

TALEO RESEARCH WHITE PAPER

Talent Intelligence – Key to Australia Business Success

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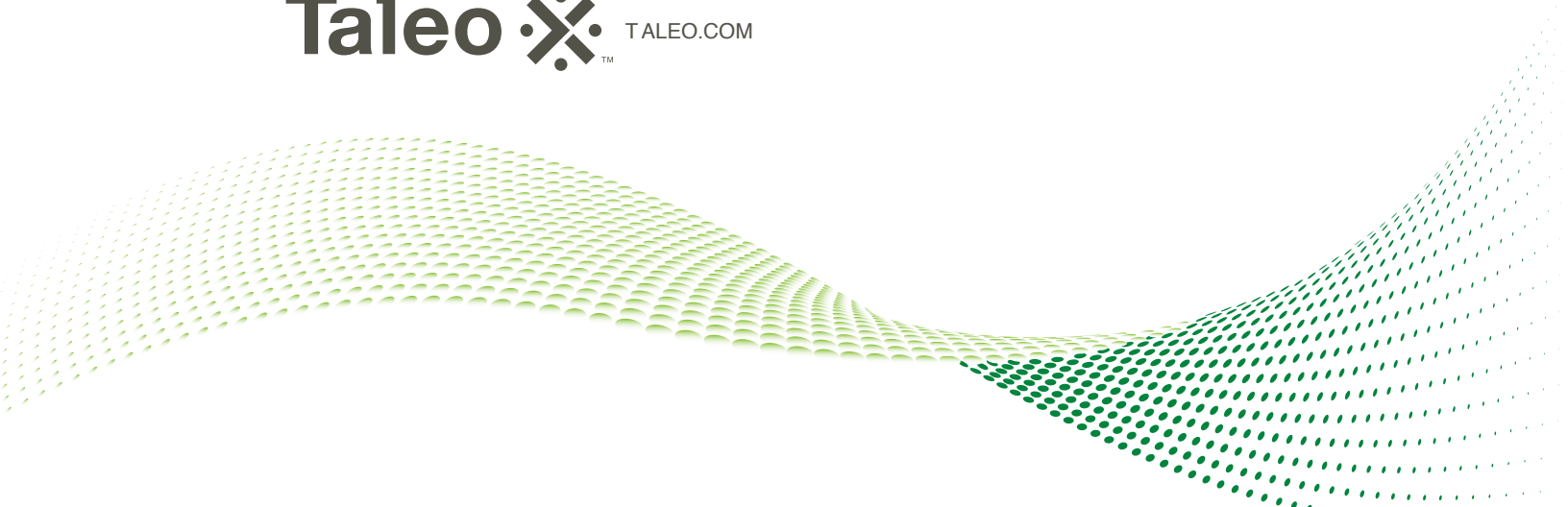


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Executive Summary

In today's knowledge economy, up to 70 percent of an organisation's value is based upon the skills and experiences of its employees. Yet for most businesses, there is simply no visibility into how well the company's biggest asset is being managed. In fact, LinkedIn and Facebook may offer more information about a company's people—their talent assets—than their HR technology systems have today. Without a unified approach to talent data, real intelligence on a company's most valuable asset—its workforce—is not immediately available to generate key insights for decisions that drive business performance.

In 2010 Taleo Research executed an Australia survey on talent analytics, the kind of data that informs talent management practices and processes. The survey was designed to understand the value companies place on talent information and whether HR and Line of Business executives have access to reliable talent data to understand the levers that help them drive business results.

The key findings from this survey demonstrate:

1. There are significant gaps between the level of importance companies place on talent data and their access to reliable information. Many HR and Line of Business executives are not receiving access to talent data that is important to them.
2. Employee retention and development rises to the top of the list, as unemployment in Australia remains low.
3. An analysis of the top 10 most important talent analytics fit into three major areas:
 - i. **Employee Retention.** Determining top performers, understanding who's a risk of loss, tracking total turnover and turnover cost.
 - ii. **Productivity.** Tracking engagement levels and productivity measurements.
 - iii. **Goal Alignment.** Performance plans aligned to goals and goals aligned to business plan.
4. There is a significant opportunity to provide accurate, accessible data in the area of talent intelligence to generate insights to improve business results. But talent intelligence capabilities must be timely, intuitive, and not require separate processes.

This paper compares and contrasts the Australian Talent Intelligence Survey results and presents a prescriptive plan of action to implement processes and technologies needed to gain key talent insights to help drive business results.

Growing Interest in Talent Intelligence

There are four key factors driving the increased importance of access to talent insights for *business leaders*:

1. Australia maintained a low unemployment rate during the recession. As the global economy picks up, high performing employees will be at increased risk of voluntary flight. A tight labour market for key professional skills requires a system with the ability to mine the talent database to find the right talent and skills.

2. Business are focused on growth and innovation, but still need to control expense. There have also been growing pressures for companies to expand internationally. Most companies have difficulty keeping track of their employee's names and addresses, never mind having access to employee/ talent data to gain key insights into their talent across a global or distributed workforce. Any business with multiple “silos”—countries or business units—needs to have visibility into its talent.
3. An *ageing workforce* is driving the need to measure the effects of a brain drain and the risk of not filling critical positions from within the company using succession planning.
4. There needs to be a greater ability to formally identify, develop, and retain the *leaders of tomorrow*.

There are also four key factors driving the importance of talent intelligence for *HR leaders*:

1. HR leaders are the historical owners of the *people/talent* issues.
2. There is increased pressure from the business to *justify investments* in all projects/tools including investment in talent management initiatives. HR needs the data to provide these justifications.
3. HR leaders want to *add value* to the business. For years HR wanted to gain a seat at the executive table and recognition at the board level but lacked the systems to show how comprehensive people strategies improved business performance.
4. HR wants to enable the line of business to better manage talent. To accomplish that, business leaders and line managers need accurate, current data.

Since the level of importance of talent data within both groups has risen in the last decade, why has it taken so long for them to succeed in getting this data? The answer lies within the history of business intelligence.

Business Intelligence: A Short History

Few companies have achieved the goal of transforming their data into insights because it requires the data to be timely and intuitive to access. Business intelligence data has to be consolidated from multiple sources and then presented to those who need it in a format that helps them gain those insights.¹

The challenges of getting good data are outlined in the graphic below. All of these traditional challenges can be overcome through improved processes, applications, and practices. Support at all levels of the company is required to address them. Surmounting these challenges is expensive and requires IT resources to constantly manage and deliver the information. IT support is also required to change the metrics as the business needs change.

A McKinsey Quarterly article defined Business Intelligence as:

“The ability to transform data into insights to help manage a company, business intelligence consists of the processes, applications, and practices that support executive decision making.”¹

¹ Data to dollars: Supporting top management with next-generation executive information systems, McKinsey Quarterly, January 2010.

A few years ago such technologies, called “business intelligence”, were available only to the world’s biggest companies. But as the price of computing and storage has fallen and the software systems have got better and cheaper, the technology has moved into the mainstream. Companies are collecting more data than ever before. In the past they were kept in different systems that were unable to talk to each other, such as finance, human resources or customer management. Now the systems are being linked, and companies are using data-mining techniques to get a complete picture of their operations—“a single version of the truth”, as the industry likes to call it. That allows firms to operate more efficiently, pick out trends and improve their forecasting.

Source: Data, data everywhere/A different game: Information is transforming traditional businesses, The Economist, February 25, 2010

Challenges of getting good data:

>Lack of access to data

- Silos
- Political obstacles
- Don't know who owns it

>Not enough data

- No historical data
- Requested data is not tracked

>Bad data

- Data entry errors
- Department or divisional inconsistencies

>Inconsistent “keys” between systems

- Employee numbers not consistent
- Location codes not consistent

>Duplicate similar systems

- Similar data is tracked by multiple similar systems in different parts of the organization
 - Multiple LMSs/HRMs
 - Growth by acquisition
- Data definitions vary between systems

Source: 2010 Capital Analytics, Inc.

Even if a company invested in data warehouses, integrations, and change management processes to get it right, traditional business intelligence was still missing the information about the company’s greatest asset: people.

The State of Talent Intelligence

In the late 1970s and early 1980s, HR thought leaders such as Dr. Jac Fitzenz began researching and publishing a set of human resource metrics and benchmarks. In these early days, the focus was on compliance: analysing how personnel policies impacted risks and costs of litigation. Later the focus was on process efficiency such as measuring the time to hire or percentage of performance reviews complete. These metrics examined individual HR processes and did not look at talent holistically.

By 1997 when McKinsey published the groundbreaking piece on the “War for Talent” as a strategic business challenge and a critical driver of corporate performance, it was clear the old way of thinking about human resources and HR metrics was about to change. This new view of talent coincided with the move to more of a service oriented economic model. Talent issues started gaining the attention of executives and Line of Business managers.

If talent was their competitive advantage, executives and Line of Business managers would have to participate in these talent initiatives. Companies would have to move from measuring just the efficiency of their talent processes to gaining actionable information into the effectiveness of their talent strategies. Both HR and business leaders would need more intelligence and insights into how talent management initiatives were affecting the bottom line. To drive the effectiveness of talent management enterprise-wide, business leaders need to directly access the data to make decisions about the workforce.

Talent Intelligence Survey

In 2010, Taleo Research sought to measure the readiness of companies to gather these talent analytics. The Talent Intelligence Survey was designed to understand the value companies place on talent information and whether HR and Line of Business managers have access to reliable talent management data to understand the levers that drive business results.²

The survey focused on seven key categories of talent analytics to help drive business performance:³

1. **Business strategy.** In order to measure how well talent initiatives are supporting the business, HR and Line of Business managers need visibility into the alignment of people and goals to business strategy.
2. **Leadership bench strength.** These measures include identifying leaders, developing succession plans, and providing internal mobility—particularly for top performers.
3. **Top performer retention.** Retaining top performers starts with the ability to identify them. Once identified, engaging them in challenging work, providing them with career and development opportunities, and compensating them boosts retention.
4. **Top talent attraction.** These are measures of a company's visibility into how well it attracts key talent, analyses the best sources of hire, measures its quality of hire, and finally retains top talent once hired.
5. **Employee development.** HR and Line of Business managers need measures for the development plans of employees and tracking the development of high performers per division or department.
6. **Workforce metrics.** Visibility into employee engagement levels, turnover rates, diversity, risk of loss for critical employees, productivity, and alignment of goals to strategy are all key workforce metrics.
7. **Workforce costs.** Visibility into workforce costs is important in analysing the balance between cost and productivity including total compensation costs, turnover cost, and new hire costs.

² See Methodology section for sample sizes and demographic information.

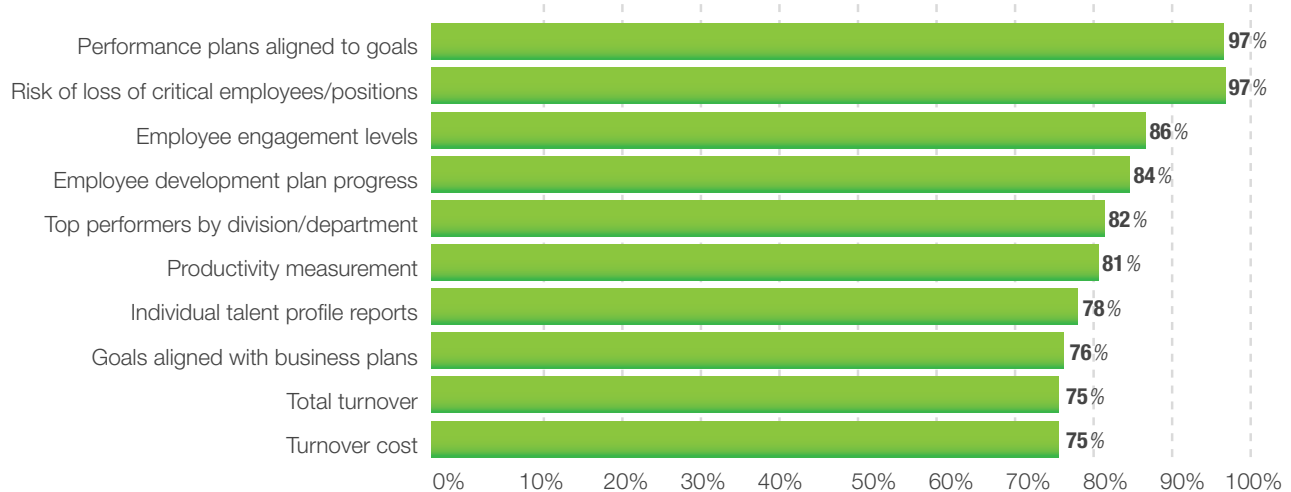
³ The analytics per category are in the Appendix.

Top Ten Lists

The Talent Intelligence Survey results highlight significant areas of focus and improvement for talent data and intelligence. The following charts show the top 10 list from the Talent Intelligence Survey. They include the list of:

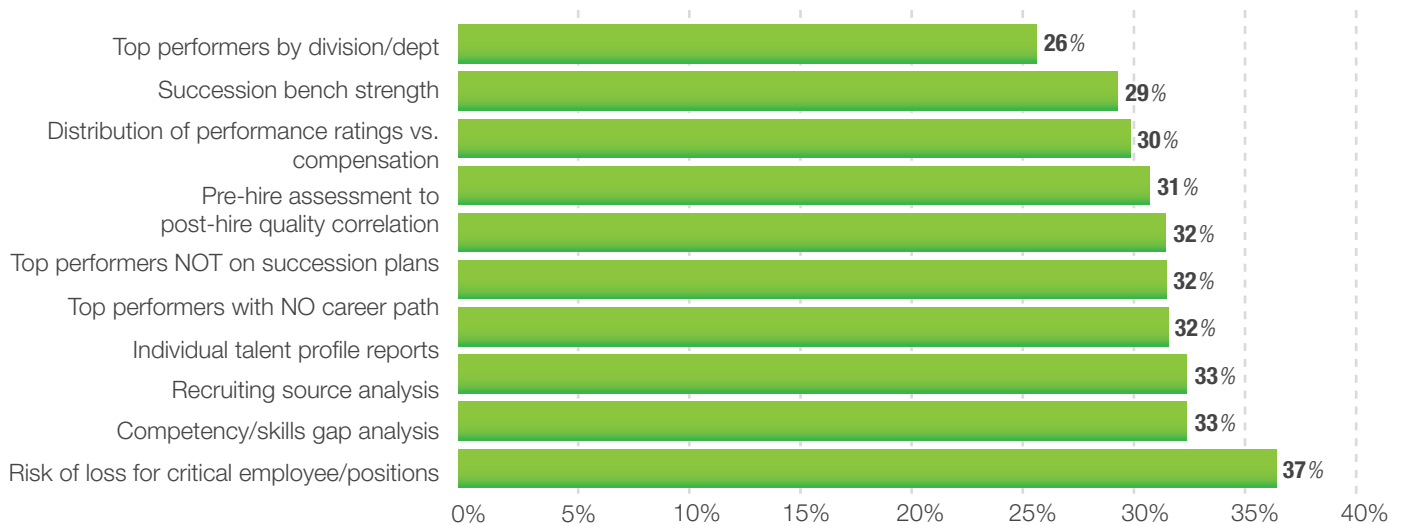
1. The most important metrics Australian executives want to track.
2. The data that is least accessible and even if it is accessible, company's have the least confidence in the data supplied to them.

Top 10 Most Important Talent Data Elements



Source: Talent Intelligence Survey - Australia, Taleo Research/PAC, 2010

Top 10 Least Accessible and Reliable Talent Data



Source: Talent Intelligence Survey - Australia, Taleo Research/PAC, 2010

Measuring the Metrics That Matter

For a number of the analytics, the gap is significant. In many cases, barely a majority have access to talent data they want. For example:

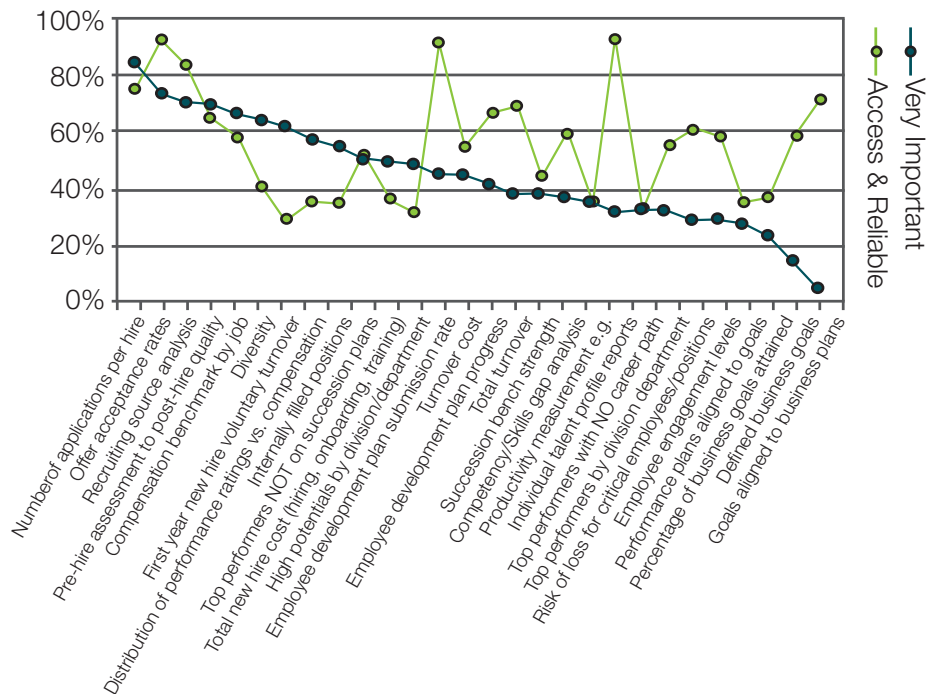
- > 80% want data on succession bench strength but only 29% have access to reliable data on it.
- > For nearly all (98%), data on risk of loss of critical employees/positions has importance but only a small majority (37%) of respondents have access to data that is reliable.
- > 88% wanted data on top performers by division but only 26% knew whether those top performers were on a career path.

No Access/Unreliable Data

Survey results also show many respondents have no access to certain data or no confidence in the reliability of the data they receive, including:

- > No access or unreliable data for over two-thirds (69%) of respondents on pre-hire assessment to post-hire quality correlation.
- > No access or unreliable data for the majority (78%) of the respondents for top performers with no career paths and top performers NOT on succession plans
- > No access or unreliable data for 70% of respondents on the distribution of performance ratings vs. compensation.

GAP BETWEEN LEVEL OF IMPORTANCE AND ACCESSIBILITY



Talent Intelligence Study - Australia, Taleo Research/PAC, 2010

“Too often, HR is managed ad hoc, with numerous and disparate systems for core employee data, staffing and recruiting processes, benefits and compensation programs, performance, and development.”

Source: Establishing a workforce intelligence center of excellence, PricewaterhouseCoopers, 2009.

Challenges in Delivering Talent Intelligence

Knowledge Infusion defines talent intelligence as “Managing workforce data in the context of other business information, and using it to drive decisions.”⁴ In the past, visibility into valuable talent data has been hampered by:

- › Widespread use of spreadsheets to manage talent and data.
- › Companies measuring the wrong things.
- › Keeping talent data in silos.
- › Lack of timely data aggregation and intuitive access.

Use of Spreadsheets

Spreadsheets are a major obstacle to improving performance management and talent management. It seems as if every individual and business starts out using Microsoft Excel or an equivalent tool. The spreadsheet is ubiquitous and familiar to most people. However, while this financial tool is useful for HR in the short term and for one-time tasks undertaken by an individual or a small group, research shows that its use can significantly hinder performance for larger groups or repetitive tasks.

75% of organisations use spreadsheets for some aspect of talent management. More than half (61%) of participants find errors in spreadsheets, which lead 37% of organisations to incorrect performance reviews. The vast majority of organisations (72%) do not use spreadsheet auditing software; while among those that do, 83% find errors at least occasionally. Where a performance management system is in use and spreadsheets are used often, errors are found most often (43%); where spreadsheets are not used, errors are found least often (1%).⁵

Ventana Research has amassed a large body of research data indicating that the use of spreadsheets for multiuser enterprise tasks is inefficient, costly, and likely to introduce errors and inconsistencies. Addressing this issue is essential for organisations to mature in managing the performance of talent management. Doing so requires using systems that are less error-prone and easier to audit. This is particularly true when companies try to measure the effectiveness of talent management strategies or when they are trying to get a consolidated view of all aspects of a person, both of which require information from multiple sources.

Measuring the Metrics That Matter

HR organisations have usually measured the efficiency of their talent management strategies, such as the time to hire, HR headcount ratios, and percentage of performance reviews submitted on time. But they lack access to information to measure their effectiveness. Here are some examples according to the Talent Intelligence Survey:

- › Although most companies measure time to hire, only 31% have access to reliable data on the quality of hire (Are they getting faster at mis-hiring?).
- › Although 83% know the defined business goals and only 33% know if they have the skills to execute their strategy (Information that would be in a competency/skills gap analysis).
- › Only 62% have access to data on employee development submission rates. Similarly disappointing, just 50% have access to reliable data on employee development plan progress (How do you make the process meaningful?).

⁴ Talent Intelligence: Using Measurement to Better Manage the Workforce and HR, Knowledge Infusion, 2009.

⁵ Source: Ventana Research – Benchmark Research: Managing Performance To Motivate Talent.

Both efficiency and effectiveness are important, but companies need to focus more on the effectiveness of their talent strategies and their impacts on the business strategy.

Data is Siloed with Many of the Problems of BI

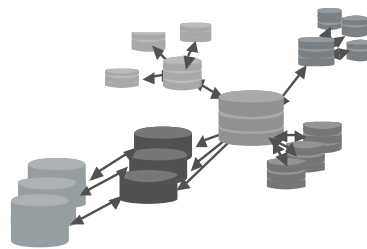
Much like business intelligence (BI) systems, siloed talent management systems are another major obstacle in gathering talent data for analysis. The best of breed talent management vendors started with one or two solutions. Customers tended to buy from multiple vendors thereby implementing distinct systems.

The cost of consolidating data without a unified talent management data model is high, particularly when a company is implementing a full data warehouse and analytics system to support this analysis. These siloed applications require a traditional BI approach, expensive IT resources, and technically complex analysis. IT resources are required to create, maintain, and change the way data is collected and viewed.

Once a company decided to implement an analytics framework, it was operationally hard to implement. Decisions had to be made on the choices and definitions of metrics to collect and analyse. Even more significant, companies with multiple applicant tracking (ATS), performance management (PM), compensation management, learning management (LMS) and HR systems are further challenged with metric rollups that make sense.

Many organisations collected a large amount of personnel data, yet did not put it to use because the data is siloed or not in an accessible format. An expensive data warehouse had to be used to bring together the talent data for analysis. This is very costly and requires substantial IT resources. Talent analytics are in competition with other BI requirements and history has shown these priorities tend to be delivered last.

Data Silos Are Technically Challenging



Data Must Be Timely and Intuitive to Use

The insights gained from talent data are only as good as the timeliness and accessibility of the data. Talent data must be self-generating/self-refreshed. The foundational base of information begins with the candidate, capturing the core data about a person's pre-hire history including their skills, experience, and aspirations. Once a candidate has been hired, this information—which may be directly relevant for job fit or internal mobility throughout the employee's tenure—is too often lost or ignored by HR systems.

Employees move through the talent life cycle from applying for a job, through the hiring and induction processes, to performance reviews and development progress. The rich data that is collected in the normal process should be captured once in each stage and then be made available and presented in a format to help managers make decisions.

Recommendation for Talent Intelligence to Drive Business Performance

Higher-performing companies are more apt to measure talent-related metrics than lower performers.⁶ Success with talent intelligence requires a focus on accessing the right metrics, choosing the most important data elements, and defining reporting requirements.

Accessing Talent Intelligence with the Right Metrics

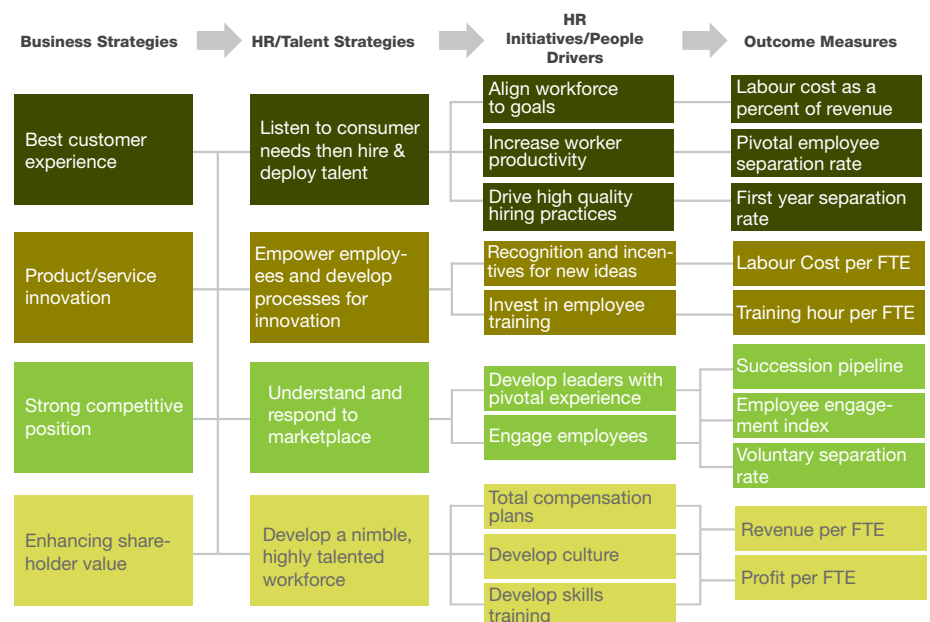
Success steps:

1. Understand what important information helps the business. Ask what the strategy is and what skills and resources are required to execute the strategy.
2. Choose an analytical framework for delivering information by analysing who needs the data and how it will be represented.
3. Eliminate silos and use a unified platform and/or data model to capture and display the data.
4. Ensure that access to the data is timely and intuitive.

Selecting the right data for analysis and reporting may be tied to compliance and efficiency metrics and not executive decision making. Determining what to report and analyse frequently becomes a politically charged debate. This is especially true if a company's structure has autonomous business units.

There are, though, some instructive and applicable best practices. In the graphic below, PricewaterhouseCoopers (PwC) shows the linkage between the Business Strategy and HR/Talent Strategies that result in HR Initiatives with measured outcomes. Consider the "Outcome Measures" recommended and determine how they apply to your strategy.

Selecting the Right Metrics: Linking Metrics to Strategies



Source: Workforce Intelligence, PricewaterhouseCoopers, 2009.

6 HR Metrics Pulse Survey, i4cp, February 2009.

Capturing the Right Employee Data

The key to aligning talent intelligence to drive business outcomes starts with access to the most important employee/talent data. For example:

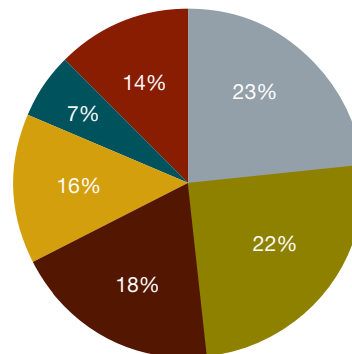
- › An employee's experience before and during current employment with skills and competencies.
- › The employee's career ambitions to align development plans and identify succession candidates.
- › Employee performance ratings to ensure high performers are identified and retained.
- › Succession plans to understand transferable skills and seek out high potential employees.
- › Performance information that identifies future leadership potential to fill the leadership pipeline.
- › Critical skill sets that are at risk or the gaps with skills that are not available.
- › Business performance goals established to ensure all employee goals are aligned to help execute the business strategy.

This data cannot be collected as an afterthought or as a separate process. It must be captured as part of the overall talent management process—not as a separate or additional task. Moreover, data entry, access, and reporting must be easy to use and valuable to the business. System adoption is critical; otherwise data will not go into the system as part of the day to day process.

Implement the Right Talent Tools and Processes

Among the reasons why companies do not measure the impact of talent management initiatives on the business are: **22%** of companies do not know where to start, **16%** do not have enough staff to take on this measurement effort, even though only **7%** say they do not have the financial resources to measure the business

Key Reasons Why Organizations Do Not Measure Business Impact of Talent Management Initiatives



- The value of talent management is widely viewed as intangible or obvious within our organization
- Our organization is not sure where to start the measurement process or what to measure
- Senior-level executives have not requested this information
- Our organization does not have enough staff to take this measurement effort
- Our organization does not have the financial resources to measure business impact
- Other

Increasingly, competitive advantage will be driven by distinctive analytics capabilities. For today's HR executives, analytics is especially important as a way to generate an enterprisewide impact. Higher sales and profitability; better sourcing and retention of top performers; and a clearer understanding of the leadership behaviors and cultural attributes that drive business results—these are just a few of the critical benefits the sophisticated use of HR analytics can deliver.

Source: Put Data to Work, Talent Management magazine article by Accenture executives, April 2010.

These are some of the very same issues companies faced with business intelligence. The cost and the resources to implement business intelligence solutions could only be borne by large companies.

Companies can solve this problem by implementing a single, *unified talent management system or data model*. This will allow users to access and manage talent data as part of the normal process of hiring, onboarding, conducting performance reviews, and creating development plans for employees.

Unless all are part of the ongoing process, it will be difficult to capture all the data required. Therefore it will then be extremely difficult to compile or analyse the data in any meaningful way. A unified talent management system and/or a unified talent data model used to mine data from all talent systems is not just desirable—it is required.

Conclusions

The Talent Intelligence Survey results show there are significant improvements needed to provide accurate, accessible data in the area of talent intelligence.

Areas of improvement in collecting and presenting data:

1. First, understand what data is important to the business and close the gaps between the level of importance companies place on talent data and their access to timely, reliable information.
2. Separate out which metrics are needed for compliance reporting and which data will help drive the business. Ensure management understands the category of information needed for the business.
3. The most important talent analytics relate to business effectiveness not efficiency, including:

Top Performer Retention

- Risk of loss of critical employees/positions
- High potentials by division/department
- Top performers by division/department

Workforce Metrics

- Performance plans aligned to goals
- Employee engagement levels

Leadership Development

- Succession bench strength

Business Strategies

- Defining business goals
- Goals aligned with business plans
- Competency/skills gap analysis
- % of business goals achieved

Employee Development:

- Employee development plan progress
- Employee development plan submission rate

Today, companies can eliminate most of the traditional costs and technology challenges by selecting an on demand solution with built-in talent analytics. This new capability can deliver both the full suite of talent management solutions and also a robust data model to compare strategies and outcomes. This eliminates the high cost of a traditional business intelligence platform with its required IT maintenance and data warehousing.

With the talent intelligence that comes from a holistic process, talent management initiatives can be executed and compared to business outcomes. HR can finally demonstrate the value investments in people and people strategies have on the bottom line of the business. Talent intelligence can be a key driver of business success.

Survey Methodology

- › The Australia Talent Intelligence Survey research was conducted by Taleo Research in conjunction with Quantum Marketing Research in Q1 2010.
- › The survey consisted of answers from 100 senior level HR and Line of Business(LOB) managers in Australia.
- › Targeted titles were CEO, VP, C-Level, Senior and Operations Directors in a variety of industries including business and financial services, healthcare, high tech, manufacturing, public sector, retail, and transportation.
- › The data was reported in summary, by size company (1000 – 3000, 3001 – 5,000, and 5,000+ employees), and by HR vs. LOB.
- › There were almost an equal number of HR and LOB respondents to the survey.
- › The survey asked respondents to rate the level of importance and the access to and reliability of the data for 29 talent management analytics, in 7 categories.

Appendix

2010 Talent Analytic Survey Questionnaire Categories

Business Strategy	Defined Business Goals
	% of Business Goals Achieved
	Goals Aligned to Business Plans
	Competency/skills Gap Analysis
Workforce Metrics	Employee Engagement Levels
	Total Turnover
	Risk of Loss for Critical Employees/positions
	Diversity
	Productivity Measurement (revenue/output per FTE, customers handled, items assembled)
	Performance Plans Aligned to Goals
Workforce Costs	Turnover Costs
	Total New Hire Cost (hiring, onboarding, training)
	Tax Credit Savings (U.S. only: WOTC)
	Compensation Benchmarks by Job Classification
Leadership Bench Strength	Succession Bench Strength
	Top Performers Not on Succession Plans
	Internally Filled Positions
Top Performer Retention	Top Performers by Division/Department
	Distribution of Performance Ratings vs. Compensation
	Top Performers with No Career Path
	Individual Talent Profile Reports (skills, development plan, goals)
Top Talent Attraction Data	Recruiting Source Analysis
	Pre-hire Assessment to Post-hire Quality Correlation
	First-year New Hire Voluntary Turnover
	Number of Applications per Hire
	Offer Acceptance Rates
Employee Development	Employee Development Plan Submission Rate
	Employee Development Plan Progress
	High Potentials by Division/department



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