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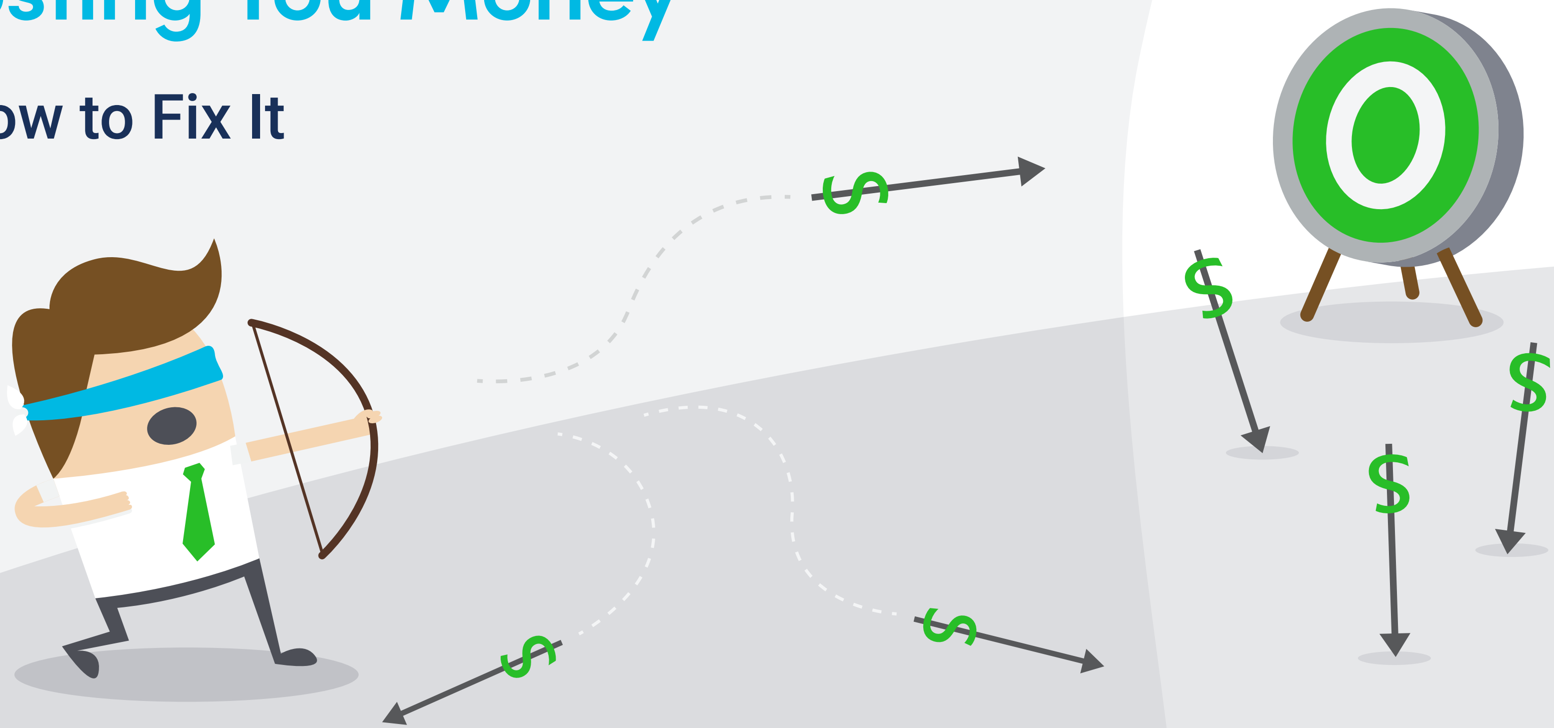
Why Your Nonexistent Talent Management Strategy Is Costing You Money

And How to Fix It



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The True Cost of Not Having a Talent Management Strategy

Your company is growing. You're hiring dozens of new employees, or maybe launching a new, innovative product guaranteed to build your customer base. Whatever it is, *it's big*, and it's going to help you stand out from the competition and improve your bottom line.

But only if you have the right employees.

That's the challenge, isn't it? Not just *finding* the right people but developing them and keeping them. Talent is your biggest resource—and the scariest variable.

Yet you're still managing your most valuable resource – your people – with old-school tools. You're using software designed for *productivity*—email, MS Word®, MS Excel®—and insisting it deliver powerful insights into your talent (something it was never designed to, *and simply can't,* do). Horror of all horrors, you may even be stuck in file cabinet hell, reliant on paper-driven processes to track, train, and review employees.

You’re clinging to the hope that managing performance and learning via manual and paper-based processes is sufficient.

You may even think it’s saving you money.

It isn’t. The cost of *not* investing in true talent management is high, higher than you may think. Without a true talent management strategy, your company is *losing* money. Spreadsheets and Word® documents can’t tell you who is ready for succession, who is high performing but not high potential, or what competencies you need, based on current superstars, for each new position. Productivity software wasn’t designed to give you the big picture view of your talent, which is the key to improving performance, engaging employees, and creating longevity through real succession planning.

Your company has never been about the status quo. You innovate in your product line, marketing, and customer service to stay competitive. *So why aren’t you doing the same thing with your talent management?*

A Crash Course in Talent Management

What *is* talent management? And why do you need a holistic strategy for it?

Once upon a time, HR's job was limited to recruiting, payroll, and benefits management. But in the 1980s, HR began to play a more strategic role in a business's long-term business strategy. HR suddenly became more than just the team that talked about benefits; they became instead a valuable asset in helping companies drive revenue through improving human capital resources.

Learning and performance are about more than increasing employees' value. By tying them into succession planning, you'll ensure longevity in a business world where 250,000 members of the workforce hit the retirement age each month.[1]

Within a talent management strategy, HR guides each employee through every phase of their employment—from hire to retire or transition. HR delivers this guidance through frequent feedback, training, career development, and engagement activities that are pre-aligned with the business's short- and long-term goals.

The results are profound. Talent management isn't just about a fuzzy, hard-to-quantify approach to employee engagement, recruiting, or succession. Instead, it delivers tangible, bottom-line results. According to the Hackett Group, companies can see a 15% increase in earnings just by improving their talent management.[3]

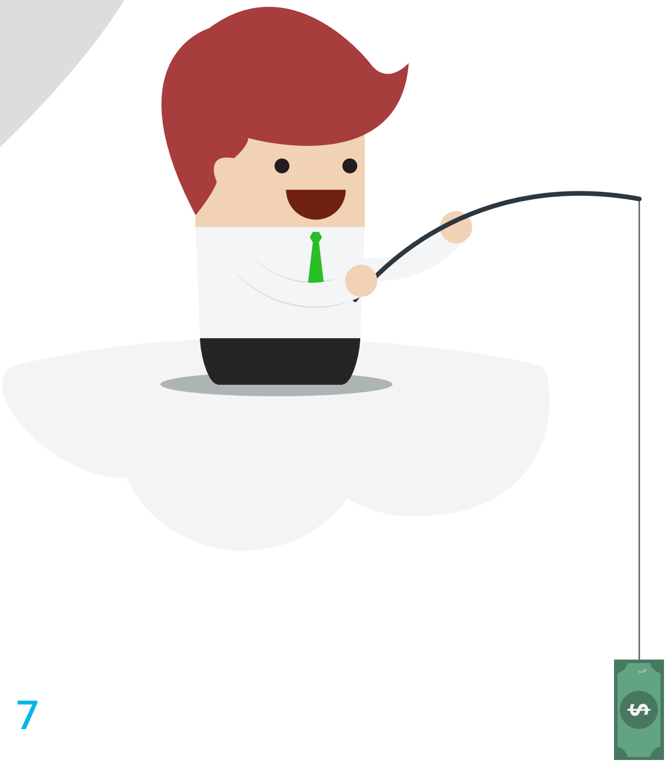
Yet a comprehensive talent management strategy still *isn't* the norm. Research shows that less than 25% of companies use a unified, holistic approach to their talent management. In another study, while 45% of respondents ranked talent management as the top priority in their corporate strategy, 35% stated their businesses still lacked a talent management strategy.[4]

HR's continued viability as a strategic partner in a company's success depends on transitioning from siloed, standalone talent management practices to a holistic talent management strategy. **But in an era of cost-cutting, competition, and an uncertain economy, how can you convince your C-suite to spend money to save money?**

With the numbers.

According to the Hackett Group, companies can see a 15% increase in earnings just by improving their talent management.[2]

Performance Management: You're Leaving Money on the Table



If your business is still treating performance management as a standalone process, you're missing out on an opportunity to drive engagement, improve productivity, and inform real succession planning.

In a Harvard Business School study, businesses without a performance management culture increased their net income by a mere 1% over 11 years. In contrast, those with a performance management culture saw a 756% increase over the same period.[5]

Talent Management Success Story—Performance

DB Breweries
450 Employees

Results: DB Breweries quickly understood the benefit of a cloud-based solution with no investment in servers or upgrades. The review process became more meaningful and engaging and the HR department was able to help its leaders clearly identify top talent and identify low performers and take action to improve them.

Companies without a performance management strategy

- **waste up to 34 days each year managing underperformers.** Managers spend 13% of their time managing poor performers and 14% correcting their mistakes. That's the equivalent of thirty-four days *every year* dedicated to trying to mitigate the negative effects of underperformers.[6]
- **achieve significantly lower net income.** In a Harvard Business School study, companies without a performance management culture increased their net income by 1% over 11 years. Those with one saw a 756% increase in net income.[7]
- **lose the opportunity to identify and retain high-performance employees.** High performers make up only 5% of your workforce—but produce 26% of your output.[8] Yet if you're not identifying them, you're probably *also* not keeping them. Losing high performers can cost up to 3.5 times that employee's salary.[9]

Action Steps

1. Create competencies based on existing high performers to establish benchmarks specific to your company's goals. These competencies can also help you improve the recruiting process by setting a proven baseline for new hires.

2. Increase the frequency of reviews and make them more meaningful through the use of 360-degree feedback, targeted learning plans, and career development and succession conversations.

3. Tie performance to more than compensation. Unify performance with learning - any skill gaps discovered during performance reviews can be addressed with training opportunities. Link performance with succession to identify high-potential, high-performance employees who are ideal for leadership roles.

4. Work to align employee goals with company goals and build performance objectives that tie into both.

Learning: Are You Throwing Recruiting Money Down the Drain?

Considering that new hires take, on average, six months to be truly productive, losing them early is like throwing recruiting money down the drain. Hiring new people can cost up to 30% of the position's salary;[10] do that a mere three times in one year, and *you've wasted an entire salary without any gain in productivity.*

In contrast, spending even $800 per learner—the national average—can increase engagement, retention, and profits. Companies will think nothing of spending thousands to recruit the best talent, yet they balk at spending mere hundreds to onboard and develop them. Onboarding especially takes short shrift: In the *2012 Allied Workforce Mobility Survey,* 80% of companies didn't have a dedicated budget for onboarding, and one-third spent *zero dollars* on it. When taking into account all respondents, companies spent an average of *only $67 per employee per onboard.*[11]

In contrast, 69% of Best-in-Class businesses begin onboarding new hires *before* day one[12], while simultaneously focusing on ongoing learning and career development. These leading companies understand the value of how a quality onboarding process increases productivity and engagement, and also how learning promotes engagement, retention, and succession. *Why?* Because they see holistic talent management as part of a day-to-day strategy that manages the employee lifecycle as a unified whole that drives every human capital management decision.

Best-in-Class businesses know that onboarding and learning development *save* money. Rather than viewed as expenses, these activities are seen as smart and measurable investments in improving profitability and productivity long term.

Companies without high-quality development plans see very real losses in revenue per employee, making *less than half* the median revenue per employee. According to Bersin, firms *without* high-quality development plans report $82,800 per employee; firms that place a priority on learning and development see more than twice that ($169,100 per employee).[13]

Talent Management Success Story—Onboarding and Learning

The Trusts

400 Employees

Results: With a combined performance and learning talent management strategy, employees of The Trusts can both train for the job they were hired to do and begin development for future positions. Instead of saying "We can't afford to train people," this company says "We can't afford not to."

Companies that don't make significant investments in onboarding, learning, and development see

- **decreased performance.** Increasing the number of workers trained by a mere 5% *can increase productivity* by 31%.[14]
- **lower net profit margins as a result of low engagement.** Fifty-three percent of employees surveyed said that more training opportunities would translate to improved engagement, and companies with engaged employees see a 240% increase in performance-specific results. A Towers Perrin-ISR study also showed low-engagement firms saw 166% lower net profit margins compared to those considered high-engagement (-1.38% to 2.06%, respectively).[15]
- **less than half the median revenue *per employee*.** According to Bersin and Associates, *firms without development plans* report $82,800 per employee; firms that place a priority on learning and development see a median revenue of $169,100 per employee.[16]

Action Steps

1. Engage new employees early. Let onboarding be about more than just paperwork and orientation, and give new hires the opportunity to connect with co-workers, create goals, and learn new skills *before* their first day.

2. Offer online, on-demand, self-paced classes so employees can learn and engage at-will.

3. Start helping employees develop their career plans from day-of-hire. This not only addresses engagement but also ensures an easier—and continued—alignment of company and employee goals.

4. Use learning in tandem with performance management and succession planning to continually cycle up skill levels and address company-wide skill and leadership gaps.

The Proof is in The Numbers: Making The Case For a New Talent Management Strategy

A true talent management strategy delivers a tremendous return on investment for businesses of any size. The proof is in the numbers.

But how can you show decision makers the impact it can have on *your* business?

First, consider what *is* measurable in terms of a talent management strategy. Then, consider what metrics best communicate talent's impact on the business's bottom line:

- Overall retention rate
- Cost-to-hire
- Time-to-hire
- Voluntary turnover
- Revenue/full-time employee
- Retention rate of new hires
- Retention of high performers
- Employee engagement
- Number of internal vs. external promotions

Each of these metrics quickly highlight the effectiveness of an business's talent management strategy—or lack of one. The fulfillment of these metrics also help communicate the ongoing value of HR as a true strategic partner in the business to the C-suite and other key stakeholders.

Sample Calculation:

What is the True Cost of Turnover at Your Company?

How much is turnover costing your business? Turnover is a financial drain for multiple reasons: loss of skills, productivity, and knowledge; the additional burden on remaining employees; the lost morale of remaining employees; training; and recruiting costs.[17]

For example, imagine a company of 250 employees with an average annual salary of $48,872 per year (US average)[18] and a voluntary turnover rate of 10.4%[19] (again, the US average). Multiplying the number of employees by their salaries, then by the turnover rate, yields **an annual cost of turnover of $1,270,672.**

Very few businesses, if any, can afford to lose that kind of money each year.
Yet all is not lost. The fastest way to stem turnover? A true talent management strategy that allows businesses to not only *find* the right talent, but also trains, engages, and retains them. Businesses with advanced talent management strategies see 41% lower turnover and 17% lower voluntary turnover overall.[20] For the sample company above, even a 1% reduction in turnover—training, engaging, and retaining 5 employees—would translate to *more than $63,500 in annual savings.*

How does turnover affect your business—and how much could you save with a talent management strategy? Use the worksheet below to find out.

	EXAMPLE	YOUR COMPANY
Number of employees	250	____________
Average salary	$48,872	____________
Average turnover rate *(Not sure what to use? U.S. average is 10.4%)*	10.4%	____________
Annual cost of turnover =	**$1,270,672**	____________ *(multiply # of employees x average salary x average turnover rate)*
Every 1% reduction in turnover will save =	**$12,706**	____________ *(multiply annual cost of turnover by 1%)*
Total annual savings from a talent management strategy (on cost of turnover only) =	**$216,014**	____________ *(multiply annual cost of turnover by 17%)*

These savings, while significant, are based on a *single* metric. Advanced talent management strategies also profoundly affect other metrics. How much money and time could your company save by reducing time-to-hire, increasing employee engagement, and retaining high-performance employees?

Conclusion

Research shows time and time again that businesses *without* a true talent management strategy are losing money. When talent management is relegated to siloed systems, e.g., spreadsheets for recruiting or performance management, businesses can't access the wide range of information crucial to making strategic, long-term decisions around their human capital.

The cost of lost opportunities alone—failing to attract and engage top talent; losing high-performance employees for a lack of engagement, training, and career development planning; and wasting time managing poor employees—can result in lower profits, and worse, the inability to survive in an economic downturn.

"Our data shows that…businesses [with intermediate or mature talent strategies] are far better at planning, managing people, building a learning business, and redeploying talent..."

Josh Bersin of Bersin by Deloitte.[21]

Those who do implement a holistic talent management strategy, on the other hand, consistently see higher business returns across multiple indicators. According to Bersin by Deloitte, businesses with intermediate or mature talent management processes:

- see 17% lower voluntary turnover rates;
- see 41% lower turnover rates among high performers;
- see 26% higher median revenue per employee;
- are 109% more capable of retaining high performers;
- are 87% more capable of “hiring the best people;”
- are 92% better at “responding to current economic conditions;” and
- are 144% better at “planning for future talent needs.”[22]

Building out a true talent management strategy doesn’t have to be onerous. On the contrary, there are technology solutions that unify every phase of the employee lifecycle. These systems also automate routine tasks, aggregate key data, and streamline reporting, making it easier for HR teams to play a more strategic role in driving profits and innovation.

Ready to learn more about how to get started building your talent management strategy and how it can benefit your business? smb.csod.com.

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