Using Talent Analytics to Mitigate Risk and Drive Business Results

Moderated by Bill Schiemann
Analytics and Risk

Wharton event and other sources:

◊ We are still struggling with definitions
◊ Increasingly recognized that talent (defined broadly) is a major business risk to be managed
◊ Lots of measures but many are tactical
◊ Over-reliance on benchmarking
◊ Have not connected talent metrics to business strategy & measures sufficiently
◊ Weak use of predictive models; few leading indicators
◊ Have not used analytics to make strategic choices
HR Strategy as Risk Mitigation

Wayne F. Cascio
SHRM Foundation Thought Leaders
October 5, 2011
Some Definitions

* **Uncertainty**: degree to which we are unsure about whether an outcome will occur and its consequences (good or bad)

* **Risk**: an undesirable outcome and its consequences

* **Opportunity**: A desirable outcome and its consequences
## Examples of Human Capital Risk

- Poor alignment of HR strategy and activities with business strategy
- Shortage of critical skills within the company’s workforce
- Shortage of critical skills in the external labor force
- Gap between talent capabilities and business goals
- Succession planning/leadership pipeline and the impact on business performance and continuity
- Over/under use of external talent to fill key roles
- Ineffective selection processes result in poor hiring
- Excessive turnover/ failure to retain critical talent
- Inability to compete for critical talent
- Alignment of pay and performance
- Loss of critical knowledge through attrition
- Use of contingent workers
- Excessive risk-taking
- Unionization/labor relations
- Globalization/offshoring
- Executive compensation
- Unethical behavior
- Intellectual property loss or violation
- Compliance/regulatory issues
- Low employee engagement
- Inadequate or declining productivity
- Behaviors and practices that undermine diversity and inclusion
- Employee wellness impacts individual and company performance
- Outsourcing and vendor management
- Excessive labor costs
- Managing talent through mergers and acquisitions
- Organizational culture that does not support desired behaviors or encourages undesirable ones

Risk and HR

- Often defined as a bad outcome in the future
- Violating laws, abusing employees, harming the environment, loss of key talent
Alternatives for Dealing with Risk

* Tolerate – no steps to address the risk

* Eliminate it; the possible outcome is unacceptable

* Minimize the likelihood of an outcome occurring and/or its potential impact as far as possible

* Diversify the risk across a number of different areas

* Concentrate all risks into one area or theme

* Hedge – assume additional risks to be able to reduce exposure, should the risk in question arise

* Transfer the risk to an external party, or purchase insurance

Source: Lambert (2010)
Danger

* Don’t allow this perspective to dominate the way that leaders approach human resource strategy

* Might miss important opportunities!

* Taking advantage of opportunity = placing your organization in position to benefit from an uncertain future event
The Two Sides of Risk

- **Crisis and Opportunity**
  - Is risk optimized by minimizing employee turnover?
  - Does it balance uncertainty, risk, and opportunity?
Typical Turnover-Analysis Logic

- Benchmark against industry competitors
- Report turnover rates and benchmark levels to non-HR leaders
- Hold leaders accountable for bringing turnover down
- Calculate the costs of separating and replacing employees to show the millions of dollars saved
Pivotal Talent Pools

* Companies often divide customers into segments

* Why not do the same with talent pools?

* Pivotal talent pools: those where changes in the quantity or quality of talent imply big impacts on strategically important outcomes
Pivotal Talent and Employee Turnover

Where would *reducing* employee turnover have the largest effects on organizational success?

- Where turnover costs are high and reducing turnover can save those costs
- Where those leaving are much more valuable than their replacements
- Where there is great uncertainty about the availability or quality of the replacements
Pivotal Talent and Employee Turnover

Where would increasing employee turnover have the largest effects on organizational success?

- Where turnover costs are low and reducing turnover saves little
- Where those leaving are much less valuable than their replacements
- Where there is certainty about the availability or quality of the replacements
Two Talent Segments at McDonald’s

- University study of 400 restaurants in the UK

- Customer satisfaction levels 20% higher in restaurants that had some staff over the age of 60 years

- 140 people recruited every day, but only 1.0 to 1.5 percent are over 60. Sixty percent of the 75,000 employees are under 21

- Is turnover equally pivotal among those over 60 and those under 30, if they are doing the same job?
What Indicates “Too Low” Turnover?

★ Where turnover costs are *low* and reducing turnover saves little

★ Where those leaving are much *less* valuable than their replacements

★ Where there is *certainty* about the availability or quality of the replacements
Application to Your Work

* Are the implications of employee turnover different for different talent segments in your organization?

* Where is reducing turnover likely to have high payoff?

* Where is increasing turnover likely to have high payoff?

* How would your leaders react to the idea of analyzing turnover costs and benefits separately for different talent “segments?”
“As the ‘War for Talent’ characterized the 1990s, the critical capability and value creator for HR over the next decade will be Human Capital Risk Management”

Orlando Ashford
Chief HR and Communications Officer
Marsh & McLennan Companies
Talent / Talent Risk Management Process and Client Retention
Universal Weather and Aviation Case Study

Steve Ginsburgh, Sr. Vice President, HR and Workforce Development, Universal Weather & Aviation, Inc.
Approach for Today

- Universal Weather and Aviation
- July 2006 – Starting point
- Talent Value Creation
  - Talent Process
  - Talent Risk Management
- Alignment, Capabilities and Engagement
- Metrics and Results
- Client Impact
Universal’s Position in the Market

To professionals who operate business aircraft, Universal is a vital extension of their flight operations team, with the global resources to facilitate successful trips and to know the world like no one else

- Over 1,700 Employees/930 in the U.S.
- Located in 20+ Countries
- Aligned to One Thing . . .

Successful Trips!
Trip Support: A One Leg Example

Pre-Planning
- Trip itinerary consulting
- Permits – clearances & overflights
- Ground handling customs & immigration
- Credit
- Catering
- Security
- Ground transportation
- Hotels
- Flight planning
- Weather briefings
- Fuel arrangements

In Flight
- Weather updates
- Schedule change management
- Flight following

Aircraft Lands
- Ensure all arrangements are executed from pre-planning
- Fuel the aircraft; aircraft cleaning and lavatory service
- Change management
- Prepare for next leg
Aligning Our Goals to Our Vision

**Vision**

Provider of Choice, Employer of Choice, and Global Leader

Human Resources aligns with the Vision’s Key Element, of Employees Equipped to Succeed to increase our brand equity in the marketplace
July 2006 – A Consultant’s Dream

- No compensation structure
- No HR processes other than payroll (recently audited with over 50 issues)
- No staffing plan
- No succession plan or talent inventory
- Non-competitive base compensation and benefits
- No development-based training with operations training not in HR
- Under-utilized HRIS self-service or talent management capabilities
- Cumbersome and non-aligned appraisal process

- All new HR staff with some very capable professionals (lowest paid)
- Low credibility with employees and executives
- Lack of meaningful metrics or employee survey
- Perception of “bleeding the best people”
- No HR strategy
- Concept of human capital/people equity unknown
- HR as a competitive advantage and talent risk management – What???
- The Front Door Was Closed and Locked!!!!
Universal’s Key Employee Retention Plan

Just Kidding?
## Talent Value Creation - Key Elements Definitions

<table>
<thead>
<tr>
<th></th>
<th>Definition</th>
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</thead>
<tbody>
<tr>
<td><strong>Alignment</strong></td>
<td>Strength of employee connection to corporate goals and strategy</td>
</tr>
<tr>
<td><strong>Capabilities</strong></td>
<td>Strength of company talent and systems to deliver company value</td>
</tr>
<tr>
<td><strong>Engagement</strong></td>
<td>Strength of employee willingness to go beyond the minimum for the customer or to advocate for their company as a great place to work</td>
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</tbody>
</table>

HR Value Creation and Risk Management

- Cost Management
- Information for Decision Making
- Compliance
- Strategic Talent Process
  - Staff Planning
  - Selection
  - Performance Management
  - Talent Inventory/Review
  - Development Plans
  - Assignments

- Talent Risk Management
  - Competitive Total Rewards
  - Recognition
  - Career Advancement
  - Employee Survey and Metrics
  - Coaching Approach to Leadership
  - Team Structures
  - HR Systems
  - Change Management
Talent Value Creation Block Flow

Company Strategy & Corporate Goals

Talent Process

Talent Risk Management

Alignment

Capabilities

Engagement

Employees Equipped to Succeed

Successful Trips

Client Satisfaction and Retention
Talent Value Growth/Talent Risk Management Process

- **Selection Phase**
  - Staff Planning
  - New Entrants - Recruiting/Employment Process

- **Performance Mgmt Phase**
  - Company Strategy

- **Assessment Phase**
  - HIPOs
  - Talent Inventory
  - Key Contributors
  - Career Growth Candidates

- **Succession Phase**
  - Succession Plan
  - Career Ladders
  - Other Openings

- **Development Phase**
  - Development Plans
  - Cross-Function Job Rotation
  - Internal Leader Development LTPS
  - External Leader Development
  - Compliance Training
  - Technology Training

- **Opportunity Phase**
  - Planned Moves
  - Career Ladders
  - Other Openings

- **Risk Mgmt Phase**
  - Benefits
  - Compensation
  - Company and HR Metrics
  - Wellness
  - Barometer Survey
  - Compliance
  - Diversity

- **Ongoing Employees**
  - Exit

- **Problem Children**

- **Team Players**

- **Non-HIPOs**

- **HIPOs**

- **Succession Candidates**

- **Talent Value Growth/Talent Risk Management Process**
  - Alignment
  - Capabilities
  - Engagement
Alignment – Talent Process

- Competencies for Positions
- Top Down S.M.A.R.T. Goals Linked to Corporate Goals
- Employee Accountable Monthly Progress Meetings
- Year End Summary – Rating the Year the Employee Had
- Talent Inventory Linked to Succession and Compensation
Capabilities – Talent Process

- Upgrade and Globalize Core Competency Training
- Collaborative Leadership Training (Customer Teams)
- All Training has End of Program Performance Standards and Post Training Assessments (Business Impact)
- Customer Service Training Formalized (Relational Approach)
- Client Education Yields Better Performance for Client
- New Systems Projects with Change Management Integrated
- Developmental Team Lead Positions Created
- Tracking of Individual Development Plan Progress (HiPo’s)
- Highlighted Capabilities to Clients with Profiles and “Glamour Shots”
Talent Risk Management
Engagement – Talent Risk Management

- Competitive Total Rewards with Variable Compensation for All Employees
- Transparent Career Progression – Career Ladders
- New Employees – Mentoring and Several Early Career Steps
- Best Employees Retention as a Corporate Goal and Counts Toward Bonus
- Employee Barometer (A.C.E) Assessments (Three Times a Year and has a Corporate Goal Metric)
- Talent Inventory Integration with Bonus Award Guidelines
- Best Places to Work in Houston – Seven Times for Two Publications
- Family Based EE Activities: Holiday Event for Kids, We Care, Chili Cook-off
- Multiple Tools for Recognition – Spots, Service, “Corporate Art” – EE Pics
- Culture of Inclusion and Access
Metrics Visibility

The Great Wall of Metrics
Results and Metrics

- YOY Company EBITDA is Growing (Over 20% Last Year)
- Platinum and Gold Client Retention is 99.6%
- Client Education Revenue is Growing YOY Over 80%
- Turnover Reduction of Key Employees - Metric for Bonus Program
- Human Capital Score (EE Barometer) — Ave.70-80 % +Responses Over the Last Four Years on Alignment, Capabilities and Engagement: Most Recent – 50 % of Divisions Over 78%+ (Goal 80% Of Divisions)
- Average Over $500,000 in HR Cost Avoidance Annually
- Growth in HR Staff With First Ever in Europe, Latin America and Asia Next
- One of the “Best Places to Work in Houston” During CY 06, 07, 08, 09,10,11
- HR Function has Been Nominated for Eight HR Houston Impact Awards and Awarded the Organizational Excellence Award in CY10, Three Submitted In CY11
- HR Contributions Included In RFPS – Competitive Advantage!
- Employee Barometer / NPS Trends
Retention Metrics

Voluntary and Involuntary Terminations by Month
FY07, FY08, FY09, FY10 & FY11

Voluntary & Involuntary

Retention of ESY & SY FY11
Employee Barometer Versus Net Promoter Score

- TSS NPS
- UWA NPS
- EMPLOYEE BAROMETER

[Graph showing trends over FY09-Q4 to FY11-Q3]
Managing and Measuring Talent Risk

Mark Blankenship
SVP, Chief Administrative Officer
Jack in the Box

SHRM Foundation Thought Leaders Conference
Chicago, October 2011
Overview

• Company Background
• How Jack Thinks about Risk
• Using a Strategic Framework
• Capturing Data that Provides Insights
• Linking Talent Data to the Bottom Line
• Using Strategic Talent Information
• On-going Tracking System
Company Background

• Established QSR in mature industry
• Approximately 2,500 units in 19 states
• Low margins (< 5%)
• High turnover (100%+ at crew level)
• Majority company operated until last five years
• Also operate Qdoba Mexican Grill
Talent and Risk

• Two kinds of managers:
  – Manufacturing plant mentality
  – People business mentality

• Franchising strategy emphasizes:
  – Need for alignment
  – Depth of talent

• Talent drives the business

• Focus remains on leadership at the unit level
Service-Profit Chain Framework

People Measures

- Internal Service
- Employee Satisfaction
- Employee Retention

Operational Measures

- Higher Revenue/Profits
- Guest Retention
- Guest Satisfaction

External Service Quality
Capturing Data That Provides Insights Using Metrus Talent Framework

PEOPLE EQUITY

ALIGNMENT
- Goals
- Brand
- Customer

CAPABILITIES
- Talent
- Information
- Resources

ENGAGEMENT
- Advocacy
- Commitment
- Satisfiers
Criteria For Keeping Score

Average percentage of responses falling...

– Between 84 – 100 was considered “green” - good
– Between 66 – 83 was considered “Yellow” - neutral
– Less Than 66 was considered “red” - poor
People Equity (ACE) Scorecard

JIB

A   C   E
85  86  80

Corporate

A   C   E
73  75  75

Field

A   C   E
86  87  81

Alignment  ◆  Capabilities  ◆  Engagement
## Restaurant Profiles

<table>
<thead>
<tr>
<th>A</th>
<th>C</th>
<th>E</th>
<th>PROFILE</th>
<th>Number of Restaurants</th>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Optimized Talent</td>
<td>191</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Cheerleader</td>
<td>200</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Under Equipped</td>
<td>47</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Strategic Disconnect</td>
<td>183</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Under Achiever</td>
<td>115</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Frustrated/Cynical</td>
<td>71</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Wasted Talent</td>
<td>72</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Sub-optimized Talent</td>
<td>114</td>
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- Blue bar: 2010
- Red bar: 2011
Linking Talent To Business Outcomes
ACE and People Measures

Relative Importance

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>C</th>
<th>E</th>
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<tbody>
<tr>
<td>R=</td>
<td>.70</td>
<td></td>
<td></td>
</tr>
<tr>
<td>24%</td>
<td>46%</td>
<td>30%</td>
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</table>

Relative Importance

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</thead>
<tbody>
<tr>
<td>R=</td>
<td>.51</td>
<td></td>
<td></td>
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<tr>
<td>15%</td>
<td>39%</td>
<td>47%</td>
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Turnover

Variance in Performance

- Explained by ACE
- By other Factors

Labor as % of Sales

Variance in Performance

- Explained by ACE
- By other Factors

Productivity
Impact Analysis: People

Turnover 21% lower (25 point differential) at Optimized People Equity locations.

Optimized People Equity locations are 10% more productive.
ACE and the Voice of the Guest

Relative Importance

<table>
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<tr>
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<tbody>
<tr>
<td></td>
<td>35%</td>
<td>38%</td>
<td>27%</td>
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Relative Importance

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<tbody>
<tr>
<td></td>
<td>15%</td>
<td>40%</td>
<td>45%</td>
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</table>

Problem Rate (Complaints)

R = -.49

Variance in Performance

Overall Sat. Top Box

R = .43

Variance in Performance

Explained by ACE

By other Factors

Problem Rate (Complaints)

Variance in Performance

Explained by ACE

By other Factors
Impact Analysis: Voice of the Guest

Problems are less frequent and more likely to be resolved at Optimized People Equity locations...

Problems per 1000 Transactions

<table>
<thead>
<tr>
<th></th>
<th>Sub-optimized</th>
<th>Optimized</th>
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</thead>
<tbody>
<tr>
<td>A</td>
<td>0.139</td>
<td>0.122</td>
</tr>
<tr>
<td>C</td>
<td></td>
<td></td>
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<tr>
<td>E</td>
<td></td>
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</table>

Problem Resolution

<table>
<thead>
<tr>
<th></th>
<th>Sub-optimized</th>
<th>Optimized</th>
</tr>
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<tbody>
<tr>
<td>A</td>
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<td>C</td>
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</tbody>
</table>
| Overall Satisfaction Top Box

<table>
<thead>
<tr>
<th></th>
<th>Sub-optimized</th>
<th>Optimized</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>60%</td>
<td>65%</td>
</tr>
<tr>
<td>C</td>
<td></td>
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<tr>
<td>E</td>
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...and overall satisfaction is higher.
Impact Analysis: Top & Bottom Lines

Sales 10% Higher in Qtr.

- Sub-optimized: $305,900
- Optimized: $334,400

Profit (LOC) 30% Higher in Qtr.

- Sub-optimized: $60,100
- Optimized: $78,400
### The Drivers and Enablers of ACE

<table>
<thead>
<tr>
<th>Capabilities</th>
<th>Relative Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>C05 I have access to the training I need to perform well in my job.</td>
<td>20%</td>
</tr>
<tr>
<td>C09 I have confidence in the leadership ability of my direct supervisor.</td>
<td>10%</td>
</tr>
<tr>
<td>C08 There is good teamwork and cooperation within my department.</td>
<td>9%</td>
</tr>
<tr>
<td>C06 Company does a good job of hiring people with high potential.</td>
<td>9%</td>
</tr>
<tr>
<td>C07 Company does a good job of retaining top performing employees.</td>
<td>8%</td>
</tr>
<tr>
<td>C19 I get excellent service from people in other parts of the company.</td>
<td>8%</td>
</tr>
<tr>
<td>C23 My supervisor does a good job working with employees who need to improve their performance.</td>
<td>7%</td>
</tr>
<tr>
<td>C21 My supervisor is a valuable resource for me in achieving my goals.</td>
<td>7%</td>
</tr>
<tr>
<td>C20 Senior leaders set a good example for cooperation and teamwork.</td>
<td>7%</td>
</tr>
<tr>
<td>C10 I have confidence in the leadership ability of the company's senior leaders.</td>
<td>6%</td>
</tr>
<tr>
<td>C24 I get the information I need from other departments.</td>
<td>5%</td>
</tr>
<tr>
<td>C25 I get the cooperation I need from other departments.</td>
<td>5%</td>
</tr>
</tbody>
</table>
Using Strategic Talent Information

• Post ACE survey to sub-optimized locations
  – Drives accountability for change
• Internal Service Survey (quarterly)
  – Top quartile versus bottom quartile
  – Performance management system
• Continue to understand drivers of ACE
  – Restaurant manager is key
Implications for Managing Risk

• Strategic Change Success Driven by Leadership at All Levels (Alignment)
• Tone At the Top Must Be Tone Throughout (Alignment)
• Right People, Prepared Right Way (Capabilities)
• Must Address Engagement Through Culture (Engagement)