A CIRRUS RESEARCH REPORT

THE BUSINESS CASE FOR INVESTING IN TALENT: HOW TO BUILD, SHAPE AND MEASURE IT.

A Research Study from Cirrus and Lumesse

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INTRODUCTION.

How important is it to demonstrate a return on investment (ROI) in talent? When we last researched this area back in 2008[1], there was a strong feeling that investing in talent was seen as so critical that it didn't need to be justified.

The vast majority of HR professionals believe that presenting a robust business case is now essential to secure investment. However, almost half feel it isn't possible to calculate the financial return on investment accurately.

WHAT IS 'TALENT MANAGEMENT'?

Talent management is a strategic approach to attracting, developing, engaging and retaining the right people to create a high-performing organisation that meets its business targets.

With the economic downturn squeezing budgets and resources, and every investment keenly evaluated, HR must achieve more with less. To help protect and secure budgets, HR has to find a way to predict and validate the value of talent programmes.

To shed more light on these issues we conducted research and in-depth interviews with over 80 major organisations. While we found a clear acknowledgement that it's important to present a robust financial business case for talent initiatives, HR professionals also believe that they can offer a unique viewpoint on other, softer measures, which can also help to demonstrate return on investment.

This paper looks at the research in more detail before outlining an approach to evaluate talent initiatives, including:

- Applying a more rounded validation model based on strategy maps developed by Robert Kaplan of Harvard Business School, looking at both financial and non-financial metrics.
- Improving HR's connections with the wider business to gauge colleagues' views on a wide range of measures to demonstrate a return on investment.
- Developing HR's skillsets and confidence to create compelling a business case and demonstrate the return on investment.

Proving the investment in talent is critical. In the current economic environment, initiatives which lack senior visibility and cannot be measured are in danger of being cut. However, any reduction in talent budgets can have a very negative impact on organisational performance. Finding and retaining the best people is arguably the single most important factor in corporate success.

> The word I use is value - and value is about more than money. We are looking for improvements and these are not simply around what extra business people do. It is about how we deliver against the organisation's wider strategy and this ultimately trickles down to the bottom line.
>
> **DR RICHARD WATERS, GROUP HEAD OF LEARNING AND DEVELOPMENT, HAYS**

The push for a financial business case

When we conducted our original research in 2008, there was a strong feeling that talent management was seen as so fundamental that it didn't need a business case. The majority of anecdotal comments from leading HR professionals described it as a 'no-brainer' to invest in talent - a sentiment widely shared.

Today's results indicate that talent is still viewed as key to business success. For instance, 87% of respondents agree that their senior management is strongly committed to talent management, and 79.4% agree that senior managers view talent management as critical to the bottom line. However, attitudes are shifting when it comes to the need to account for talent investments.

No longer a no-brainer

In 2013, only 29% of HR professionals in our survey hold the view that investing in talent management is a no-brainer. Instead, we are seeing clear recognition that HR should do more to justify the financial business case for investing in talent.

A strong majority of people we spoke to – 66.7% – agreed that, in the last few years, the pressure to justify the business case for investing in talent has increased. Even more – 84.1% – agree or strongly agree that obtaining the required investment for talent activities requires a robust business case. Moreover, 83% agree or strongly agree that HR should do more to measure and evaluate the financial return on talent management activities post-implementation. One of the main drivers behind this marked change in sentiment in just five years is the financial pressures caused by tougher market conditions.

The drive for investment

Although there is a conviction that senior management believe strongly in the value of talent management, over half of HR professionals **(54%)** concurred that their organisation does not invest enough (finance, resources) in talent.

This view is hardly surprising given the squeeze on revenues and budgets due to the prolonged period of depressed economic activity. But it does raise an interesting question: if HR can make a more compelling case, strengthened by a powerful financial

> Do a lot of upfront positioning to get people on board. Not just to demonstrate ROI at the end – that's the easy bit – but be clear in the first place about the business case and why there's a strong need to invest.
>
> LAURA OVENDEN, HEAD OF TALENT, BEAZLEY

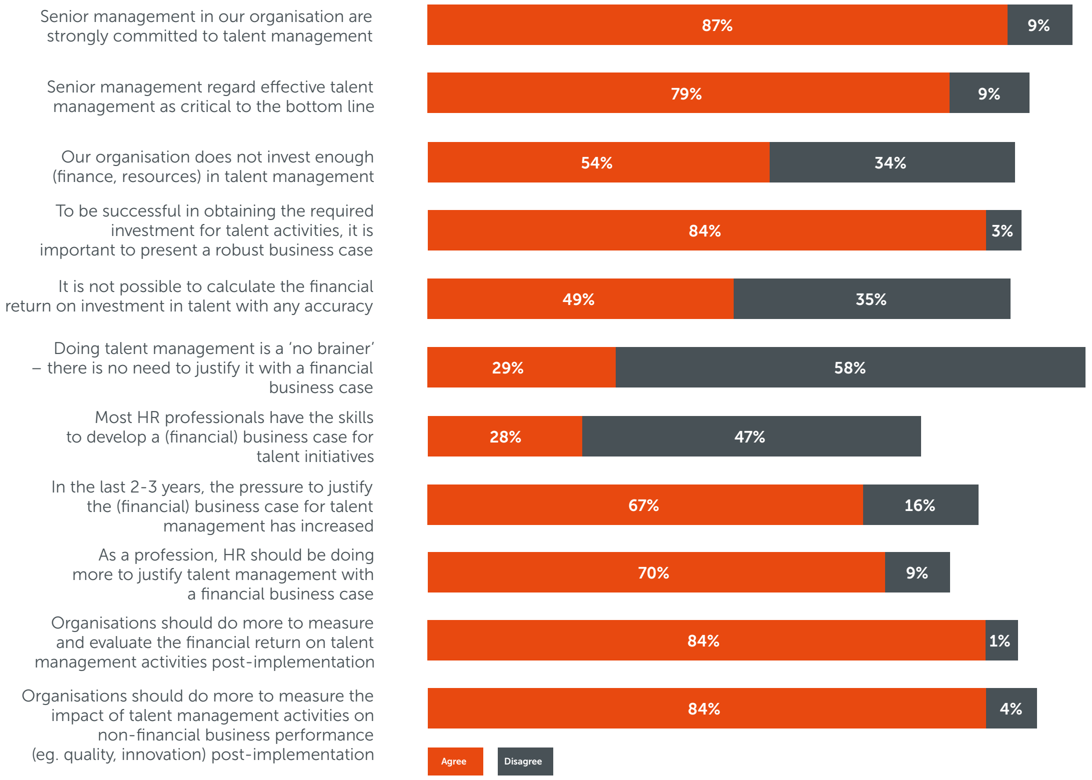


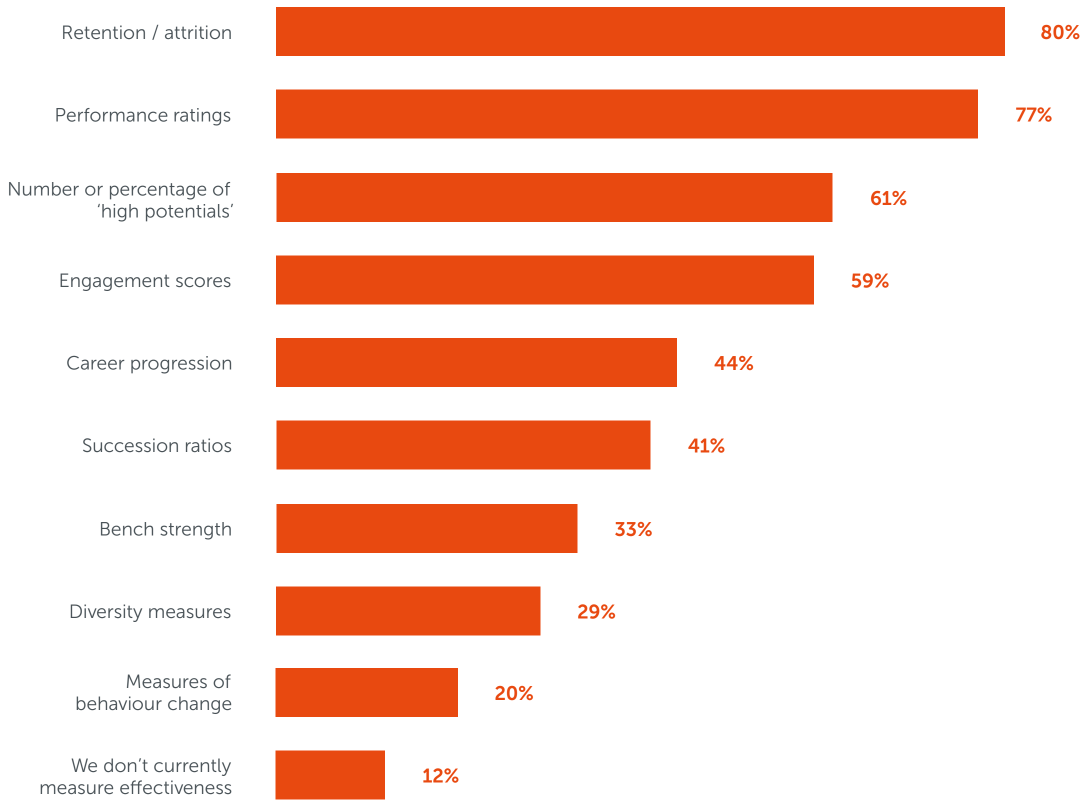
Fig 1: Respondents were presented with a series of statements. They were asked to what extent they agreed or disagreed with them.

Is financial measurement a feasible option?

Almost half **(48.5%)** of our respondents consider it is not possible to calculate the financial impact of investing in talent with any accuracy.

Additionally, almost half, (47%), consider that most HR professionals do not have the skills to develop a financial business case for talent initiatives (only 29.5% think they do). Is it unfeasible to calculate the financial return on talent investment? Or does this indicate that there is a skills gap for some HR professionals in this area?

Evaluating return on talent investment – people & HR metrics



Traditional HR metrics are still the most common measures

When we looked at how talent investment is measured, our findings were broadly in line with the research from 2008.

Traditional HR-related measures are still most commonly used to validate investment in talent, in preference to business and financial metrics. For example, 80% of respondents use retention figures, 77% use performance ratings, 61% look at the number of 'high potentials' in the business, and 41% succession ratios.

Two measurements are relatively popular: 67% measure the overall cost of their talent initiatives, and customer satisfaction measurement is applied by 49%.

However, other benchmarks are not used widely – such as quality (29.3%), company/division revenue (27.6%), profit margin (24.1%), innovation (19%), health and safety (17%), and market value (12%). These figures underline the lack of a commonly accepted financial and business model to assess talent investments.

They also suggest that HR focuses more on the cost of talent interventions – than their broader business impact – or the actual return on the initial outlay.

Given these results, the clear impact on business performance and the increasing need to demonstrate a financial return, it makes sense that 69.6% of people believe that HR, as a profession, should put its collective heads together and do more to validate investment from a financial standpoint.

Evaluating return on talent investment – business & financial metrics

> The business sees real benefits from our leadership development programme. People are selected for the programme based on whether developing them will have an impact on performance. We may not translate it into pounds, shillings and pence, but we have just had really good financial results and our MD recognises it's down to people and leadership.
>
> **SHEENA WEBSTER, HEAD OF HR, ALLIANCE HEALTHCARE**

Going beyond the financial

As part of this study we spoke to a number of HR leaders in detail.

These discussions revealed that, while financial measures are important, HR-related business metrics must be a part of any new ROI equation. There is a clear reason for this. Financial data is historical. Accountants sometimes liken it to driving while looking in the rear-view mirror. It is valuable to track historical performance over time. However, hitting the figures one quarter does not necessarily indicate where a company is going in future.

> An ROI narrative built on pure financial metrics isn't a rounded view. Intangibles, such as culture and what people feel are equally important. Your own experience and beliefs as a strategic operator are important too. In a boardroom, hard metrics will only appeal to a proportion of the group, just as 'soft and fluffy' will only appeal to another proportion - it's important to provide a balance.
>
> **HASAN KHAIR, REGIONAL TALENT DIRECTOR, EMEA, SAATCHI & SAATCHI**

'People' metrics on the other hand – things like succession bench strength, employee motivation, engagement, culture, climate and a shared sense of purpose – are shown by many studies to be predictive indicators of future business success. So, in our view, it is essential that evaluating the return on investment of talent should include these benchmarks to complement financial data.

> I put commercial targets into our people plan, evaluate the impact and communicate the results to the business. Recruitment costs dropped dramatically as a result of our talent strategy as we didn't need to recruit so much from outside.
>
> **MIKE WILLIAMS, DIRECTOR OF PEOPLE DEVELOPMENT, DE VERE HOTELS**

> It's a significant investment and we need to ensure that it's money well spent. In some organisations it's more about the 'heart' – they just know they've got to get the best people on board. Here we need to show why we need to while feeling that it's the right thing to do. This is why a key measure for us is showing the value of achieving something internally.
>
> **HEAD OF ORGANISATIONAL DEVELOPMENT AT A LEADING HIGH STREET RETAILER**

Recommendations – four steps to assess the ROI in talent management

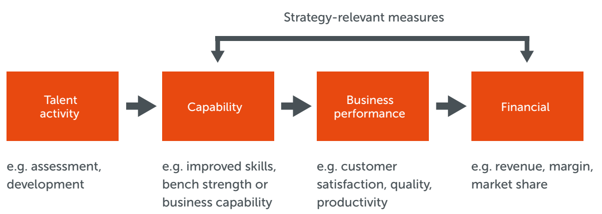
We believe there are four key steps that talent teams can take to create a more rounded way – and a more connected approach - to assess the ROI of their programmes.

The core of this approach is based on the strategy map developed by Professor Robert Kaplan of the Harvard Business School, an approach that seeks to convert intangible assets into tangible outcomes[2]. We suggest that strategy maps can be applied in an HR context. They are sufficiently flexible to integrate both the traditional HR metrics used today to assess talent programmes, and critically, the business and financial measures that our research indicates are increasingly sought by HR professionals and business leaders.

1. Strategy maps in action: the strategy map starts from a core premise: define strategy relevant metrics (to measure talent interventions) that track to wider corporate goals. Select the measures that most relate to what the organisation's strategy is aiming to achieve. The further to the right in the strategy map, the more concrete the metrics become. However, they are also more difficult to relate to the original talent intervention.

Strategy Map & ROI

We may not always be able to make the case for talent all the way to the financials, but we can also choose *non-financial* business measures that assis the **strategic impact** of talent activities.



In this example, for an organisation with the goal of leading in markets by providing superior customer service, the strategy map might break down as follows:

a. Capability: Improved customer relationship skills; negotiating ability and better market intelligence

b. Business performance: Higher customer satisfaction ratings; increase in customer numbers; more repeat business; improved quality and innovation; increased per-customer spend

c. Financial: Higher profit and more revenues

The beauty of this approach is that, while it may not be possible to relate every talent intervention directly to financial metrics, other strategy-relevant metrics such as capability and business performance can validate the investment.

2. Be inclusive: HR teams can collaborate and create critical connections with colleagues across the business. For example, finance teams will have valuable insight into how to build financial and business metrics into strategy maps. It is also important to connect with other leaders whose activities are likely to impact on the returns on investment in talent, and treat them as stakeholders.

3. New skillsets: Strategy maps can transform the way organisations assess talent investments – but our research shows that skills shortages across the HR community can limit the effectiveness of such approaches. Developing capability in creating and applying a range of metrics (both financial and non-financial), could become an increasingly vital part of HR's professional development.

4. Technology and the data-driven HR function: In recent years, the effectiveness and application of technology in HR has advanced significantly. Thanks to cloud and Software-as-a-Service (SaaS) technologies, it's much easier to introduce new HR systems and connect the multiple systems that HR has deployed over the years. A recent research report on HR technology buying trends from Bersin by Deloitte highlights that 20% of large organisations use over ten separate HR systems – these include compensation, performance, personal development tools, learning management systems and succession planning to name just a few[3].

Consolidating these systems into one platform is a key requirement to help teams advance business analytics.

Conclusion

Until recently there was a widespread view that investing in talent was so important that it needed little or no financial justification. Our research shows a fundamental shift in thinking as the economic downturn necessitates closer scrutiny of all line items. In an era when organisations need to achieve more with less, HR professionals recognise the need to demonstrate the effectiveness of talent initiatives. The validation must account for real business value – going beyond traditional HR metrics that are still most commonly applied – to include business and financial indicators. However, the HR professionals we spoke to acknowledge that the industry lacks a consistent method to evaluate talent programmes in this way. Strategy maps provide an approach which can help provide this methodology.

The strategy map provides a framework that links talent interventions to a wide range of both financial and non-financial metrics. Using this framework, HR can use its unique perspective to add to the financial case with additional measures such as employee motivation and engagement - powerful predictors of future business success. Applying this approach consistently across all key projects could provide the validation rigour that senior teams expect. Over time it will also build a clear analysis of which areas of investments are producing real results, and which need attention.

> You need to be flexible in your measurement and metrics. If someone's transforming culture change, it's hard to measure that in financial terms. If they're able to shift mindsets, enable more productivity and raise morale, then you can't put a pound sign on that - but at the same time they've made a tremendous difference to the organisation.
>
> **KERENSA JENNINGS, HEAD OF STRATEGIC DELIVERY, FINANCE & BUSINESS, BBC**

Building competency in creating a business case and measuring the return on investment will increase HR professionals' ability to evaluate project outcomes. It's important too for the profession to build its knowledge of new technology that makes it much easier to: link separate systems, produce the data that shows how talent initiatives map back to business performance and provide real-time, on demand information to assist talent professionals in planning interventions.

The growing interest in measuring the ROI of talent is likely to become a more definitive requirement. The need to protect and secure budgets with improved evaluation techniques will take on a more critical significance. Demonstrating ROI can also help HR prove its value and contribution to the success of the business. Globalisation, complexity and the shortage of key skills are trends that make attracting, developing and keeping the best people an ever more competitive discipline. In this context, organisations with the strongest talent programmes can gain clear competitive advantage and become stand-out leaders in their sectors. If HR leaders can make the case for investment in talent programmes, they will make an even more significant contribution to the success of their organisations.

> Measuring return depends on the type of organisation. Some are more about judgement and what's implicit, and for others it's a more technical exercise. But the question is, is it done, and who's responsible? Where is this all brought together in the systematic way that allows the CEO and her or his team to take some informed decisions?
>
> **ANDY PARFITT, EXECUTIVE DIRECTOR TALENT, SAATCHI & SAATCHI**

References

1. White Paper: *Measuring and achieving a strong return on investment in talent*, Xancam.
2. Kaplan, R S and Norton, D P (2004), *Strategy Maps: Converting Intangible Assets into Tangible Outcomes,* Harvard Business School Press.
3. *Managing Talent through Technology,* HCM Buying Trends 2013.

> Talented individuals are in short supply. Many CEOs will say that a talent pipeline is one of their increasing challenges and actually talent is a differentiator now in many organisations. The ability to prove, particularly in an economic downturn, that actually investing in talent is the right thing to do, is really, really important in terms of being able to demonstrate the long term business benefit.
>
> **LOUISE BEARDMORE, HEAD OF ORGANISATIONAL DEVELOPMENT & CHANGE, UNITED UTILITIES**

ABOUT CIRRUS

BETTER LEADERS. BETTER BUSINESS. BETTER LIVES.

Cirrus is a leadership development and brand engagement specialist.

We create critical connections that bond leaders, colleagues and customers to your organisation's purpose and direction.

In early 2013, Cirrus merged with talent experts Xancam. Together we work closely in partnership with clients to help attract, assess, develop, engage and retain talent in line with each organisation's unique values and goals.

If you are an ambitious organisation with a need to accelerate and sustain change, Cirrus is your natural partner.

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ABOUT LUMESSE

Lumesse is a global company making talent management solutions work locally.

We help customers around the world to implement successful local talent management strategies that identify, nurture and develop the right people, in the right place, at the right time.

2,000 customers in over 70 countries work with us because they recognise that commitment, innovation and value only come from great people. We help customers to unlock and inspire that human potential in their businesses. Our integrated talent management solutions are comprehensive, intuitive, secure and fully internationalised into over 50 languages.

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