

TRENDS IN HUMAN CAPITAL MANAGEMENT THE EMERGING TALENT MANAGEMENT IMPERATIVE

A Knowledge Infusion White Paper

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EXECUTIVE SUMMARY

People are the last weapon of competitive advantage in the global market today. No matter your industry, company, or nationality, there is a battle-ready competitor somewhere who is busy thinking how to beat you.

Products can be quickly duplicated and services cheaply emulated – but innovation, execution, and knowledge cannot. The collective talent of an organization is its prime source of its ability to effectively compete and win. In the new economy, competition is global, capital is abundant, products are developed quickly and cheaply, and people are willing to change jobs often. In this kind of environment smart, committed, experienced people who are technologically literate, globally astute, and operationally agile are the new competitive advantage. And even as the demand for this talent goes up, the supply of it will be going down. As a result, an unprecedented shift is occurring. Organizations are increasingly recognizing the need to radically change the role of their Human Resource function.

Today, there is a progressive movement to transform the HR function and establish a Human Capital Management (HCM) environment that truly leverages the workforce as a competitive weapon. Organizations leading the way in HR transformation are focusing less on administrative aspects and more on strategic issues. Talent management tops the list as a strategy for radically improving workforce productivity to drive higher value for the organization.

Today, most organizations are struggling to understand the characteristics, enabling technologies and definition of talent management. While they know how to administratively recruit, retain and replace, they struggle with the strategic elements of managing talent. The process of managing the supply and demand of talent to achieve business goals, represents one of the greatest opportunities for organizations to not only overcome these critical issues, but most importantly, survive and thrive for years to come.

Produced by Knowledge Infusion, the consulting authority on HCM technology, this paper is intended to serve HR and organizational leaders seeking to optimize their workforce through comprehensive talent management strategy and technology enablement of the strategy. It provides a common understanding of talent management, discusses current macroeconomic, workforce, and technology trends and challenges and highlights the business results organizations stand to gain. It also offers guidance for implementing an effective talent management strategy, with enterprise resource planning (ERP) technology as the core enabler.

TALENT MANAGEMENT DEFINED

Traditionally, organizational growth has been enabled by hiring more people. However, today's economic environment requires that the productivity of existing workers increase before new headcount is considered. Organizational growth has transformed from "quantity of talent" to "quality of talent."

As organizations seek new ways of improving workforce productivity, "talent management" has become a vital element in establishing a human capital management (HCM) environment.

A term that has suffered from significant abuse and misuse over the past few years, talent management is more adequately defined as:

A continuous, integrated process that helps employers to:

- Effectively plan talent needs
- Attract the very best talent
- Speed time to productivity
- Motivate the right behavior
- Develop targeted capabilities and knowledge
- Retain the highest performers
- Enable talent mobility across the organization

Talent management is critical for organizations to attain their long-term strategy so that individuals are placed in an environment where they can have the highest impact within the enterprise.

Importantly, talent management is an evolving process, enabled by technology that integrates a set of previously independent and disconnected processes. The ability to identify, develop, manage and retain talent as an integrated set of processes across the organization (rather than in functional silos) allows organizations to drive new levels of value from its talent. This value is represented in strategic measures such as higher productivity, increased accomplishment of business plan objectives and, ultimately, increased shareholder value.

In summary, it is imperative that organizations integrate a highly functional talent management solution across all facets of the business. It's not a question of if an organization needs to do this, but rather when and how. Talent management has become a mandate for organizations seeking to create competitive advantage through their human capital assets by improving current workforce performance and proactively preparing for the future.

"The process of managing the supply and capabilities of the workforce to meet the demand for talent throughout the organization to achieve optimal business performance and in direct alignment with organizational goals."

THE TALENT MANAGEMENT IMPERATIVE

It is estimated that organizations spend anywhere from 40 to 70 percent of their total operating spend on payroll and other direct employment expenses. And yet, very few organizations make decisions about their people with the same discipline and confidence as they do about money, clients and technology. Organizations that focus on maximizing their investment in people, rather than administering it, understand they will gain a significant competitive advantage.

Organizations embark on the path toward maximizing their investment in people by first identifying the workforce as an asset. This asset requires the same level of business discipline for optimization and management that would be expected of other business capital (i.e. financial, property, technology, etc.). Organizations that effectively optimize human capital focus their talent management strategy around three key principals: business focus, agility and alignment.

Talent management has emerged as a corporate mandate for organizations seeking to create competitive advantage through human capital assets.

It's About the Business

After years of paying lip service to the notion, successful organizations are beginning to take action on the all too common platitude “our workforce is our greatest asset.” They are linking key business initiatives with talent management principles to rapidly address new business opportunities and challenges, ultimately developing and allocating the right people with the right skills and experience at the right time. By increasing productivity and motivating workforce behavior, talent management leads to higher levels of organizational performance, including:

- Rapid product introductions
- Improved service delivery
- Increased innovation
- Lower production costs
- Increased on-time, on-budget projects
- Higher customer satisfaction
- Sustained organizational improvements

The Agile Workforce

For most organizations, the last decade has been defined by the search for incremental and sustainable increases in productivity, profitability and competitive edge. Organizations expanding into new markets and developing new products and services depend on their people to conceive, communicate, lead and execute those initiatives. Being able to rapidly address new organizational opportunities and challenges by developing and allocating the right people with the right skills is the essence of workforce agility.

Organizations are increasingly recognizing they lack insight into their current workforce and lack an understanding of how the HR function can fundamentally assist in enabling the execution of business plans. Progressive HR leaders understand that they can begin to contribute to organizational initiatives by establishing business processes that manage the supply and demand of talent. Integrated and dynamic internal mobility, succession, career development and recruiting processes enable organizations to optimize the knowledge, skills and deployment of their workforce to meet the goals of mission critical initiatives.

The Aligned Workforce

To successfully execute business objectives of growth, profitability, customer satisfaction, etc., companies must align the performance of their people to corporate goals. That is, people must understand what they need to do, be able to do it and be rewarded for doing it well. Successful organizations recognize that their competitive differentiation hinges on ability to purposefully connect the workforce with the business goals and to motivate behavior that contributes to organizational performance.

In aligning an organization's workforce, new processes and enabling technologies essentially transpose strategy statements into day-to-day work activities that can be measured. Effective alignment allows work to be measured through performance metrics and scorecards to create a shared vision. Cascading goals establish a direct line of sight from what an individual does, to the measured business result, instilling a greater sense of personal accountability towards a common goal.

As the final component to a fully aligned environment, executives must establish incentives that link individual behavior and success to the achievement of corporate objectives. Pay-for-performance reward structures serve to motivate behavior that supports the goals and strategy of the organization. Those that have deployed consistent, unbiased pay-for-performance initiatives have realized strong benefits, both qualitative and quantitative.

Effective alignment allows work to be measured through performance metrics and scorecards to create a shared vision.

MACROECONOMIC AND TECHNOLOGY TRENDS

To fully understand the need for talent management, as well as the opportunity to leverage it for success, it is important to recognize the macroeconomic trends and challenges facing organizations today as well as the role of new enabling technologies.

An Aging Population

Developed nations worldwide are facing increasing retirements and greater numbers of young workers. As seen in the figure below, the percentage of the population between the ages of 15 and 64 years old is decreasing in North America, Japan, Australia, France, and the UK, while Brazil and India are showing increases. This demographic is creating global movements of jobs, skills and population and an increased focus on attracting, developing and retaining key talent. As companies seek to fill labor demand to execute their business plan, they are developing new and innovative ways to manage this increasingly scarce asset – talent

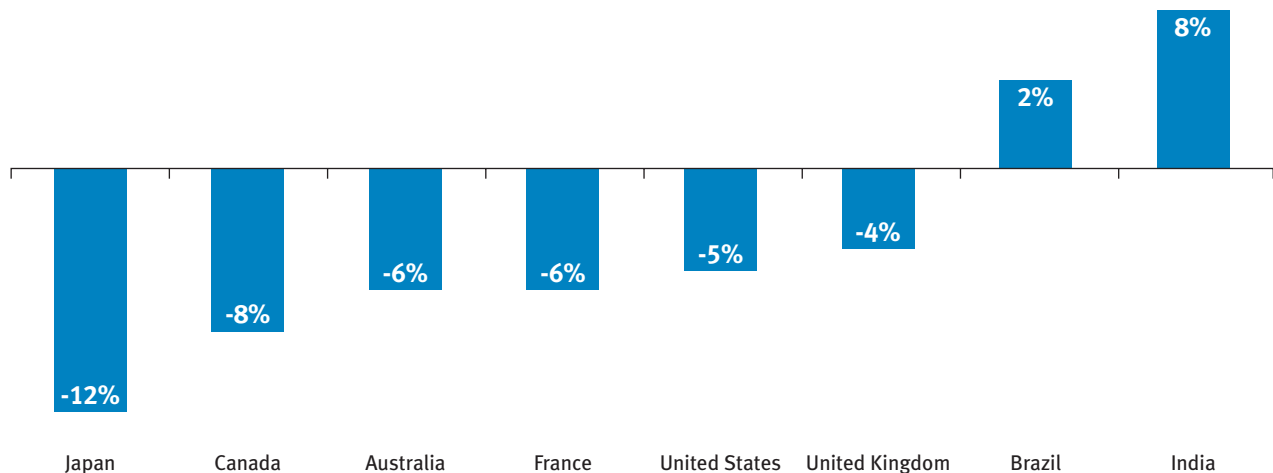
Multi-Generational Workforce

Today's workforce is more heterogeneous than at any time in history. As people retire later, we see 70 year olds working side-by-side with 18 year olds. Traditionalists, baby boomers, Gen X and Gen Y each has its distinct set of work values, learning and communication styles, and personal and professional motivators. Organizations that will thrive in the 21st century will develop diverse programs and technologies that effectively motivate, reward and develop these four distinct generations.

Industry Consolidations

The ubiquitous practice of mergers, acquisitions, restructuring and downsizing in today's business landscape regularly leaves organizations in a position with a redundant, too thinly spread or inadequately trained workforce. To address this challenge, HR professionals need to proactively align staffing with organizational strategies and deliver strategic talent management plans based on a comprehensive talent inventory.

FIGURE 1 Percentage Change in the Working-age Population (Aged 15 to 64), 2005 to 2025



From Towers Perrin “*Talent Management in the 21st Century: Attracting, Retaining and Engaging Employees of Choice*”
©2006 WorldatWork Journal First Quarter 2006

Globalization

Today's economy is truly global, with most organizations operating in some capacity on virtually every continent in the world. This massive globalization continues to put pressure on shareholder value. Since the market is increasingly international in scope, major industry players must have a global footprint to compete.

Today's global marketplace is spawning the industrialization of the global workforce. To remain a leader in the face of global competition, organizations must resourcefully leverage the best talent available, at the lowest possible cost. This entails a thoughtful approach to talent management around the globe.

Emerging Technologies

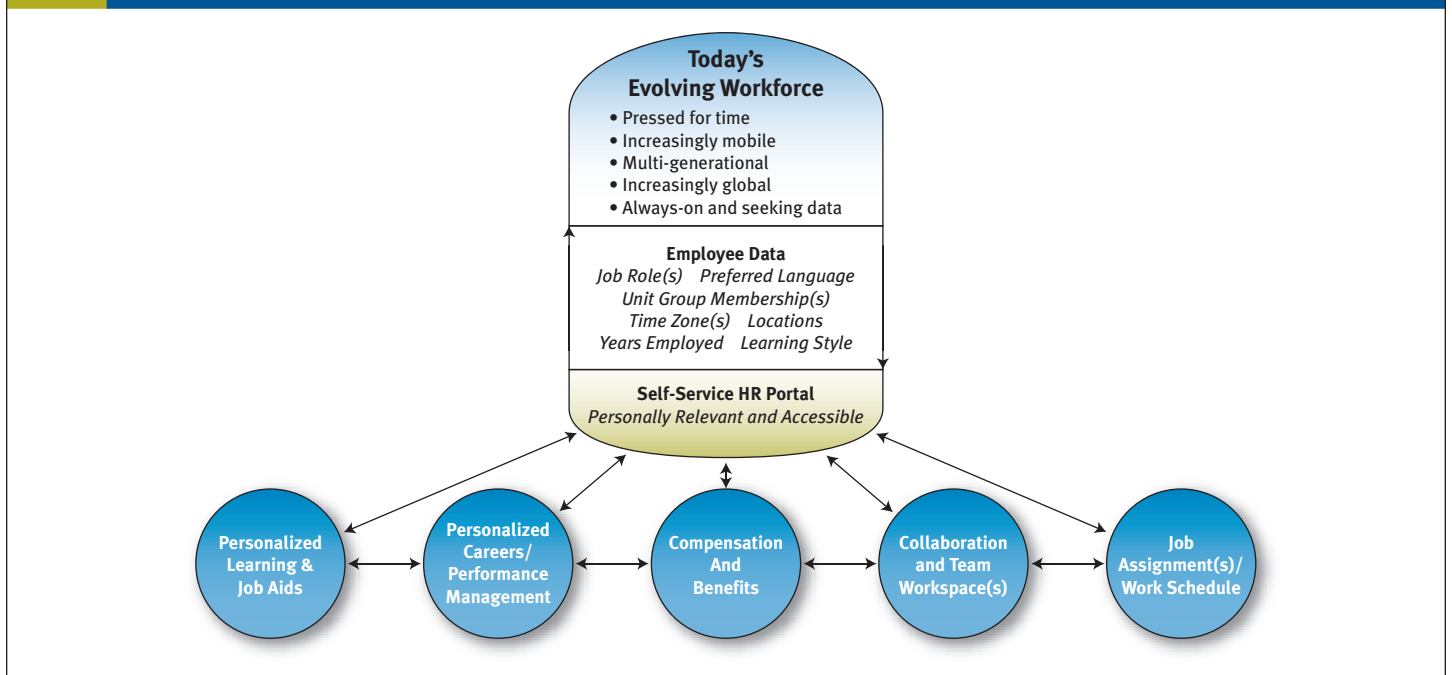
From Blackberries to blogs and podcasts to portals, there is a constant stream of new methods to communicate with members of the workforce. These innovative communication

channels provide a conduit to deploy and integrate talent management functionality that is personalized to individuals. In fact, with today's highly mobile workforce, talent management systems, processes and content are increasingly dependent on employee self-service and mobile devices.

Take portals, for example, which provide a single point of access to personalized dashboards, applications, content, search and analytics. Portals enable organizations to build communities of interest, share projects and collaborate inside and outside the organization. Now a recruiter in New York can message with a counterpart in London, access turnover analysis reports, approve a requisition via workflow, access a third party job site and send emails to prospective candidates, all from one place—the portal.

Understanding how to take advantage of technology embraced by a new generation of workers will be critical to gain competitive advantage.

FIGURE 2 Adapting to Emerging Workforce Trends



EFFECTIVELY TRANSITIONING FROM STRATEGY TO ACTION

As executive attention on talent management continues to increase, the focus on solutions and services necessary to transform the ideas into action also increases. In a recent survey conducted by Knowledge Infusion and IHRIM (The International Association for Human Resources Information Management), 77% of the respondents see talent management increasing in importance over the next three years. The reasons given include:

- Linkage between training, knowledge and performance
- Looming talent shortage
- Redeploying workers more effective than recruiting

Once an organization commits to a talent management strategy, it must quickly mobilize to plan the deployment activities that will drive positive results. Early experience illustrates that successful deployments are those that rapidly integrate the complex set of HCM processes that combine to produce a talent management environment, including talent acquisition, learning management, performance management, competency management, career development, succession planning, etc..

This planning activity and the ongoing execution of the plan ultimately shapes success. So where do you start?

Develop a Roadmap

The success of any talent management strategy hinges on a well-defined roadmap that supports a long-term vision. Understanding the organization's future state, assessing its current state and following proven roadmap principles provides the essential foundation for building and deploying effective talent management throughout the organization.

It's important to remember that developing talent management across the organization is an evolving process requiring careful planning, a high level of commitment, and setting appropriate expectations. Therefore, a three-year roadmap is recommended.

Initial steps of the roadmap may include building comprehensive job profiles (and cleaning up job codes), developing a competency model, integrating processes and executing change management.

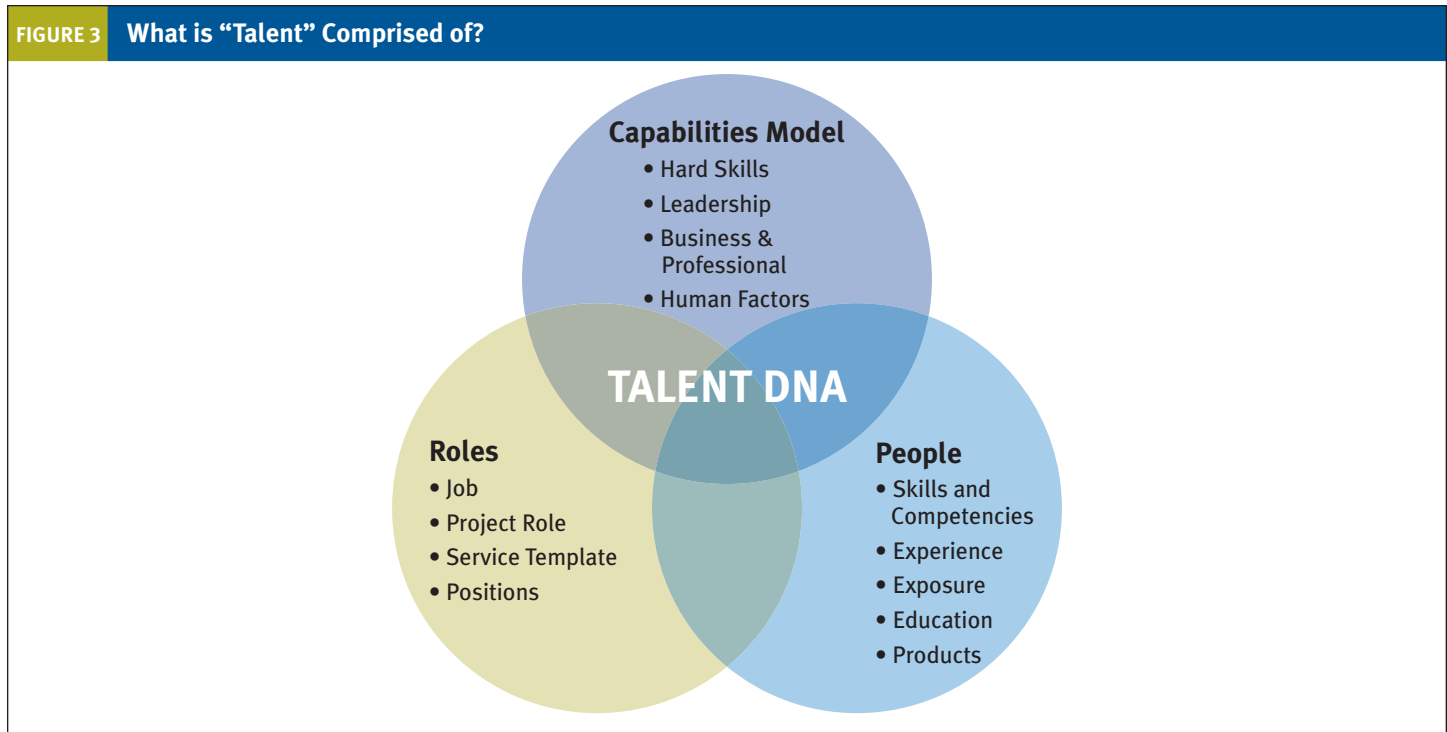
Emphasize Talent DNA

Effective talent management centers on the concept of "Talent DNA." In order to successfully balance the notion of talent supply with organizational demand, there must be a match between capabilities and needs. Talent DNA serves as the foundation for talent management acting as the common currency exchanged between each sub-process (performance, learning, succession, compensation, etc.) The Talent DNA model is composed of three primary pieces:

1. Organizations must have meaningful descriptions of the capabilities (skills, behaviors, abilities and knowledge) required throughout the organization.
2. Organizations must be able to relate those skills and capabilities to a role or a center of demand, such as a job position, project or leadership role.
3. Talent management processes must create a comprehensive profile of their talent. They must be able to track meaningful talent related information about all of their people - employees, contractors, or candidates.

With all three components working in concert, organizations can effectively apply the Talent DNA model to virtually any HR process that directly impacts "talent supply and demand," including recruiting, onboarding, staffing and development.

The Talent DNA model provides a mechanism to make accurate decisions on talent needs—"have it, build it or buy it." If needed skills and capabilities are present internally, they can be redeployed. If not, a decision can be made to either build these capabilities through learning and development, or buy them in the form of hiring or outsourcing externally.



In a recent survey conducted by Knowledge Infusion and IHRIM, respondents ranked the Top talent management Initiatives for 2006 as follows:

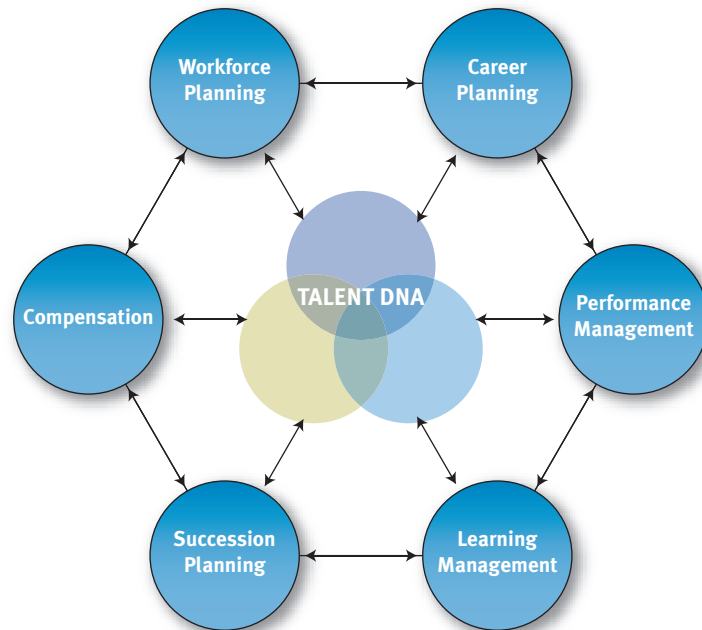
- *Talent Acquisition*
- *Leadership Development*
- *Aligning People and Goals*
- *Performance Management*
- *Talent Management Metrics*

Create Fluid Integration— Data, Processes Analytics

Talent management is more than improvements to discrete processes such as an applicant tracking system, a time and labor solution or a performance management tool. It is a set of integrated data, processes, and analytics requiring synergy across varied HR functional areas.

Organizations that have experienced success with talent management testify to having built out an integrated talent management blueprint that they implemented over time.

FIGURE 4 The Talent Management Blueprint



Data

A single view of data across the enterprise is one of the most critical elements for effective talent management. Organizations have spent countless time, energy and money implementing systems to capture key employee data. Talent management offers the ultimate opportunity to put that data to effective use.

An integrated talent management solution can pull data from disparate sources throughout the organization into a consistent, single “version of the truth” for mapping employee skills and competencies to critical talent needs. A unified source of employee and organizational data not only helps streamline business processes, but also supports the analytics that drive planning, analysis and decision-making.

Process

Best practices of leading companies clearly underscore that every organization’s HCM strategy should be derived from organizational strategy. And every policy, program, initiative and tool should align with and support the achievement of organizational success.

This takes a concerted effort to ensure all processes are connected for better insight, decision-making and action—not to mention consistency across the organization. For example, the performance review process should automatically trigger learning recommendations based on current and future talent gaps or opportunities to support talent readiness across the organization.

Analytics

HR departments are tasked with building motivated, trained and highly skilled teams that provide the organization a powerful competitive advantage. Yet very few have a comprehensive view of their data and the tools to analyze this information so they can align their activities with corporate strategy. Without analytics, which provides the ability to track both the “what” and the “why” of a situation, organizations are put in a reactive situation, usually waiting for a crisis to force change.

Leaders need the information and tools to optimize the investments made in employees. In a knowledge- and skills-based economy, the most competitive and effective organizations are those with employees who are motivated, well-trained and highly skilled—the talent of the organization. As HR is directly responsible for managing this talent, it is uniquely situated to optimize those advantages and increase the organization’s overall value.

It is crucial to determine which talent management elements can have the greatest impact on the business and therefore provide a better basis for prioritization and implementation. HR can provide insight into questions that have a direct bearing on their organization’s ability to execute its strategy, and analytics provides the mechanism to measure the effectiveness and success of a talent management strategy. These questions can include:

- Do our recruitment programs attract our future managers?
- Which employees are ready for management positions?
- What will our staffing needs be in five years?
- Who are the most productive employees across the organization?
- Which employees are at risk of leaving? What can we do to keep them?
- Do we have the right skills mix to achieve our goals?
- Where are the gaps?

Organizations need the ability to answer these questions confidently in ways that can be understood and leveraged by other senior executives and aligned with the organization's overall strategic goals.

Data and business process integration provides a richer basis for performing analysis, which in turn provides the foundation for determining what is important. From there, HR managers can identify trends in their workforce that lead to a better understanding of how to maximize business performance.

In addition to the predictive value of analytics, a workforce analytics strategy and platform which integrates HR data assets with data from other enterprise systems (e.g. Customer Relationship, Financial, or Supply Chain Management) can yield short and mid-term results on operating and financial outcomes. By providing immediate insight into operating and financial outcomes and the impact of workforce indicators and initiatives on those outcomes, organizations can rapidly adapt their workforce to optimize those outcomes.

For example, a closed-loop analytics strategy that combines call center and workforce data enables an organization to increase operating performance in the following way. The organization:

- Measures upsell rate, cross-sell rate, time-to-resolution, etc. of the call center team or individual analyst.
- Correlates these measures with specific talent initiatives, programs, or assets such as assessments, learning programs, performance ratings, incentive management regimes, skills/competencies, and source of hire.

- Improves and adapts talent initiatives, programs and assets at the organizational, departmental or individual level to maximize call center productivity based upon findings.
- Measures the change in upsell rate, cross-sell rate, time-to-resolution, etc. that occurs after the new/improved talent initiative is rolled-out.

In manufacturing, closed-loop analytics enable organizations to understand how production outcomes (throughput, quality indicators, machine downtime, materials waste) are influenced by training, incentives and goal alignment as well as the how they correlate with certain skills, experience, and licenses/certifications. With this understanding, manufacturers can optimize their human capital initiatives and workforce deployment strategies to maximize operating and financial outcomes.

The nirvana state of fully integrated systems and process described earlier yields important insight to the cause and effect relationships between the HCM/talent management investment and the resulting impact on performance. Positive trends can be leveraged for greater value, while negative trends can serve as an early warning system to trigger corrective action early

Change Management and Marketing

A successful talent management initiative will impact the entire organization, changing how employees, managers and executives think about human capital, jobs, performance and alignment.

Therefore, it is critical to create a comprehensive internal marketing and communication plan with the goal of increasing mindshare and transforming the way talent management is viewed by the organization. When talent management initiatives are perceived as strategic enablers to individual, departmental and corporate success—which requires as much marketing as planning and execution—adoption rates will increase and accelerate business results.

Furthermore, success breeds success. Marketing early successes and making them known throughout the organization will pave the way and encourage employees to embrace new talent management practices and behaviors.

Innovative firms are addressing the change management component as a way to ensure deployment excellence. By focusing on excellence in preparing the workforce for the deployment of new processes and systems to support the processes, faster and higher adoption rates can be shown. Failure of talent management initiatives can often be attributed to inadequate or non-existent change management.

True integration of enterprise-wide data, processes and analytics is necessary to make every employee a competitive asset, thereby driving operational and financial results.

THE TECHNOLOGY UNDERPINNING

Technology continues to be the critical underpinning in enabling the scale and scope of process change needed to transform HR into HCM. From improved data management and self service automation to portal consolidation and analytic dashboards, technology is the critical enabler in delivering HR services to the workforce. The technology trends in HR are consistent with the profound impact that technology is having on all enterprise processes internally and in connecting with customers externally.

Take internal mobility, for example. When seeking to fill a critical position in a global organization, a manager can now quickly identify a pool of candidates by accessing consolidated system data concerning an employee's performance reviews, individual development plans, license/certifications, education and compensation—for greater insight and visibility. If that supporting technology is not in place, manual staffing (or succession planning) can be both arduous and less effective.

Talent management technology goes beyond mere automation of processes to facilitate true workforce optimization in alignment with organizational goals. Still, organizations have not always leveraged their system resources to the fullest capabilities or changed their internal business processes to do so, oftentimes creating more complexity than organizational benefit.

Issues to Overcome

Many of the problems facing growing organizations reflect the incongruous solutions they have implemented. Over the course of time, and without seamless integration, these multiple “solutions” can create more havoc than they cure. Data integrity issues coupled with information access and the lack of consolidated reporting force organizations to create “work-around” spreadsheets, even shadowing MS-Access databases where they manually manipulate data to get the information they need to do their jobs.

For instance, many HR departments are not tied at the hip to training or to the staff members conducting performance evaluations. Reviews are rarely tied in to future growth, but rather to past or present performance. Too many departments still function under stand-alone processes, unique to their section of the corporate world.

Differing departments might have multiple interfaces and applications, creating confusion, slowing down workflow and, hence, hindering the integration of newly hired staff or delaying new assignments for existing staff. It is commonly reported that multiple interfaces and applications usually yield redundant data. This hurts an organization by lost work hours when materials are duplicated and also greatly increase the possibility of inaccurate data input, if done so more than once.

Add to this the inability to measure the effects of training, impact of compensation packages or overall success of an HR program, and one can readily see the need for a comprehensive, proactive solution.

Building on the ERP Foundation

Organizations continue to invest in Enterprise Resource Planning (ERP) systems in an effort to improve operational efficiency. Many ERP systems came online or were significantly overhauled as a by product of a “Year 2000” need. Now these organizations are seeking to drive higher ROI from these investments by applying this sophisticated technology to strategic, value-add processes. Talent management is a likely target given its strategic impact and broad reach.

The complex integration necessary for talent management provides a strong fit for the capabilities of ERP systems as a method to centrally manage data and workflow. Organizations that have implemented an ERP system as a system backbone are in a strong position to deploy a talent management solution, as vendors increase delivered capability for integrated functionality for virtually all aspects of HCM. The ERP system provides a solid foundation upon which to build, enabling organizations to leverage consistent data, processes and analytics across the enterprise.

The scale of business benefit that can be derived from talent management is beneficial in supporting enterprise IT initiatives outside of HR. By virtue of touching all employees, impacting a high percentage of operating expense and

improving value of ERP investments, HCM initiatives provide significant support to IT business cases. The most significant area of impact is around portal initiatives. Designed to bring employees to a central digital workspace to get and contribute data, knowledge, information and wisdom, a portal has powerful synergies with HCM initiatives.

There are many point solutions that offer a variety of individual or small group capabilities of the larger core talent management process set. The key to determining if a point or ERP solution is better for an organization is based on business value of individual components working in “interfacing mode” or a single system working in “integration mode.”

As mentioned earlier, to speed the integration effort, it is imperative that organizations closely evaluate and define the business processes they wish to address, as well as the flow of data and functionality to support those processes. This tends to be a more strenuous effort than the technical integration itself, but organizations that take the time to do this right will reap the benefits of a smoother talent management integration and a more valuable solution.

Without technology enablement, talent management is purely a conceptual vision that cannot deliver value. Technology is the vehicle that moves talent management from concept to reality.

Organizations that have implemented an ERP system as a system backbone are in a strong position to deploy a talent management solution as vendors increase delivered capability for integrated functionality for virtually all aspects of HCM.

CONCLUSION

As organizations continue to pursue high performance and improved results through HCM practices, they are taking a holistic approach to talent management—from attracting and selecting wisely, to retaining and developing leaders, to placing employees in positions of greatest impact.

The mandate is clear: for organizations to succeed in today's rapidly changing and increasingly competitive marketplace, intense focus must be applied to aligning human capital with corporate strategy and objectives. It starts with recruiting and retaining talented people and continues by sustaining the knowledge and competencies across the entire workforce. With rapidly changing skill sets and job requirements, this becomes an increasingly difficult challenge for organizations.

Meeting this organizational supply and demand requires the right “Talent DNA” and supporting technology solutions. By implementing an effective talent management strategy, including integrated data, processes, and analytics, organizations can help ensure that the right people are in the right place at the right time, as well as organizational readiness for the future.

To create a sophisticated talent management environment, organizations must:

- Define a clear vision for talent management
- Develop a roadmap for technology and process integration
- Integrate and optimize processes
- Apply robust technology to enable processes
- Prepare the workforce for changes associated with the new environment

ABOUT KNOWLEDGE INFUSION

Knowledge Infusion is the consulting authority on Human Capital Management (HCM) technology. Formed in 2005 to meet a growing market need, the firm provides strategic management consulting services to help organizations drive true organizational value from HCM technology via its integrated Strategy-Plan-Action methodology. Working collaboratively with clients, Knowledge Infusion assists in forming and executing decisions that allow organizations to maximize the value of current and future technology assets in supporting human resource and talent management strategy. The Knowledge Infusion consulting team is composed of industry leaders from product vendor, market analyst and consulting firm backgrounds, respected for their trusted advisor approach to assisting clients. Additionally, Knowledge Infusion thought leadership and concentrated focus on HCM technology enables access and close coordination with industry analysts and HCM product vendors that provides further capability in supporting clients. For more information, please visit: www.knowledge-infusion.com.

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