THE IMPACT OF TALENT

BALANCE FOR SMARTER WORKFORCE DECISIONS

NICK SCHICHTLE

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INTRODUCTION

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The quality and quantity of talent can directly impact an organization's efficiency, effectiveness, and profitability—attributes that are key to succeeding in a fiercely competitive business world. As technology advances and the global marketplace continues to expand, the need for quality talent is increasing.

However, organizations are finding it difficult to attract and retain skilled people, and the shortage of talent is having a significant impact. How can companies assess their talent demands, appropriately balance their workforce, acquire and retain the best people, and engage them so the impact of talent is a positive one?

In this paper we'll examine how to effectively recognize the value of human capital. We'll then analyze the benefits and disadvantages of competitive versus institutional knowledge that your employees can deliver. Finally, we'll take a look at how organizations today can retain the right mix of internal and external talent for optimal balance.

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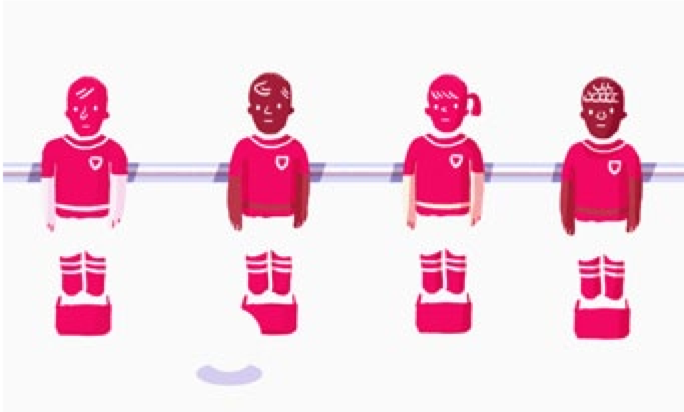
RECOGNIZING THE VALUE OF HUMAN CAPITAL

Employers need to have a good understanding of which employees and positions are the most essential and how they should structure their workforce to realize the greatest return on their human capital investment.



Employee Cost versus Value

When evaluating corporate resources, companies sometimes place too much importance on the value of tangible items such as computer equipment, furniture, and other material commodities. Cost is often considered before value in many operational areas. But the difference between cost and value becomes a critical one when it comes to human capital.

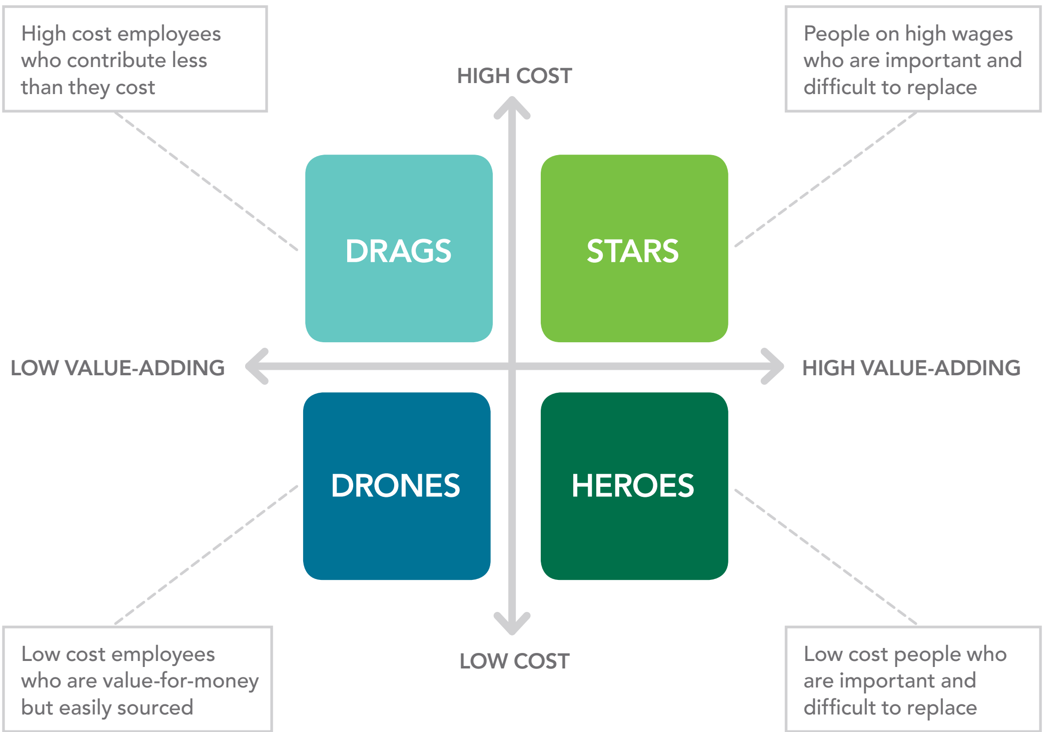
HR and hiring managers may consider trimming salaries or eliminating positions as a way to save money in tough times, but the savings in cost may result in a loss of value: Penny wise, pound foolish. Because of today's talent shortage, it is already challenging to find talented people at all, let alone determine whether they are "A," "B," or "C" players. However, according to McKinsey's *Talent Management Index*, companies with "A" players have increased share value. The best 20 percent or so of managers are able to raise operational productivity, profit, and sales revenue much more than average performers do.

Employers need to have a good understanding of which employees, positions, and skill sets are the most essential and how they should structure their workforce to realize the greatest return on their human capital investment. A company is only as good as its employees. Recognizing the value of human capital is essential to maintaining a competitive advantage.

Weighing employee value is difficult but necessary. How value is calculated will depend on each organization, role, and contribution of individuals and groups of staff.

Sometimes, decisions are simple—based on the skills that employees bring to your company—and other times hard, due to the balance of cost versus skills. Four major factors to consider when measuring employee value include:

- Initiative
- Judgment
- Loyalty
- Cost Efficiency



Jack Welch, former CEO of General Electric and author of *Winning*, a best-selling primer on common sense business management, estimates that only about 20 percent of today's workforce can be considered "A" employees, while 70 percent fall into the "B" category. Welch advises that to make the most cost-effective hiring, promotion, and layoff decisions, businesses need to identify top talent and quantify the value of work output that can be achieved with an "A" employee versus a " B" or "C" employee.

ONLY ABOUT 20 PERCENT OF TODAY'S WORKFORCE CAN BE CONSIDERED "A" EMPLOYEES, WHILE 70 PERCENT FALL INTO THE "B" CATEGORY.

Analyze Workforce and Gaps

Workforce planning should be an ongoing process, because predictability and sameness in staffing can leave a company vulnerable. Analysis of the workforce can uncover areas where a company's talent pool should be restructured, so the most essential positions are held by the most talented people. How is this accomplished?

There is no universal standard for placing a value on talent. But there is a wealth of information out there describing the characteristics of 'A' versus 'C' players, and how organizations can identify the categories of employees they have and the types of employees they need. If a company identifies the type of human capital required to meet their business objectives, they can then analyze their workforce and develop an effective workforce plan for sourcing, engaging, and retaining top talent.

Planning efforts should consider how the company might be impacted by an increasingly multigenerational workforce, shifting age or ethnic demographics, and potential changes in the company that may affect staffing.

02

INSTITUTIONAL KNOWLEDGE

As organizations evolve, employees gradually amass valuable knowledge and wisdom related to the data that drives the company. Analysts have postulated that in most organizations, up to 90 percent of the knowledge of the company is stored in the heads of its employees

Pros and Cons of Employee Tenure

The institutional knowledge held by tenured workers is valuable for maintaining consistency and quality because they know the organization inside and out. Long-time employees are intimately familiar with the company culture, mission, and business objectives. Because of their history with the organization, they tend to be more invested in the company and more committed to its success. It can take a year or more for a new employee to break even or begin to contribute to the company's bottom line.

Pros of tenured employees:

- Dependability
- Stability
- Organizational knowledge
- Higher engagement
- Higher productivity
- Opportunity for mentorship

Cons of tenured employees:

- Motivation
- Complacency
- Innovation
- Status Quo
- Protecting tenure through hoarding of information

In today's fast-paced economy, the only real constant in business is that it will change. Workers with solid institutional knowledge about a company can help ensure that corporate goals and objectives are not lost in the shuffle of change. The people who are working in the trenches understand what keeps the company moving and growing. Therefore, the authority to act on institutional knowledge should not be relegated to senior management alone. Companies should align talent with the right institutional knowledge with positions and responsibilities that they can capitalize on it to produce results.

For example, in one case a large manufacturer of blood analysis and diagnostic equipment was challenged by losing approximately 30 percent of its workforce due to retirement. Replacing the company's highly skilled and specialized service technicians would require a one-year training cycle for new employees. Kelly Services, as the company's staffing partner, helped to develop an apprenticeship program that would enable prospective temporary employees to be trained by retiring technicians, who could teach them the specialized skills required for the available positions. The company benefited by having access to qualified employees who were recruited, fully trained, and retained as Kelly employees until the company was ready to hire them for full-time status as specialized service technicians.

THE PEOPLE WHO ARE WORKING IN THE TRENCHES UNDERSTAND WHAT KEEPS THE COMPANY MOVING AND GROWING.

Focus on Information

There are several ways institutional knowledge can be leveraged within an organization:

- By getting top performers more involved in making decisions
- Making documentation procedures and information-sharing a part of every employee's responsibilities, goals, and incentives
- By removing incentives that lead to hoarding of information
- Implementing *Get Out of Jail Free* Cards for employees to use when they take risks that do not pan out
- Establishing knowledge-share teams of cross-functional employees of varying tenure
- An information-sharing Web portal can connect workers around the globe to share innovation and ideas
- Cross-training, mentoring programs and job rotation schedules can be designed to facilitate knowledge sharing

Be purposeful about knowledge gathering, sharing, and associated risks to preserve key legacies while creating next generation contributor-leaders who will be "keepers of the culture." Organization-wide buy-in is critical for providing workers with the necessary tools to organize institutional knowledge so it can be distributed within the company as needed. Employees may need to be convinced that they have nothing to fear by sharing knowledge. Shared institutional knowledge increases the value of both an organization and its people.

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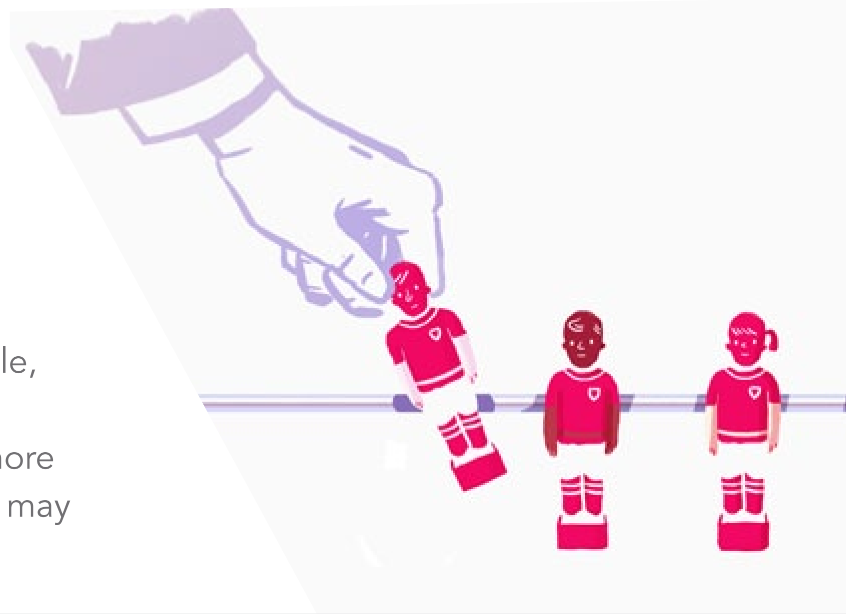
COMPETITIVE KNOWLEDGE

Institutional knowledge is certainly valuable, and the general thinking is that the more tenured people there are on board, the more secure and solid the workforce is. But this may not be the case for all organizations.



Pros and Cons of New Talent

We challenge the standard notions by saying that there is an advantage to having external talent join the organization, for the influx of new knowledge, different ways of thinking, varying experiences, and successes. Competitive knowledge often comes with new hires as they have inside information in many areas industry, competitor procedures, or philosophies— information not readily available.

These benefits can be of greater importance during economic downturns as organizations scale back their investment related to the external training and development of current employees. By bringing in new talent—either contingent or permanent—a company can refresh their talent mix and continue to be in a "learning mode" even during compressed budget cycles. The integration of new people and ideas with veteran employees and existing ideas is important to the ongoing growth of an organization and its people.

Some hiring managers may think there is a certain amount of risk associated with selecting external talent, like cultural fit, technical fit, or ROI. But the benefits offered by new talent usually far outweigh the risks.

Pros of New Talent

- Diversity of new and fresh ideas
- Track record of successes from different environments and situations
- Provides cross-industry and competitive insights
- Instant influx of new expertise
- Positive influence on tenured personnel

Cons of New Talent

- Potential for misplacement / poor hiring
- On-boarding / ramp-up time
- Negative impact on internal talent
- Higher turnover rates

Reduce Risk with Culture Fit

Hiring managers can help ensure a good cultural fit for new hires if interviews are structured to evaluate not only a candidate's knowledge and skills, but also their organizational beliefs and values such as focusing on quality and innovation, ability to work in collaborative environments, willingness to seek constant improvement, or desire to meet customer expectations. Cultural questionnaires designed to help evaluate a candidate's organizational values and behaviors should include open-ended questions such as:

- What type of environment do you work best in and why?
- When do you prefer working independently vs. part of a team?
- How would you describe your work style and habits and their impact on others?
- How do you express your personality in the workplace?
- What corporate characteristics would you find suit you best?
- What type of management style do you thrive under and why?
- What are your non-technical qualities that will contribute most to the success of our company?
- What do you view as opportunities and advantages, as well as risks and disadvantages, in working for our company?
- What would you seek to achieve in your career with our company?

If competitive talent aligns well with an organization's corporate culture, the results can impact the company in profound ways. Fresh insights and new ways of thinking can help a company adapt successfully to a constantly changing marketplace. Managing talent successfully is a balancing act. Existing talent helps maintain established processes and objectives, but the fluidity and flexibility of new talent and knowledge can offer great rewards, particularly when business and workforce demands change rapidly.

FRESH INSIGHTS AND NEW WAYS OF THINKING CAN HELP A COMPANY ADAPT SUCCESSFULLY TO A CONSTANTLY CHANGING MARKETPLACE.

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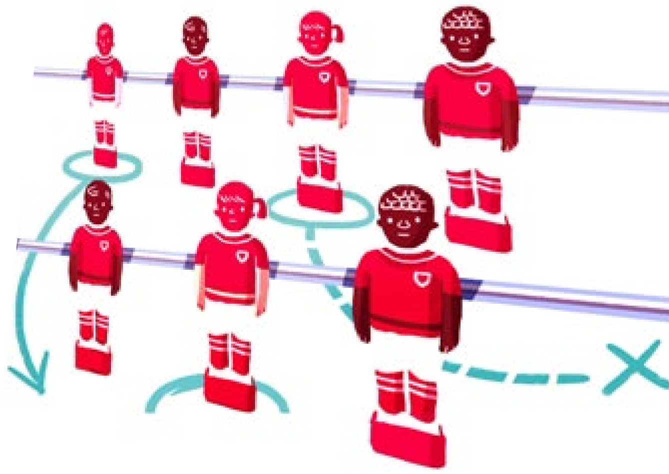
THE TALENT BALANCING ACT

The pool of talent today is more diverse than ever, and employees have a variety of benefits to offer, including experience, skills, knowledge, and flexibility. The challenge facing every employer today is in building a workforce designed to maximize company success.



A Diverse and Balanced Workforce

Hiring top talent is important, but top talent alone does not guarantee success. Equally as important to success is a diverse workforce. You can pack your workforce with nothing but 'A' players and still run into problems, if you haven't balanced your labor pool to put the right people in the right responsibilities at the right times.

What is the correct mix and balance? The answer is different for each company and department, but some basic considerations can help determine your optimum balance:

- Where does the quality of talent impact your organization the most? Sales professionals who interface with clients and generate revenue? Research and development professionals who create the company's competitive advantage of tomorrow? Manufacturing personnel who produce daily products for the market? The truth is all departments/positions are important in their own respect. Yet certain ones require superior personnel otherwise the negative impact can be severe.
- Where does tenured staff most impact the company positively? Where is operational consistency critical? Historical knowledge most impactful?
- How do you mix the multigenerational talent options available in today's workforce? How and where do their unique benefits align within your organization?

- How flexible does your workforce need to be? Where is a traditional work environment required and where does a flexible one provide more benefit? Some positions lend themselves well to telecommuting and contingent labor, while others require permanent employees who work only on-site. Assessing flexibility requirements is a key to optimizing the balance of your workforce.

Companies will benefit from a holistic perspective, beginning with the organization's mission, corporate strategy, and goals, in order to develop a workforce strategy that will result in an appropriate mixture of talent and environments. A laundry list of specifics isn't necessary, but achieving the proper balance ensures that your workforce is having the greatest positive impact on your company's success.

05

RETAINING THE RIGHT TALENT

Discovering employees' opinions about their jobs can help employers evaluate what they're offering and make necessary adjustments to increase the happiness of their workers. Because happy employees are loyal and productive employees, companies that pay attention to what keeps people motivated will find it easier to attract and keep top talent. Developing and continually updating acquisition and retention strategies for all workers is critical as the war for talent rages on.

Develop Appropriate Retention Strategies

Attracting and hiring a well-balanced talent pool is the foundation of successful workforce planning, but those efforts will be wasted without developing solid retention strategies. Top employees commonly seek attention and appreciation, and want to be surrounded by equally talented colleagues. This begs the question of why companies spend an incredible amount of time, resources, and money to "fix" substandard employees.

Does your retention strategy speak to your most talented and highest performers or does is incent your average and substandard employees to stay put? The challenge to attract and engage "A" players is greater now than ever before. Today's workforce is undergoing an unprecedented transformation, with a labor pool that includes people of all ages and experience levels in locations all around the world. People are remaining in the workforce longer than they used to, there has been a dramatic increase in the number of free agents, and significant generational workforce differences are forcing dramatic cultural shifts in today's modern organizations. These trends have made it increasingly important for organizations to keep talented workers engaged, particularly younger workers.

Your retention strategies should include elements for a variety of employee types as their motivations vary greatly. Do retention strategies include monetary rewards, public recognition, competitive opportunities, work-life balance elements, training and development? Gen Y and Gen X workers tend to focus on continually developing skills that keep them relevant in their job and the next one. Therefore, providing opportunities for training and development can help encourage talented younger workers to stay with an organization as they continue learning and building their competencies. For more seasoned employees with valuable institutional knowledge, employers can reinforce retention by providing incentives around mentoring others and development in new skills.

STATISTICAL SURVEYS CAN BE INVALUABLE FOR HELPING EMPLOYERS CRAFT AN EFFECTIVE TALENT ACQUISITION AND RETENTION STRATEGY.

Alternative Approach

Jack Welch delivered double-digit growth and profits for GE for decades by using a "topgrading" approach to attract, train, and retain "A" performers. Employees were graded annually based solely on their performance against established goals. Welch promoted the "A" players, removed the "C" players, which gave notice to the "B" players that they needed to improve their performance. Although some criticized the topgrading strategy as being harsh and insensitive, the positive results for GE were crystal clear. Highly talented people were recognized, supported, and achieved great things for the company. As a result, talented people wanted to work at GE, giving the company a great advantage in the global war for talent. And with so many talented people on board, the company's success and profitability was consistently strong.

Statistical Support for Retention

Statistical surveys can be invaluable for helping employers craft an effective talent acquisition and retention strategy. The Kelly Global Workforce Index (KGWI) is an annual survey that assesses global workforce trends, particularly in regard to generational differences. Surveys collect opinions from workers about a variety of issues such as the value of meaningful work, how workers view corporate social responsibility, maintaining a proper work/life balance, and the importance of benefits such as performance pay and profit sharing.

For example, a recent survey focused on employee benefits and perks revealed that aside from salary, opportunities for training are considered very important by all generations, especially Gen Y and Gen X. About half of all generations rate employer-provided health benefits as being "very important," with roughly 80 percent of all generations thinking that employers should take some responsibility for employee health. About 60 percent of survey respondents said they would be motivated to perform at a higher level if their employer offered profit sharing to give them a greater ownership stake in the business.

By tracking workforce trends and attitudes, the KGWI gives organizations a secret window into the mindset of employees so they can adapt their staffing strategies in response to shifts in the workforce. For more information about the KGWI and to view an archive of results from past surveys, please visit kellyservices.com/KGWI.

CONCLUSION

In today's highly competitive global marketplace, organizations must make smart workforce decisions. Shareholder value and corporate success directly correlate to attracting and retaining quality talent, so having the right professionals in the right jobs is critical. Companies have long been told people are their most important asset, but that's only half of the story—the *right* people are critical to productivity and profitability. If companies make concerted efforts to design and balance their workforce appropriately, they will be able to make better, more informed decisions to ensure that top talent is positioned in pivotal roles that will deliver the greatest positive impact to business strategies and success.

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