Integrating Talent Management to Drive Business Outcomes

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Shane S. Douthitt, Ph.D.

Strategic Management Decisions
Learning Objectives

- Link core talent management processes (e.g., performance management, employee surveys, succession planning, etc.) to key business outcomes.
- Calculate the ROI for talent management processes.
- Integrate the key HR drivers of business outcomes into a unified dashboard for senior leaders, front-line managers, and staff.
- Build a compelling business case for investing in talent management initiatives – transform HR into a profit center!
About SMD: Driving Business Results Through Talent Management

Our Platform

• Implement Talent Management processes based on analytics, linking people to critical business outcomes
• Partner with our clients to create and execute people strategies that drive business outcomes and maximize ROI

Our Results

• Linkage of Talent Management (e.g., engagement survey results, training, performance ratings, competency assessments) to a variety of business outcomes:
  ▫ Operations Metrics (e.g., operating margin)
  ▫ Financial Metrics (e.g., sales dollars, productivity)
  ▫ Customer Satisfaction
  ▫ Turnover/Retention
  ▫ Employee Safety

• Significant bottom-line improvements and return-on-investment for our clients.
Session Agenda

• The current state of Talent Management
• Building an Integrated Talent Management platform:
  – Linking talent management data to business outcomes
  – Strategically prioritizing talent management initiatives
  – Calculating an ROI for talent management initiatives
  – Bringing HR data and initiatives to front-line leaders
Applied Research and Trends

THE CURRENT STATE OF TALENT MANAGEMENT
The Impact of Human Resources

Organizational Impact Ratings by Department

- Quality: 68%
- Manufacturing/Operations: 58%
- Customer Service: 52%
- Communications/Public Affairs: 48%
- IT: 46%
- Security: 46%
- Finance/Accounting: 46%
- Research & Development: 44%
- Legal: 44%
- Procurement: 42%
- Human Resources: 41%
- Marketing: 38%

www.metrus.com
What Our Clients Are Saying…

“I need to prove the bottom line value of talent management initiatives.”

“HR is always the first place Sr. Leaders look to cut expenses.”

“We don’t have the resources for these types of analytics.”

“We say our people are the key, but we don’t invest much in them.”

“I can never get the funding for HR investments.”
Typical Approach to Talent Management

• Focus on independent execution of individual talent management processes
• Assume that people investments drive business performance…but struggle to demonstrate the impact
• React to customer needs and to requests; Limited ability to influence leaders without a true business case
• Limited resources and focus on execution limits ability to take actions that drive business performance
• Often viewed as a barrier by front-line leaders
The Opportunity

- To identify the people factors (e.g., competencies, skills, experiences, etc.) that drive business outcomes.
- To build a compelling business case based on ROI.
- To make talent management investment decisions based on facts and data – not assumptions.
- To integrate talent management tools/processes and align with strategic business priorities.
- To be viewed as a strategic partner that drives business results – transform HR into a profit center!
Rethink Your Approach to HR

BUILDING AN INTEGRATED TALENT MANAGEMENT PLATFORM
RETHINK Your Approach to HR!

Make HR a Profit Center
- Quantify the impact of employees on business outcomes
- Calculate an expected ROI for investments in employees
- Define the relationship between HR processes and business outcomes

Connect Key HR Processes
- Provide a single, integrated view of key HR processes
- Reduce your HR related costs through integration and strategic alignment
- Connect HR processes to business results

Spend More Time Driving Results
- Align HR professionals, organizational leaders, & employees to focus on actions that drive results
- Provide customized analytics and simplified reporting through business-focused scorecards
Integrate Key HR Processes

Examples of Business Outcomes

- **People**
  - Turnover
  - Employee Engagement

- **Service**
  - Customer Satisfaction
  - Wait Times

- **Quality**
  - Clinical Outcomes
  - Product Defects

- **Finance**
  - Performance to Budget
  - Cost Reduction

- **Growth**
  - Sales Growth
  - Margin Growth
Link People Data to Business Outcomes: Business Partner RoadMap™

ANALYZE
Analyze linkages between data and business outcomes to identify key drivers of performance

ACT
Translate results into action by providing senior and frontline leaders with easy-to-interpret reports and follow-up training

ACHIEVE
Track results/goals on leader’s performance plans and the organization’s balanced scorecard

1. Determine Critical Outcomes
2. Create Cross-Functional Data Team
3. Assess Measures
4. Analyze the Data
5. Build Program & Execute
6. Measure & Adjust
Analytic Approach: Structural Equation Modeling

• Traditional data analysis includes:
  • Qualitative analysis or gap analysis (strengths/weaknesses)
  • Correlation
  • Regression

• Advantages of SEM:
  • Consider multiple independent & dependent measures concurrently
  • Imply causality
  • Calculate ROI
  • Correct for measurement errors

• SEM is commonly used in other industries (econometrics, market research)
The linkage analysis will demonstrate the level of impact that each competency, experience, skill, etc. has on individual performance and business outcomes.

This allows leaders to focus on the most important competencies, skills, experiences and determine the appropriate level to invest in developing each area.

Hire, train, & reward based on KNOWN drivers of bottom line results!
A Case Study

AN INTEGRATED HR STRATEGY FOR REDUCING SHRINK
Case Study: Background and Proposed Solution

Background

- Large retail organization with over 1,000 stores nationally
- Currently losing $93 million annually to product shrink

Proposed Solution

Create a Business-Focused HR Strategy:

- Empirically link employee data to meaningful business outcomes (e.g., shrink)
- Identify ‘invisible levers’ in employee attitudes, skills and behaviors that will drive outcomes
- Leverage existing data to create the strategic framework
- Prioritize employee-focused interventions to drive improvements in performance on business outcomes
- Provide customized solutions to target strategic priorities and drive bottom line performance
Case Study:
Collection of Data

**1. Training**
- Performance Management

**2. Performance Management**

**3. Employee Survey**
- 360 Feedback

**4. Competency Builder**

**Business Outcomes**

**Talent Management Data**
1. LMS Training Completion Data
2. Performance Ratings
3. Employee Opinion Survey Results
4. Competency Ratings

**Business Outcome Data**
- **People:** Store Turnover
- **Service:** Customer Satisfaction
- **Quality:** Store-Level Shrink
- **Finance:** Store-Level Costs
Case Study: Employee Survey Dimensions

Each dimension was comprised of 2 to 5 survey items.
Coefficient Alphas ranged from 0.79 to 0.91.
Case Study:
Salaried Employee Competencies

Employee Development
Strategic Decision Making
Execute With Excellence

Leadership
Cross-Organizational Collaboration & Teamwork
Achieve Extraordinary Results

Individual Competency Ratings for the Store Manager and Assistant Managers were used.
Case Study: Identifying Drivers of Shrink

Legend
Employee Survey
Training Participation
Terminations
Competency Ratings

Numbers in paths indicate the intervention priority based on the magnitude of the relationship with shrink.
The drivers of shrink can be further prioritized based on the magnitude of their relationship with shrink:

1. Achieving Extraordinary Results Ethics Course
2. Shrink Course
3. Dishonesty Terminations
4. Job-Person Match
Case Study:
Intervention Framework

- People
- Process
- Technology
Case Study: Planned Interventions & Cost

Training
- Build optional shrink training courses for specific roles
- Budget: $300k

Recognition & Reward
- Deploy a store-level incentive program for meeting quarterly shrink goals
- Budget: $5 million

Selection
- Nothing planned

OD & Leadership Development
- Insert shrink focused messaging in a larger “customer experience” initiative
- Budget: $250k
Case Study: Recommended Training Interventions

**Code of Ethics Course**

- Course participation has a direct, significant impact on shrink (i.e., higher participation, lower shrink)
- Opportunity to re-train or conduct refresher courses with managers and employees
- Reinforce training by having Senior Leaders regularly re-communicate the key messages from the Code of Ethics

**Sales and Shrink Course**

- Course participation has a direct, significant impact on shrink (i.e., higher participation, lower shrink)
- Currently not mandatory
- Opportunity to make the course mandatory and re-train all managers and employees
Case Study: Revised Interventions & Cost

Training
- Enhance and update ethics and shrink course – make both mandatory
- Budget: $50k

Recognition & Reward
- Nothing Planned

Selection
- Improve selection process for front-line employees – background checks & integrity testing
- Budget: $2 million

OD & Leadership Development
- Develop shrink management routines
- Develop shrink partnering program
- Budget: $50k
Case Study: Actions Taken and Actions Cut

• Initial budget was $5.55 million
• Revised budget was $2.1 million
  – Cut incentive plan
  – Cut major training build
  – Cut “shrink focused” customer experience programs

• Data-Driven Rationale:
  – Did not identify pay/benefits as a major driver of shrink
  – Showed the existing training courses were having an impact
  – Did not identify “customer focus” as a major driver of shrink
  – Showed that “dishonesty terminations” were a significant driver of shrink

• Created an HR Strategy with a known impact on shrink
ROI Calculation

LINKING EMPLOYEES TO THE BOTTOM LINE
Numbers in paths indicate the intervention priority based on the magnitude of the relationship with shrink.
## Calculating Impact & ROI

<table>
<thead>
<tr>
<th>Intervention</th>
<th>Impact Level (Beta)</th>
<th>Potential Shrink Impact</th>
<th>Level of Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manager Competency</td>
<td>.14</td>
<td>$13.0 million</td>
<td>Under-investing</td>
</tr>
<tr>
<td>Ethics Course</td>
<td>.10</td>
<td>$9.3 million</td>
<td>Under-investing</td>
</tr>
<tr>
<td>Shrink Course</td>
<td>.09</td>
<td>$8.4 million</td>
<td>Under-investing</td>
</tr>
<tr>
<td>Dishonesty Terminations</td>
<td>-.08</td>
<td>$7.4 million</td>
<td>Under-investing</td>
</tr>
<tr>
<td>Engagement</td>
<td>.04</td>
<td>$3.7 million</td>
<td>Appropriate</td>
</tr>
<tr>
<td>Reward &amp; Recognition</td>
<td>ns</td>
<td>ns</td>
<td>Over-investing</td>
</tr>
<tr>
<td>Customer Satisfaction</td>
<td>ns</td>
<td>ns</td>
<td>Over-investing</td>
</tr>
</tbody>
</table>

- Currently losing $93 million in annualized shrink
- Example: Average Manager Competency score of 3.92
  - Improving the average score by 0.30 could result in additional savings of $984,897
  - Approximate cost of $200,000 (build, employee time)
  - **Expected ROI: 497%**
  - **Actual Impact: Reduced annual shrink to $43 million in 1.5 years**
The Integrated HR Dashboard

BRINGING HR INITIATIVES TO FRONT-LINE LEADERS
Integrating Line-of-Business and HR Priorities

BECOMING A STRATEGIC BUSINESS PARTNER

LOB Priorities

Linkage Priorities

HR Priorities
Ease of Access to Core HR Processes & Business Drivers

Competency Builder
Align your Competencies with your Business Strategy

Organizational Priorities

<table>
<thead>
<tr>
<th>Business</th>
<th>HR Process</th>
<th>Critical Business</th>
<th>Impact</th>
<th>Measurement</th>
<th>Current</th>
<th>Estimated ROI</th>
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</thead>
<tbody>
<tr>
<td>Leadership</td>
<td>0.24</td>
<td>% Top Box</td>
<td></td>
<td>75%</td>
<td></td>
<td>$1.5 million</td>
</tr>
<tr>
<td>Safety</td>
<td>0.15</td>
<td>% Top Box</td>
<td></td>
<td>58%</td>
<td></td>
<td>$1.0 million</td>
</tr>
<tr>
<td>Career Develop</td>
<td>0.26</td>
<td>% Top Box</td>
<td></td>
<td>85%</td>
<td></td>
<td>$1.5 million</td>
</tr>
<tr>
<td>Commitment to</td>
<td>0.19</td>
<td>Average ‘Other’ Rating</td>
<td>4.65</td>
<td>$1.0 million</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Team Oriented</td>
<td>0.10</td>
<td>Average ‘Other’ Rating</td>
<td>4.02</td>
<td>$1.0 million</td>
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<td></td>
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<tr>
<td>Commitment to</td>
<td>0.22</td>
<td>Average Rating</td>
<td>5.04</td>
<td>$1.5 million</td>
<td></td>
<td></td>
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<tr>
<td>Communication</td>
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<td>Average Rating</td>
<td>5.85</td>
<td>$1.0 million</td>
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<td></td>
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<tr>
<td>Performance</td>
<td>0.32</td>
<td>Average Performance</td>
<td>3.90</td>
<td>$2.0 million</td>
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<td></td>
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<tr>
<td>Breadth of Experience</td>
<td>0.15</td>
<td>Average Rating</td>
<td>3.00</td>
<td>$1.0 million</td>
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<tr>
<td>People Developer</td>
<td>0.25</td>
<td>Average Rating</td>
<td>4.45</td>
<td>$1.5 million</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Performance Management
Succession
Hiring
Onboarding
Deployment
Surveys
Innovation Management
Tools for Prioritizing Interventions: Strategic Survey HeatMap
Dimensions falling within the **Focus** area are key drivers of business outcomes (e.g., Net Revenue) that are scoring below the target/goal level of performance.

### Retention

<table>
<thead>
<tr>
<th>Item</th>
<th>% Positive</th>
</tr>
</thead>
<tbody>
<tr>
<td>I am comfortable discussing career opportunities with my immediate sponsor or manager.</td>
<td>64</td>
</tr>
<tr>
<td>My career objectives can be satisfied here.</td>
<td>57</td>
</tr>
<tr>
<td>I plan to be with the organization for at least the next three years.</td>
<td>86</td>
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</table>

### Senior Leadership

<table>
<thead>
<tr>
<th>Item</th>
<th>% Positive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior management cares about employees as people</td>
<td>71</td>
</tr>
<tr>
<td>I think highly of senior management</td>
<td>64</td>
</tr>
<tr>
<td>With the current senior management, I am confident we will do well.</td>
<td>71</td>
</tr>
</tbody>
</table>
# Integrated Corporate and Local Action Planning

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Safety/Profitability/Claims Index</td>
<td>Employee Opinion Survey</td>
<td>Recognition</td>
<td>0.24</td>
<td>% Favorable</td>
<td>75%</td>
<td>$1.5 million</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Safety Factor</td>
<td>0.15</td>
<td>% Favorable</td>
<td>58%</td>
<td>$.75 million</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Career Development</td>
<td>0.26</td>
<td>% Favorable</td>
<td>75%</td>
<td>$1.5 million</td>
</tr>
<tr>
<td></td>
<td>QPR Competencies</td>
<td>Commitment to Service</td>
<td>0.19</td>
<td>Average Rating</td>
<td>4.65</td>
<td>$1.0 million</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Team Oriented</td>
<td>0.1</td>
<td>Average Rating</td>
<td>4.02</td>
<td>$.5 million</td>
</tr>
<tr>
<td></td>
<td>Hiring</td>
<td>Breadth of Experience</td>
<td>0.15</td>
<td>Average Rating</td>
<td>3</td>
<td>$.75 million</td>
</tr>
<tr>
<td></td>
<td></td>
<td>People Developer</td>
<td>0.25</td>
<td>Average Rating</td>
<td>4.45</td>
<td>$1.5 million</td>
</tr>
<tr>
<td></td>
<td>Training</td>
<td>LMS Course Usage</td>
<td>0.15</td>
<td>% of Population</td>
<td>18%</td>
<td>$.75 million</td>
</tr>
</tbody>
</table>

## Development Action Plan

<table>
<thead>
<tr>
<th>Competency/Item</th>
<th>Development Action</th>
<th>Target Date</th>
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</thead>
<tbody>
<tr>
<td>1. Attitude: Recognition</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Attitude: Safety Factor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Attitude: Career Development</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Competency: Commitment to Service</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Competency: Team Oriented</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Succession: Breadth of Experience</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Succession: People Developer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Training: LMS Course Usage</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Integrated Scorecard Aligned to Business Outcomes

<table>
<thead>
<tr>
<th>Business Outcome</th>
<th>HR Process</th>
<th>Business Drivers</th>
<th>Impact</th>
<th>Measurement</th>
<th>Current Performance</th>
<th>Estimated ROI</th>
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<tr>
<td><strong>GROWTH:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Increase Revenue by $10 million</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Employee Opinion Survey</td>
<td>Leadership</td>
<td>0.24</td>
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<td>% Top Box</td>
<td>85%</td>
<td>$1.5 million</td>
</tr>
<tr>
<td></td>
<td>360 Feedback (Competency Assessment)</td>
<td>Commitment to Service</td>
<td>0.19</td>
<td>Average ‘Other’ Rating (1 – 7)</td>
<td>4.65</td>
<td>$1.0 million</td>
</tr>
<tr>
<td></td>
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<td>Team Oriented</td>
<td>0.10</td>
<td>Average ‘Other’ Rating (1 – 7)</td>
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<td>$1.0 million</td>
</tr>
<tr>
<td></td>
<td>Selection</td>
<td>Commitment to Service</td>
<td>0.22</td>
<td>Average Rating (1 – 7)</td>
<td>5.04</td>
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<td>Communication</td>
<td>0.15</td>
<td>Average Rating (1 – 7)</td>
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<td></td>
<td>Succession Planning</td>
<td>Performance</td>
<td>0.32</td>
<td>Average Performance Rating (1 – 5)</td>
<td>3.90</td>
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Practical Tips

• “Apples to Apples” Comparison: Line up each leader’s or employee’s individual data (e.g. 360, employee survey) with their performance outcomes (e.g. percent to goal on business outcomes)

• Identify Key Drivers: Run statistical analyses (i.e., SEM) to identify the individual factors that evidence the strongest relationships with performance outcomes

• Utilize local universities/graduate student if in-house statistical expertise is not available

• Leverage your existing talent management platform (if you have one); Where possible, look to integrate talent management tools and processes
What We Have Covered

How to make Talent Management business-focused by:

• Linking core talent management processes (e.g., performance management, employee surveys, succession planning, etc.) to key business outcomes.

• Calculating the ROI for talent management processes.

• Integrating the key HR drivers of business outcomes into a unified dashboard for senior leaders, front-line managers, and staff.

• Building a compelling business case for investing in talent management initiatives – transform HR into a profit center!
Q&A
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Scott Mondore, PhD

Scott has over 15 years of experience in the areas of strategy, talent management, measurement, customer experience and organizational development. He has internal and consulting experience across a variety of industries including transportation, healthcare, manufacturing, pharmaceuticals, utilities, and hospitality.

Scott is currently a managing partner of Strategic Management Decisions (SMD). Before SMD, he served as East Region President for Morehead Associates, a healthcare HR company. Before joining Morehead, Scott worked as a Corporate Strategy Director at Maersk, Inc. He also worked as an Organizational Effectiveness Leader at UPS, focusing on employee assessment and measurement as well working as a consultant to large and small organizations in both the private and public sector.

He is the co-author of “Investing in What Matters: Linking Employees to Business Outcomes” and “Business Focused HR: 11 Processes to Drive Results.” He has also published several articles on various topics, including employee turnover, employee safety, coaching, litigation and leadership. Scott is an Adjunct Professor of Psychology at the University of Georgia, Fairleigh Dickinson University & the University of North Carolina-Charlotte.

Scott holds a Master's degree and Doctorate in Applied Psychology from the University of Georgia.
Shane Douthitt, PhD

Shane S. Douthitt, Ph.D. is a managing partner of Strategic Management Decisions (SMD). He has more than 15 years of experience in the areas of measurement, talent management, executive assessment and coaching, and organizational development across a variety of industries including banking, manufacturing, utilities, pharmaceuticals and information technology.

Shane is the co-author of “Investing in What Matters: Linking Employees to Business Outcomes” (SHRM, 2009) and “Business-Focused HR: 11 Processes to Drive Results” (SHRM, 2011). In addition, he has published several articles in leading journals on a variety of topics, including HR strategy, measurement, teams, individual differences and diversity, employee selection, group dynamics, and careers, and recently co-authored a leadership development article in the Center for Creative Leadership’s quarterly periodical “Leadership in Action.”

Shane is an adjunct professor at the University of North Carolina-Charlotte and teaches organizational science courses focusing on leadership and organizational development. He holds a master’s degree and doctorate in applied psychology from the University of Georgia, as well as a master’s degree in Industrial/Organizational Psychology from the University of Tulsa.