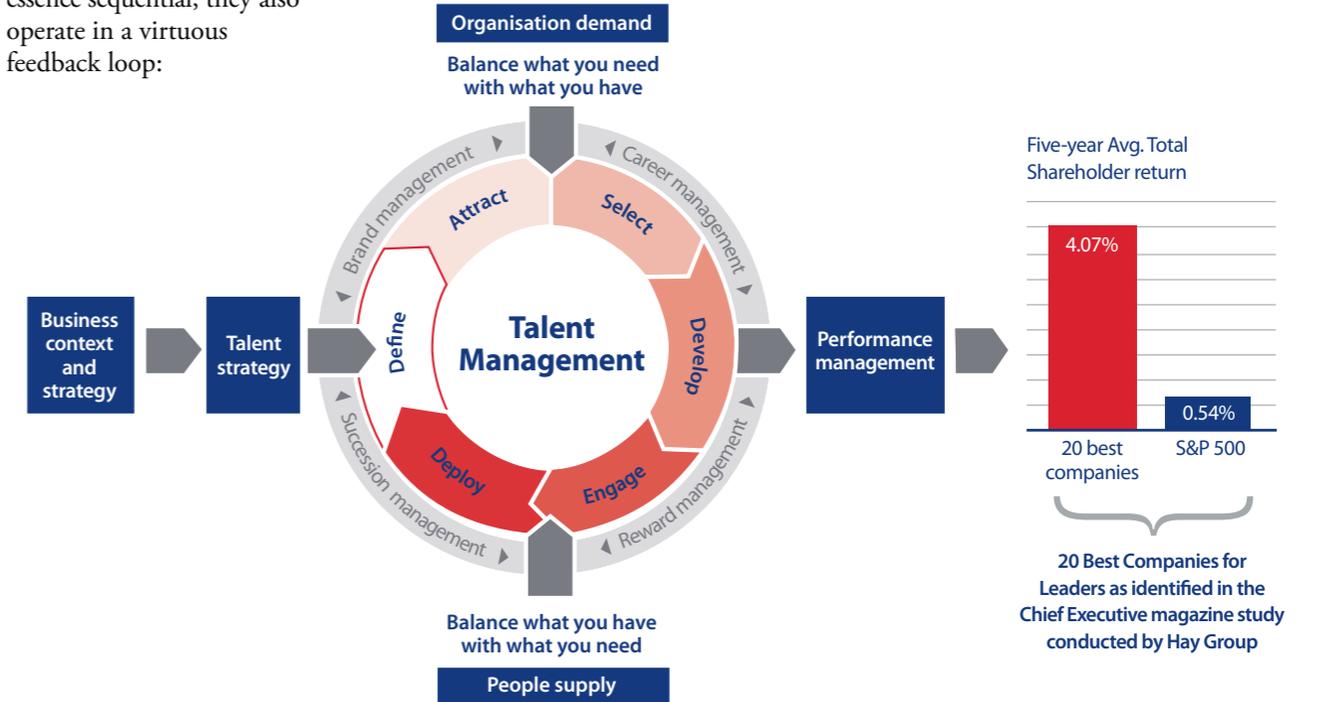
*Most organisations specialise in formulating strategy or in specific elements of talent management. Hay Group’s expertise lies across the whole spectrum of talent management activities. This means we can bring a ‘whole systems’ perspective, effectively implementing change across organisations.*

### We ensure strategy tracks through to results.

Hay Group views the talent management landscape in terms of six questions or activities.



While these activities are in essence sequential, they also operate in a virtuous feedback loop:



In this virtuous circle, talent management is the mechanism through which an organisation ensures it has the right people, optimally deployed and properly engaged to deliver the strategy and business results.

This mechanism works best when it is informed by the firm’s business context and strategy. It also serves to balance two potentially competing demands: the needs of the organisation and of the individuals within it.

For the virtuous circle of talent management to work effectively, on one side, organisations need a clear plan that defines what they need from their people. They also have to close the gap between ‘ideal’ organisational demands and the realities of actual people supply.

To work well, this mechanism needs the aligned culture and appropriate processes we have already discussed. If these aren’t effective or pull in different directions, the system tends to break down and doesn’t deliver the intended results. The key is joined-up implementation. That’s why talent management is part of brand, people, career and succession management. The best organisations also join it up with performance management. Without this, the talent management cogs simply spin rather than mesh and connect up with business results. The challenge for many organisations is to get traction from talent management. That’s why the focus must be as much on ‘deploy’ as it is on ‘develop’. It’s also why performance management is what the best companies are strong at.

**Do you treat your talent management process as seriously as your annual budgeting processes?**

The table on the facing page indicates what Hay Group recommends for each of the six key talent management questions. Our advice is based on our research with CEO magazine, the Fortune Most Admired Companies and our own consulting assignments. Also included

are some sample challenge questions that organisations should consider when thinking about each of the talent management elements.

“Talent management isn’t just a ‘nice-to-have’; it’s the ongoing life force of our organisation, the mechanism that helps us determine the future demands on our leaders, specify the gap between what we have and what we need. It’s what helps us win today and renew ourselves for the challenges of tomorrow.”

CEO and Hay Group client



**Challenging existing practice**

Question	Sample challenges	Recommendation
<b>Define</b> What kind of talent do you need to realise your strategy?	<ul style="list-style-type: none"> <li>What are the implications of your strategic objectives for people?</li> <li>Do you have a talent strategy, do you need one, what value would one bring?</li> <li>What skills will you need in the next five years that you don't have now?</li> </ul>	<b>Derive your talent management activities from your organisational strategy – this is your aiming point</b>
<b>Attract</b> How do you attract the best talent to meet your needs?	<ul style="list-style-type: none"> <li>How radical should your employee proposition be, what benefit is there in breaking the mould?</li> <li>Should you look for talent in different places and using different methods?</li> <li>Should you pursue a 'one size fits all' or take a segmented approach?</li> </ul>	<b>Review your employee value proposition and challenge yourself to be different</b>
<b>Select</b> How do you select the best talent to achieve your aspirations?	<ul style="list-style-type: none"> <li>Do you really differentiate between performance and potential?</li> <li>Are you sure your competency model and selection criteria are in tune with your business strategy?</li> <li>Are you clear on what would be 'perfectionist' versus 'good enough' in relation to assessment ROI?</li> </ul>	<b>Be clear on your aiming point or benchmarks, your target culture, values and behaviours and what talent management is trying to deliver</b>
<b>Develop</b> How do you best grow your talent to meet your future needs?	<ul style="list-style-type: none"> <li>Do you review the ROI on your development initiatives so they deliver what the business needs?</li> <li>Is your zone of comfort traditional training and development rather than broader talent management?</li> <li>Do you move your high potential employees out of their technical comfort zones early so they build their leadership skills?</li> </ul>	<b>Invest in enhancing the impact of leaders on their teams and develop people through challenging role moves and assignments</b>
<b>Engage</b> How do you best reward, engage and retain your talent?	<ul style="list-style-type: none"> <li>Is talent management the mechanism through which other HR practices, like reward, integrate?</li> <li>Is reward expertise involved early in the 'define' and 'attract' stages of talent management?</li> <li>Do you measure and track retention as a matter of course?</li> </ul>	<b>Rigorously align talent management with your engagement results and reward incentives so you get what you pay for</b>
<b>Deploy</b> How do you best deploy, redeploy and manage the exit of your talent?	<ul style="list-style-type: none"> <li>Do you give prime accountability for managing talent to the line, supported by HR?</li> <li>Do you simply 'review' talent or follow through on actions to improve the stock of talent?</li> <li>Do you insist on and support line managers in moving underperformers out?</li> </ul>	<b>Institute an upward reporting, line-led, objective process for reviewing and deploying talent optimally</b>

## Conclusion

There is no single talent management strategy to fit every organisation. But it is abundantly clear that implemented properly, talent management delivers tangible, measurable results of the sort that are enjoyed by many of the best-performing organisations worldwide. There may not be a magic formula for managing talent, but there are some universal components that underpin it.

### 10 actions to deliver the talent dividend

- 1 Insist on a decode of the business strategy into what it means for future roles and people
- 2 Define your aiming point – the future-focused behaviours that predict leadership success
- 3 Embed those predictive behaviours in all your performance and talent management activities
- 4 Reclaim 'talent' as a corporate asset and refuse to accept 'tick the box' succession planning
- 5 Conduct an objective talent review, against the right future-focused behaviours that drive results
- 6 Challenge underperformance and take supported risks with 'hidden diamonds'
- 7 Work hard on engaging and retaining all your talents
- 8 Ensure talent, reward and organisational design pull in the same direction
- 9 Ensure line managers own talent management, supported but not led by HR
- 10 Embed talent management metrics within people's performance plan.

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