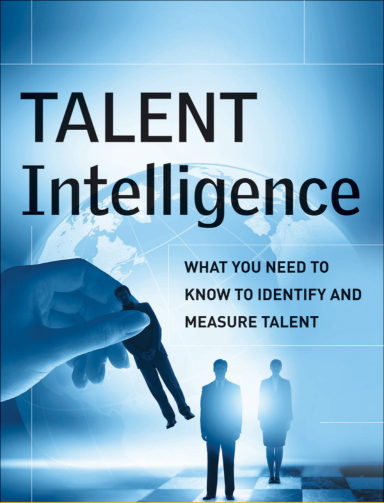

TALENT Intelligence

WHAT YOU NEED TO KNOW TO IDENTIFY AND MEASURE TALENT

NIK KINLEY | SHLOMO BEN-HUR

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More Praise for *Talent Intelligence*

"Attracting, selecting, and retaining the right talent is a critical competitive edge for organizations today. In this sometimes shocking and eminently useful book, the authors lay out some of the challenges and complexities of talent measurement and show how by choosing the right combination of methods and tools—and implementing them consistently—businesses can produce good talent intelligence."

—**Dr. Nandani Lynton**, leadership development director,
A.P. Møller - Mærsk A/S

"Practical and provocative, this book provides a clear and comprehensive road map for cutting through the complexity and myths surrounding talent measurement. Essential reading for all HR professionals who want clear guidance on what to measure, how to measure it, and most importantly how to turn the data into genuine talent intelligence."

—**Ryan Eagar**, Global Learning and Development,
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"This book is revelatory—it challenges commonly held beliefs about talent measurement and clarifies what is and is not possible. It will change the way you think about what you do."

—**Alan Arnett**, head of Talent Development, XL Group

"This book is essential reading for all HR professionals and managers who care about the management of talent in their organizations. It is a highly practical guide to talent measurement that makes this complex subject easy to understand and more possible to implement."

—**Martin Jahn**, head of Global Fleet Sales, Volkswagen AG

"This intelligent book resets all assumptions and expectations about talent measurement and shows how businesses can better identify truly global potential in individuals in our search for an Asian way to corporate globalization."

—**Toyohiro Matsuda**, head of Human Resources
Development Asia, Mitsubishi Corporation

"In this highly accessible and useful guide to finding and evaluating talent, the authors have succeeded in simplifying the science of measuring talent for business readers. Although grounded in research, the book avoids much of the jargon typically found in research literature and focuses on what is most relevant to companies trying to identify talent. The authors summarize what works and what does not, highlight the problems associated with measurement tools, and offer practical and clear advice on how to approach this daunting task."

—**Nancy Tippins**, senior VP, CEB Valtera; past president of
the American Psychological Association's Organizational/
Industrial Psychology Division

"This compelling book brings a scientific and systematic approach to a critical but previously underdeveloped element of talent management—namely, how organizations can make sure that the people they are hiring, retaining, and promoting are the best ones for their business. Arguing that companies cannot just leave this issue to chance or the natural skills of their managers, the authors show how firms can achieve a real competitive advantage in the talent market through a more sophisticated and effective approach to talent measurement. Informative, enlightening, and essential reading for business and human resources leaders."

—**Jackie Wong**, executive director and CEO,
Temasek Management Services

Talent Intelligence

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What You Need to Know to Identify and Measure Talent

Nik Kinley
Shlomo Ben-Hur

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To Connie, for her love and support.
For keeping the world turning while I wrote this.
And to Lukas, for his patience and for reminding me that
there are other things than writing books.
Yes, Papa can play now.—N.K.

* * *

To my beloved sisters Orly, Yula, and Inbar,
each talented in her own very special way.—S.B.H.

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He began his career in commercial roles, before spending the next decade working in forensic psychotherapy. Ten years ago, he returned to working with organizations and since then has worked with over half of the top twenty FTSE companies, identifying and developing talent across the globe. He now specializes in consulting with businesses to help them build their talent intelligence and enhance the performance of their people, and consulting with vendors to help them develop talent and learning-related products and services. He holds a master's degree in systemic psychotherapy and a bachelor's degree in psychology from the University of London.

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* * *

Contact the authors at inbox@measuringtalent.com or check out their blog with the latest news, information, and advice on talent intelligence at www.measuringtalent.com.

Talent Intelligence

1

TALENT MEASUREMENT

Is It Measuring Up?

The challenge with most companies' talent intelligence is that it is just not that intelligent.

Having good talent intelligence—an accurate understanding of the skills, expertise, and qualities of people—is essential for the people decisions that every business makes. If they are to avoid randomly hiring and promoting people, all companies need to evaluate and gauge individuals' talents. It is a basic and fundamental task, one that every manager and organization does, and one that everyone agrees needs to be done well. Yet all the available evidence suggests that it is not.

The reason lies in talent measurement—how organizations go about gathering and using information about the talents of their people—because it seems that this crucial task is often taken for granted, not well understood, or undertaken in ways that limit its value to firms.

This book is about why this is so, what has gone wrong, and what organizations can do to rectify the matter. And they do need to rectify it because the world is changing in ways that mean they will no longer be able to get away with not doing it well. To thrive in the coming decades, firms are going to need good talent intelligence, and they are going to need to use it in ways that deliver real value and competitive advantage for them. And to achieve this, they are going to have to get talent measurement right. The good news is that they can.

The Hidden Role of Talent Measurement

Talent measurement is the use of various methods and tools to gather and use information about individuals' talents. There is no one way of doing it. Some organizations rely on the intuition of their leaders and simple interviews; others employ sophisticated online tests. Both, though, have the same purpose: to identify whether job applicants and current employees have the abilities, expertise, and characteristics they need to help both them and their businesses thrive and be successful.

As a task, talent measurement is often hidden away, part of bigger and broader processes. Yet it is there. It is key to recruitment, promotion, high-flier identification, restructuring layoffs, organizational design, individual development, competence assurance in technical roles, and due diligence for mergers and acquisitions.

Unsung it may be, but talent measurement is a fundamental foundation of modern talent management. It is a basic building block in successfully managing workforces, helping identify who adds value right now, and who could do so going forward. And although it may have been a low-profile activity to date, it is about to have its day in the sun.

Why Talent Measurement Matters More Than Ever Before

Talent management is changing, and as it does so, it is leading businesses increasingly to focus and rely on talent measurement.

Almost fifteen years ago, McKinsey declared that a "war for talent" was coming, and it seems they got it right.[1] Globalization and shifting population demographics are causing competition for talent to rise steadily and persistently and making it harder than ever before for businesses to find the talent they need.

In the West, only 18 percent of firms say they have enough talent in place to meet future business needs, and more than half report that their business is already being held back by a lack of leadership talent.[2] Worryingly, 75 percent of businesses report difficulty in filling vacancies too.[3] The temporary increase in available workers created by the downturn is not helping either, as there is evidence that all the choice is making it more difficult to spot the best people.[4]

The situation is generally not as critical in emerging markets, but this will change. In China, for example, the predominantly manufacturing base of its economy has largely protected it from these concerns up to now. Yet as service industries and the use of knowledge workers grow and the impact of the country's one-child policy is felt, China too will face these challenges. The war for talent is going global.

It is not actual war, of course, but there will be casualties and there will be winners. We know that businesses that are better at talent management and better able to find and keep the best people tend to outperform their industry's average return to shareholders by around 22 percent.[5] In fact, making good hiring and promotion decisions can have a bigger impact on market value than creating a customer-focused environment, improving benefits, or having good union relationships.[6] And amid stronger competition for talent, these performance advantages for companies that are effective at identifying and managing talent are likely to increase.

Realizing this, alert organizations are turning to talent management for solutions and investing in it too A recent U.S. Department of Labor report predicted that over the next ten years, the number of people in human resources (HR) and talent management professions will grow at more than double the rate of the general workforce.[7]

Driven by all this attention and investment, talent management is changing. Perhaps most notable, and arguably long overdue, it is becoming far more data led. People data have become currency, and *workforce analytics* is the buzzword of the moment. The idea is simple and compelling: to manage talent and make good personnel decisions requires knowing what you need, what you have, and what is available. And to make this possible, new software systems have emerged that promise to help you gather, manage, and use talent information more effectively than ever before.

You might assume that talent measurement would be at the heart of this analytical talent management revolution, but, oddly, this has not typically been the case so far. Instead, these talent systems tend to use data such as demographics and distributions—that is, workforce composition. This type of administrative information does have uses, but it is limited in terms of what you can do with it and the value you can add with it. So while many of these new talent management tools are undeniably impressive, they are, like all other systems, only as good as the data you put into them. And in this respect, they are lacking.

A few larger companies have sought to rectify this by putting talent measurement at the heart of these systems. Google, predictably, is ahead of the curve when it comes to people data. Unsure of whether it was hiring the best applicants, the company started developing a comprehensive database that captured information about current employees' attitudes, behaviors, personality, biographical information, and job performance. This database has allowed Google to develop an algorithm for predicting which applicants are most likely to succeed at the company.[8] It is too early to judge how effective the algorithm is, and this kind of approach would not be suitable for all businesses. Yet it is clearly more sophisticated in its approach than mere demographics and has the potential to yield far more value.

Other organizations are following suit. For example, a major UK retail bank recently linked the results of its employee engagement survey to administrative data on people, measurement data, and customer service feedback scores for individual bank branches. As a result, it was better able to understand what the business and branch managers needed to do to improve the customer experience.

So businesses are beginning to realize the potential of measuring talent systematically and combining talent data with other information to produce insights of real business value. This may sound like good news and a great opportunity. And it is. But it can be seized as an opportunity only if talent measurement works and produces good-quality intelligence, which is where things get worrying.

The Ineffectiveness of Most Talent Measurement

Unfortunately, the vast majority of organizations are ineffective in how they measure talent. Even among companies that are measuring talent effectively, most are using the information it provides in ways that mean they derive only a small margin of the real value it can deliver.

For example, surveys show that less than one-third of business leaders rate their company's selection processes as effective.[9] Indeed, while they see selection as the most important task of talent management, they also view it as the least effective.[10] This is not limited to just hiring either. The results for other talent identification processes—such as promoting, benchmarking, or identifying potential future leaders—are not much better. This may be hard to hear, and your first instinct may be to dismiss it or rationalize it away. But it gets worse.

Over the past thirty years, businesses have invested heavily in trying to find the best people, to the extent that this period has witnessed the development of a global talent identification industry. There is the corporate recruitment market—the headhunting firms whose collected annual revenues prior to the downturn were estimated to be in excess of US$10 billion worldwide. And then there is the specialist talent measurement market, estimated to be worth more than US$3 billion per annum globally.

With all this investment, you might expect to find that businesses had significantly improved their ability to identify talent and hire the right people. Yet when we compare research from thirty years ago into how well new employees do with research from today, this is not what we find. Instead, the rate of failure among new employees seems to have risen. Thirty years ago, it was estimated that about one-third of all new employees failed.[11] Today, reported failure rates range from 30 to 67 percent, with an average of about 50 percent.[12]

What is shocking about this is not so much the high rate of failure or even the rise in failure rates over the past few decades, but that the measurement industry has had no discernible impact on these rates. Somehow, despite massive investment in measurement and the widespread adoption of sophisticated methods and tools, we do not appear to have achieved meaningful improvements in failure rates. There is no shortage of case studies showcasing individual organizations that have done great work in this area, but across the board, this success is just not shared.

In almost any other area of business, investing that kind of money and not making a dent in failure rates would be unacceptable—or at least it should be. As a number of commentators have noted, in a world where organizations are placing an unerring focus on results, they seem to tolerate surprisingly low success rates when it comes to hiring and promoting people.[13] Indeed, it is hard to think of any other area of management where such poor performance would be tolerated.[14]

That is not to say that the task is easy. The sheer complexity and number of variables involved is often understated, and some of the reasons and circumstances that cause people to fail are not predictable.[15] For this reason, we are unlikely ever to reach 90 percent of our people decisions being highly effective. But we should be doing better than we are.

So what is going on? One obvious possibility that springs to mind is that current talent measurement methods do not work or even that "talent" cannot be measured. But decades of research have unequivocally demonstrated that some measurement methods and tools are better at predicting both overall performance and individual elements of it than the traditional, basic selection procedure of using just unstructured interviews.[16] In fact, study after study has driven this point home until it is no longer a matter of debate. Moreover, if accurate talent measurement were not possible, then no one would be making any progress. But that is not what we see. Instead, there appear to be pockets of excellence surrounded by a general lack of progress.

Studies show, for example, that effective talent measurement in recruitment and promotion processes can lead to reduced turnover, improved performance levels, and faster integration and time to full productivity. Indeed, effective talent measurement in hiring executives has been shown to result in companies being eight times more likely to hire someone they keep and go on to later promote.[17] And it is not just success rates that good measurement can have an impact on. The use of some measurement tools has been shown to be able to cut absenteeism and decrease both accidents at work and employee theft.

So measurement *can* work and the growing use of it over the past thirty years should have had a greater impact. Somehow, somewhere, something has gone wrong. And it is a critical issue, because if businesses cannot make talent measurement work, the rest of their talent management activities are likely to come up short.

Why Talent Measurement Is Not Working

In our work with organizations around the world looking at the issues they face in talent measurement, we have found five common challenges:

1. Talent measurement is unavoidably complex.
2. It is hard to know what works.
3. Measurement methods do not always meet business needs.
4. Implementation gets overlooked.
5. Businesses lack expertise.

Each challenge by itself can significantly limit the ability of measurement to have the sort of impact we would expect. But in our experience, most organizations are struggling on all five fronts.

Talent Measurement Is Unavoidably Complex

It is difficult to do something well if you do not fully understand it, and talent measurement is a highly technical business. Indeed, it has its own subareas of expertise, such as the mathematics of test design, which many measurement professionals themselves do not fully understand. Not everyone needs to know all the technical details, of course, but even at an operational level, measurement can be complex.

For starters, you need to know what you want to measure. Companies usually know this at a broad level—for example, they want to know if someone is a potential leader for the future. Yet knowing what specifically to measure can be a lot harder. Is it behavioral competencies and, if so, which ones? Should you look for intelligence? Personality? Ambition? And how do you know which qualities make the biggest difference in which situations?

Moreover, what if the best test to use in order to predict future performance also happens to be the one that shows most bias against some racial groups? Or what if an organization wants to use one consistent measurement tool across all its offices around the world, but some countries have regulations controlling which measures can be used? These, in fact, are some of the most common complexities that businesses encounter, and they can create significant problems.

The complexity does not end once you have worked out what to measure. You then have to choose the right tool for the task, and here you encounter the thorny issue of how to ensure that you are accurately measuring what you set out to assess. For example, we encountered a major global bank that in its Singapore office used a respected test to assess the intelligence of all job applicants. Yet it was assessing all of the candidates, no matter what their background, using tests written in English. The logic was simple enough: it wanted to be able to benchmark candidates' intelligence with that of people in the UK head office. The complexity the firm did not grasp, however, was that it was not getting a true, accurate reading of intelligence because candidates' language abilities were affecting how well they did on the test. What the company should have done was to use intelligence tests in candidates' native language, and if it wanted to assess their English ability as well, then it should have also administered a separate language skills test.

Of course, complexity in itself is not a problem. It becomes problematic only when the complexity is not recognized or is underestimated. So it is unfortunate that many vendors, in an effort not to scare potential customers away, tend to downplay the complexities and keep the inner workings of measurement out of sight. It is commercially understandable and, from a customer's viewpoint possibly, preferable. After all, we live in a world in which convenience, keeping things simple, and "just-do-it" solutions are valued. But understanding complexity can sometimes be necessary for things to work effectively, and this is certainly true for measurement. Measurement *is* a complex issue, and if it is to be done well, it needs to be treated as such. Failure to do so will mean that whatever you do, the chances are it will not work.

It Is Hard to Know What Works

Adding to the complexity is the fact that finding the right solution can be difficult. The measurement market is awash with a mass of different methods and tools, and the choice can be bewildering. Information about which tools should be used when and which work best tends to come from one of three sources:

1. *Academic researchers*—who are not always interested in the same issues as organizations and whose findings often need translation for nonacademic readers
2. *Vendors*—whose commoditization of measurement methods creates a conflict of interest in terms of objectively reporting their efficacy
3. *Colleagues in other organizations*—whose interests, like those of the vendors, are not served by reporting negative findings

In theory the best source of information should be academic research because it is the only reliably objective source. Yet surveys show that HR professionals and business leaders alike rarely read academic journals and often consider research contradictory or irrelevant.[18] And who can blame them? The research literature can be hard to access and even harder to understand. As preparation for this book, we read over a thousand articles, so with some authority, we can confirm that they can be difficult to understand and downright mind numbing.

The result is that businesses tend to be relatively uninformed about measurement research and have to rely instead on what vendors tell them. Yet without objective sources of information, HR and business leaders often report feeling intimidated by the apparent expertise of vendors—or at least unable to question or challenge what vendors tell them.

The importance of this is that organizations need to question and challenge what they hear. Some excellent vendors, services, and tools are on the market, but there are estimated to be over two thousand test publishers in the United States alone, and only a minority of them engages in any proper validity studies.[19] So only a small percentage of vendors can say with any objective authority that they know that their measurement methods genuinely work.

Moreover, even when they do have evidence of the quality of their tools, this information cannot be taken at face value.