

KEY FINDINGS FROM HACKETT'S PERFORMANCE STUDY ON TALENT MANAGEMENT MATURITY

Mature talent management capabilities drive financial results, operational performance, and process efficiency and effectiveness

Management Issue

Complimentary Research

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EXECUTIVE SUMMARY

Many business and HR executives believe that talent management is a critical part of the corporate performance equation. But hard evidence of the better results produced by talent management has been difficult to find. The Hackett Group's Talent Management Performance Study gathered both quantitative and qualitative data showing the enterprise financial, operational and process performance payoff from talent management. Companies with the most mature talent management capabilities (called talent management maturity leaders, or TMMLs) achieved the best results in each of these performance categories by developing and deploying diverse talent management capabilities spanning three dimensions: Culture & Organization, Talent Management Processes, and Technology & Information. The success of TMMLs is attributable to a strong belief in the importance of talent to business strategy; consistent investments in building and maintaining key capabilities; use of advanced measurement disciplines and metrics; and shared responsibility for talent management among senior company executives, first-line managers and the HR function.

What is talent management?

Talent management plays a vital role in an organization's ability to achieve business results, but there is rarely a consensus about what constitutes talent management. Definitions often vary even within the same organization. The Hackett Group defines talent management as the activities by which organizations identify talent needs and acquire, develop, manage and measure talent.

THE ROLE OF TALENT MANAGEMENT IN GOOD TIMES AND BAD

For some time, talent management has been the mantra in executive suites around the world. But as economic conditions deteriorated in the latter part of 2008, the environment for talent management changed abruptly. Many companies resorted to layoffs, furloughs, hiring freezes and pay cuts. Training and recruiting budgets were slashed, staff let go and some departments eliminated entirely. The view of talent management in many places shifted from a necessity to a luxury.

A few organizations, however, have managed to navigate through the turbulent economic conditions while preserving their human capital and talent management capabilities. Some have even taken advantage of the turmoil to enhance their competitive position and upgrade their talent. This contrast between the struggling many and the prospering few raises the question: What role does talent management play in how well companies perform in good economic times and bad?

The Hackett Group launched a performance study in early 2009 to develop insights about the relationship between talent management capability and corporate performance. This research report presents the 10 most important findings from the study for HR and business leaders.

Description of the study's comparison groups

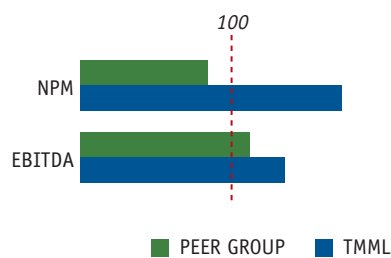
Two groups of respondents were identified – talent management maturity leaders (TMMLs) and a peer group – using a weighted score of maturity levels for 27 capabilities. TMMLs garnered the top-quartile scores among all participants; the peer group consists of the remaining participants. The data presented in this research report compares the average responses of the TMMLs and the peer group.

TALENT MANAGEMENT YIELDS A “TRIPLE PAYOFF” IN PERFORMANCE

Talent management capabilities pay off in a big way at three performance levels: external financial, enterprise and talent management process. Talent management maturity leaders (TMMLs) – that is, those in the top quartile of all study participants – outscored peer-group companies on all but one of 19 different measures of performance and benefits to organizations, in some cases by triple-digit percentage margins. TMMLs also achieved better results than the peer group in several key financial performance indicators. Among them are net profit margin (NPM) and earnings before interest, taxes, depreciation and amortization expenses (EBITDA) (Fig. 1).

Fig. 1 compares calculations of the three-year average median. These measures were normalized to take into account differences in performance that are attributable to industry. The normalized average for all the industries combined is 100. Comparing the normalized three-year averages, TMMLs showed 54% greater NPM and 18% better EBITDA.

FIG. 1 Comparison of enterprise financial performance (3-year average), 2009



Source: Talent Management Performance Study, The Hackett Group, 2009

In addition to external financial measures, TMMLs scored higher than the peer group on several different enterprise-level benefits of talent management. The biggest gaps involved improved business performance, the creation and sustainability of strong corporate cultures, and increased ability to retain talent, especially high-performers. Annual turnover levels of employees overall, and coveted high-performers in particular, were lower for maturity leaders. These benefits illustrate how companies with more mature talent management capabilities are able to create stronger organizations that better motivate and manage their talent.

Lastly, at the process level, TMMLs outscored the peer group on measures of process effectiveness and efficiency improvement. The scores of TMMLs were led by improved linkage of talent management processes to business strategy. There were significant gaps between the groups as well. The biggest differences between TMMLs and peers appeared in their ability to increase overall employee engagement and in Talent Management FTE productivity.

AN INTEGRATED SET OF TALENT MANAGEMENT CAPABILITIES IS NECESSARY TO EXCEL

TMMLs achieve impressive results by building and leveraging an integrated set of talent management capabilities aligned with their business and talent strategies. The study demonstrates that talent management maturity levels are considerably greater among the TMMLs than the peer group across all three categories of talent management capabilities: Culture & Organization, Core Talent Management Processes, and Technology & Information. This suggests that there are no shortcuts or “silver bullets” in using talent management to enhance business performance. Rather, a well-balanced mix of organizational, process and technology capabilities must be consistently applied to achieve superior results.

Description of talent management maturity levels

- **Reactive:** This aspect of talent management is not a recognized concept within the broad universe of HR activities and therefore little or no capability exists.
- **Planned:** At this level, individual talent management processes or activities have been developed and deployed, but talent management as a concept is embryonic. Only a basic level of capability exists.
- **Aligned:** Some awareness of the strategic significance of this aspect of talent management exists. Basic capabilities are widely and consistently deployed. Some advanced capabilities exist.
- **Strategic:** Talent management processes and activities are integrated and embedded in business planning and strategic planning. Advanced capabilities are widely and consistently deployed.

PEOPLE MANAGEMENT MATTERS

The results of this study show the dear price paid for underestimating the value of company Culture & Organization capabilities. It is noteworthy that the biggest maturity gap between the TMMLs and the peer group is in the area of Culture & Organization. Significantly, the largest gaps in maturity scores were in the areas of People Management & Leadership. TMMLs took the extra step of tying people management directly to manager performance appraisals and rewards. Another significant gap was found in the main goal of diversity efforts. TMMLs pursue diversity in order to create a corporate culture of inclusion for all. This sends the message that diverse talent is highly valued and seen as a key element of a high performance organization.

STRATEGIC PROCESSES MAKE A DIFFERENCE

TMMLs consistently outdistanced the peer group in levels of talent management process maturity, led by workforce development, management and leadership development and succession planning. Many of these processes are related to skill and talent development, providing evidence of the performance payback from strategic talent processes.

A FORMAL PERFORMANCE MANAGEMENT PROCESS IS INSUFFICIENT

At many companies, talent management involves little more than setting quantitative performance goals and concocting pay schemes to incent staff to achieve them. The results of our study expose the inadequacy of this narrow approach and show that many more talent management capabilities are needed for outstanding performance to be realized. Twice as many TMMLs as peers indicated their performance management is an ongoing process with multiple components linked to rewards. TMMLs show that performance management can work well when it's done in a meaningful way and as a steady component of the everyday activities of leaders.

INFORMATION PROVIDES AN EFFICIENCY AND PRODUCTIVITY EDGE

Technology and measurement drive both execution rigor and results. They provide the functionality and information essential to successfully managing talent in large, complex organizations. TMMLs are way ahead of the peer group on most every aspect of technology and information. They are more likely to be using both qualitative and quantitative measures and to have integrated them into their business analysis and decision making.

TMMLs also have a more advanced technology infrastructure to access talent-related information. Their talent management applications are better integrated, and talent reporting is more standardized, detailed and recurring.

COMPREHENSIVE METRICS ARE ESSENTIAL TO MANAGE PERFORMANCE

TMMLs use a wider array of sophisticated metrics than peer companies. Areas in which more advanced measures are used by a large majority of TMMLs include retention (e.g., reasons for departure and first-year retention rate), engagement (e.g., employee engagement indices and correlation of activities to increased employee engagement), and staffing (e.g., source of hire and impact of branding on recruiting success). TMMLs cultivate talent management as a core organizational competency, with an emphasis on continuous improvement.

IT'S NOT ONLY HOW MUCH YOU SPEND, BUT HOW YOU SPEND IT THAT COUNTS

Spending focus and priorities differ substantially between TMMLs and peers. In particular, TMMLs place special emphasis on talent planning and development processes such as strategic workforce planning, succession planning, career planning and workforce development.

Over the past two years, the majority of TMMLs in the study increased their spending on these activities. Looking out over the next 12 months, the majority of TMMLs plan to continue their increases in spending on talent planning and development processes.

IT TAKES MORE THAN HR TO SUCCEED IN TALENT MANAGEMENT

Successful talent management requires a team effort among HR, business managers and senior company management. Each has a unique role to play in taking on different aspects of talent management. At present, there are substantial differences in the governance approaches of TMMLs and peers. TMMLs demonstrate strong HR/business collaboration and business/senior responsibility for key processes. Top-level involvement and commitment is vital to executing these activities effectively.

At TMMLs, employees' direct managers are also far more likely to have responsibility for retention, employee engagement, performance management and talent development than those in the peer group. Each of these activities demands strong manager involvement and responsibility to succeed.

TALENT IS A COMPETITIVE EDGE FOR ORGANIZATIONS THAT "WALK THE TALK"

Most business leaders unfailingly assert the importance of talent to their company's success. But Hackett's study documents that there are often wide gaps in talent management capabilities and practices between TMMLs and the peer group. TMMLs view talent as a strategic resource and competitive advantage to a significantly greater degree than the peer group. They invest more in key capabilities and take every action possible to realize their vision of talent.

STRATEGIC IMPLICATIONS

Talent management capabilities are an essential ingredient for outstanding performance. By increasing the maturity of talent management capabilities, companies can achieve a triple payoff in terms of better corporate financial, operational and process performance.

This requires assembling an integrated mix of capabilities to enable business and talent strategies. Cultural and organizational capabilities should be developed so that the optimum environment for talent to thrive and perform to their potential is created. Talent management processes must be perfected to ensure that talent needs are identified and appropriate individual staff are acquired, developed, managed and measured.

Technology and information are essential for providing the technical infrastructure and tools necessary to manage information about talent. This includes measuring the right level and type of information as well as tracking talent development and performance and enabling smart decisions about talent.

Finally, building mature capabilities requires prudent investments in skilled staff, technology and third-party expertise to perform strategic processes effectively and operational processes efficiently.

HR cannot achieve all of this by itself. Business managers and company leadership must also take responsibility for talent management.

ABOUT THE HACKETT GROUP

The Hackett Group, a global strategic advisory firm, is a leader in best practice implementation, advisory, benchmarking, and transformation consulting services, including shared services, offshoring and outsourcing advice. Utilizing best practices and implementation insights from more than 4,000 benchmarking engagements, executives use Hackett's empirically based approach to quickly define and prioritize initiatives to enable world-class performance. Through its REL brand, Hackett offers working capital solutions focused on delivering significant cash flow improvements. Through its Hackett Technology Solutions group, Hackett offers business application consulting services that helps maximize returns on IT investments. Hackett has worked with 2,700 major corporations and government agencies, including 97% of the Dow Jones Industrials, 73% of the Fortune 100, 73% of the DAX 30 and 45% of the FTSE 100.

Founded in 1991, The Hackett Group was acquired by Answerthink, which was renamed The Hackett Group in 2008. The Hackett Group has global offices in the United States, Europe, Australia and India and is publicly traded on the NASDAQ as HCKT.

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ABOUT THE ADVISORS

Tony DiRomualdo

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Mr. DiRomualdo has over 20 years of research and advisory experience in the areas of HR, IT and business strategy. His work has focused on areas including talent management, workforce planning, recruiting, learning and development, employee engagement, leadership, performance management, and HR outsourcing and technology. Mr. DiRomualdo has directed several ground-breaking global studies, producing insights and tools used by major corporations worldwide. He is the author of numerous reports, case studies and articles appearing in prominent business and academic publications including MIT's *Sloan Management Review*. Mr. DiRomualdo previously headed his own research organization and ran research programs at major management consulting firms.

Stephen Joyce

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Mr. Joyce is responsible for thought leadership, practice management and advising HR executives on how to improve efficiency and effectiveness in their HR organizations. He has over 25 years of experience in human resources, HR consulting, and HR system implementations. His experience includes conducting and HR benchmarks to integrate into the HR strategic planning process, future visioning, workshop development and execution, process redesign and program management, with hands-on leadership experience in compensation, HRIS, and as a business partner and generalist. Mr. Joyce's experience includes four years as the managing director of the PeopleSoft Solutions group within Answerthink.

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Ms. Bression has over 10 years of human resources experience with a specific focus on general HR management, talent acquisition, performance management, process improvement, compliance, and employee relations. Prior to joining The Hackett Group, she held various HR roles in both private and public companies, including a Fortune 500 organization. She is certified by the Society for Human Resource Management both nationwide and globally.