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AUGUST 2024

How HR Executives Can Maximize Return on Talent

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Talent costs are the biggest expense category for most businesses—in some cases as high as 70% of the total budget. But talent is more than just an expense. When talent strategy is executed successfully, talent can also be the greatest source of value creation. If business leaders are truly focused on maximizing their return on talent, their talent systems must be at their center of their business strategy.

But that's easier said than done. Realizing the return depends on multiple factors, including the quality of workforce planning, hiring strategy, and company culture. That's where the HR organization comes in. How can HR executives leverage their teams' unique capabilities to measure and maximize their organization's return on talent?

What Is Return on Talent and Why Does It Matter?

"Return on talent" may be a relatively new term, but it describes an old problem, which is that ROI on talent is highly intangible. It would require calculating each individual's productivity and measuring how that fluctuates and progresses over time—a challenging factor to quantify. Return on talent simply doesn't fit neatly into a typical ROI analysis. The formula would require employee performance to be correlated with money saved or money earned, resulting in a number that represents revenue per employee. But that approach doesn't fully capture the value that talent creates within an organization.

Unlike material or technological assets, people's skills and knowledge aren't static. They change, learn, and grow. The value of talent, then, isn't an unchanging state. Furthermore, knowledge and skill are only as good as the people and systems applying them to real business challenges.

That's why this formula provides a better way to think about return on talent:

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On the left side of the equation, the first term (knowledge generated) encompasses the ever-growing body of knowledge and skill a team generates. This is the **potential** value that exists in a talent organization. The second term (knowledge applied) represents the application of that value to business problems, which converts that potential into **actual** value. Together, these drive the right side of the equation, which is the positive outcome that a team or department generates for the business.

However, traditional hiring processes are built to prioritize the first term (knowledge generated) and not the second (knowledge applied). Getting the right people on the boat won't necessarily get you where you need to go. You need everyone to be rowing in the same direction, and with enough effort to create momentum. The key to maximizing return on talent, then, is having systems in place that turn knowledge generated into knowledge applied. Only then can an organization achieve the outcomes necessary to justify continued talent investment.

What Strategies Are Proven to Maximize Return on Talent?

What does this look like in practice? How do businesses implement the systems necessary to bridge the gap between knowledge generated and knowledge applied? This is where the modern HR organization comes in. In today's business landscape, HR is no longer a mere administrative function. It's a true strategic partner that can actively identify and solve talent-related challenges. Here are some examples of how this can work.

Align workforce planning with business strategy

Workforce planning efforts must align with the broader business strategy, ambitions, and targets of the enterprise. Without tight alignment around core objectives, there is a risk of hiring the wrong talent or, worse, placing good people into a system that sets them up to fail.

This alignment process typically begins with a workforce analysis to establish a baseline. Leaders should work to identify critical skills and roles to address current needs as well as future objectives, and then audit the current workforce to understand where there are gaps. In some cases, it may be necessary to reassign existing talent to more suitable and critical roles, a practice that could potentially improve individual productivity by as much as 800%.

A stronger data strategy fueling the HR organization can help. People analytics should be regularly shared with other business units and leaders in order to identify weaknesses and inefficiencies. Crucially, strategic workforce planning needs to be done in tandem with financial planning. Siloing these functions will risk reduced visibility of talent costs and disconnect the talent strategy from the overall business strategy.

Build a hiring engine to identify & attract talent

Given the challenges and concerns associated with recruiting high performers, HR organizations are increasingly leading the charge to help stakeholders think holistically about how to close those gaps and maximize return on talent. This may require overhauling their candidate experience, redesigning their job architecture, or implementing new opportunities for career growth and skills development.

Many HR executives are also leading their organizations to expand the scope of what skills are truly necessary to meet their workforce needs. Candidates who may not have all the necessary skills and credentials can potentially be upskilled if they show strong capabilities in other areas. Traditional resumes and career paths may not be as critical in the evolved talent landscape. In fact, opportunities for professional development prove to be a strong incentive for attracting and retaining top talent—in some cases, this strategy can increase retention of high performers by 98 percent. This aligns closely with the return on talent formula. The more opportunities there are to generate *and* apply knowledge, the better the outcomes that talent will drive. But every employee is different, which is why McKinsey recommends personalized skill journeys for each of employee.

These factors come together to build a hiring engine that attracts top performing talent and reinforces retention and engagement. Additionally, many organizations find value in leveraging talent networks to recruit leaders and professionals. Most of the time, high performers aren't actively looking for jobs—they have solid employment and are incentivized to keep it that way. Executive search firms that have spent time building relationships with this passive talent can, with the right combination of knowledge and credibility, tap into these networks.

Prioritize a strong performance culture

Aligning workforce strategy and attracting the top performers are two critical steps in increasing the return on talent. The third pillar is in creating a strong performance culture within the four walls of an organization. To do this, HR executives must drive robust accountability mechanisms and nurture a positive employee experience. In this way, top performers are recognized and rewarded, driving even greater return.

Data shows that high performance cultures are also free of bureaucracy and inefficient decision making. These factors empower leaders and professionals to deliver at an optimized rate, while also keeping them engaged.

How HR Executives Can Be a Strategic Partner to the C-Suite

Rather than remain an administrative cost center, HR can proactively create value across your organization and dramatically increase the return on talent. For this to happen, however, CHROs must be elevated within the C-suite. This includes direct access to CEOs and involvement in key decision-making. Unless this core relationship is strong, there will always be a disconnect between ROI analyses and the reality on the ground.

What steps are you taking to measure and maximize your return on talent?