

Taleo Research White Paper

The Future of Talent Management

Four Stages of Evolution

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The Future of Talent Management Four Stages of Evolution

Much has been written about talent management and the War for Talent.¹ In an effort to address the complex problem of managing talent, there has been an evolution in the supporting applications, enabling technologies, and business processes required for proper—and optimal—talent management.

Talent management tools are rapidly maturing through four stages of evolution:

Stage 1: Companies have automated core HR systems with a group of manual and disparate human capital management (HCM) systems and processes.

Stage 2: Organizations begin to automate some of their HCM processes.

Stage 3: HCM systems are being integrated and talent management suites are forming.

Stage 4: Delivers a truly unified platform of talent management and application delivery.

Stage 4 marks the beginning of the future state for talent management. This is the stage where companies will implement a unified set of talent management and business processes and organizations will fully align and drive talent strategies based on corporate objectives.

This paper examines these four stages of maturity and further defines the future of talent management. It provides a practical tool to help companies measure where their applications and strategies fit in the Talent Management Maturity Model and also identifies opportunities and next steps for deriving business performance through talent management success.

This paper also briefly discusses the future state of talent management—beyond Stage 4—when the four pillars of talent management will include:

1) digitized global talent pools, 2) predictive succession and career planning, 3) use of simulations and gaming for workforce development, and 4) orchestration between business and talent management strategies and systems.

I. Talent Management Defined

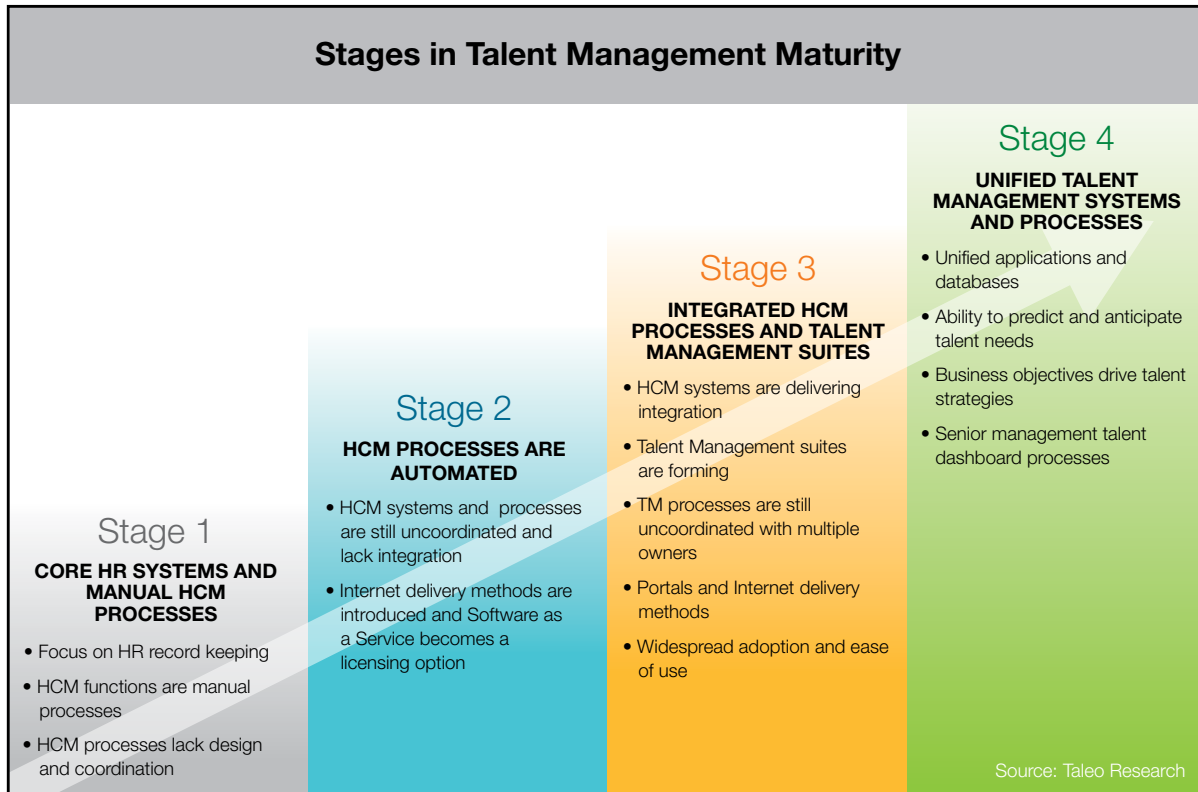
Talent management is a complex set of HCM processes designed to manage a company's greatest asset: people. The set of applications needed to support these processes are defined differently by industry analysts and consultants, but most define talent management to include: recruitment, performance management, competency management, succession management, career development, and compensation.

Other talent management models include workforce planning, learning management, workforce analytics, portals, and dashboards as part of the definition. Below is a graphic representation of the current functions that Taleo applications support.



Talent management as a strategy requires both systems and an organizational commitment to attract, acquire, manage, and measure the talent needed to achieve a company's business objectives. Without alignment of business and talent management systems and processes, companies will sub-optimize their benefits and put their goals at risk.

¹ Term introduced by McKinsey & Company in 1997.



The key questions to explore for each organization are:

- 1) Do we know how our business goals align to our workforce?
- 2) Do we have the talent needed to achieve these goals?
- 3) Are we driving goals down through the organization?
- 4) Do we have the applications and processes to get there?
- 5) Do we have business owners for those processes?
- 6) What are our opportunity costs if we don't execute our talent management strategy?
- 7) Where are we on the Talent Management Maturity Model, and do we have a strategy to move from one stage to the next?

II. Stages of Talent Management Maturity

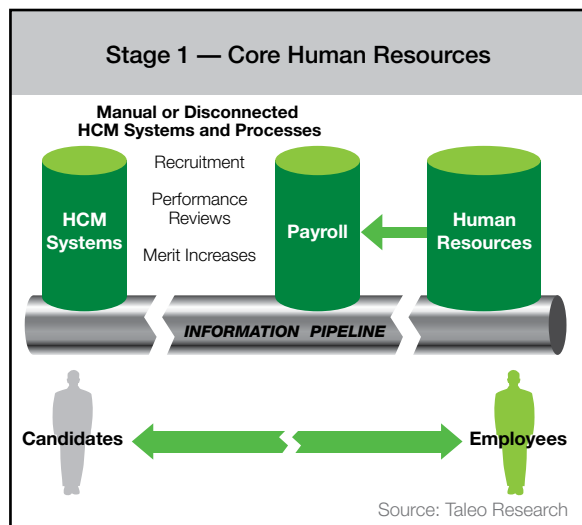
The chart above diagrams the maturity stages of talent management development with individual applications and technology used.² Although there may be some overlap, each stage has distinct characteristics that directly impact the effectiveness of the technology on the business.

III. Stage 1: Core HR Systems and Manual HCM Processes

In the early stages of managing human capital, HR functions are very tactical focusing on employee record keeping and payroll processing. The lack of enterprise-wide HCM applications or integrated HR business processes prevents companies from having the tools necessary to properly manage their human capital assets. In Stage 1, HR and/or recruiters typically wait for requisitions to be created rather than help plan or anticipate the

² See Checklist: Assessing Talent Strategy Readiness to see how each application maps to these stages.

company's human capital needs. More progressive companies may engage in some workforce planning, but it is based on predictions from the past and assumes talent will be readily available. Since HCM processes are manual, forecasting future workforce requirements is problematic.



Performance management in Stage 1 is typically also a manual process. Therefore, strategies to align and manage employee goals with corporate goals are very difficult. Reporting is focused on HR record keeping.

Advantages of Stage 1

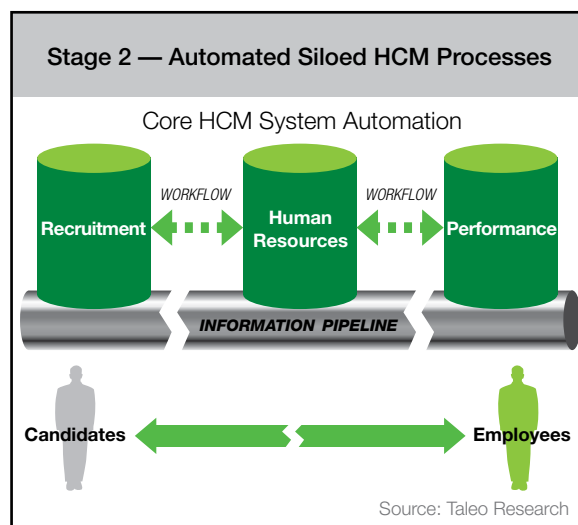
- Companies understand how technology benefits them in their effort to manage human resource administrative functions.
- These systems handle transactional issues and help capture basic employee information for record keeping.

Disadvantages of Stage 1

- Transactional systems do not help find, align, measure, or manage the workforce.
- Recruiting and performance—the two keys to acquiring and managing talent—are still paper processes, and recruiting is often outsourced.
- Reporting is restricted to core human resources. Reporting HCM processes is manual at best.

IV. Stage 2: HCM Processes are Automated

In Stage 2, HCM applications automate processes such as recruitment and performance management. These processes had been paper-intensive, extremely expensive to administer, and largely inefficient. The goal in this stage is cost savings through process automation. The application architecture evolved into silos of separate applications that work independently. The user interface is a functional one, often simply translating an offline form into an online form.



As companies move from Stage 1 to Stage 2, many IT departments and HR professionals are still consumed with large scale implementation of core HR systems. Over a third of the funding and much of the drive to purchase HCM applications is driven from Line of Business Managers.³ They look for best in class applications to solve very specific problems. Often they choose multiple solutions from multiple vendors. These applications may provide a depth of functionality within their disciplines, but in this stage these applications are not integrated.

Even enlightened HR professionals, who try to execute a more holistic HCM strategy in this stage, are faced with siloed applications that are uncoordinated and lack integration.

³ AMR Research, HCM Spending Reports 2006 – 2007, 2007 – 2008

Advantages of Stage 2

- Processes are automated to improve productivity and reduce costs.
- A new breed of HCM applications automates very specific business processes.
- Managers now view reports on recruitment or performance management tasks.

Disadvantages of Stage 2

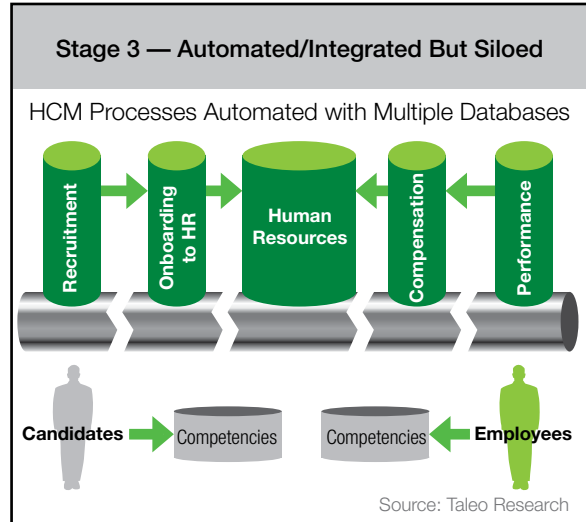
- Systems are still disparate and not integrated.
- Advantages are gained only through single point process automation, not through value to and alignment with broad business goals.
- Reporting is confined to a specific HCM processes. There is no capability to report on or analyze data across systems to view information like the quality of a hire based on performance after a specific start date.

V. Stage 3: Integrated HCM Processes and Talent Management Suites

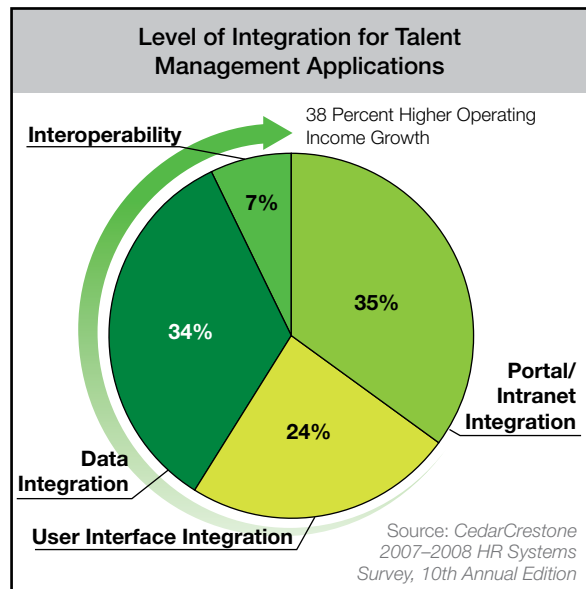
In Stage 3, companies begin to manage human capital more holistically. Additional HCM processes—such as onboarding, competency management, career development, and succession planning—are automated. The requirement to have these systems talk to each other drives increased integration of HCM applications using HR-XML standards—creating a common way to communicate.

In this stage, HCM systems also take advantage of Internet technology to extend applications for easier access to managers, employees, and prospective candidates through portals. The focus on ease of use, with the advent of Web 2.0 functionality, creates increased adoption of the applications. At the same time, a new software delivery option is commonly available. With the advent of software as a service (SaaS), HR and Line Managers can relieve IT of the burden of implementing and maintaining these systems. Companies in Stage 3 have a tendency to create a portfolio of multiple vendor applications with no single system of record for

managing talent. Hence, they sub-optimize the return of their investments.



Integrated applications may increase value to the business. CedarCrestone’s 2007-2008 HR System Survey found companies with higher levels of integration have 38 percent higher operating income growth.



At Stage 3, companies increasingly turned to application providers to offer a group of HCM applications. This new grouping of HCM applications became known as Talent Management Suites. Many best of breed providers acquired and loosely coupled additional applications. However, information was contained in multiple places, with some requiring multiple inputs and lacking single sign on. Companies that wish to reach Stage 4 in the Talent Management Maturity Model require a comprehensive view of talent and applications built to unify their talent management functions.

Advantages of Stage 3

- Multiple HCM processes are automated.
- Integration standards are developed between HR and HCM systems.
- Talent management suites are being formed.
- The user interface is enhanced to facilitate widespread adoption.
- Reporting and analytics are being enhanced to report on individual talent management processes.

Disadvantages of Stage 3

- No consolidated view of workforce skills and competencies.
- Since talent information exists in multiple places, there is no ability to share talent across the business.
- Processes are still disjointed.
- Reporting across talent management functions is limited since the information remains in multiple databases.

VI. Stage 4: Unified Talent Management Systems and Processes

The future state of talent management begins at Stage 4. In this stage, applications and processes are designed with the goal of driving business performance through a unified view of talent assessments. The aim is to achieve business goals with an eye to finding and filling talent gaps. This requires a very different type of application architecture with five core attributes:

- 1. Unified Database and Architecture.** All aspects of talent are unified into one talent database with one application architecture.
- 2. Designed for Social Networking.** Social networking orientation in design and delivery of the applications extends reach and enhances collaboration and innovation.
- 3. Personalization.** Configurability allows user personalization of the system while maintaining compliance.
- 4. Predictive Measurements.** The user interface is even more intuitive and personalized with extensive use of Web 2.0 across the suite.
- 5. Driving Business Goals with Talent Management.** The predictive nature of employee performance measurement and alignment of goals driver increased business performance.

Stage 4 – Unified Talent Management Applications & Processes



Intuitive User Interface and Dashboard

Source Assess Acquire Develop Manage Retain Compensate

Talent Management Applications

Unified Talent Database



Source: Taleo Research

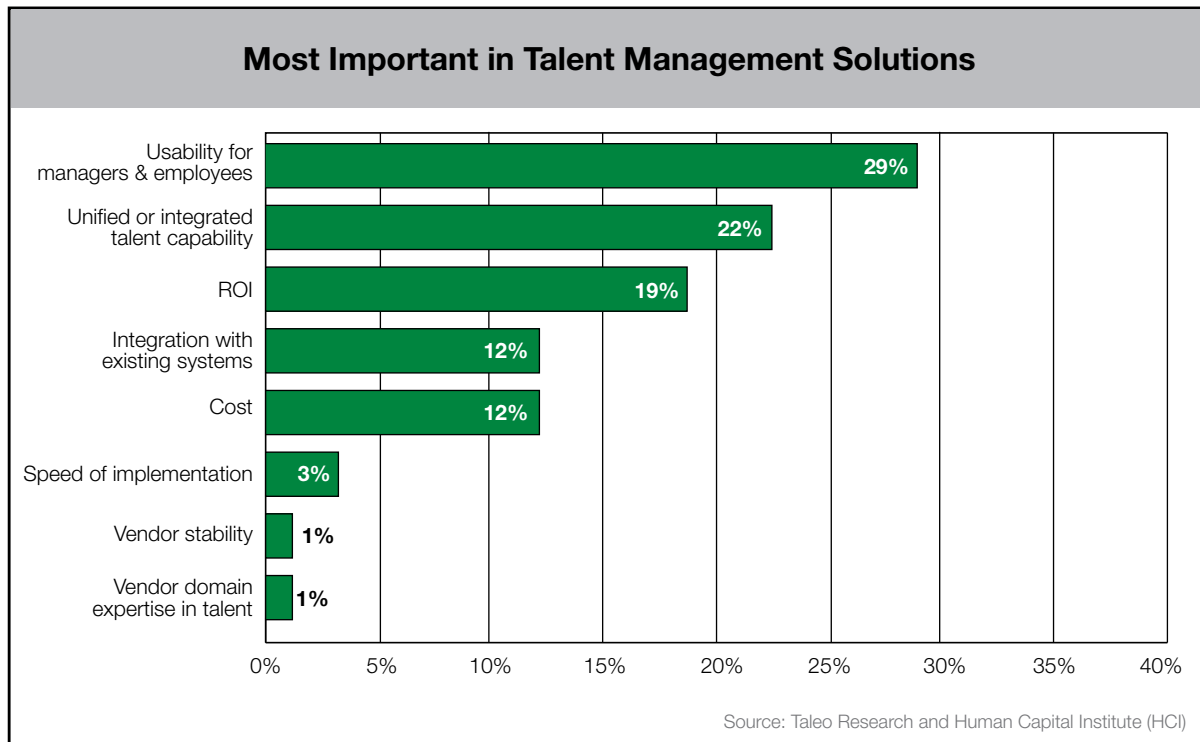
1. Unified Database and Architecture

Talent management applications are unified—including recruiting, performance management, competency management, succession management, and career planning and compensation—in one orchestrated application suite using a single talent master database. With all workforce skills, behaviors, and competencies unified, companies have visibility into all aspects of talent. Data does not reside in a variety of databases and systems, so employee data is not separate from candidate data and skills data.

In a Taleo Research and Human Capital Institute survey, executives were asked: “*What single criterion is most important to your organization in a talent management solution?*” The results show usability and a unification of talent management solutions as the top two criteria for success.

A unified talent management system brings all talent data into one database that is integrated with HRIS systems. This unification has many advantages:

- A unified performance management system can help with recruiting. You can **model your top performers** to determine their key characteristics: where they went to school, what degrees they earned, did they get a technical degree, a communications degree? Do they speak a foreign language? Have they spent time in international? This structure makes it easier to perform regression testing to find out the backgrounds and behavioral characteristics of top performers. Then targeted sourcing can find more of these types of candidates.



- A unified recruiting and performance management system also gives you a **better view into your internal talent** so you can fill open positions internally. And fundamentally, performance management and employee development is about increasing retention, which results in fewer jobs to fill for recruiters.
- Recruiting data also helps performance by **identifying external succession candidates**. That Rolodex® of contacts could contain your next critical hire—should you lose a key employee. It also provides access to pre-employment history and skills. For example, it might be helpful to know that an employee speaks Mandarin or has spent time in China.
- Recruiting also helps performance by helping to **align hiring with corporate goals**. If you have a goal to increase customer satisfaction, it might be advantageous to hire from companies that have good customer satisfaction ratings so those employees can bring those skills and experiences with them.

2. Designed for Social Networking

With Stage 4 unified talent management applications, companies have the ability to leverage social networking:

- Internally where collaboration is more social networking oriented, giving employees the ability to publish their skills and career goals and find their own internal company jobs and career opportunities.
- Externally with social networking sites like Facebook® and LinkedIn®, providing access to a new generation of candidates. This trend is expected to grow significantly.

Just as Amazon.com pushes book recommendations based on our past buying patterns, these social networking concepts can provide the capability to push career recommendations, personal development suggestions, and global work opportunities based on performance, preferences, and perhaps predictive testing.

3. Personalization

In Stage 4, unified talent management applications are configurable so they can be personalized without costly customization. Personalization starts with configuring the system for specific business units, brands, geographies, or roles if the company requires personalized job templates and requisitions, workflows, prescreening criteria, and correspondence. Career sites, for example, can be configured to be consistent with the business and the brand image.



Onboarding can be consistent with local laws and customs in each county or country while blended with a centralized, uniform flow. The user environment can be configurable with a consistent and compliant process across the organization that can be personalized by the user to perform tasks based on personal preferences. Whether a power user wants to execute functions within a single application, or a casual user chooses to execute tasks without leaving Microsoft Outlook®, these systems are designed to accommodate various roles and work habits.

As noted in the Taleo Research/HCI talent management study, usability is the number one factor identified in a successful talent management strategy.

4. Predictive Measurements

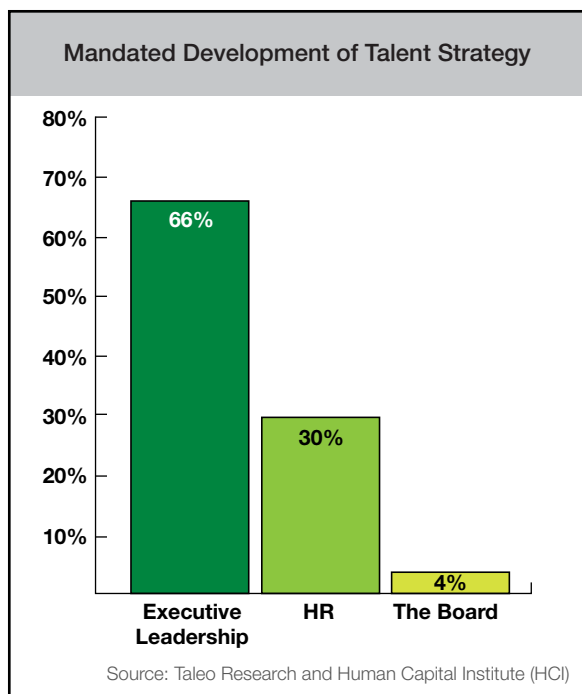
Predictive measures of performance—typically used in the hiring process—are expanded and refined in Stage 4 to identify leadership and high potential employees for succession planning and career development. These measures do not just look backward and measure past performance. They are forward looking and will automatically highlight and match employee skills, preferences, and development potential.

Employees can also have visibility to various career paths showing who else was successful in their career development and what paths they followed in attaining their career goals. Talent gaps may be identified so training and development plans can be generated.

Compensation can also be linked to employee potential, not just past performance. In the War for Talent, one must always be mindful that competitors have visibility to your organization's talent through tools such as LinkedIn. Companies must understand what compensation, benefits, career opportunities, and learning experiences will motivate each employee. Baby Boomers focus on stable retirement benefits, whereas Generation Y wants flexible hours, interesting work, and learning opportunities.

5. Driving Business Goals with Talent Management

Business leaders have instinctively known that top talent drives superior performance. In fact, the line has blurred between talent management and business management. Increasingly, investors and board members are asking C-level executives about the company's leadership, succession plans, and talent. And senior management is mandating the development of a Talent Management Strategy (see figure below). Managers need to understand the skills and capabilities of their teams much more intimately and align their people to business goals and objectives to effectively drive business performance.



In the book *The HR Value Proposition*, David Ulrich states, “When HR practices align with strategies, goals are met and sustained.” With a slight paraphrase, this statement applies to the successful implementation of Stage 4:

When talent management applications and practices align with corporate strategies, goals are met and sustained.

Analytics and metrics to measure success in talent management have already moved from cost per hire and time to hire to include time to productivity and quality of hire. Companies want to understand the characteristics of successful or potentially successful employees. They want to understand the source of this success and how they can recruit and develop more of these talents.

The goal is not to just attract new talent but also to measure and predict what talent will be needed, whether this talent should be developed internally or recruited from the outside, and when and where will this talent be needed based on the demands of

the business. These goals require focusing on the applications and processes that signify the move from Stage 3 to Stage 4 talent management.

Although there are many components, implementation is generally not simultaneous and most are not even available as a unified suite at this stage. Therefore it is worthwhile to consider order and priority for establishing a holistic talent management strategy.

- **Recruiting and performance management are the key applications**—the backbone processes of talent management. Recruiting manages the selection of external talent and movement of internal talent throughout an organization. Performance measures, develops, and optimizes that talent.

Secondary processes/solutions that work with performance include goals and succession which are critical to accomplishing business objectives.

- **Learning requires a supporting back-office administrative solution and is not as critical as the other secondary processes**—such as goals management, succession planning, and compensation—to get the right people assigned to objectives and initiatives that drive business performance.

Many companies use mentoring, coaching, and on the job training as part of their career development and succession planning objectives in lieu of formal eLearning systems.

Without unified recruiting and performance, it is difficult to truly identify talent gaps that need to be filled through training vs. internal mobility or hiring external talent. Watson Wyatt’s Human Capital Index research showed that, all else being equal, companies with better recruiting/retention are worth 7.6 percent more in the market.

Advantages of Stage 4

- Provides a strategic view of talent management.
- Eliminates double entry of data.
- Reduces costly integration.
- Uses technology and design for ease of use and widespread adoption.
- Reporting and analytical views across business and talent systems drive alignment and improve organizational performance.

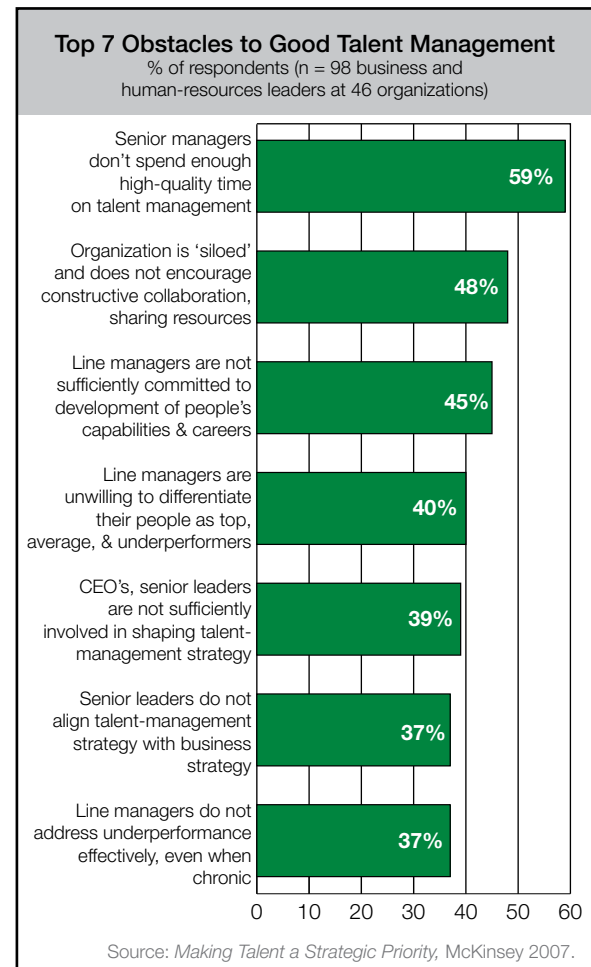
Disadvantages of Stage 4

- High level management commitment is still lagging behind systems development.

VII. Challenges and Opportunities

To evolve from Stage 3 to Stage 4, companies must also recognize that applications and technology alone do not address the whole talent management challenge. Without business process owners who have the authority to break down the organizational silos, companies will be unprepared internally to deal with the looming talent shortages and critical skills needs.

Successful orchestration of business and talent strategies starts with a holistic talent management plan. However, in a McKinsey & Company survey, companies have identified many obstacles to achieving good talent management.



Clearly, senior managers must allocate enough high-quality time to understand the business goals and talent management needs of the organization. Silos must be broken down in order to encourage collaboration and sharing of resources. And managers must be willing to weed out non-performers and assist average performers with development plans. High potential performers must be recognized and retained.

To be successful, organizations need alignment of processes and systems to execute the business goals. Yet, recent Taleo Research data shows, only 39 percent of US and 30 percent of UK companies have a formalized talent management strategy. Fewer than 2 percent of these companies in the UK and 4 percent in the US report their talent management systems are fully integrated or unified and 24

percent of the companies in the UK and 23 percent of the companies in the US report their systems are implemented in isolation of each other. This data shows that most organizations are between Stage 2 and Stage 3 of the Talent Management Maturity Model.

As organizations embrace a holistic view of talent management—encompassing the full talent lifecycle—the opportunity exists to better find, manage, measure, retain, and motivate employees to drive business performance through talent management strategies.

Into the Future: Talent Management Beyond Stage 4

Most talent management suites on the market today are no further than Stage 3. A limited number of vendors have a roadmap for delivering the next generation Stage 4 talent management model. Technology developments continue, though, to give us a sneak peak of what will be possible in the next two to five years. Beyond Stage 4, talent management systems will be built on four pillars:

1. Digitize Global Talent Pools. Advances in social networking will assist in smart sourcing by digitizing global talent and passive candidate pools. Technology will allow companies to reach social networks and more fully develop a digital profile of all global talent, making passive candidate sourcing (those who are not actively looking for position today) available to recruiters.

2. Succession and Career Viewpoint. Predictive succession planning will automate recommendations for global succession plans by blending digitized talent pools with internally identified positions for succession development. Personal preferences and profiles will allow succession planning and career development to be automatically pushed to individuals. On-the-job training, mentoring, and buddy systems will deliver assistance for career path planning using virtualization and social networking rather than one-on-one counseling.

3. Developmental View. The blending of performance management and learning will make use of simulation and gaming for workforce development. Performance management will cease to be based on yearly reviews. In this stage, workers will be continually given feedback based on business systems that monitor work. Development systems will use this information to make recommendations for advancement and/or corrective actions. With tools like Microsoft's ESP, companies will take advantage of simulations and gaming to help with skills development.

4. Orchestration Between Business and Talent Management Strategies and Systems. An orchestration between business and talent management strategies and systems will blur the lines between talent management and business systems. Better tools will be delivered to simulate talent requirements based on fluctuations in business demand. Talent gaps will be automatically identified and reported.

The technologies for this future stage are now being delivered for limited use and for specific jobs within certain vertical industries. But widespread use of these techniques will be put in practice beyond Stage 4.

Checklist: Assessing Talent Strategy Readiness

The high level stages in the Talent Management Maturity model in combination with applications are designed to help companies assess where they are along this continuum.

Applications in Talent Management Maturity Model

	Stage 1 MANUAL	Stage 2 AUTOMATED	Stage 3 INTEGRATED	Stage 4 UNIFIED
Workforce Planning	Manually calculated manpower plan.	Begin anticipating talent needs by building candidate pools for current and future needs.	Some forecasting capabilities within certain job categories. Beginning to predict talent needs and talent gaps.	Simulate talent needs and gaps. Automatically calculate skills and type of hire needed within budget constraints. Determine number and types of workers needed to execute business plans.
Recruiting	Centralized in HR or outsourced to agency. Processes are reactionary.	Manager involvement in selection and hiring process by automated application process.	Powerful categorizing, sorting, and assessment tools help managers quickly identify the best candidates. The information on the skills required for the job is established in competency databases. Use predictive tools that measure skills and cultural fit globally.	Find the optimal recruiting delivery method by type of hire: LinkedIn, kiosk in mall, or career site. Personalize the branded messaging based on type of job and applicant to attract. All talent skills and competencies are managed in one database.
Performance	Manual and paper process without ties to corporate goals.	Automated processes with online forms. Limited use of workflow.	Integration to assist in legal compliance and coaching to assist managers. Advent of cascading goals. Some integration back to compensation.	Linkages back to quality of hire, quality of sourcing, predictive talent leaders and measurements passed to career building. Cascading corporate goals are measured and visible to management.
Compensation	Part of payroll and inflexible with no linkages to total compensation.	Total compensation calculations.	Performance appraisals feed to compensation. Integrated between performance and compensation to try and attain pay for performance.	Budgeting and planning tools help managers quickly show equity and fairness within a department and across the enterprise. Tight linkages between performance and compensation (Pay for Performance) and competencies (Pay for Potential).
Succession Planning	Spotty mentoring within the organization.	Position and pool management with search for replacement may not be linked with development plans.	Identify high potential employees, develop plans for identified successors, and show positions without a successor.	Long-term horizon of talent pipeline with internal and external bank of talent, linked to mentoring and training programs.
Career Planning	Manual with apprentice program.	Ability to select the next level job in desired career paths and map into skills required for the job.	Visibility into multiple career paths and automatic mapping of skills gaps to training programs.	System flags high potential employees with recommendations for alternate career paths based on career profiles.
Workforce Development	Informal training. No linkages to other HCM systems.	eLearning systems to record and track training.	eLearning systems linked to performance management, career development, and compliance initiatives.	Interactive learning recommendations based on skills assessments, performance management, and career goals.
UI	Green screen interface.	Browser interface (HTML).	Portal interface.	Social networking, role personalization.
Workforce Analytics	HR employee records.	Time to Fill, Cost Per Hire.	Quality of Hire, Time to Productivity.	Identify talent gaps and impact on business goals, fully loaded cost of turnover.

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ABOUT TALEO

Leading organizations worldwide use Taleo on demand talent management solutions to assess, acquire, develop, and align their workforce for improved business performance.

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