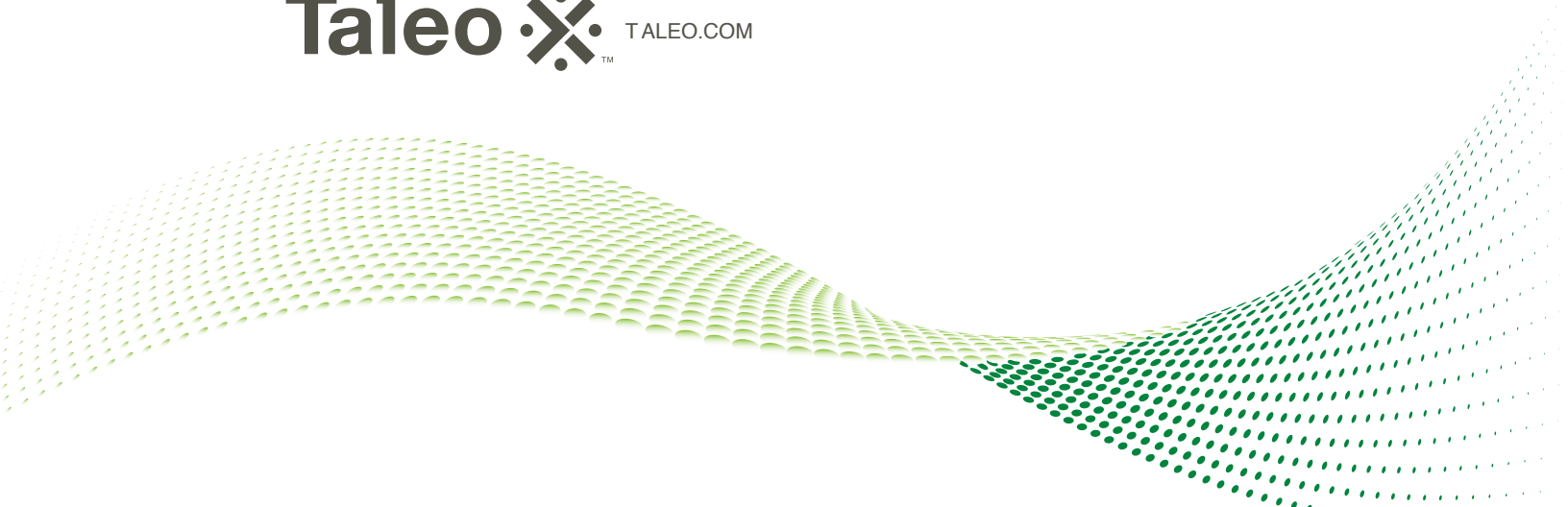


TALEO RESEARCH WHITE PAPER

# Talent Intelligence – Key to US Business Success

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## Executive Summary

In today's knowledge economy, up to 70 percent of an organization'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 probably offer more information about a company's 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 and the Human Capital Institute (HCI) executed a US survey on talent analytics. 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 management data and their access to reliable information. HR and Line of Business executives are not receiving access to talent management data that ensures they have the right talent to meet the ever changing business challenges.
2. Although HR leaders need additional information for regulatory and compliance purposes, HR and Line of Business leaders are aligned in ranking the level of importance they place on talent management information to drive the business.
3. An analysis of the top 10 most important talent analytics can be broken down into four major categories:
  - i. **Business Strategies.** Defining business goals and aligning employees to achieve these goals.
  - ii. **Retention.** Identifying and retaining high potentials and high performers.
  - iii. **Leadership Development.** Identifying and developing leadership bench strength.
  - iv. **Workforce Metrics.** Understanding the skills gaps to execute the 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 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.

It begins with a review of why talent intelligence is increasingly important to both business and HR leaders. A short history on business intelligence sets the stage for a discussion on why delivering business and talent intelligence capabilities has been so challenging.

## Growing Interest in Talent Intelligence

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

1. There have been growing pressures for companies to move toward *globalization*. Most global 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 workforce.
2. A tight labor market in positions of *leadership* and with *key professional skills* requires a system with the ability to mine the talent database to find the right talent and skills.
3. The *aging workforce* is driving the need to measure the effects of a Baby Boomer brain drain and the risk of not filling critical positions within the company using succession planning.
4. The inability to formally identify, develop, and retain the *leaders of tomorrow*.

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

1. They 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. They need the data to provide these justifications.
3. HR leaders want to *add value* to the business. For years HR wanted to gain recognition at board level but lacked the systems to show how comprehensive people strategies improved business performance.
4. They wanted a *seat at the executive table* but they lacked the insights and metrics to help them get there.

Since the level of importance 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 this 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.

The challenges of getting good data are outlined in the graphic below. All of these traditional challenges need to be overcome through improved processes, applications, and practices. Support at all levels of the company is required to address them. Overcoming 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.”*<sup>1</sup>

<sup>1</sup> *Data to dollars: Supporting top management with next-generation executive information systems, McKinsey Quarterly, January 2010*

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## 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.

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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: analyzing how personnel policies impacted risks and costs of litigation. Later the focus was on process efficiency like measuring the time to hire or percentage of performance reviews complete. These metrics examined individual HR processes and did not look at talent management holistically.

By 1998 when McKinsey published the ground breaking piece on the “War for Talent”, 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 orientation economic model. Talent issues started gaining the attention of HR, 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. They would need more intelligence and insights into how talent management initiatives were affecting the bottom line.

## Talent Intelligence Survey

In 2010, Taleo Research and the Human Capital Institute (HCI) wanted to measure the readiness of companies to gather these talent analytics. The 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.<sup>2</sup>

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

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 measure how much visibility companies have in the development of leadership bench strength. This includes 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 attract key talent, analyzes the best sources of hire, measures 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*. Having 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 measuring the balance between cost and productivity. These costs include total compensation costs, turnover cost, new hire costs, and any tax credits that can be applied.

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<sup>2</sup> See Methodology section for specifics on sample sizes and demographic information

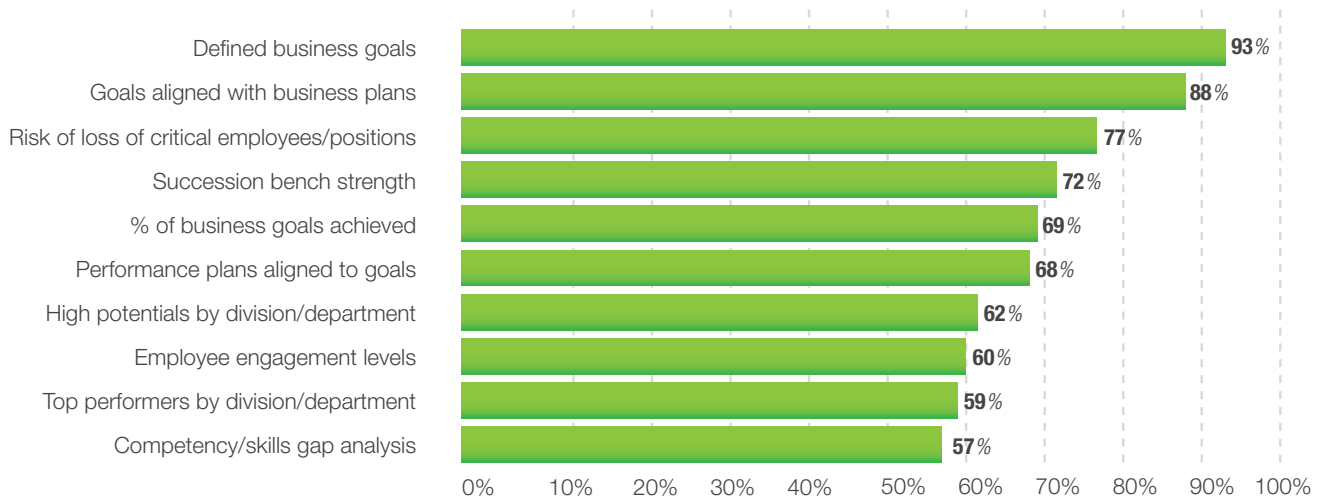
<sup>3</sup> The questions per category are in the Appendix

## Top Ten Lists from the Talent Intelligence Survey

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

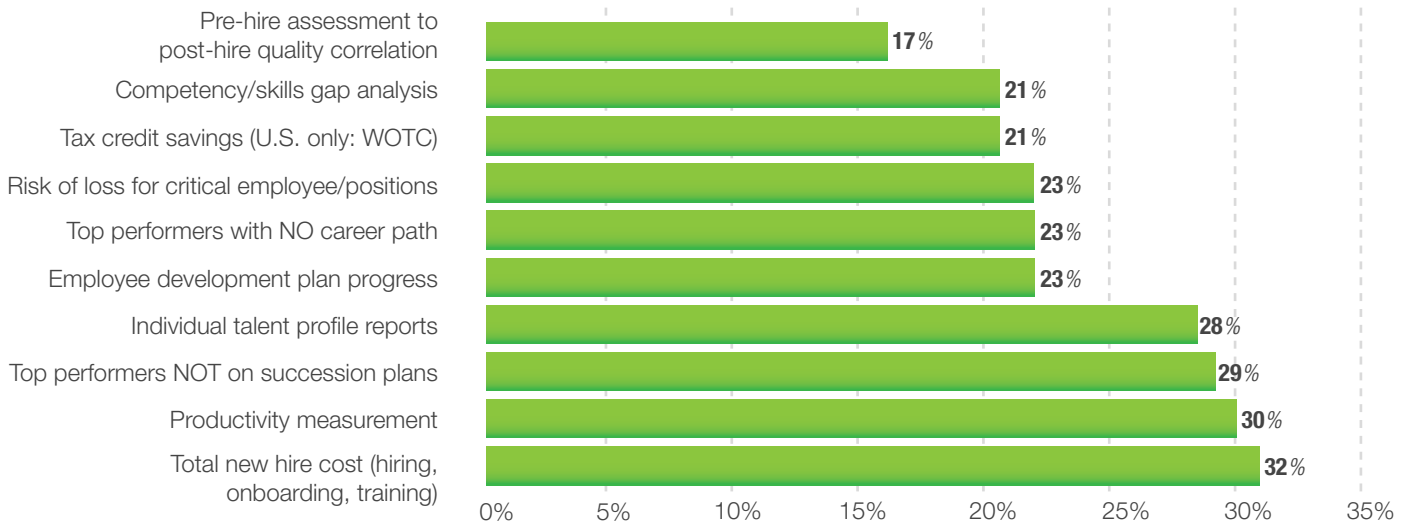
- 1) Very important data with the top 10 all relating to how to measure business strategy and talent impact.
- 2) Data that is least accessible and reliable.
- 3) Comparisons between the most important data by company size.

### Top 10 Most Important Talent Data Elements



Source: Talent Intelligence Study, Taleo Research/HCI, 2010

### Top 10 Least Accessible and Reliable Data



Source: Talent Intelligence Study, Taleo Research/HCI, 2010

## Does Company Size Matter?

It is interesting to note—that with one exception—executives across all company sizes agree on their most important top ten talent data choices.

### Top 10 Most Important by Company Size (Employees)

>10K	3K–10K	1K–3K
Define business goals	Define business goals	Define business goals
Goals aligned to business plans	Goal aligned to business plan	Goals aligned to business plans
Risk of loss of critical employee	Risk of loss of critical employee	Risk of loss of critical employee
Succession bench strength	Succession bench strength	Performance plans aligned to business strategy
% of business goals achieved	Employee engagement levels	% of business goals achieved
Performance plans aligned to business strategy	% of business goals achieved	Succession bench strength
High potentials by division/dept	Top performers by division/dept	High potentials by division/dept
Employee engagement levels	Performance plans aligned to business strategy	Competency/skill gap analysis
Turnover cost	High potentials by division/dept	Top performers by division/dept
Top performers by division/dept	Competency/skill gap analysis	Employee engagement levels

Source: *Talent Intelligence Study, Taleo Research/HCI, 2010*

## HR and Line of Business Alignment

Not having the right data to measure the effectiveness of talent management strategies on the business is not due to misalignment between HR and Line of Business executives. With few exceptions, HR and Line of Business leaders are in agreement on which talent analytics are important. However, as noted previously, neither group has consistent access to the data they need.

The next section discusses some of the challenges and roadblocks companies confront in delivering talent intelligence to senior management.

## 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.”<sup>4</sup> 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.
- › Talent data is kept in silos.
- › Lack of timely data aggregation and intuitive access to the data.

## 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 most people have at least some familiarity with using it. However, while this financial tool is useful for HR in the short term and for one-time tasks undertaken by one person or a small group, our research shows that its use can significantly hinder performance for larger groups or repetitive tasks.

<sup>4</sup> *Talent Intelligence: Using Measurement to Better Manage the Workforce and HR: Knowledge Infusion, 2009*

When applied to talent management, **75%** of organizations use spreadsheets for some aspect. More than half (**61%**) of participants find errors in spreadsheets, which lead **37%** of organizations to incorrect performance reviews. The vast majority of organizations (**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%**).<sup>5</sup>

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 organizations 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 are trying to measure the effectiveness of talent management strategies, which requires information from multiple sources.

### **Measuring the Metrics That Matter**

**Focusing on efficiency instead of effectiveness in measuring talent management.**

HR organizations 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 **17%** have access to reliable data on the quality of hire (Are they getting faster at mis-hiring?).
- › **75%** of companies have visibility into their defined business goals but only **21%** know if they have the skills to execute their strategy (Information that would be in a competency/skills gap analysis).
- › **40%** of Companies have access to employee development submission rates, but only **23%** have access to reliable data on their employee development plan progress.

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.

### **Importance Versus Access to Reliable Data**

The Talent Intelligence Survey shows companies are not measuring the metrics that matter. In most cases, companies are measuring less important data and not providing the information that is considered "Very Important" to their executives.

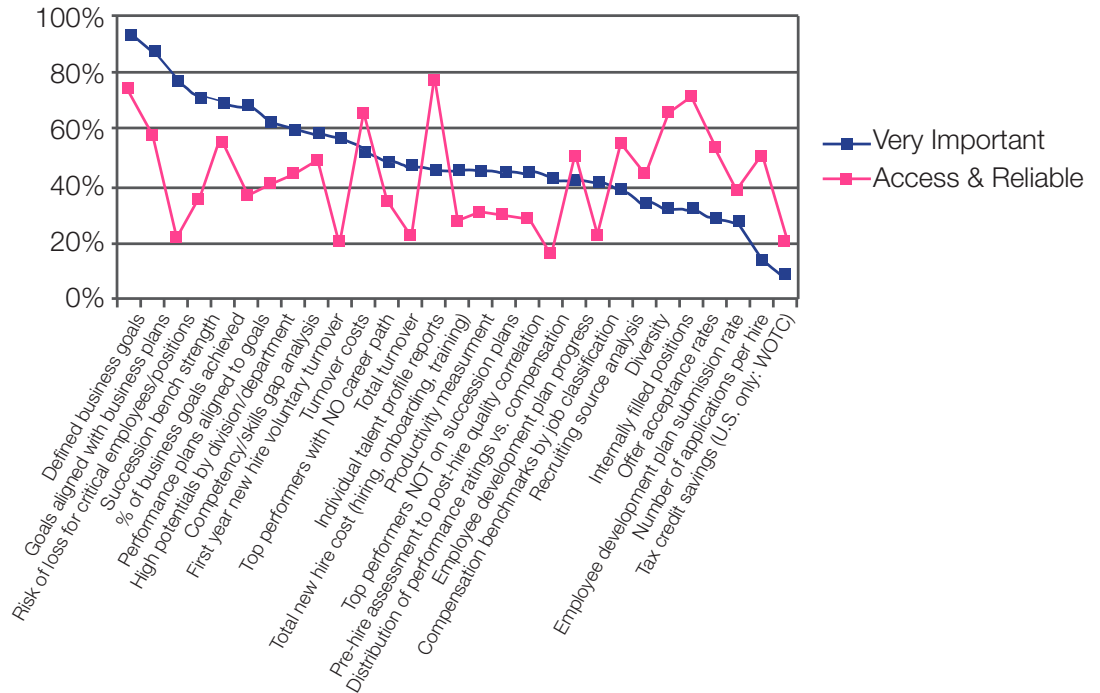
The graphic below shows the data ranked from most important to least important. When the "Access and Reliable" data point is below the "Important" line, it means executives do not have access to reliable data on metrics they consider to be very important.

Notably, access to reliable information falls below the importance line for all 10 of the most important analytic data elements. Conversely, when the access data point is above the lines, more executives have access to data they consider less important.

<sup>5</sup> Source: Ventana Research – Benchmark Research: *Managing Performance To Motivate Talent*

It is interesting to note that the top 10 most important data points are key to measuring the effectiveness of talent on business outcomes. Yet the majority of executives, both HR and Line of Business, do not have access to reliable data to measure their impact on the business.

### Gap Between 'Very Important' and 'Access to Reliable' Data



Source: Talent Intelligence Study, Taleo Research/HCI, 2010

### 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.

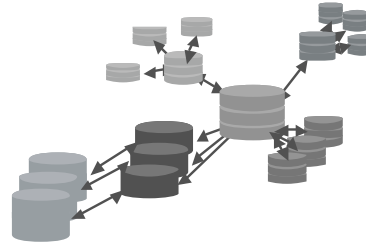
Once a company decided to implement an analytic framework, it was operationally hard to implement. Decisions had to be made on the choices and definitions of metrics to collect and analyze. For instance, a SHRM report showed that companies will use up to 12 different costs to calculate cost of hire. Four were included typically at large companies: Internet expenses, relocation, agency fees, and travel, while training costs were also more likely to be used in smaller organizations.<sup>6</sup> In addition, companies with multiple LMS, ATS, or HR systems are additionally challenged with metric rollups that make sense.

6 SHRM, Cost per Hire, May 2009

An expensive data warehouse had to be used to bring together the talent data for analysis. This is very costly and requires IT resources. Talent analytics are in competition with other BI requirements and history has shown these priorities tend to be delivered last.

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## Data Silos Are Technically Challenging



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## Data Must Be Timely and Intuitive to Use

The insights gained from talent data are only as good as the timeliness and accessibility to the data. Talent data must be self-generating/self-refreshed. Employees move through the talent life cycle from applying for a job, through the hiring and onboarding 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.

## Prescription for Talent Intelligence to Drive Business Performance

Success with talent intelligence requires a focus on accessing the right metrics, choosing the most important data elements, and defining reporting requirements.

### Accessing Intelligence with the Right Metrics

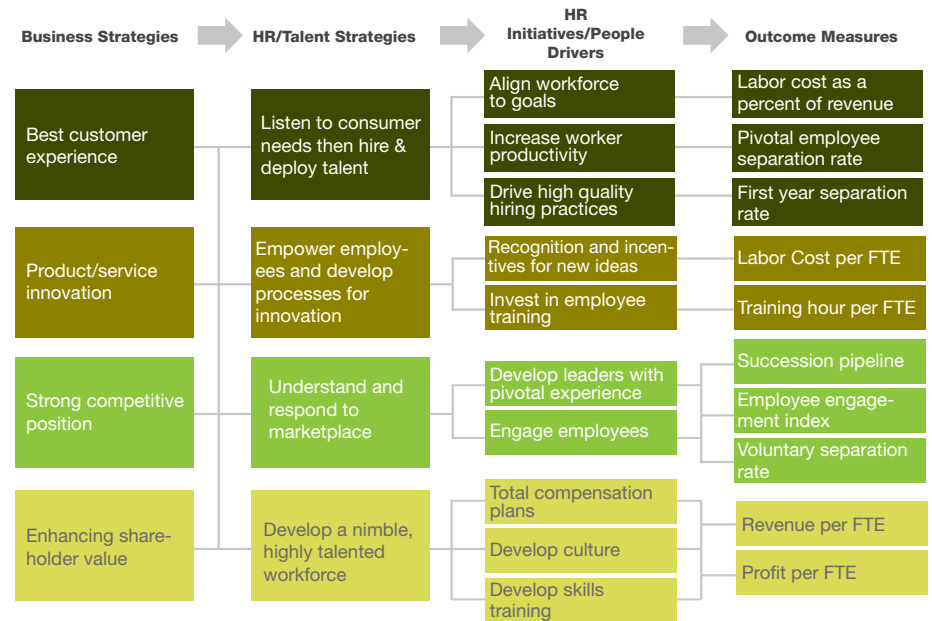
Success steps:

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 analyzing who needs the data and how will it 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 is often tied to compliance and efficiency metrics and not executive decision making. Determining what to report and analyze frequently becomes a politically charged debate. This is especially true if a company's structure has autonomous business units. However, there are some best practices included in a recent report from PricewaterhouseCoopers (PwC).

In the graphic below, 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

## 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.

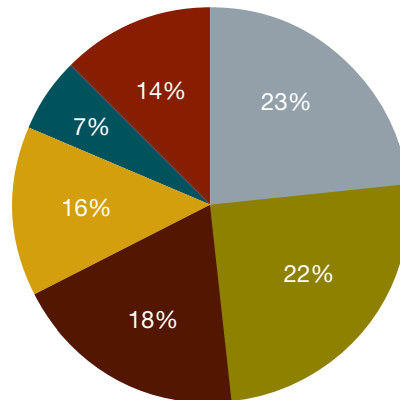
This data cannot be collected as an afterthought or as a separate process. It must be captured as part of the overall talent management process—not as a separate or additional task.

## 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, and **18%** do not have the financial resources to measure the business impact. 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 born by large companies.

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### 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

Source: *Talent Management State of the Industry Report 2009*

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 their 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 analyze 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 management 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

### *Business Strategies*

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

### *Workforce Metrics*

- Performance plans aligned to goals
- Employee engagement levels

### *Leadership Development*

- Succession bench strength

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 the required IT maintenance and data warehousing.

With the 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.

## Research Methodology

- › This research was conducted by Taleo Research in conjunction with Human Capital Institute (HCI).
- › The survey focused on the US and consisted of answers from 352 senior level HR and Line of Business(LOB) managers.
- › Targeted titles were CEO, VP, C-Level, and Senior Directors.
- › The data was reported in summary, by size company, and by HR vs LOB.
- › The responses were grouped by company size (1000 – 3000, 3001 – 10,000, and 10,000+ employees).
- › 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

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



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