



WHITE PAPER

RETURN ON TALENT INVESTMENT

White Paper:
Measuring and
achieving a
strong return
on investment
in talent

Dr Maria Yapp



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Contributors

Xancam Consulting would like to thank all our interviewees who gave insight into their organisation.

The ROI of Talent Management

Contributing organisations included:



Talent Strategy for REAL Businesses

Contributing organisations included:



Executive Summary

How effectively do today's leading organisations assess the return on investment (ROI) in Talent Management? In other words, how do they know whether the money they spend on recruitment, development and succession management generates a worthwhile commercial benefit to the organisation?

To throw light on this question, we drew on discussions with senior HR and talent professionals in forward thinking organisations. Their views were supplemented with research from both the UK and the US that addresses this issue.

The study presented here focuses on the following issues:

- What drives an organisation's desire to invest in talent?
- The potential costs or consequences of failing to invest in talent
- How organisations quantify the benefits of investing in talent
- Calculating return on investment
- Fringe or unexpected benefits of investing in talent

In an environment that is still highly competitive for talent, organisations invest in talent activities not only to meet immediate resourcing needs, but also to secure a sustainable pipeline of leadership for the future. Failure to invest in talent can lead to negative consequences relating both to immediate HR issues – for instance attraction and retention – and also have a knock on impact on productivity, quality, customer service and ultimately the organisation's brand, reputation and livelihood.

In terms of the quantitative measures used to assess the benefit of talent initiatives, the majority of organisations focus on internally-driven HR measures such as succession, retention and diversity. Relatively few organisations track quantitative business performance metrics associated with investing in talent.

Most organisations tend not to take a systematic approach to calculating the ROI of talent in commercial terms. Where commercial factors are considered, these often relate to the cost of investment – not the return that is delivered to the business.

Some organisations argue that investing in talent is simply good practice – they see no requirement to justify it in commercial terms. However others consider that HR must do more to illustrate a clear commercial case for talent – particularly where this is needed to gain senior management buy-in.

The paper considers the difficulties associated with calculating the ROI on talent activities. It outlines some case studies where investment in talent has been linked to beneficial business outcomes and offers some alternative methods that organisations can adopt to evaluate ROI. It closes with some recommendations for HR and talent professionals to consider when establishing the business case for investing in talent.

Introduction

Xancam recently conducted and published a research paper on Talent Strategy for Real Business¹. This research drew on the views of HR Directors and Talent Professionals from well known organisations including the BBC, British American Tobacco, Royal Mail and Zurich Insurance amongst many other large organisations. This research identified five distinct ‘pain points’ typically encountered in the course of devising and implementing talent strategy.

We have now extended our research on the talent issue by exploring in more depth a specific aspect of devising and implementing talent strategy – how organisations measure and demonstrate a sound return on investment (ROI) in talent activities.

The input for this research comprised in-depth interviews with HR Directors and senior talent specialists from well-known organisations, both UK-based and with international or global coverage. We also drew on the extensive range of literature from academia, consultancies and business schools, where approaches to this topic have been explored in some depth.

Scope of the Study

The main scope of this study was to identify the steps organisations take to assess the return on their investment in talent management. In other words, how are they measuring whether money invested in recruitment, development, succession management and other talent activities is generating a worthwhile commercial benefit to the organisation?

What do we mean by ‘Talent’ and ‘Talent Management’?

There are many ways of defining ‘talent’ – whether this applies to all the organisation’s employees or a specific sub-set. For the purpose of the current research, talent refers to future leadership talent. We chose this focus for two main reasons. Firstly, our previous research indicated that while most organisations regard ‘talent’ as encompassing all employees, the majority focus talent management efforts on their future leadership pipeline.

This was also underlined in a study by Cranfield² which found that while there was no common definition of ‘talent’, where the organisations chose to focus on a specific group, it was more usually on those with future senior leadership potential. Secondly, this means that the current study is more readily comparable with existing business school and academic research on the ROI of talent, where the focus is typically on talent for more senior business leadership roles.

Finally, we should be clear that by ‘talent management’ we are focusing on those activities that are central to the successful attraction, recruitment, development and retention of valuable talent. This is to distinguish talent management from all HR activities in general.

ROI of Talent - What do we already know?

The recent Cranfield study referenced earlier asked respondents from 608 UK-based organisations what methods they use to assess the ROI on talent and identified the following indicators:

- cost per individual (58% of respondents)
- overall cost of talent management (53%)
- cost of talent management against retention of talent (43%)
- cost of talent management against other career progression (40%)
- cost of talent management against productivity (40%)
- cost of individual talent management techniques (33%)

What is perhaps striking about the statistics in the Cranfield report is the predominant focus on cost (i.e. top-line) as opposed to any indication of margin (bottom line) or return on investment. Neither is there any linkage to longer-term ratios such as market or shareholder value. What is also noticeable is that the focus is predominantly on HR-based costs and ratios, with only one ratio (productivity) linking talent activities to a specific business outcome. While both Xancam

¹ ‘Talent Strategy for Real Business’, Xancam Consulting Limited, 2007

² ‘UK Talent Report’ Emma Parry and Shaun Tyson, Cranfield School of Management, Human Resource Research Centre, June 2007

and Cranfield's studies show that most organisations link talent strategy to the business plan, Cranfield found that only 15% measure return on investment. Some organisations did not perceive quantifying ROI in financial terms to be important at all.

Paradoxically, while 94% of organisations rate the importance of talent management to the bottom line as either 'very important' or 'somewhat important', the Cranfield report identified only one organisation (American Express) that actually links talent development to the bottom line. The study also goes on to observe that "only 41% of businesses are strategically managing their star talent". The main reasons for not adopting talent management approaches were lack of financial investment (51%) and insufficient senior management support (40%). It is perhaps arguable that without sufficiently robust metrics to justify the commercial return to senior management, HR and talent professionals may encounter challenges in securing their interest or commitment and therefore the necessary financial investment; hence a 'vicious circle' could ensue.

Despite these findings, the management literature over recent years has revealed a number of attempts to quantify the potential return of investing in talent in relation to the business' financial performance. Perhaps one of the most well known and oft-cited studies is by Huselid, Jackson and Schuler in the *Academy of Management Journal*³. This study of over 300 firms found that those organisations where talent activities were highly developed and strategically aligned (i.e. visibly relevant to the business' strategic aims) had higher financial performance than firms where this was not the case. Metrics for the top 100 firms in their survey included average increases of:

- 5.2% in per-employee productivity (valued at \$44,380 per employee)
- 16.3% in cash flow (value: \$9,673 per employee)
- 6% in market value (value: \$8,882 per employee)

The Xancam ROI study

The objective of this research is to ascertain some of the key trends and themes that occupy present-day HR professionals in the UK around evaluating the return on their investment in talent.

With this aim, we asked our interviewees the following questions:

1. What drives the organisation's desire to invest in talent?
2. What has the organisation identified as the potential costs or consequences of failing to invest in talent?
3. How does the organisation typically quantify the benefits?
4. How does the business calculate its return on investment in talent activities?
5. What fringe or other (non-quantifiable) benefits has the business gained by investing in talent?

In this paper, we will summarise the responses to these questions and consider some of the issues that they raise.

³ Huselid, M A, Jackson, S E & Schuler, R S (1997) 'Technical and strategic human resource management effectiveness as determinants of firm performance' *Academy of Management Journal* 40(1) 171-188

What drives the desire to invest in talent?

The objective of this question was to identify the business imperatives that created the impetus for respondent organisations to invest in talent.

Balancing supply & demand

A number of our respondents reported that the business case was based on the shortage of talent in their industry or sector. This brought with it the importance of auditing existing and future talent to ensure that the business is sufficiently well resourced (both now and in the future) to meet its ambitions.

“ Having just completed a rigorous review, there is a gap in the most senior levels of management and a shortfall between supply and demand [of talent].

**Head of Leadership Development,
Technology Business** ”

Competitive pressures

In our previous study of talent management we found that while 56% of respondents admitted that there was very strong competition for talent in their industry, fewer than 12% could claim to have an effective strategy to address this. In the present survey, several of our respondents acknowledged that competition for talent is a strong driver in their desire to invest in it.

“ Competition [for talent] is getting stiffer, particularly with the number of mergers and acquisitions. Nowadays, businesses like ours have to work harder at differentiating ourselves from our competitors.

Jayne Mee, Barratt Developments ”

Taking the long view

In addition to auditing the levels of talent required to meet current and short-term business needs, many of our respondents were very focused on the need to secure succession and a strong leadership pipeline for a more long term future.

British American Tobacco is an organisation whose pioneering approach to securing a leadership pipeline is well documented¹. The organisation now uses a rigorous approach to identifying individuals who have serious long-term potential to succeed to very senior General Management roles in the company.

“ Gap analysis showed that we didn't have a robust enough pipeline of readied successors to fill top team roles with local talent. This started the process of change.

**Sigrid Erdmann, British American
Tobacco** ”

Several organisations admitted that in the past they have perhaps focused too strongly on developing good people 'for now' or concentrated more on developing technical than leadership skills. In the modern business context, organisations increasingly appreciate the value of securing a robust pipeline of future business leaders. This brings with it the need to anticipate and develop those leadership capabilities that will drive the business forward in its projected environment.

¹ Talent Management Review, December 2007, British American Tobacco case study: "No smoke without fire"

Adapting to a changing environment

Other respondents identified the changing face of the organisation and its business environment as a clear rationale for investing in talent identification and development. For an increasing number of organisations, to remain successful in their sector the capacity to evolve and transform is crucial. Several of our respondents viewed effective talent management as a key component of business transformation.

“ We are transforming the organisation in order to continue to succeed. If we do not invest in talent, grow our own and attract new talent for tomorrow, our business will not be sustainable. ”

Jan Woods, PepsiCo

SUMMARY

The desire to invest in talent is driven by the need to:

- ensure sufficient talent to meet the business' immediate demands
- compete successfully for top talent with other businesses and sectors
- secure a sustainable leadership pipeline for the long-term future
- support and drive business transformation

What are the potential costs of failing to invest in talent?

With this question, we sought to identify some of the negative consequences that organisations were seeking to avoid or circumvent:

The delivery imperative

A number of our respondents identified that without adequate investment in talent, the business' ability to deliver would be seriously compromised. This relates not only to the achievement of deliverables and revenues, but also to the consequent impact of failure to deliver on factors including customer satisfaction, brand and reputation. Therefore, concerns seemed to centre on factors impacting both immediate delivery and more long-term knock-on factors.

A number of the respondent organisations were very definite about the fact that failure to invest appropriately in talent had some potentially serious implications for the business including:

- failure to achieve projected revenues
- lowered delivery capability
- project derailment
- loss of customers/ reduced customer satisfaction
- loss of repeat business
- poor follow-through on strategies due to high turnover at senior level
- insufficient creativity and innovation to keep the organisation ahead

“ Unless we have talented people, we will either miss out on £40m of lost bid opportunities or we will not have the wherewithal to service our clients. A red alert in our industry can potentially cost millions to put right. ”

Head of L&D, Technology Business

The Employer Brand

Most respondents identified the critical role that an effective focus on talent plays in supporting a strong employer brand with its consequent impact on morale, motivation and in turn, attraction and retention.

The view of many respondents is that an effective and disciplined approach to talent management enhances the organisation's reputation as an employer of choice. Those organisations with a sound reputation for growing good leaders and who provide a stimulating and progressive environment, see higher levels of engagement and have a stronger chance of attracting and retaining the best talent.

“ A significant proportion of leavers (around 30%) give a perceived lack of career opportunities as a reason – even though the company is growing. This suggests that they don't recognise how the opportunities inherent in the company's growth relate to them. ”

Judith Bufton, Wates Construction

Counting the cost

Respondents acknowledged the cost or financial implications of not investing in talent. Predominantly, this focused on the cost of replacement via recruiting from the external market in the absence of sufficient succession cover for the most business-critical or senior roles.

“ 80% of our key roles in EMEA do not have successors, so we're looking at the cost of replacement (if we do not have internal people available to fill them). Search fees alone for a senior role can be \$0.5m. If we have 10 roles in the next few years, you are into several million. ”

HR Director, International Financial Services Business

How can quantitative benefits be measured?

This part of the survey revealed a wide variety of responses. Interestingly, when asked to provide quantitative indicators of business benefit, respondents focused more on HR-related quantitative measures (e.g. retention, attrition, level of talent) in the main, and rather less on commercial or financial quantitative indicators.

Talent and succession-related measures

Many of our respondents were able to quote specific talent-related indices when evaluating the success of their talent strategy in quantifiable terms, for example:

- British American Tobacco uses a 1:2:1 measurement. This means that every business unit has to have for every senior role, one local successor for the short term and two local successors for the long term.
- One high street chain measures everything from reduced attrition, getting the right people with the right skills in the right positions and getting the right external hires in key positions.
- Premier Foods measures the year on year increase in the percentage of high potentials in the business.
- Barratt Developments uses Calibre (a performance versus potential rating) to ensure that they have enough talent in the organisation to support their projected change and growth.
- Wates Construction uses a similar 9-box grid to compare the distribution of talent in terms of high performers versus high potentials. As a consequence the business is doing more 'head-room' recruitment: hiring people not just on the basis of their existing capabilities, but those who can be promoted into key roles subsequently.
- The measures used by PepsiCo are relatively succession based. "We have a 'three deep bench'" says Jan Woods. "For any role, are there three people behind who could succeed to it, using the timeframes: 'ready now', 'ready two year' outlook and 'ready four year' outlook".

Additional metrics and measures for talent revealed by respondents included:

- the percentage of 'high potentials' that were hired externally vs developed internally

- the percentage of 'high potentials' at each grade and the level of churn amongst them
- comparison of performance management data against development activities
- the number of returners – people who leave the business on good terms and eventually return

Retention measures

Other respondents included amongst their quantifiable measures a critical focus on retention, for example:

- Barratt Developments measures retention of their ABCs (those achieving A, B or C on appraisal ratings). By developing and retaining this group, they spend less on recruiting and initiating new hires.
- Sian Evans of Premier Foods reports that "As a result of investing in leadership development, one clear result was that retention of people throughout the course of the programme was 100%".
- Engagement, rates of promotion and rates of retention are measured quarterly and recorded in the balanced score card at Wates Construction.
- One retail leisure company reports a target of 85% retention of their best performers. Through good performance management they raised this to 89%. They also tackled their under-performers with a programme to manage them up or out in 6 months, enabling them successfully to churn the bottom 5%.

Internal promotion measures

For many organisations, the success with which they are able to promote people from within to key roles (rather than hire externally) is a useful indicator:

- One insurance company measures the percentage of people from the talent pool being promoted into key roles. They also track the number of cross-divisional moves.
- British American Tobacco has a target replacement ratio of 80/20 (internal promotions vs external hires). For certain regions it is exceptionally difficult to find local talent, however one particular region's ratio has improved from 28/72 to 57/43.

Measuring the mix

Some respondents included in their measures, indicators relating to diversity and the demographic mix of the talent pool. This relates to variables which include gender, nationality and generation:

“ Gender splits are a key measure. At the moment 35% of the executive population is female but we want to continue to build on this. With changing demographics and multi-generational issues our talent mix should reflect customer demographics. ”

Jan Woods, PepsiCo

In the context of a global business, British American Tobacco is also keen to draw on local talent that reflects the demographics of the different customer bases that exist in its local markets around the world. The business is committed to developing local talent and to reducing its reliance on expatriate talent flown in from the UK or the US.

The head of talent in one global brand reports: “We have a 70/30 measurement for top teams (in local operating companies). At least 70% of the top team in any of our businesses should be recruited from the local community”

Business impact

For some of our respondents there were quantifiable talent indicators linked to business performance metrics. These organisations have embedded talent measures:

- In one global brand, managers have a total of eight objectives for the year of which four are people related - talent, culture, capability and people development. Each manager is individually measured on these.
- At British American Tobacco, talent management is part of each General Managers' performance objectives and regional metrics. All Regional Directors on market visits ask about pipeline gaps and plans to fill them.
- The HR Director of one retail leisure business commented: “As a result of our new starters programmes, we saw an increase in customer satisfaction and sales. There was a clear, direct correlation between attendance on the programme, customer satisfaction and sales”.
- Barratt Developments measures sales and customer satisfaction before and after running its sales negotiator development programme.
- Barratt Developments is also planning an engagement survey soon and anticipating a direct relationship between engagement levels, quality of leadership and business performance.

SUMMARY

Quantitative indicators to measure the effectiveness of talent interventions:

- most indicators are internally and HR-focused
- retention is often used as an indicator of talent management effectiveness
- internal promotions are an index of success in growing talent
- the mix - evaluating the impact of talent management on diversity
- some make a direct linkage between talent initiatives and business performance
- business managers can be evaluated against key talent metrics

How does the business calculate the ROI of talent?

In this question we sought specifically to identify how businesses were evaluating the commercial return on their spend in this area.

A number of respondents identified some clear commercial benefits as a result of investing in talent, and many of their comments are summarised under the previous question (quantifiable indicators). Interestingly, none of the interviewees could specifically describe systematic approaches to evaluating the commercial return of their spend on talent and its impact on the bottom line. This finding tallies with the results of the Cranfield study which indicated that only 15% of respondents systematically measure ROI on talent. Furthermore, the focus here was largely on absolute cost, rather than on margin, ROI or shareholder value.

Responses to the question of calculating ROI in our survey seemed to fall into two broad camps:

- some respondents felt that there was ‘nothing to prove’, that is, no need to illustrate the return on investing in talent – it should be seen as a ‘no brainer’
- a few respondents recognised that more could be done and were critical of the fact that their businesses were not evaluating the commercial return

Nothing to prove

As indicated above, some respondents were of the view that investing in talent is simply part and parcel of good business practice. For this reason, they did not feel under pressure to provide a commercial rationale:

“Because the business has changed so much, it has not been possible for us to complete our work on return on investment yet. However, one senior manager said ‘I just know this is good practice. If it costs £200k, then this sounds like a good investment’.

HR Director, Telecoms Operator

Amongst those we spoke to, several reported that they had not encountered any sceptics with regard to investing in talent in their organisation. In fact, they had strong support from senior managers that investing in talent was a ‘no brainer’. As one commentator observed: “You either invest in people as a matter of course or you don’t. Most of our executives are in the ‘invest’ camp”.

Of the responses that fell into the ‘nothing to prove’ camp, it was clear that in these organisations, there were high levels of senior manager commitment to investing in talent as a matter of course. In fact, in all cases where a respondent felt confident to admit that there was no formal evaluation of the financial return on investment, they tended also to talk about high levels of senior management commitment to talent.

Where the ‘nothing to prove’ position exists, it would be interesting to establish to what extent the support of senior managers in these organisations is a function of the presiding culture and to what extent it is a result of HR professionals’ ability effectively to argue the case that getting the best people into the business adds significant value. In one example, the former HR director of an organisation well known for its leading stance on ethics declared that the CEO constantly focused on a ‘people first’ position; if the business looks after its talent, then good financials will follow as a consequence.

Could do better?

A small number of respondents were aware of the fact that the return on investment was not being systematically measured and were critical of the organisation’s approach in this regard. Understandably, these respondents did not wish to be identified.

While commenting critically on the lack of systematic ROI measurement in the talent sphere one observation was that HR practitioners can be more driven by internal targets than by assessing commercial or competitive benefits. There was also an observation that HR as a function can at times be guilty of getting ‘sucked up’ in the whole issue of measurement. This points to two areas of enquiry: Orientation – does the (HR and talent) profession need to attract and develop its members to be more commercially and competitively minded – and less focused on internal issues and measures? Capability – is there a case that HR and

What fringe benefits arise from investing in talent?

In response to this question, our interviewees were able to identify a number of benefits that had been achieved as a result of investing in talent, but which had not necessarily been predicted or anticipated before doing so:

Recognition and reputation

Several respondents noted that investing seriously in talent has resulted in raised levels of recognition – for both the talent professionals and their organisation. Being seen as leading-edge in the talent space has opened up opportunities for networking, profile-raising and knowledge sharing.

“ I have experienced positive PR for the brand. There was media interest when we won awards for our development programmes or when articles have appeared about our work in the trade press.

Jayne Mee, Barratt Developments

Where organisations had spoken publicly about their activities with regard to talent, other benefits included:

- being approached by major organisations to exchange ideas or do a 'share'
- being invited to speak at major conferences
- being featured in high profile publications in the HR media
- developing a reputation as 'leaders' in the field of talent management

An enhanced employer brand

A number of respondents identified that as a result of investing in talent, they had observed significant enhancements to the employer brand and to positive aspects of culture and morale.

While several respondents noted an impact on recruitment, others observed changes to the levels of engagement internally as a result of employer brand

“ We expected and we got better brand reputation in terms of recruitment as people know that we take development seriously.

Head of Talent, Retail Brand

enhancement. These include an observable uplift in employees' confidence and energy levels as a result of talent initiatives. There had also been positive feedback when individuals felt that the organisation was really living the values of developing people. Therefore, serious investment in talent creates an environment that supports the attraction of new talent and the sustainability of the pipeline.

Improved organisation capability

As a result of investing in talent, improvements in capability have been observed not only in the talent pool, but also across the business. In particular, by focusing the business on the talent issue, HR practitioners have observed an uplift in the skills and capability of business leaders.

Some of the additional benefits in this area included:

- increased confidence and ability of managers to drive leadership development
- enhanced business performance when talented people apply their learning
- transforming the business into a learning organisation
- attracting and selecting new hires from outside the business

“ Increased global focus on talent management and development leads to increased local focus – that has a very positive impact on overall engagement.

Sigrid Erdmann, British American Tobacco

Cross business relationships

One of the benefits that respondents observed as a result of their investment in talent was improved cooperation and communication across the business. This has occurred not just as a result of cross-functional moves stimulated by talent activities, but also through the informal opportunities that talent programmes present for participants to meet and build relationships with their counterparts in other business areas.

“ When as a business you invest in talent, you find an improvement in the ability of senior people to assess for talent and capability. This means that talent reviews become more focused and you have a common language.

Ulf Larsen, Marsh

”

The specific business benefits of creating a platform for improved networking and cross-business relationship building have included:

- more and better ideas as a result of cross-divisional projects and working groups
- greater cohesiveness and a common language across different functions and geographies in large organisations
- a better appreciation by individuals of what the rest of the business is doing
- improved opportunities for talented people to be spotted and moved about within a global business

SUMMARY

Fringe benefits of investing in talent:

- recognition and enhanced reputation for the organisation and its talent professionals
- enhanced employer brand, morale and engagement
- improved organisational capability
- organisational cohesiveness, cross-business networking and cross functional moves

A practical approach to calculating the ROI of talent

At the outset, this study sought to identify what a representative sample of organisations is doing to evaluate the return on their investment in talent.

Through our discussions with the participants (and in reference to other UK research), it quickly became apparent that evaluating return on investment (ROI) in classical commercial terms is not currently common practice. It is arguably difficult to establish a direct causal link between investment (in talent) and outcome – whether this is top line, bottom line or shareholder value. This is not least because of the sheer number of intervening variables between input (investment in talent) and output (commercial performance).

Most organisations are serious about monitoring and measuring the impact of their talent activities, in both qualitative and quantitative terms. However, the quantifiable measures of success were largely internally and HR-focused, for example, succession bench strength, retention, promotion and diversity levels.

There were some cases where a link between talent interventions and particular business outcomes had been correlated and evidence that line managers are increasingly being measured and rewarded for their approach to talent. Additionally, many respondents were aware that there could be dire consequences for organisations who made insufficient investment in talent. However, attempts to calculate the return financially were few and far between.

A view expressed by a number of respondents was that there should not be a requirement to 'prove' the business case for talent commercially – it is merely part of good business practice. This approach seems to have particular traction in organisations where there is strong commitment to talent from the top. However, in organisations where the leadership is not yet sold on this principle, HR practitioners may find themselves having to make a stronger business case.

Is there a way forward?

The 'Strategy Map' approach

As outlined above, a number of HR and talent professionals understandably shy away from quantifying the ROI of talent because of the sheer uncertainty

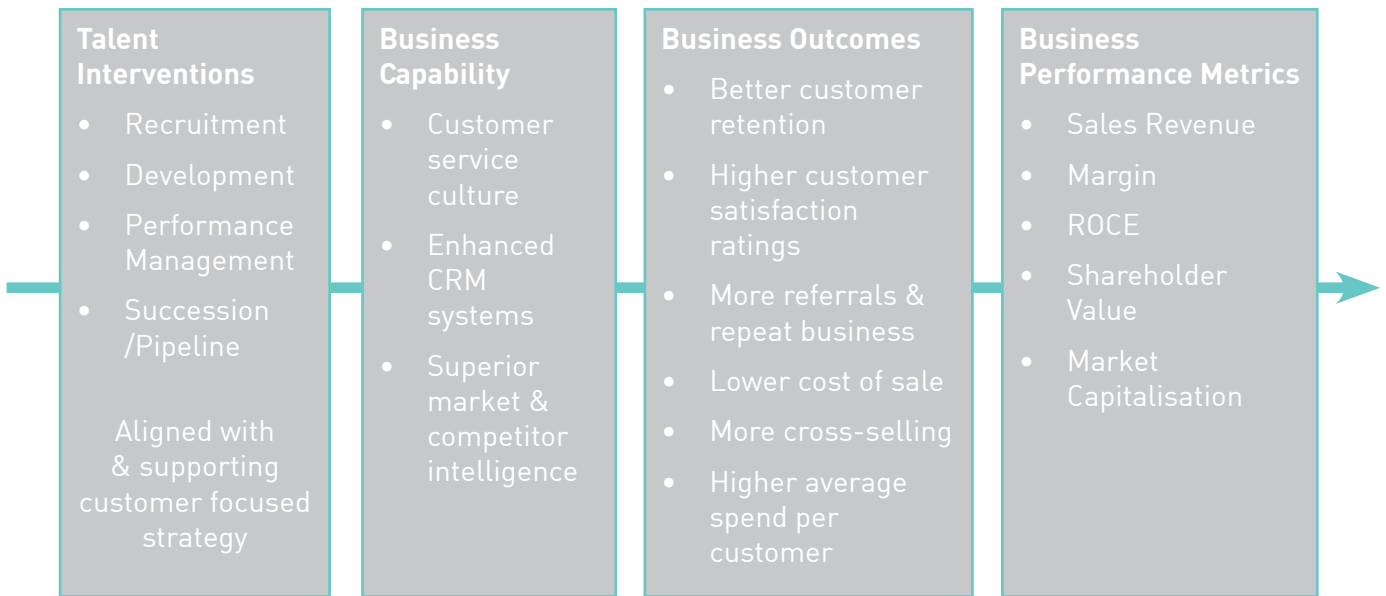
involved in linking talent input to business outcomes. Robert Kaplan of Harvard Business School¹ proposes that the link between talent practices and business outcomes can be considered as intervening steps in a five-stage process:



By taking a systematic approach to isolating individual talent activities and relating these to strategy, it is possible to create a 'strategy map', linking those elements of talent management that have the most critical impact on strategy. In this way, the organisation is able to capture metrics that are part of a chain and which lead to a required strategic outcome.

For instance, in a highly competitive, mature and saturated market, increasing client retention might be identified as critical to delivering superior and sustainable competitive advantage. The 'strategy map' approach would suggest that a key focus should be on capturing those metrics that are part of a chain leading to the required outcome as illustrated.

The Talent Strategy Map in Action



By adopting the Strategy Map approach, the business is not required to make a 'leap of faith' straight from the talent intervention to the business performance metrics. Instead, a logical case is built up which requires evaluation at certain points in the chain. For instance, to what extent has attracting and recruiting more customer-focused account managers increased the quality of market intelligence or the responsiveness of customer service? In other words, this approach only requires the business to assess whether talent initiatives are (a) highly relevant to strategy and (b) evaluated positively for their effectiveness. If both of these are the case, then investment in the initiatives is worthwhile.

Examples of micro ROI measurement

Another alternative means of demonstrating the ROI of talent, may be to isolate the impact on smaller-scale initiatives rather than to calculate the impact of investing in talent on the entire P&L. In some cases, where talent initiatives have been designed to be applied to a particular function or geography, the impact of these initiatives on business performance metrics is more direct and more visible. Some case studies from Xancam's clients may illustrate this point:

One technology services business identified that an effective account management community would be critical to their on-going business success. We worked with this organisation to identify, from across a range of business areas, those individuals with the potential to succeed (on an accelerated timeframe) to managing the company's multi-million pound client accounts. As a result of increasing the bench-strength of its account managers, they were able to demonstrate direct

improvements in the business metrics of those accounts where the high potential individuals were appointed. Such metrics included: an increase of at least 10% in revenue, reduced external recruitment costs in this community of 60% and customer satisfaction ratings increased by as much as 50%. The business was able to identify that the increase in sales revenue alone more than justified the initial investment in this particular talent intervention.

We helped a national utilities provider to identify those individuals with the potential to become its best sales people. As a result of appointing the identified individuals into roles, the business noticed some immediate changes in business metrics including: increased revenue by as much as 54%, a reduction in customer complaints of 14% and increased productivity by 5%. Again, by focusing on a specific population and within a specific timeframe, it was possible to establish very clear and direct relationships between the talent initiative and key business performance metrics.

Restricting the focus of study to very specific business areas does not eliminate all other variables. Additionally, it risks focusing on isolated initiatives or areas of the business, rather than on the organisation and its strategy as a whole. However, this approach can arguably be used as a test-bed in situations where it is important to demonstrate to the wider business the benefits of investing in particular approaches to talent.

About Dr Maria Yapp

Dr Maria Yapp BSc MBA DPhil(Oxon) CPsychol AFBPsS FRSA

Dr Maria Yapp is the founder and CEO of Xancam Consulting Limited. Her professional background is in senior level assessment and development. Maria's particular expertise is the assessment and identification of high potential. She has developed Xancam's leading-edge high potential solution xpotential™ and contributed on high potential assessment and development issues in both the professional press and broadcast media.

Maria has worked with clients from a range of sectors which include: Allianz, British American Tobacco, Fujitsu Services, npower, Royal Mail and Volkswagen.

With a BSc in Psychology, an MBA and a DPhil in Psychology from the University of Oxford, she is an associate fellow of the British Psychological Society and is registered as a Chartered Occupational Psychologist. Maria is a Fellow of the Royal Society of Arts and a founder member of the Association of Business Psychologists.



Industry recognition:

- Named in HR 25 Most Influential Thinkers list 2008
- Named in HR 100 Most Influential list 2007
- Finalist in British Psychological Society Practitioner of the Year 2006

About Xancam

An established firm of commercially focused business psychologists, we work with the senior executives of blue-chip companies in both the UK and overseas.

Clients like working with us because we deliver practical, commercially focused solutions that solve real business needs:

- Spotting High Potentials, fast-trackers & future business leaders
- Assessing Executives for senior, business-critical roles
- Developing Leaders at all levels in the business

- Strengthening the Business Leadership Team
- Improving Selection Decisions across the entire business
- Accelerating transitions to new roles and situations

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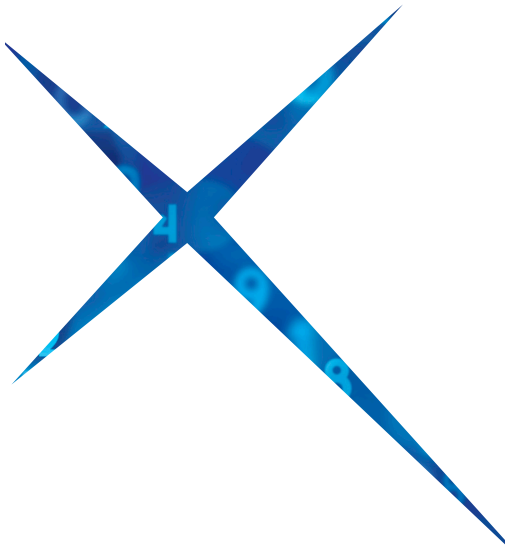
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How to measure and achieve a strong return on investment in talent

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