Chapter 45

New Tools for Talent Management: The Age of Analytics

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Almost everyone agrees on the importance of talent as a crucial asset to be managed in today’s globally competitive business environment, but effectively managing talent has become a more strategic, less intuitive pursuit than in the past. A successful talent strategy needs to be multifaceted, aligned with business goals, prompted not by “gut” managerial attitudes and decision making but by fact-based decisions that reflect the hard realities of what drives critical business and workforce outcomes. And more than ever, making those fact-based moves requires solid analytic tools.

Let’s also be clear that the multifaceted nature of talent management today extends beyond any superficial sense of mere alignment with business goals. For example, it’s not enough for an engineering or a service culture simply to be well stocked with appropriately qualified talent. A talent strategy must also be actionable, nimbly responsive to changing needs within and without the organization. It must be specific to the organization, acknowledging the variety of skills, specialties, and nuanced capabilities that make for successful execution within a given business and organizational context. It must be impactful and consequential, so that talent decisions—whether deploying talent to various regions, building or buying talent, or addressing issues of succession—quickly and
measurably answer business needs. It must be sustainable, relying on a talent pipeline that doesn’t fall prey to gaps in skills or leadership. And it must be adaptable to changing market and business conditions.

Indeed, differences in context, internal and external, are often at the heart of why firms that compete with each other don’t manage their talent in the same way. Thus, establishing key facts about internal and external circumstances is often one of the first tasks to perform when revisiting or creating a talent strategy, in order to ensure the new strategy is in sync with those realities—and thus has a chance of succeeding. Therefore, in this expanded—and expanding—conceptual universe of talent management, the role of analytics takes on increasing importance.

The Analytics Value Curve

Analytics is not just about data mining; at its best, it’s a disciplined form of empiricism that draws on learnings from the relevant disciplines (organizational psychology, economics, business management, etc.) and growing experience applying analytical techniques in business practice. It allows decision makers to test specific hypotheses about talent management and its role in business performance and to project the likely consequences of specific actions, in order to produce actionable insights, prioritize and size the impact, and set the yardstick to measure progress—all of which we’d call “workforce intelligence.”

There is a wide spectrum of analytics—from low to high sophistication, simple to complex, cheap to costly. (See Figure 45-1.) This spectrum of analytics comprises both qualitative and quantitative methods for eliciting workforce intelligence.
A generation ago, HR departments were mostly operating at the lower left end of this curve, making workforce decisions based on anecdote, gut feel, reactive checks and simple ongoing descriptive reports. To the extent analytics were used, they were primarily qualitative in nature, largely survey driven. In the late 80s and 90s, the benchmarking craze took hold and many organizations moved up the curve to rely more on external benchmarks and so-called “best practice” comparisons.

Even as some benchmarking methodologies became more sophisticated, involving statistically based, cross-company comparisons, the results overall have been disappointing. Benchmarking inputs can be misleading and counterproductive; they can fail to recognize the unique strategic and operational context that influences how well talent and talent management practices will actually perform; and they are not sufficient to counter prevailing myths about talent that take hold in organizations and are not easily dislodged.

Currently, we are seeing signs of rapid evolution of workforce analytics, of movement up the value curve. More and more firms are deploying workforce analytics that offer deep-dive assessments of the dynamics of their own workforce and how they affect performance. The approach goes well beyond deployment of packaged workforce analytics modules in human resources information system (HRIS) or attendant systems. Top organizations are undertaking sophisticated, controlled statistical analyses aimed at surfacing cause-and-effect relationships and allowing them to project likely outcomes of policy measures to simulate and forecast future states.

Moreover, at the high end of the spectrum, organizations are combining perceptual and archival data in statistical models to better understand the interplay of perception and actual events as well as the mechanisms by which management practices influence results. And while many organizations may perceive barriers to moving up the analytics value curve—such as cost, complexity, and the capabilities of HR departments—easier access to data and statistical modeling packages are overcoming those barriers.

**Using Analytics to Drive Strategy**

A talent strategy comprises numerous elements of workforce management that influence the capabilities, behaviors, and attitudes of the organization’s workforce. These elements would include factors affecting the talent “flows”—attraction, development, and retention—as well as specific practices (e.g., rewards, supervision) that influence them.

A talent strategy should be assessed in terms of its ability to help the organization secure the talent required to meet business goals, optimize the performance of that workforce, and establish a culture that facilitates high performance and adaptability to rapid market, business, and technological change. In addition, it must be measured against specific workforce goals relating to diversity, professionalism, social responsibility, and so on, which not only contribute to business results but are often workforce goals in and of themselves.
A good talent strategy can be developed by answering a series of questions. Following are some (but not all) of the main questions a talent strategy should address:

- What are the critical talent segments in which we need to be strong?
- What are the critical operational roles where the best talent matters?
- What are our leadership requirements and what kind of leaders do we need?
- What are our performance requirements?
- What is our Employee Value Proposition?

The following reviews some examples of how talent analytics can be applied to address these questions.

**Critical Talent Segments**

Some talent segments are more important to driving business results than others. This may be particularly important in times of change—a new strategy, changing technology, new sources of competition, and so on. And organizations with multiple business lines at different levels of maturity may need to deemphasize some segments and increase emphasis on others. This is especially important in times of limited or contracting budgets.

A case in point is that of a leading technology company that faced stronger competition from firms in Asia and the advent of new technology requiring wholesale changes in its business model and significant reorganization. It needed very different skill sets, experience, and capabilities in its workforce. Veteran analog-technology technicians, the mainstay of its historic cash cow business, were no longer as important as a new cadre of technicians and engineers with knowledge of digital, color, and network technologies.

For a culture that was team-oriented, with a one-size-fits-all approach to talent management, this was a challenge. The company needed to segment its talent carefully to enhance the ability to transform the workforce without undermining a culture that historically had been very effective and to which there was strong allegiance among employees and throughout the leadership ranks. To do this well, the company needed to know not only which segments were critical, but to what extent workforce segments differed in the way they responded to elements of rewards and other management practices. They also needed to determine whether current talent management practices supported or impeded the required workforce transition. In an environment where resistance to change was strong, nothing less than hard facts would enable senior leadership to make the business case for change.

Given the stark shifts in the business, it was quite obvious which talent segments were increasingly important. Interviews with corporate executives and line leaders on the directions of their businesses would suffice. But more quantitative analytics were required to address some of the other key questions, and in this case they ranged from simple descriptive information on the workforce to more sophisticated statistical analyses of the workforce impact of specific programs and practices. For example, a simple review of raw turnover data showed exceedingly low rates of turnover among low performers.
To what extent were talent management practices driving those outcomes? To answer this question, a more rigorous, holistic analytical approach was required, an approach we call Internal Labor Market (ILM) Analysis®. ILM analysis recognizes that an organization’s workforce is the outcome of the three interrelated labor flows—attraction, development, and retention—that operate dynamically in an open system that is influenced both by management practices and external business and labor market conditions. Briefly, the analysis comprises an integrated set of statistical models of talent flows and associated rewards to quantitatively describe these workforce dynamics and, more importantly, explain what drives them. Organizations that gain such understanding of their internal labor markets—understanding, for instance, what factors most influence promotion, development, and pay, or to what extent specific practices help retain high-potential talent, among other things—are in a much better position to effectively manage this internal market and shape its outcomes.

For the technology firm, one simple, purely descriptive analysis mapped the annual flow of compensation dollars to those in different performance quartiles. Astonishingly, it showed that the lowest performers were absorbing a larger share of bonus and other “pay for performance” dollars than all but the highest quartile of performers. In effect, the company was inadvertently valuing its low performers more than many other employees who delivered higher current and, quite likely, future value. With that kind of subsidy, was it surprising that turnover of low performers was so low?

ILM analysis also showed that the company’s internal labor market was insensitive to labor market conditions. Specifically, all else being equal, changes in unemployment rates in the locations where the company operated had no impact on rates of turnover. So when labor markets tightened, there would be no additional flow of talent out the door, and vice versa. This could be explained in part by what was happening on the reward side. Statistical modeling of pay revealed employees’ years of service to have a particularly strong influence on pay; indeed, it dominated other demographic, skill, and performance factors as drivers of individual pay. This result showed again that the company was not valuing, through its rewards, factors most essential to its future success.

But it told an even more important story: The strong emphasis on seniority (with back-loading of pay and benefits), characteristic of strong internal labor markets, effectively insulated the company from outside market forces. Historically, this had allowed the company to invest efficiently in the training and development of employees required to support its old business model—in other words, those trained could be counted on to stay and deliver a return on this investment. But now the company’s strong internal labor market had become a liability. It prevented external market signals of price and value to influence how its internal labor market was functioning and induce accommodating changes in the flows and relative prices of talent required to deliver the new mix of talent the business required. Significant changes in talent management—emphasizing talent segmentation—would be necessary to remove these roadblocks to workforce transformation.
Critical Operational Roles

Certain roles are more important than others, and it is often difficult to estimate the value of specific roles within an organization. If markets are competitive, market pay should reflect the marginal productivity of specific jobs. But this may not capture the value of specific roles in a given firm or in relation to the unique production process of an organization. How else, then, would one know the relative value of a role within a company?

In the case of one banking organization, analytics helped reveal the answer by looking at the actual business impact of turnover in different jobs. The presumption is that the disruption, loss of continuity, and loss of firm-specific knowledge often resulting from turnover will be more costly to an organization if it occurs in more important roles. Therefore, one way to determine which roles are most important is to try and measure the actual impact of turnover on key business outcomes of turnover in different roles.

At its simplest, this might be examined by measuring the correlation of turnover in specific roles with the business outcomes associated with the units in which it occurs. So, for instance, looking across all branches in the bank, does turnover among branch managers correlate more strongly with outcomes such as customer retention or growth in accounts than, say, turnover among tellers or back-office personnel? If so, by how much? But the simplistic approach can be perilously misleading. Is the correlation meaningful, or does it reflect yet another factor that is correlated with both turnover and business results? Is higher turnover in a role causing worsening business results, or is it the other way around? And under what conditions does turnover influence these outcomes most? Without some level of response to such questions, simple correlation would not be a reliable basis for making a determination about the relative importance of different roles.

We know that many factors beyond turnover affect the business outcomes noted. Some are external to the branch—such as customer mix, proximity of competitors, location—and some internal, reflecting management practices. A more robust and precise approach needs to account for such other factors as well as how the relationship between turnover and business outcomes play out over time to provide a more credible basis for drawing empirically based conclusions. In the case of BankCo, a methodology we call Business Impact Modeling® was used to statistically estimate and quantify the effects of turnover in different roles on several key measures of financial and operational performance. This involved controlled statistical analysis of the running record of these performance measures, which allowed the organization to assess if turnover was correlated with the specified performance measures even after accounting for the effects of other key business, workforce, and external market factors. It also allowed the firm to assess if the changes in business results followed changes in turnover rates in different roles or if the relationships were the other way around. While no statistical method ever conclusively proves cause-and-effect relationships, a rigorous statistical modeling approach, using longitudinal workforce and performance data, can increase confidence in the interpretation of a causal relationship.
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For BankCo, modeling results showed that turnover in customer-facing, front-line jobs was far more costly to the company than in back-office or even management roles. Whatever their level in the organization hierarchy, those routinely interacting with customers were demonstrably more important to retaining and growing customers, as well as delivering branch level profitability.

Leadership Requirements

What constitutes effective leadership may well differ across organizations. Often, leadership is associated with breadth of experience, which is acquired through mobility across different business units, functions, geographies, and so forth. But is mobility always the key? Many organizations are adopting the view that there are leaders at all levels who need to be developed and cultivated. They need to carefully consider what types of capability and experience are required for different types of leaders, and talent analytics can help.

A premier global hospitality organization uses planned movement of managers from smaller to higher and from lower brand to higher brand properties or units as a key pillar in its approach to developing managerial talent. Was the company meeting its leadership requirements through this approach? One measure of effectiveness certainly would be how managers themselves responded to these kinds of opportunities. Did they have a favorable view? Did opportunities to move laterally help the company attract and retain its better managers? Of course, simple surveys, exit interviews, or focus groups could be used to inform the answers to this question. That’s how many organizations proceed. But this organization went further. It wanted to see if there was direct evidence of positive impact and know how much of an effect there was.

The company undertook an Internal Labor Market analysis to determine if lateral moves were helpful in retaining its managers. The answer was a resounding yes. Managers with more opportunities to move were significantly more likely to stay and grow with the company than those who remained in place longer. Of course, what is good for the manager is not necessarily good for the organization. Could it be that such mobility undermined the performance of the properties that exported or imported managerial talent due to instability in operations or lack of sufficient knowledge of local conditions and requirements among the incoming managers? The company used analytics to address this question as well. Using Business Impact modeling, it found no negative effects on either financial performance or customer value measures. All in all, the company developed strong evidence that its approach to leadership development, relying on progressive steps to build breadth of experience, was working well and had become a significant asset for the company.3

Performance Requirements

Assessing performance in organizations is always a challenge. Sometimes it’s easy to identify and measure individual performance, sometimes not. And sometimes individual performance may show up more in group outcomes, reflecting high interdependencies among employees. Depending on the context, how you measure
performance and how much you differentiate between individuals in their assessments as well as in their pay may have very different effects on business outcomes.

In one example, a global media organization with a number of different businesses—we’ll call it MultiCo—sought individual performance data to help guide its rewards structure. Company management was determined to create a “performance culture” among its employees and was concerned that laxity in its performance management system was standing in its way. A first step was simply to review the distribution of ratings to assess the extent of differentiation across its five-point ratings scale. Not surprisingly, it found ratings skewed to the higher end. Fifty percent of employees received one of the top two ratings. What about the value of ratings themselves? To what extent did earning a higher rating translate into higher pay and other rewards for individual employees? As part of the assessment, MultiCo modeled the relation between pay and ratings, accounting for multiple other factors (age, tenure, education, job family, location, etc.) that also influence base and total compensation. In this way, it was possible to assess the incremental effect on individual pay of raising a performance rating and a subsequent return on higher individual performance. MultiCo found that the value of improving one’s rating was relatively small. Overall, all else being equal, raising one’s rating from the “meets expectations” rating to an “exceeds expectations” rating was worth about $1,000, rather small relative to average compensation levels. Most interestingly, however, MultiCo found that the value of higher ratings tended to differ substantially across businesses within MultiCo. One unit in particular differentiated higher- and lower-rated employees by pay far more than others, especially at the lower end of the performance scale. Clearly, MultiCo had significant work to do to align the performance management system with the overriding concept of a performance culture.

In the case of a midsized regional bank, analytics showed that rating and pay compression actually worked better to drive branch performance than did highly differentiated individual ratings and rewards. In this case, leadership had been convinced that it needed to focus on individual performance, get tougher in evaluating performance, and distinguish higher and lower performers far more aggressively. But the facts showed otherwise, dispelling an organizational myth, and helped leadership better understand that it had to build a team culture to better serve itself. The easy temptation to exercise a muscular, individualistic approach to performance management lost out in a confrontation with facts. In both of these cases, high-end analytics helped inform major talent management issues with significant economic consequences—and proved well worth the cost.

**Understanding the Employee Value Proposition**

For companies, the Employee Value Proposition, or EVP, whether explicitly stated or not, expresses the terms of employment—what is expected of employees and what they can expect to derive from employment with the organization. In effect, it is the employee counterpart to a talent strategy, but the essential point is that it derives from the talent strategy, which itself reflects the human capital requirements for accomplishing business goals.
Some organizations can easily articulate an EVP, but does that EVP materialize in the constellation of practices and conditions that employees actually experience at work? Is it reflected in the perceptions of employees as captured in engagement, satisfaction, or other types of employee surveys? Does it match well with what employees value in the employment relationship? These are critical questions, and good analytics are key to answering them.

A variety of tools are available for these purposes. Perhaps the most common and direct way to determine what employees perceived to be the EVP in place, what they themselves value most, and how they respond to different elements of the EVP is to ask employees directly through some form of employee sensing, surveys, or focus groups. Employee engagement surveys are good barometers of the state of employees and can capture what it is about an EVP that is most important to employees. To avoid the pitfall of everything being reported as equally important, some organizations have turned to more sophisticated ways of eliciting and handling perceptual data, such as conjoint analysis. This methodology, in essence, forces choice among alternatives through a series of grouped comparisons and helps assess the degree of consistency across those choices.

Of course, what employees say they value and what, in fact, they act upon may be different. It is therefore prudent to augment traditional sensing methods with an analysis of the predictive antecedents of actual behavior to measure hard realities.

For example, MultiCo asserted a “high-performance culture” as the basis of its EVP. But was it really? MultiCo used a combination of quantitative and qualitative analytics to assess perceptions and practices relative to what would be expected in a high-performance culture. The company realized what employees actually perceived and experienced were in fact far removed from their preferred model. For example, extremely low spans of control, reflecting strict governance and hands-on supervision, belied all the talk about the value of entrepreneurial initiative and risk taking. And MBA recruits from top schools entering the organization through a special “high-potential” program did anything but thrive: Even though they were paid a premium, their performance ratings and career progression were indistinguishable from their less pedigreed counterparts, and they were about 25 percent more likely to leave. These patterns, like the ones observed regarding performance ratings, were hardly markers of a performance culture.

Modeling Internal Labor Market dynamics can reveal an underlying culture at work that is not consistently perceived by leadership and provide clear quantitative markers for the organization to track. In the case of a large banking organization, ILM analysis revealed the dominance of what might be called a “career culture” with opportunities for advancement, growth, and learning emerging as most salient to employees. For instance, these career factors, far more than pay, influenced employee retention. Drawing on this strength, the bank determined to make that implicit culture more explicit in its EVP. The challenge of maintaining this EVP came to fore when the bank acquired another major regional bank. Applying the same analytics, it found the acquired bank to have far more of a “pay culture.” Understanding the stark contrast in
explicit EVPs for the two entities made it possible for them to anticipate potential barriers to integration and work proactively to mitigate them. Without talent analytics, they could not have done so effectively.

Talent Strategy and Human Capital Dashboards

For companies that take advantage of a strong, fact-based talent strategy driven by analytics, the importance of ongoing measurement can’t be overstated. Timely, efficiently updated, and accessible measurement of talent data is vital for renewing, revisiting, and adjusting strategy, and human capital dashboards are among the most effective tools that put information at the fingertips of decision makers. Web-enabled or desktop-based, the best dashboards are customized to display information of unique importance to an enterprise and its workforce. Dashboards also serve other functions, such as enabling easy data querying and issuing ready-to-distribute reports.

Mainly, the dashboards help management command of two types of information essential to effective workforce management: One set of facts consists of accurate and timely descriptive information on outcomes, such as head counts, turnover ratios, promotions, and pay changes. These are crucial for monitoring progress and providing leading indicators of an emerging problem. The second set of facts concerns the drivers or causes of critical outcomes, determined from statistical modeling. These are facts that explain important outcomes and also show the pathway to improving them. They are critical for making decisions about what to change and why and for tracking whether policy initiatives are, in fact, taking hold and changing realities.

The monitoring function of human capital dashboards includes internal and external reporting, tracking progress toward strategic objectives, and responding to queries from business and human-capital partners—performed on an ongoing, frequently updated basis. The analytic function extends the dashboard’s range to strategic planning, forecasting, proactive management, and problem solving—performed on an as-needed basis, with appropriate updates.

Conclusion

These observations and strategic examples underscore some basic requirements in utilizing and optimizing the value of analytic tools for talent management. For one thing, the talent strategy to which the tools will apply must be aligned with business goals and built around fact-based decisions—taking into account the larger context of external and internal business factors. And while there is a wide spectrum of analytics—from low to high sophistication, cheap to costly—and while many organizations may perceive barriers to moving up the analytics value curve—such as cost, complexity, and the capabilities of HR departments—easier access to data and better modeling packages are overcoming those barriers.

Beyond the tools and technology, though, modern talent is about a mind-set—one that (a) recognizes the singular importance of talent and how well-managed talent
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contributes to the success of an enterprise and (b) insists that decisions about talent, as with other critical assets, be based on the hard facts, the kind that can only emerge from the disciplined application of workforce analytics and measurement tools.

The authors would like to thank Mercer’s Rick Guzzo, Matt Stevenson, Bill Sipe, and Pete Foley for their helpful input, and Matt Damsker and Ann Egan for their editorial support.

Notes