Applying Portfolio Analysis to Talent Investment Decisions

By Tom Lawson, Ph.D.

"On average, companies invest more than a third of their revenue on employees, but few know how to measure the value of that investment. For the most part, they cannot judge whether a given program or talent practice actually produces a return. Instead, decisions about where to direct such investments are based on anecdotal information, intuition, or so called, best practices."[1]

The development and implementation of value-producing talent strategies should amount to more than the simplistic aggregation of individual talent management initiatives across the enterprise – either at the corporate or operating unit level, or both. The "best" talent management investments entail examining the potential, or actual, value-producing payoff (e.g., ROI, NPV) associated with *options confronting business priorities* – current and emergent – as well as other decision factors or logics. This forces the firm to make clear investment choices, or decisions, about its talent management project portfolio, and the allocation of resources that ultimately impact talent value creation in the business. Talent project portfolio management represents a combination of practices and decision techniques, with associated criteria, used to measure and increase the return on individual and aggregate talent investments – existing and planned – to reduce talent shortfall risks. A firm's investment portfolio comprises all direct and indirect talent projects and assets, including infrastructure, programs, processes, and practices, as well as outsourcing initiatives, ranked-ordered in terms of their relative standing on 5 decision logics.

Making Trade-offs in Talent Portfolio Investment Decisions

Managing talent-enhancing projects, as a portfolio of assets (similar to a financial portfolio), and striving to improve the performance of the portfolio, can be done by making decisions based upon a series of interconnected, logical justifications. The choice to invest in, cut back, exit, buy or outsource a talent solution is ideally guided by the consecutive interplay of a number of decision logics, or complementary assessment lenses: 1) whether or not there is a legal requirement or regulatory necessity for the project; 2) its net economic benefits, such as ROI or NPV, 3) the nature and extent of its linkage with current or emergent business priorities; 4) the ease of its implementation; and 5) the economic risks, or consequences, of not acting on the talent initiative. These 5 logics are each important for making good talent project portfolio decisions, and can be applied for each talent project comprised in the portfolio, thereby channeling the resources of the firm, and the talent function, to the most worthwhile undertakings. The decision is straightforward if the 5 logics all point in the same direction. When they don't, talent investment initiative trade-offs get complex. For example, if the ROI is moderate for a new proposed work simplification program, but the implementation costs and barriers are high, there is a good reason to "exit" the proposition, or at minimal, assess how it "stacks-up" against other competing talent investments included in the portfolio. The trick is to make informed "trade-offs" among the 5 different reasons for investing in alternative, or a portfolio of, talent project options. That said, it is imperative to assign weight to all 5 logics, and avoid letting momentum build-up around one so that the others have marginal influence, or are ignored.

Talent Portfolio Management Maturity Model

A *Talent Portfolio Management Maturity Model* can be used to segment and differentiate a firm's *current* as well as its *desired* talent portfolio management approach into four stages: *Ad hoc, Delineated, Led and managed, and Synchronized.* The "high-level" features of each stage are as follows –

Ad hoc – Firms at this stage make decisions about talent investments in an uncoordinated, discrete manner, often driven by inert, annual budgetary factors without applying any decision logics. ***Delineated*** – Firms at this stage have identified and documented the key elements of their talent portfolio, roughly and qualitatively estimating each initiative's costs and benefits through methods for assessing and prioritizing talent investment proposals.

[1]Nalbantian, H. and Szostak, A. Harvard Business Review, April, 2014.

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ABOUT TOM LAWSON, Ph.D.

Tom is an accomplished executive with over 35 years of consulting experience working with senior staff and line management leaders to determine how to strategically use talent analytics and scorecards to address key talent trends linked with current and emergent business priorities. Tom is skilled in ensuring that talent analytics align with key business challenges, and that talent measurement initiatives are designed and implemented against the right business and operating priorities.

Led and managed – Firms at this stage have standardized the talent investment portfolio enabling objective project selection with an explicit link with business priorities. Financial metrics such as ROI and NPV are regularly computed and discussed, on an annual basis, in reviews with line leaders, the C-Suite, or the BODs – either on a projected, or actual basis, or both. Well-defined decision logics are used in an evaluation framework for screening, categorizing and prioritizing talent projects, using an overall, portfolio management approach to differentially rank talent projects for investments.

Synchronized - Firms at this stage align the talent investment portfolio closely with the organization's current and emergent business strategy. These firms apply value-based metrics to assess each talent project's earned value through its implementation life cycle, routinely removing underperforming talent programs from the portfolio. And to comprehensively assess each talent program included in the portfolio, all five, decision logics are employed, in an integrative way, across all talent investment project options. There are frequent review sessions with the C-Suite, line leaders, and the BODs to discuss alignment, results, and needed adjustments, usually quarterly or monthly. Financial metrics, such as ROI and NPV, are also regularly computed and discussed in these reviews along with the other decision logics included in the portfolio assessment framework and process.

Applying a Framework for Making Talent Portfolio Investment Decisions

The key, procedural steps in designing and applying a framework and process for making talent portfolio decisions entail: 1) Defining and describing each talent initiative – either proposed, or ongoing – in a discrete though standardized way; 2) Identifying, for special consideration, those talent initiatives that are legally required or mandated within the enterprise; 3) Selecting and devising a way of assessing all talent initiatives using the most appropriate decision logics for the firm, or business unit; and 4) Rank-ordering all talent initiatives, and determining how to optimally allocate and deploy resources.

Decision algorithms – in Step 3 – are used to assess the relative "standing" of each talent initiative included in the portfolio across all selected decision logics. The framework for assessing and ranking talent initiatives enables the prudent allocation of resources to those initiatives that should significantly impact business priorities and mandates.

Actively Managing the Firm's Talent Investment Portfolio

Finally, once resource allocations have been made against the various talent initiatives, rank-ordered in the portfolio, the talent function, along with the C-Suite, or a senior-level, multidisciplinary working group, must actively manage the portfolio over time to make certain that initiatives stay on track and to maximize flexibility. Further, marginal talent initiatives can be trimmed-out of the portfolio, and new, more beneficial initiatives added, consistent with the assessed decision logics.

Moreover, talent functions that actively manage their talent portfolio look for opportunities to create value from "talent portfolio moves." Initiatives that don't beat the firm's cost of capital, in terms of return, and demonstrate high value on other decision logics applied in the portfolio assessment process, should be dispensed with and replaced with those talent processes that align closely with business strategy and deliver a positive net present value.

Companies can regularly assess the talent portfolio to differentiate value-adding projects from value-destroying initiatives. A clear ranking according to risk, implementation feasibility, linkage with business priorities, and payoff, for example, will help optimize talent investment decisions and enhance the firm's capital allocation by identifying the best options to invest in, and action to take; for example, whether to exit the talent project, address unacceptable factors, optimize selective employee outcome effect, or continue on with the talent investment. Finally, organizations can determine where "they stand" on the Maturity Model, and decide, most appropriately, the stage they want to move to, and how best to make the transition.

ROBINSON RESOURCE GROUP
SECURING AND DEVELOPING LEADERS
55 Shuman Blvd.
Suite 1050
Naperville, IL 60563
708.888.1RRG