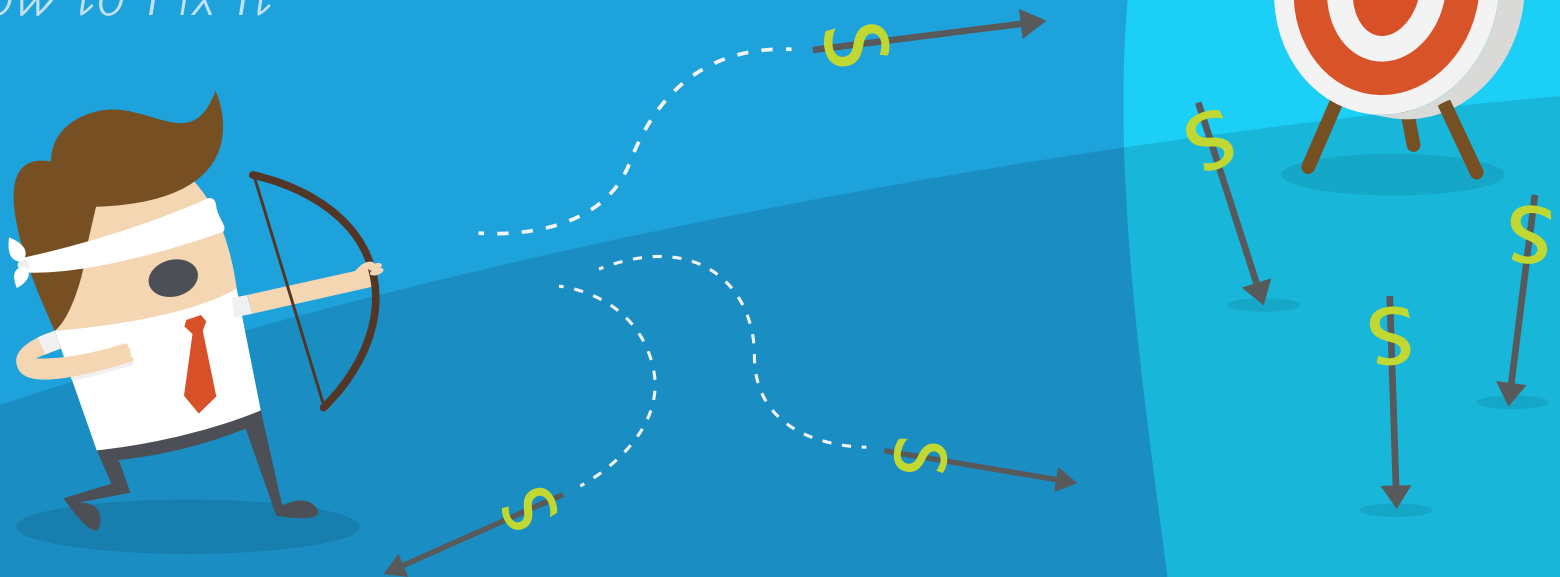


# Why Your Nonexistent Talent Management Strategy Is Costing You Money

*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 opening 10 new sites next year. Or 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 recruiting, training, performance and succession 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—one that unifies recruiting, onboarding, learning, performance, and succession—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 performers, for each new position. Productivity software wasn't designed to give you the big picture view of your talent—the key to improving performance, engaging employees, and creating organizational 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 an organization'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.

Recently, that strategic role has expanded to include holistic talent management. Instead of treating recruiting, onboarding, learning, performance, compensation, and succession functions as separate tasks, talent management (TM) gives HR the tools to manage the entire employee lifecycle as an *interconnected whole*.

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, activities pre-aligned with the organization'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.<sup>2</sup>

**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 number one in their corporate strategy, 35% stated their organizations still lacked a talent management strategy.<sup>3</sup>

HR's continued viability as a strategic partner in an organization'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.<sup>1</sup>



# RECRUITING: HIRE THE BEST EMPLOYEES—BUT DO IT FAST

## How much does a bad hire cost your company?

According to a CareerBuilder survey, organizations pay heavily for poor hiring choices. When employees were asked how a bad hire affected them both directly and indirectly,

- 41% said one bad hire cost them at least \$25,000;
- 25% said one bad hire cost them at least \$50,000;
- 40% said they lost time due to recruiting and training;
- 36% say it had a negative impact on morale; and
- 22% say it had a negative impact on client solutions.<sup>4</sup>

The US spends \$105 billion a year mitigating the wrong hiring decisions.<sup>5</sup> Yet while the monetary impact of a poor hire can be \$200K, functioning without employees can cost \$7,000 *per day*—\$210,000 every month a position isn't filled.<sup>6</sup>

Yet while the monetary impact of a poor hire can be \$200K, functioning without employees in key roles can cost more than \$7,000 *per day*—\$210,000 every month a position isn't filled.<sup>7</sup>

# TALENT MANAGEMENT SUCCESS STORY— RECRUITING

## New Belgium Brewing Company 500 Employees

Results: “We’re fortunate to get 200 to 300 applicants for any job opening. Our challenge is how we get through those applicants to find the people who really want to work here and who self-select into our culture. [Our talent management strategy] enables us do that in less time, which means we have *more* time to engage with the right candidates.”

- Jennifer Briggs  
HR director, New Belgium

**HR teams are caught between the proverbial rock and a hard place.** They must source and identify the *best candidates* in the *least amount of time*, a no-win situation when recruiting is a siloed, standalone process. When recruiting is isolated from other phases of the employee lifecycle, HR can’t make candidate decisions based on the company’s long-term needs or easily determine what competencies work best for each department. In contrast, organizations with active talent management strategies that incorporate recruiting into the *entire employee lifecycle*, letting succession plans and existing performer competencies inform and guide the candidate selection process, see vastly different outcomes, including higher organizational and employee performance.<sup>8</sup>



# ACTION STEPS

1

Go beyond job postings and actively seek out candidates where they already are—on social sites.

2

Make it easier for candidates to apply and engage with recruiters through simplified online applications, targeted job sites, and LinkedIn and other social tools. Know what great talent looks like. Develop ideal competencies for each position based on current high-performing employees.

3

Use great employees to find other great employees with a referral strategy. It's the "birds of a feather" principle: your top performers likely associate with other top performers.

4

Use your succession plan to help you make smart recruiting choices. Know what your needs are in the next three months, the next year, and the next five years.

5

Crowdsource feedback. Let recruiters, HR, managers, and employees give feedback on candidates to get the 360-degree view of each candidate's suitability.



# ONBOARDING AND 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;<sup>9</sup> 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. Yet companies will think nothing of spending thousands to recruit the best talent but 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 onboarding. When taking into account all respondents, companies spent an average of *only \$67 per employee per onboard.*<sup>10</sup>

In contrast, 69% of Best-in-Class organizations begin onboarding new hires *before* day one<sup>11</sup> while simultaneously prioritizing ongoing learning and career development. These organizations are profoundly aware of how onboarding drives productivity and engagement and learning directly affects engagement, retention, and succession. *Why?* Best-in-Class organizations use a holistic talent management strategy on a day-to-day basis to manage the employee lifecycle as a unified whole and inform decisions on every human capital management decision.

Best-in-Class organizations 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).<sup>12</sup>

# TALENT MANAGEMENT SUCCESS STORY—ONBOARDING & LEARNING

## Allied Building Products 3,100 Employees

Results: By centralizing training, Allied Building Products recognized a 20% bottom-line savings over 3 years through reduction in travel and the ability to deliver virtual and on-demand classes. The company now delivers learning opportunities to its 3,100 employees for less than it previously spent to deploy and track safety compliance training alone.

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

- **decreased performance.** Increasing the number of workers trained by a mere 5% *can increase productivity* by 31%.<sup>13</sup>
- **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).<sup>14</sup>
- **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.<sup>15</sup>

# 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 ▶

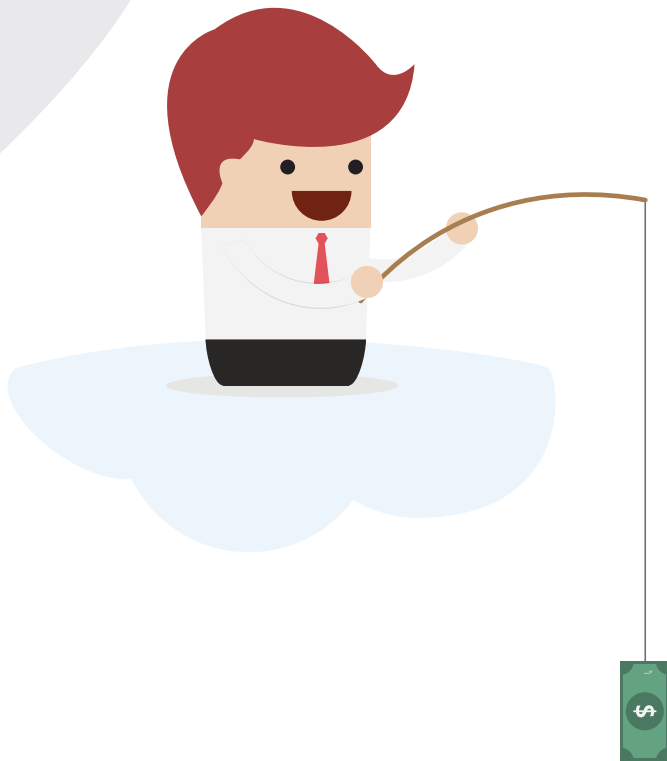
Start helping employees develop their career plans from day of hire. This not only addresses engagement but also ensures an easier—and continued—alignment of organizational and employee goals.

4 ▶

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



# PERFORMANCE MANAGEMENT: YOU'RE LEAVING MONEY ON THE TABLE



If your organization 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, organizations 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.<sup>16</sup>

# TALENT MANAGEMENT SUCCESS STORY— PERFORMANCE

## JSJ Corporation 2,400 Employees

Results: JSJ Corporation's talent management strategy helped them create a more powerful, data driven performance management process. Increasing the frequency of reviews, and improving consistency of feedback over six business units not only reduced labor costs but ensured the faster identification of underperformers – key to the company's ability to grow and compete.

Organizations without 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.<sup>17</sup>
- **achieve significantly lower net income.** In a Harvard Business School study, organizations without a performance management culture increased their net income by 1% over 11 years. Those with a performance management saw a 756% increase in net income.<sup>18</sup>
- **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.<sup>19</sup> 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.<sup>20</sup>

# ACTION STEPS

1 ▶

Create competencies based on existing high performers to establish benchmarks specific to your organization'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 to address skill gaps identified in reviews with training. Unify performance with succession to identify high-potential, high-performance employees ideal for leadership roles.

4 ▶

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





# SUCCESSION PLANNING: CAN YOU AFFORD TO LOSE YOUR MID-LEVEL MANAGERS?

**Succession planning isn't just for the C-suite. What would happen to your revenue and plans for new products and services if you suddenly lost several mid-level managers?**

Without a succession plan that plans for the loss of both the C-suite and key mid-level talent, companies are significantly at risk:

- A lack of talent in the succession pipeline is costly not just in lost productivity but in reduced revenue. According to an Ernst & Young survey, 29% of surveyed CEOs thought they had missed out on revenue opportunities due to a lack of quality and quantity of talent.<sup>21</sup>
- Sourcing and hiring external senior talent is more costly than finding and training it internally, costing anywhere from \$371K to \$1.271M. External talent is also more likely to fail; according to the Center for Creative Leadership, 66% of senior leaders hired from outside a company fail within their first 18 months of employment.<sup>22</sup>

# TALENT MANAGEMENT SUCCESS STORY— SUCCESSION

## Elavon

4,500 Employees

Results: “Previously, people were promoted because of technical expertise, but that doesn’t always equal leadership expertise. [With a talent management strategy] we can measure leadership potential in eight categories and train within these categories... We’re now able to identify high potential talent and create development plans for them that work in tandem with succession plans.”

– *Clarissa Mitchell*  
senior director, enterprise learning  
technologies, Elavon

In contrast, firms that do have a formal succession planning process are more likely to be high-performing companies in shareholder returns.<sup>23</sup> Good succession planning also has intangible benefits: organizations with succession plans that focus on internal hires are *less likely* to see reduced employee morale.<sup>24</sup>

*What is good succession planning?* To be effective succession planning must be unified with the entire employee lifecycle and part of a talent management strategy. It isn’t a standalone process, nor is it one that is solely focused on the CEO and senior positions, but rather one that runs the breadth and depth of the organization and is informed by data from the entire employee lifecycle.

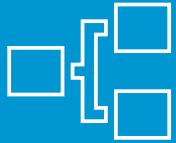
# ACTION STEPS



Expand succession planning beyond the C-suite to create a talent pipeline ready to fill expected and unexpected losses in mid-level positions.



Use learning and performance data to create succession profiles. Identify potential leaders through not just performance but initiative to learn, as well as 360-degree feedback from managers, coworkers, and direct reports.



# 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 any size organization. The proof is in the numbers.**

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

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

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

Each of these metrics quickly highlight the effectiveness of an organization'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 organization 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 organization? 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. The cost of losing an employee equals their *annual salary*.<sup>25</sup>

For example, imagine a company of 2,000 employees with an average annual salary of \$48,872 per year (US average)<sup>26</sup> and a voluntary turnover rate of 10.4%<sup>27</sup> (again, the US average). Multiplying employees by salary by turnover rate yields **an annual cost of turnover of \$10,165,376.**

**Very few, if any, organizations can afford to lose \$10 million dollars a year.**

*Yet all is not lost.* The fastest way to stem turnover? A true talent management strategy that allows organizations to not only *find* the right talent but train, engage, and retain them. According to Bersin, organizations with advanced talent management see 41% lower turnover and 17% lower voluntary turnover overall.<sup>28</sup>

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

	EXAMPLE	YOUR COMPANY
Number of employees	2,000	_____
Average salary	\$48,872	_____
Average turnover rate <i>(Not sure what to use? U.S. average is 10.4%)</i>	10.4%	_____
<b>Annual cost of turnover =</b>	<b>\$10,165,376</b>	_____ <i>(multiply # of employees x average salary x average turnover rate)</i>
<b>Every 1% reduction in turnover will save =</b>	<b>\$101,654</b>	_____ <i>(multiply annual cost of turnover by 1%)</i>
<b>Total annual savings from a talent management strategy (on cost of turnover only) =</b>	<b>\$1,728,114</b>	_____ <i>(multiply annual cost of turnover by 17%)</i>

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 organizations *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, organizations 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; wasting time managing poor employees—can result in lower profits, and worse, even the inability to survive in an economic downturn.

“Our data shows that...organizations [with intermediate or mature talent strategies] are far better at planning, managing people, building a learning organization, and redeploying talent...”

*Josh Bersin of Bersin by Deloitte.<sup>29</sup>*

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, organizations 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.”<sup>30</sup>

**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 organization? *Let’s talk.***



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Cornerstone OnDemand is a leader in cloud-based applications for talent management. Our solutions help organizations recruit, train, manage and connect their employees, empowering their people and increasing workforce productivity. To learn more, visit [csod.com](http://csod.com).