

The ROI of Talent Management

The Forecast for Employee Development

- Intense competition for individuals who can lead business organizations
- Demand for cognitive complexity, extraordinary strategic thinking skills, ability to make high-quality decisions quickly in the face of competitive pressure and uncertainty
- Emphasis on leadership skills vs. technical skills and industry knowledge
- Highly refined communication and talent development skills as critical elements of “leadership”
- An increased priority on executive teambuilding (creating and managing a team) because only teams of executives will be capable of creating and implementing the complex futures strategies

HEWITT ASSOCIATES RESEARCHED 240 MAJOR COMPANIES to identify those that successfully attract, develop and retain leaders. These companies have:

- Better financial performance
- Involvement from senior management
- Investment in high potentials
- Breadth of leadership development practices – implementation and integration

RESEARCH CONDUCTED BY LYLE SPENCER, MARK HUSELID and others found that:

- **High performing individuals** do not outperform average performing individuals by 5-10%. **They outperform them by 40-100%.**
- High performing talent management practices provide **30-50% larger returns** to the company.
- The talent supply will **decrease 15%** by 2015.
- High performing teams are **30% more productive** than average teams.
- Effective executives are worth up to **\$25 million.**
- Merger studies indicate that the key issue in success is **people and vision leadership.**
- High performing companies (based upon 10 year total return to shareholders) **manage talent differently** than average or low performing companies.

OTHER STUDIES INCLUDED:

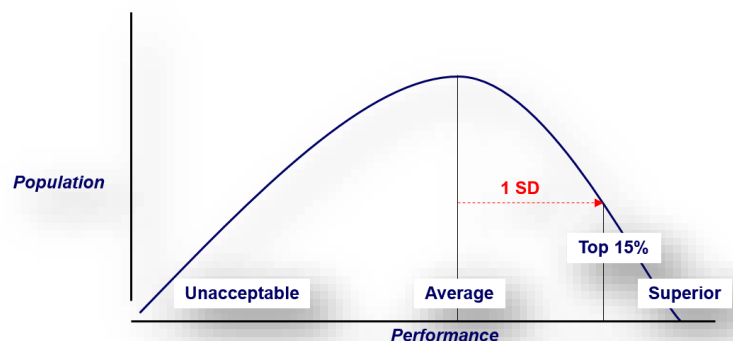
- **GENERAL MILLS**
 - Managers with higher ratings on Critical Skills are **twice** as likely to Meet/Exceed Sales Targets
 - Managers with strong commitment to organizational vision are **twice** as likely to Meet/Exceed Sales targets
- **NEW YORK LIFE**
 - Having the right set of competencies is **worth \$7 million** more in sales per executive
- **OTHER STUDIES**
 - Top performers across a variety of jobs have **2 to 12 times** the productivity of average performers

LARRY CLARK WITH NEW YORK LIFE was able to quantify the ROI which resulted in:

- Over **\$1,000,000** per manager
- Almost **\$7,000,000** in sales
- Over **\$500,000** in reduced turnover
- Almost **\$500,000** in commissions
- Competencies explained **over 54% of the overall profit difference** between superior and average managers

Significant ROI can be achieved through a well implemented talent management program.

LYLE SPENCER has conducted extensive research to quantify the Return on Investment and found that:



- High performing individuals (top 15%) generally **outperform average performers by 50%**
- Depending on the complexity of the job, high performers outperform up to 320%

The productivity difference between the average performer and the high performer in the job (one standard deviation on the bell curve) was:

- Clerical 19%
- Moderate technical 32%
- Professional/ Managerial 48%
- Sales 123%
- Computer Programmers 320%

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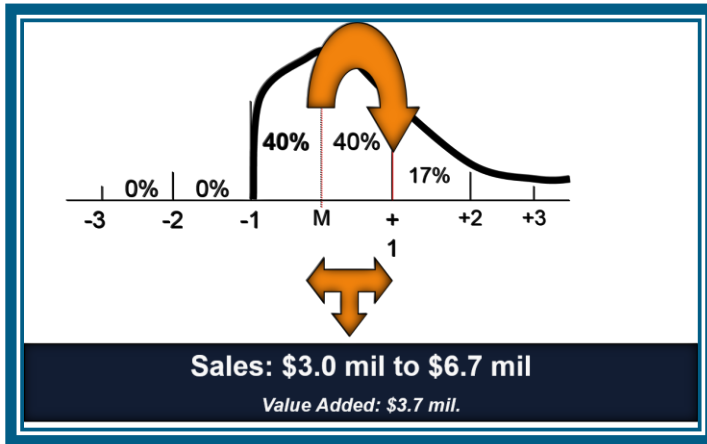
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1 standard deviation can get you 123% more results. In Lyle Spencer's study sales people from 44 firms increased sales from a low of \$3.0 million to \$6.7million.

There are many reasons why competencies have become so popular. **Korn Ferry** has identified five driving forces that support the interest in using competencies for talent development:

1. Competencies allow the organization to be more strategic about matching individuals and jobs
2. Organizations can use competencies to link core organizational capabilities to individual employee competencies
3. As the requirements for success change, Leadership is in a better position to clearly communicate expectations
4. Competencies support an integrated talent management system
5. Developmental feedback on competencies using 360° multi-rater tools is becoming increasingly popular

