

Talent Management

The New Business Imperative

Savvy executives know that a talent shortage is coming, if it hasn't arrived already. Talent management, backed by strategic workforce planning, can help companies face this crisis.



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Executive Summary

- More companies are beginning to adopt processes and tools to more effectively recruit, retain, develop and deploy talent.
- Workforce planning translates business strategy into talent management activities.
- Each company needs to understand the problem it faces, estimate the gaps in its industry and determine the skills it needs to meet business objectives.
- The direction in talent management is to a fact-based understanding and prioritization of what is needed.
- It's important not to adopt individual processes and tools in isolation from others, or from the human capital management (HCM) platform.
- Talent management is a new, more holistic approach to HR. HR grew up in functional silos—recruiting, benefits, learning and training. If you believe in talent management, you destroy those silos.
- Companies need to set up governing bodies that cut across all talent initiatives and include people from business units to establish priorities and review progress continuously.

Methodology

BusinessWeek Research Services (BWRS) launched a research program in spring 2007 to determine the views of senior human resources (HR) and information technology (IT) executives and CEOs on the talent shortage that is hitting, or will soon hit, many industry sectors and on how workforce planning through the use of workforce analytics can help executives address this coming crisis.

This paper includes in-depth telephone interviews with senior executives at large and midsize companies known to be employing talent management techniques as well as content from presentations given at industry conferences on the topic. Among the organizations included in the research for this report are:

- Amylin Pharmaceuticals Inc.
- Bombardier Inc.
- Florida Power & Light Co.
- Rio Tinto Ltd.
- A North American eyeglass retailer

In addition, leading consulting firms, trade associations, government agencies and prior BWRS reports were consulted to provide context and background.

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For more information about this project, please contact the Director of Primary Research at BusinessWeek at chris_rogers@businessweek.com.

Introduction

Hardly a week passes without a headline like this: “Baby-boomers’ Farewell Likely to Slow Growth.” The article, in the *Financial Times* of May 30, 2007, cites a report by the Organization for Economic Cooperation and Development in Paris that predicts the rate of U.S. economic growth is at risk because baby boomers are about to retire in droves—and there is too little talent to replace them.

The report is among the many studies and statistics that suggest companies face—or soon will— a talent crunch because of demographic and other trends, not just in the United States but across the industrialized world. According to staffing services and employment provider Manpower Inc., companies in most industrial nations, including India and China, struggle to fill positions (see chart 1, “Global Talent Shortage,” at right).

Talent shortage predictions began about a decade ago and were largely ignored, but surveys now suggest that CEOs are paying attention (see chart 2, “Challenges to Growth,” next page).

“Acquiring and managing talent has become the business imperative,” says Mike Ryan, an executive who leads a talent management initiative at Rio Tinto Ltd., a global mining company based in Melbourne, Australia. “It is the one thing we constantly see in our corporate board reports and presentations.”

Like Rio Tinto, most companies understand the trend. Some have even begun strategic workforce planning. But Rio Tinto is among a much smaller number that has gone beyond planning to adopt processes and tools to more effectively recruit, retain, develop and deploy talent. Failure to adopt a strategy for integrated talent management could result in too few workers and a slow decline in a company’s fortunes.

“I’ve been at this for 25 years and the concern over talent has never been greater,” says Jay Doherty, a principle at Mercer Human Resource Consulting LLC. “Most companies fall into the area of being concerned, asking questions and not finding easy answers.”

How Big a Talent Shortage?

The U.S. Bureau of Labor Statistics (BLS) forecasts the civilian labor force (supply) will grow to 162.1 million and the jobs available (demand) will grow to 164.5 million by 2014. Although the BLS does not officially forecast labor shortages or surpluses, together the two curves illustrate the gap between demand and supply.

The gap may be smaller than it appears. About once a year there’s an article in the *BLS Monthly Labor Review* pointing out that forecasts do not take into account workers with more than one job, the vagaries of immigration or outsourcing. And the two sets of data come from different sources, which cause technical problems. Demand is projected from the total number of payroll jobs and supply from household surveys of the number of individuals in the labor force. The forecasts do not factor in unemployment.

The BLS data also suggests a starting point to understand the problem. One example: By 2010, 40 percent of the U.S. workforce will be poised to retire, and the median age of workers is rising (see chart 3 “Changing U.S. Workforce,” on page 7).

Chart 1



“Businesses that generate a great deal of value from an older workforce will face a lot of knowledge loss over the next five to 10 years,” says Doherty, singling out aerospace and heavy manufacturing.

The BLS also forecasts the growth rate of employment in various occupations. For example, from 2002 to 2012, employment in Internet services, data processing and other information services is expected to skyrocket 46 percent, scientific research and development is expected to grow 21 percent and ambulatory healthcare services (except doctor’s offices) would reach 46 percent. This data suggests where shortages may hit hardest and is a good starting point for any company that wants to understand trends in its industry.

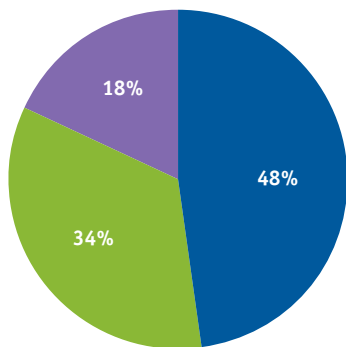
The shortage is already real for some. Utilities and government have two of the most mature workforces in America, having hired heavily in the 1960s and 1970s, when baby boomers were coming of age. Healthcare demands ever more workers to care for an aging population. Most fast-growing technology companies cannot find enough workers with engineering, math or science degrees (see chart 4, “Global Engineering Talent Shortage,” on page 8).

The maturing workforce is especially acute. “In some areas you see fast-rising demand,” says Mary B. Young, a senior researcher at New York-based The Conference Board Inc., who studies companies that do strategic workforce planning. “The problem will be more gradual in other industries.”

Chart 2

Challenges to Growth

What fast-growth CEOs see as the issues.



- Finding, hiring and retaining qualified employees
- Other factors
- Developing a strong sales and marketing strategy

Source: Deloitte & Touche, 2007

The issue is often quality, not quantity. “A lot of companies don’t have difficulty getting workers in general, but do have trouble getting the key people in the most strategic roles they need to fill,” says Jennifer Schramm, manager of workplace trends and forecasting at the Society for Human Resource Management (SHRM) in Alexandria, Va.

Rio Tinto, for example, focuses on mining engineers because there’s a shortage. “If we’re looking for these people, all the other mining companies are, too,” Ryan says. “We expect about 10 more years of this problem.”

Strategic Workforce Plans

The talent shortage will impact certain jobs, regions and industries more than others, Young concluded last year in a report entitled “Strategic Workforce Planning: Forecasting Human Capital Needs to Execute Business Strategy.” She further concluded this is a good thing: “It allows companies to be more selective where they are vulnerable. But they don’t understand where they are vulnerable without doing the analysis. Workforce planning translates business strategy into talent management activities.” (Young is finishing up a report to be published later this year that will examine how companies implement their strategic workforce planning.)

Each company needs to understand the problem it faces, estimate the gaps in its industry and determine the skills it needs to meet business objectives.

Young calls this strategic workforce planning: “The analytic, forecasting and planning process that connects and directs talent management activities to ensure an organization has the right people in the right places at the right time and at the right price to execute its business strategy.”

San Diego-based Amylin Pharmaceuticals Inc. is getting ready to do that. The biopharmaceutical company develops drugs for metabolic diseases, and 31 percent of its 1,700 employees have graduate science degrees, so it must get a handle on the talent issue. “Science is one area with a projected shortage,” says Deborah Rocco, chief learning officer. “Based on the demographic

information, we have put in place a strategic plan. Once the full impact of the shortage hits us, you won't be able to react and recover. You have to be ahead of it."

The Conference Board's Young studied 10 companies that perform gap analysis and model scenarios to develop data-driven talent management initiatives to achieve business goals. Some partnered with universities, some developed their own tools, others used commercial tools and some used spreadsheets. The important thing is to do it, but most companies still are not carrying out this level of analysis.

"It is phenomenal to me that any HR executive could survive an executive meeting without having this analytic data in their pocket," says Jeff Summers, global lead for talent management at New York-based Deloitte Consulting LLP. "The direction in talent management is to a fact-based understanding and prioritization of what is needed."

In its yearly business planning process, a North American eyeglass retailer recalibrates the number of retail store managers and field managers it will need, says the company's associate vice president of learning and talent management. But that's not enough: "We plan to start doing this for three years at a time."

Talent Management Initiatives

Most large companies have processes for recruiting, reviewing and rewarding workers. Many do succession planning and learning management. Not many companies have integrated their HR processes with a single HCM platform. Tight integration would produce a robust database of information about the competencies of individuals that is available to decision-makers throughout the enterprise.

But some companies are making progress to close the HCM and talent management gap. Consider the following:

Rio Tinto can't hire mining engineers fast enough; just one of its Australian business units had 2,500 open positions last year. It began to install technology for talent management a couple of years ago. The need was to find qualified applicants, so the first thing the company did was revamp disparate recruiting processes into an integrated global system, with regional recruiting teams using the e-recruiting module from its enterprise resource planning (ERP) provider.

The company had five recruiting systems, and business units did not share information. It now has central regional teams and has reduced the systems to three, with a plan to have 80 percent of business units on one integrated system by 2008 and the entire company on that system by 2010.

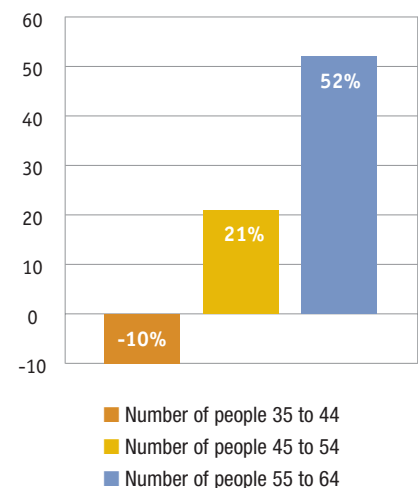
Rio Tinto is using the same software, with a different look and feel, for an internal program to identify skills and make the best use of existing talent throughout global operations. This starts with a self-service application employees use to bring their profiles up to date.

Florida Power & Light Co., a Juno Beach, Fla., utility with 13,000 employees, had a paper-based performance review—a mishmash of spreadsheets and word processing documents—which was nearly useless. No one had any visibility into these evaluations. Who had what skills, where and how much of that skill the company had altogether, because that kind of analysis could not be done on paper.

Chart 3

Changing U.S. Workforce

The aging workforce: In 2010, there will be 52 percent more people in the 55 to 64 age bracket than there were in same age group in the 2000 workforce.



Source: U.S. Bureau of Labor Statistics

The utility recently adopted the performance review module of its ERP vendor and now has a system for all non-bargaining unit employees, integrated with compensation planning and talent assessment modules it also adopted from its ERP vendor. It is still a work in progress, but the system includes an online appraisal process that involves the employee and the manager and gives visibility to other managers and executives.

One initial focus at **Amylin Pharmaceuticals** is succession planning. The company is working with the business school at nearby University of California at San Diego on an executive assessment program. It is also working on programs to support a culture where employees share knowledge and collaborate in generating new knowledge and to look at social-networking research for how it might be applied in its workplace. There is a “branding” element in this, as Amylin wants talent outside the company to come to know it as *the* place to work.

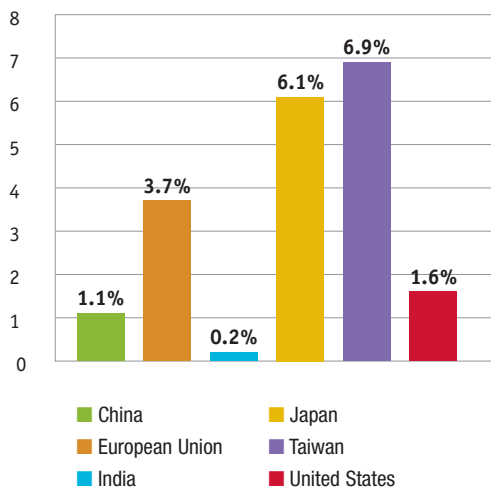
Integration of Processes and Systems

Each of these examples is an illustration of talent management. Each company began with the worst pain, but the long-term goal is integrated talent management, often using tools offered by a single ERP vendor because integration is easier to accomplish. None adopted individual processes and tools in isolation from others.

Chart 4

Global Engineering Talent Shortage

(% of 24-year-olds with engineering degrees)



Source: National Science Board

At Rio Tinto, the goal is integrated talent management that includes workforce planning, reviewing and managing performance, succession planning and remuneration. This will take several years. The first step is recruiting and increasing internal use of employees. Rio Tinto also plans to adopt the other tools offered by its ERP vendor.

At Florida Power & Light, performance review and talent assessment was one of the last stages in rolling out talent management processes, following the launch of a single HCM system in 2002 and the rollout of its ERP vendor’s modules for employee self-service, compensation planning, learning management and career planning.

At Amylin, the company has begun to roll out HCM software and a suite of talent management tools from the same ERP vendor to support all talent processes.

Each of these companies sees the value in adopting HCM software and a suite of tools from one provider. They all wind up using data from the same database, with relatively easy solutions to integration issues.

Companies like Rio Tinto, FP&L and Amylin are still unusual. “Historically, HR has operated as a collection of discrete processes, and too often companies still think of it that way,” says Heidi Spirgi, president of Knowledge Infusion, a Minneapolis-based consulting firm. “A collection of processes does not equal talent management.”

A recent survey of 384 HR and other executives, conducted this year by Knowledge Infusion and the International Association for Human Resource Information Management (IHRIM) of Burlington, Maine, illustrates the problems. About half of respondents said their companies had no integration between systems and talent management processes and only fair to poor organizational alignment of the workforce to business goals (see chart 5, “Modest Integration and Alignment,” next page).

Some analysts argue that for many companies it will make sense to adopt the tools offered by their ERP vendor for recruitment and other talent management disciplines. The benefits of integration from going with the ERP vendors' tools can outweigh any feature advantage some of the third-party developers might have.

Spirgi defines talent management as the process of managing the supply and demand of talent to achieve optimal business performance in alignment with organizational goals. To do this, she adds, HR departments need to not only adopt the right tools but change their approach to business.

"Talent management is a new approach to HR, a more holistic approach," agrees the eyeglass retailer executive. "HR grew up in functional silos—recruiting, benefits, learning and training. If you believe in talent management, you destroy those silos."

This retailer envisions adopting a full set of talent management processes, but its pressing need is succession planning—acquisitions used up much of its bench strength of managers and the company places a premium on developing new leaders from within. By rolling out succession planning, performance review, and learning management processes and tools, all integrated with each other, executives will gain visibility into the pipeline of next-generation store and field managers.

The systems will be integrated and connected with the retailer's single HCM platform because the competencies evaluated during performance management—and emphasized in learning management—need to be considered in succession planning.

Conclusion

The march to integrated talent management can be long and arduous. Deloitte's Summers urges companies to start with the three to five priorities that will have the biggest impact. "You still see HR departments that have many different programs, each lacking focus, strategic intent or the appropriate level of investment to allow them to do anything well to make a difference in managing talent shortages."

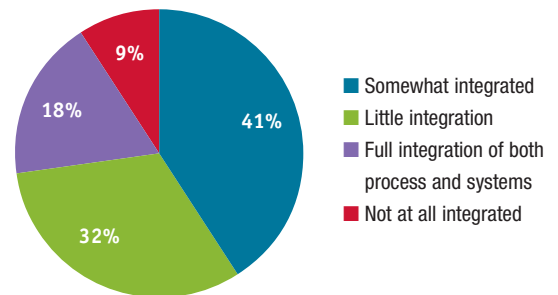
Knowledge Infusion's Spirgi urges companies to develop a strategic three-to-five year roadmap for rolling out talent management applications and to not try to do it all at one time. She encourages companies to set up governing bodies that cut across all talent initiatives and include people from business units to establish priorities and review progress continuously.

The change management issues cannot be overlooked. HR professionals comfortable with administrative roles, and even some who are comfortable with the strategic business partner role, must adapt to the intensive communication and collaboration required to achieve strategically oriented, integrated talent management. But if talent management is the new business imperative—and it is—then companies would be wise to start soon.

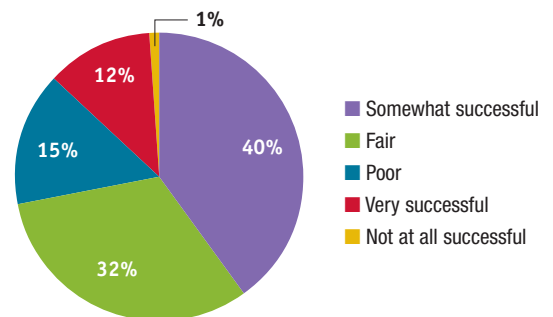
Chart 5

Modest Integration and Alignment

Integrated Systems for Talent Management



Alignment of Workforce with Business Goals



Source: Knowledge Infusion and IHRIM, 2007, survey of 384 HR, HR IT and general executives in the United States

The Right Tool to Fix the Talent Management Problem

SAP has partnered with BusinessWeek Research Services on this study as part of our ongoing effort to better serve our customers. In addition, we want to understand how companies are progressing on their talent management journey and how we can best support them. We are proud to sponsor this study and hope readers gain insights into how fellow HR executives manage their talent.

Study findings confirm that critical talent continues to become increasingly scarce. Organizations of any size are well advised to meet this trend head on. We consistently hear from our customers—no matter what the industry—that talent is a key source of competitive advantage. To successfully manage their talent, companies need to become effective at identifying, developing and retaining talent. Without defined processes to identify high potentials and top talents and to actively manage their development, companies risk poor organizational performance, loss of key talent and disruption in business execution.

As a consequence, talent management has moved to the top of board agendas. Managing enterprise talent has become a core competency for most organizations. Yet today, most companies don't have a single view of the talent available to them. Many have islands of talent-related data—in offline documents and point solutions—that are not integrated within the overall system landscape.

Why Integrated Talent Management Is Indispensable

The study shows that effective talent management requires a comprehensive approach to talent management processes. This requires dismantling the organizational walls between traditional HR practices, such as recruiting and succession management. Unifying processes that cross over different areas of practice adds insight and efficiency to the processes and to the managers and employees who

are involved. Companies need to implement comprehensive companywide processes for determining talent needs and then take the right actions to meet those needs in the short, medium and long term. By recruiting and retaining a motivated, innovative and productive workforce, companies can generate significant value.

Organizations cannot achieve the integration of talent management processes if their technology isn't also integrated. All of these practice areas require a common understanding of the critical competencies needed to make an organization run successfully in addition to basic information about the individuals who make up the workforce and analytical tools for driving strategy in all areas.

One example of a cross-functional process: An effective employee performance management program consists of more than just automating performance appraisals. It includes identifying individual development opportunities (such as classroom training and on-the-job training), implementing succession planning and providing performance-based compensation. These processes must be supported by accurate integrated data.

There are many talent management solutions on the market today. However, most of them are composed of discrete pillars of functionality—often inherited as a result of acquisitions. This is increasingly the case as the learning, performance management and recruiting markets undergo consolidation.

How SAP Supports Talent Management

Many organizations worldwide, including many of the companies mentioned in this report, depend on the SAP® ERP Human Capital Management (SAP ERP HCM) solution for managing their most important resource—their people. We've provided HCM functionality for over 20 years, and Talent



Management is our most significant area of investment. Enhancements in the latest release of SAP ERP HCM support an even more comprehensive talent management strategy.

At SAP, we see talent management as a unified set of strategic employee management processes that include recruiting, succession management, performance management, enterprise learning and compensation management, all unified by analytics. We believe that to deliver maximum value, talent management processes must be connected to one another—as well as to other business processes—with a common, broad-reaching technology platform. Further, we base our talent management functionality on the master data and competency database we use for many other HCM processes supported by SAP solutions. This enables a single view of available talent worldwide, while allowing all talent-related practices within HR to speak a common language. The key to success with all these activities is the unified technology platform on which they run.

Organizations using talent management with SAP ERP HCM can gain the following benefits:

- Quickly find and onboard the right external people.
- Discover hidden potential in the internal talent pool.
- Consistently achieve corporate objectives by aligning team and individual goals as well as workforce training with strategic organizational goals.
- Close skills gaps by assessing an individual's training needs and turning that assessment into a development plan.
- Identify high-potential employees and implement development plans to ensure seamless coverage for strategically important positions.
- Motivate employees through clearly defined individual objectives as well as career and development plans.
- Tie compensation to performance.

The basis for all talent processes is a common set of integrated data. When HR professionals work with the same data across the company, they can do the following:

- Evaluate the efficiency of recruiting processes.
- Measure the effectiveness of learning programs.
- Assess the value of succession programs.

- Monitor the efficiency of performance management processes.
- Analyze the cost effectiveness of employee compensation programs.

In SAP ERP HCM, analytics are an essential part of talent management and can greatly improve planning and decision-making through monitoring selected processes. Analytics functions give managers the insight they need to identify talent gaps and predict shortfalls based on anticipated changes in the business. By measuring and analyzing succession programs, learning programs (including attendance, usage and links to operational data to determine program effectiveness) and so on, customers receive valuable data that lets them refine their talent management abilities and plan for the future.

No point solution on the market can deliver such a comprehensive solution that helps customers not only reduce the total cost of ownership but also gain unprecedented insight into all their talent management processes. In addition, companies should not underestimate the value of organic growth. SAP has invested in developing our talent management solution following a clear product roadmap. All applications and processes related to talent management are integrated with core HR data. This cross-process integration on one common data model delivers superior data integrity—minimizing integration costs and increasing product stability and simplicity.

Additional Information

For more information on how SAP talent management functionality can help you attract, train, align and motivate your people, please visit our Web site:

<http://www.sap.com/hcm>.

About SAP

SAP is the world's leading provider of business software. Today, more than 39,400 customers in more than 120 countries run SAP applications—from distinct solutions addressing the needs of small businesses and midsize companies to suite offerings for global enterprises.

