

# Improving Returns on Talent

Talent is a high cost and critical variable impacting an organization's productivity and profits. In boom times it is a CEO concern from the acquisition/retention angle to enable growth and in downturns it becomes a utilization and cost concern. Organizations can maximize returns on talent by aligning their talent strategy with its strategic challenges, in any economic/ industry scenario, and gain an edge over their competitors, say *Sona Rajesh and Amit Bajpayee* of Tata Strategic Management Group.

Organizations over the years have worked towards efficiently managing and monitoring returns on capital and assets. This remains an on going role for CEOs and top management in both boom times and downturns.

However, there remains a great deal of ambiguity surrounding management of talent as an asset. While organizations commit large investments in talent and incur heavy costs on this asset, rarely do CEOs have visibility on the returns on talent employed (ROTE).

## INVESTMENTS IN TALENT

An organization makes multiple investments in acquiring and effectively utilizing its talent:

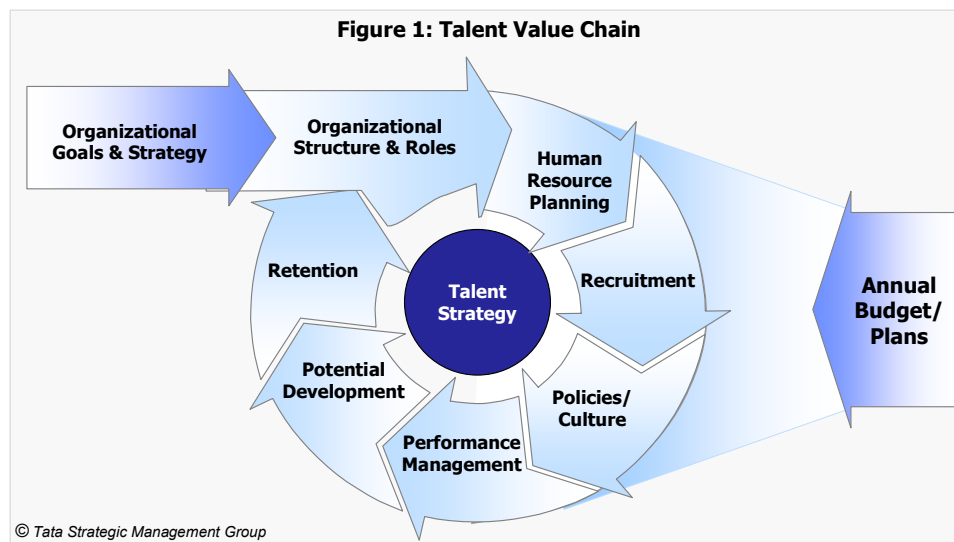
- Management time and effort – Numerous man hours spent by business and HR managers in recruiting and managing talent.
- Operating costs – The largest human resource costs in a company are in areas of recruitment, training, staff welfare, travel for human resource related processes, etc.
- Overall employee costs – This is an aggregation of cost to company (compensation and benefits)

of all employees. These costs are part of every company's profit & loss statement and normally tend to increase over time.

These spends directly hit the bottom-line of the company. In times of downturns, organizations look to reduce costs by cutting down such spends. Although obvious and intuitive, this approach to improving ROTE provides limited benefits and could prove to be counter productive in the long run. Considering that any recessionary or slow growth phase is likely to be followed by a phase of rapid growth and expansion, a reduction in talent investment has to strike a balance between short term pressures and long term imperatives.

## A COMPREHENSIVE, ALTERNATIVE APPROACH

Company top managements have always, knowingly or unknowingly, strived towards enhancing returns from talent. Their concern and need is to find more comprehensive ways of doing so. But what comes in the way is an absence of a common understanding of what constitutes talent, what kind of returns to expect and what levers to use in order to enhance ROTE.



Talent constitutes not merely employee numbers but also their capabilities. Hence, ROTE may be defined as the value gained in terms of contribution to business results through effective utilization of talent and their capabilities while optimally managing talent costs.

The concept of Talent Value Chain provides a comprehensive model to view the processes through which talent is employed and utilized (Refer fig. 1).

An organization's strategic goals alongwith a well defined organizational structure are the starting point of the Talent Value Chain. Each link in the talent value chain is a talent lever. Specific actions and initiatives under these talent levers are identified and planned leading to development of a 'talent strategy'.

Like business strategy, talent strategy addresses the key challenges a company is facing and hence, necessitates a careful examination of business challenges and objectives. It also needs to be adapted and changed to suit a changing business environment and goals. Such a talent strategy ensures optimal and appropriate utilization of talent and hence leads to an improved ROTE.

However, an appropriate and well articulated talent strategy is rarely found to exist in organizations and

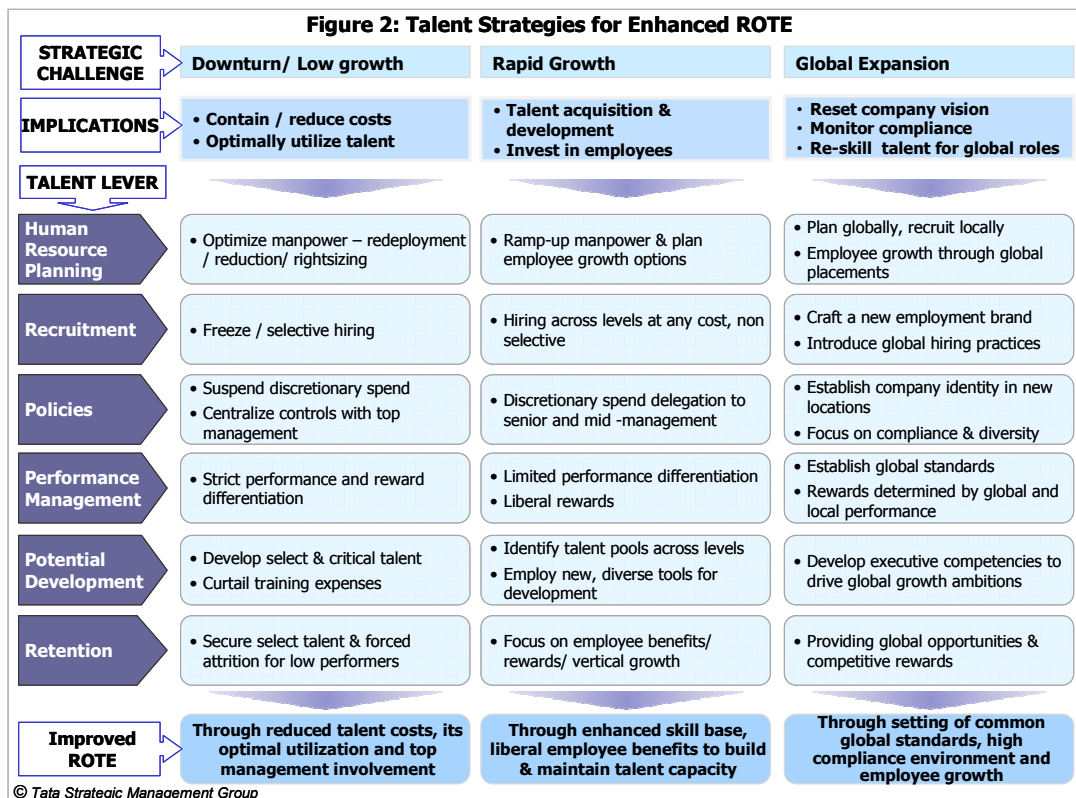
hence improved returns on talent seem to constantly elude them. Let us examine 3 different business scenarios to illustrate the approach that an organization can use to develop its talent strategy (Refer fig. 2).

**Downturn/ Low Growth**

An organization struggling with a downturn or slow growth in its industry is faced with the challenge of optimally managing its assets and costs. Such an organization should therefore employ its talent levers in a manner such that they address this strategic challenge.

In human resource planning, the company focus should be on optimal utilization of talent through re-deployment or reducing existing manpower. Similarly, recruitment should be either frozen or highly selective and performance differentiated to identify high performing, valuable employees from the less productive ones. This would help to identify talent which the company must necessarily strive to retain and manpower which can be released without significant impact on company productivity.

Carrying the same argument forward, rewards too can be selective to only reward those contributing significantly and who must be retained. Policies should be reviewed to enhance centralization,



wherever possible. Potential development and retention should be geared towards the best performing talent. Hence, the talent strategy enhances ROTE through managing costs, optimal utilization of talent and high involvement of top management.

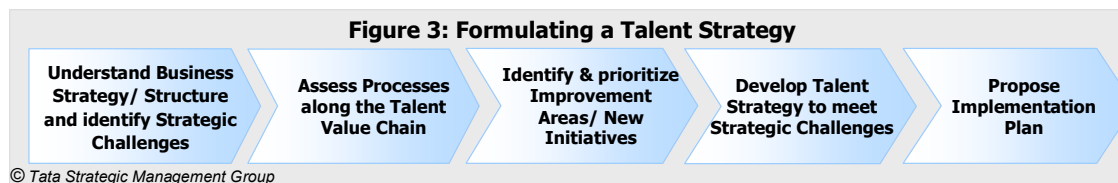
### **Rapid Growth**

Any organization operating in an environment of rapid growth will look to capture a large share of business. This obviously translates into a key strategic challenge of talent acquisition and development.

redefining recruitment practices to successfully recruit in new geographies, establishing a new employment brand & company identity, adoption of global practices, global standardization of policies & practices and compliance. These become key areas to improve ROTE in an international, multicultural context.

## **FORMULATING A TALENT STRATEGY**

A structured and sound methodology to formulate and deploy a talent strategy is as illustrated in fig. 3.



In such a scenario, talent strategy is not so much focused on differentiation, as in the downturn/ low growth situation, but on speed of ramp-up for building employee numbers, their skill development and retention across levels. Rewards and benefits are liberal and aimed at retaining a large mass of the employee base to maintain high productivity levels and build capacity. High degree of delegation for decision-making is dispersed across the management hierarchy to provide control and authority at key positions in the organization to facilitate quick turnarounds.

ROTE is enhanced through improved skill base availability, development of skills in line with business requirements, building & maintaining talent capacity. Hence, talent strategy and initiatives are geared towards enabling the firm to successfully meet growth targets.

### **Global Expansion**

As organizations grow and evolve they are likely to look at global expansion for higher growth. In such a scenario, strategic objectives change dramatically. This necessitates the redesign of the organization structure & roles and also needs a drastic shift in talent strategy.

The talent strategy in such a scenario is focused on shifting from known practices to redefining talent practices to make them relevant to a global, geographically dispersed entity. Hence, it will focus on

The initial phase is primarily to understand the strategic objectives and ensure that there is an appropriate organization structure & roles to support the achievement of company goals.

This is followed by an assessment of processes in each link of the talent value chain. During this phase a company may discover either a complete absence or gaps in processes. These constitute areas of improvement or new initiatives which are necessary to achieve company objectives.

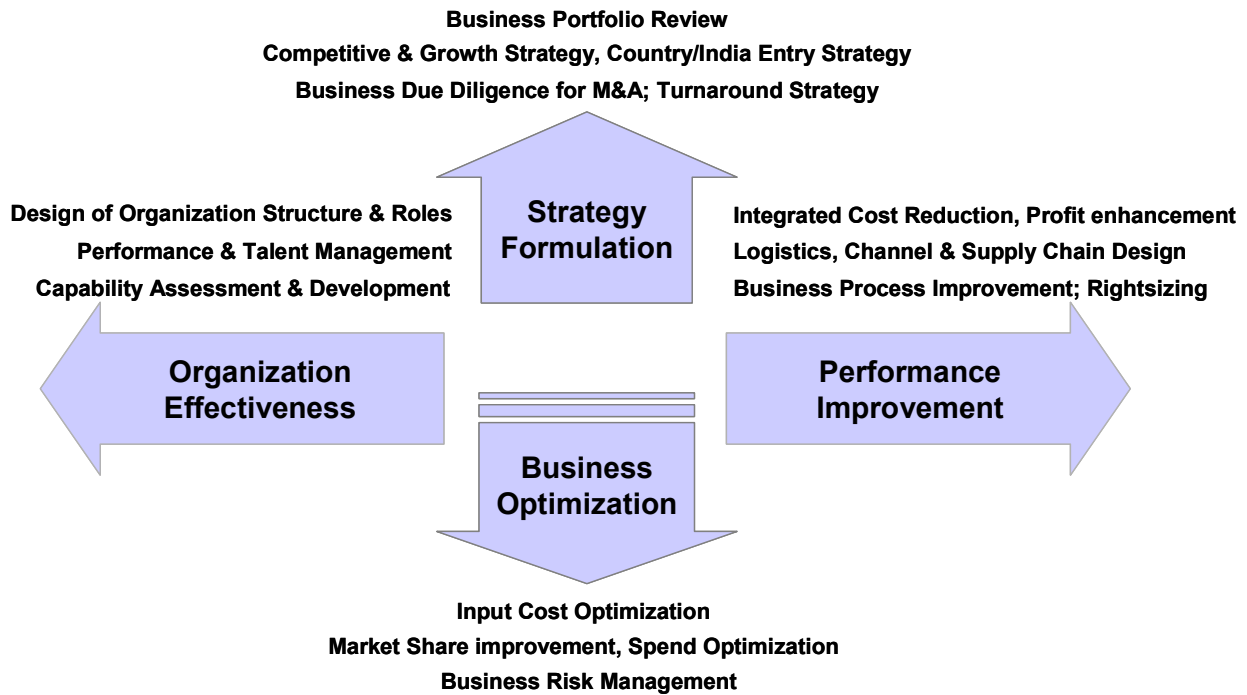
These improvement areas/ new initiatives are then prioritized depending on the strategic challenges and goals of the company and presence of supporting systems/ processes. This leads to a talent strategy defining specific steps or initiatives along each link of the talent value chain (talent levers). Based on this a detailed implementation schedule can be developed with specific initiatives and timelines.

## **CONCLUSION**

This approach, while simple and easily implementable, can provide disproportionate returns on talent employed. It provides a framework that can be used to ensure that an organization's talent is aligned towards achieving its strategic objectives. With such alignment, firms can maximize their ROTE in any industry or economic scenario and gain an advantage over their competitors.

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