

TOTAL QUALITY TALENT MANAGEMENT

TOTM



Total Quality Management (TQM) Now Applies to Managing Talent

Putting the right people in the right jobs using measurable, predictable, and actionable assessments

Six Sigma, the data-driven methodology for eliminating defects in organizations based on standards, measurements, and repeatable processes, has provided undeniable success for organizations around the world by eliminating waste and improving productivity. So why hasn't this TQM (Total Quality Management) concept of measurable and predictable error reduction been applied to Talent Management?

Six Sigma Status	Company Quality Capability ¹	Application
Level 6	Approach or surpass Six Sigma accuracy	World-class manufacturing
Level 5	Significantly reduce error and improve quality through archival databases	
Level 4	Leverage metrics toward quality improvement analysis	
Level 3	Implement error measurement practices	
Level 2	Adopt Six Sigma quality philosophy	
Level 1	Commit to metrics and measurements to identify error and sources of error	Typical selection and talent management systems

¹ Adopted from Carnegie Mellon Software Engineering Institute

TQM requires a system of precise measures – objective and accurate enough for statistical analysis. By contrast, the measurement of human work performance typically involves subjective and overly-general data that

proves to be too fallible to support the level of accuracy that TQM requires.

Total Quality Management (TQM) Comparisons ¹		
Six Sigma Standard	Error Rate	Business Application
6 Sigma +	3.4 per million	Airline flight safety (takeoff/landing)
5 Sigma		World-class manufacturing
4 Sigma	6 per 10,000	Manufacturing average
2 Sigma	30 per 100	IRS phone tax advice
1.6 Sigma	45 per 100	Typical employment selection and deployment

¹ Adopted from Carnegie Mellon Software Engineering Institute

But now, as this executive brief identifies, a measurable and quantifiable Six Sigma-like process has been defined and documented to help address these error-prone, human aspects of talent management.

The initial requirement is an accurate measure of any individual's skills, competencies, motivational drivers, work habits, and potential for developing future competencies. The assessment instrument must be criterion validated to be predictively accurate of *measured productivity improvements* and/or reduction in "unwanted" turnover well beyond the 55-65% accuracy most commonly reported. Research suggests that only a Six Sigma or TQM approach can accomplish the necessary level of quality improvement in the management of intellectual capital. Using a TQM approach requires focusing primarily on identifying the "causes of failure" of otherwise qualified individuals. This is a counter opposite approach to the more common identification of the causes of success as typically seen in job analyses and competency studies. A TQM approach is capable of establishing a

single instrument that can measure all of the relevant competencies with an accuracy level robust enough to support substantial quality gains in the management of a company's most valuable "Human" assets.

The result is a **Talent Audit system** – an information repository where organizations have a complete inventory of strengths and weaknesses for all employees in every key position. This relational database can distinguish the job performance makeup of key talent located in a particular division anywhere in the organization.

This brief reviews the causes of ineffective talent management and how a Six Sigma/

TQM approach helps minimize the following common "pain points:"

- Reducing unwanted turnover
- Weak succession planning
- Losing top talent
- Matching the right people to the wrong jobs
- Training the wrong personnel

Pain Point 1: Reducing Unwanted Turnover

Deloitte, a member of Deloitte Touche Tohmatsu, a global leader in professional services, stated in a 2005 article summarizing their U.S. survey of human resource executives: *"More than 70 percent of respondents say incoming workers with inadequate skills pose the greatest threat to business performance."*

How does your organization go about selecting the right personnel for targeted positions? If you are like most companies, you rely on subjective reviews and recommendations by internal personnel.

In fact, according to *CEO Magazine*, (December 2005) "Internal performance reviews and 360-degree feedback systems are used by more than 95 percent of the largest 500 companies to evaluate employee performance." And, "Reference checking is universally used as a means to assess candidates in pre-hire situations."

Though these methods do provide insights about an individual, the article goes on to say, "reliance upon the subjective judgment of untrained evaluators make these methods untrustworthy measures of an individual's intelligence."

Only through accurate skills matching can your organization make the best use of your existing personnel and their potential. We suggest the use of a Talent Audit system that accurately and systematically predicts the effectiveness of hiring the right talent – and avoiding the wrong talent.

The diagram (see Figure 1) illustrates a "supply chain" view of talent management effectiveness supported by Chally's Talent Audit.

The Chally “Talent Management System”

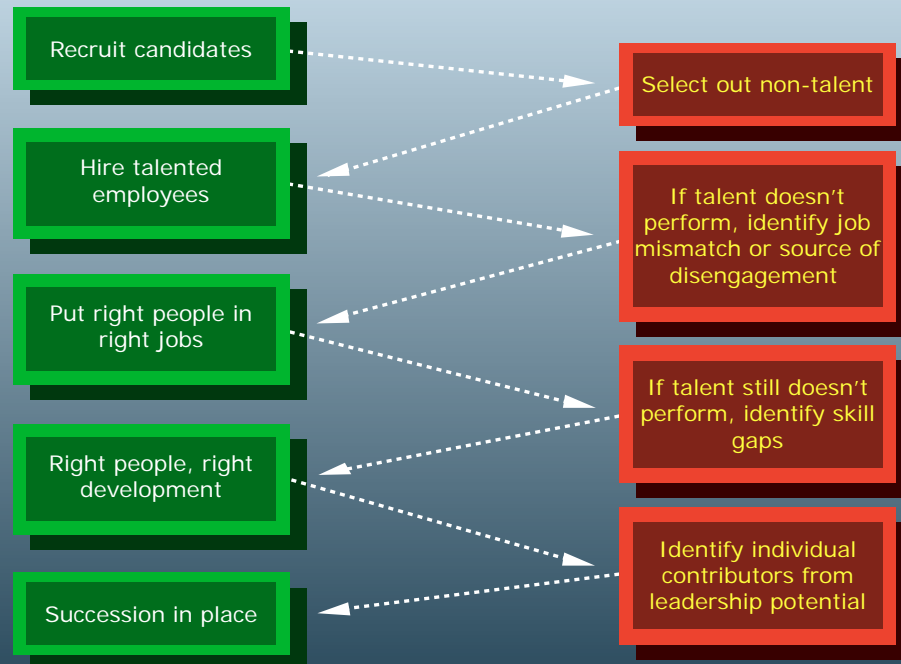


Figure 1

Pain Point 2: The Need to Identify High Potentials: Weak Succession Planning

Succession planning – the minimizing of risk through appropriate compensation, recognition, and readiness of successors by identifying and training high potential employees – is an ongoing challenge for organizations of all sizes.

Procter & Gamble is no exception. P&G's leader, A.G. Lafley, told *Chief Executive* magazine in September 2005, "Nothing I do will have a more enduring impact on P&G's

long-term success than helping to develop our leaders."

Unfortunately, succession planning is usually geared to a small number of key executive positions. But as studies today indicate, succession planning need not apply to just executives; it should be expanded to all levels in the organization with the help of a Talent Audit system.

In the sample Talent Audit Skills Report shown below (see Figure 2), "Sally Black" is currently a Project Manager with a number of weaker skills. Through traditional career development and succession planning Sally would probably be overlooked for future advancements. However, if Sally were moved

into a Technical Support Manager role her skills would be maximized.

This type of skills detection is made possible because a Talent Audit system reveals data that is definable, measurable, and actionable.

Sample Talent Audit Skills Report for Specific Management Positions

			PROJECT MANAGER	DEPARTMENT HEAD	CLIENT SERVICES MANAGER	TECHNICAL SUPPORT MANAGER	OPERATIONS MANAGER
LAST NAME	FIRST NAME	TITLE	Success Probability				
Southwest Region							
Alabaster	Sam	Project Manager	52	43	69	72	29
Black	Sally	Project Manager	20	40	49	76	47
Blue	Pete	Project Manager	56	74	75	46	52
Brown	Kim	Project Manager	52	42	46	85	32
Green	John	Project Manager	82	28	55	58	41
Purple	Jane	Project Manager	39	57	48	46	68
Red	Harry	Project Manager	58	36	53	85	24
Violet	Fred	Project Manager	42	43	39	62	55
White	Cindy	Project Manager	62	53	68	80	75
Yellow	Bob	Project Manager	73	24	28	42	37
		AVERAGES:	54	44	53	65	46

Figure 2

Pain Point 3: Losing Top Talent

All organizations expect a certain amount of turnover. In small amounts, turnover keeps the organization fresh with new talent and ideas. But when turnover is high or unwanted, the result quickly turns negative, costing the organization considerable time and money to hire and train new personnel, from only \$40,000-\$50,000 for hourly employees, to \$300,000 and more for top positions.

This pain associated with turnover intensifies when you consider that "more than 70 million

Baby Boomers will retire over the next 15 years," according to *Human Resource Executive* magazine's Forecast 2006. "During this time, only 40 million workers will enter the workforce, leaving us with a shortage of talent and leadership."

So what is the cause? Many organizations mistakenly believe that employees leave jobs primarily for better wages, benefits, or both. The actual causes are quite different.

Cause A: Poor Job Fit

Reports show that one of the primary causes for turnover is actually poor job fit. Employees become frustrated when they can't do their jobs well. Talent audits demonstrate that **as much as 65% of job dissatisfaction which leads to unwanted turnover is a result of these job mismatches.**

A systematic approach is needed to address the causes of poor job fit:

1. Identify **sources and causes of failure** for each position
2. Identify **the key skills** to overcome those failure points
3. **Assess** incumbents against the **skills** that ensure success
4. Continually conduct **exit interviews** to document turnover causes (the talent baseline is established for the organization)
5. Analyze results periodically to determine the commonalities
6. Establish a plan to reduce the defects

Cause B: Incompatibility with Management

The other well-known cause of turnover is incompatibility between subordinates and their managers. As with any organization, the responsibility to correct that error must lie with management itself. Ideally, management would do a statistical analysis to determine which managers are best in which jobs, managing which people. Historically, time and the vast amounts of data needed to perform that analysis have made that process prohibitive for most organizations – until now.

The HR Chally Group in Dayton, Ohio has been dedicated to solving the problems associated with fallible and inaccurate skills assessments for over 35 years. By researching more than 75,000 managers and executives,

in both Fortune 500 as well as midsized and small companies, Chally has developed the industry's most statistically accurate job skills database.

Through this database, identified skills were used to distinguish top managers in different management jobs from weaker or less-successful managers. Selection assessment scales were then developed to accurately measure the most important skills. Using the findings, five common and distinct types of successful managers surfaced:

- Line Executives and Managers
 - o For sustaining companies, or
 - o For startup/turnaround companies
- Staff Executives and Managers
- Corporate Profit Center Managers
- Entrepreneurs
- Sales Force Executives

Following up with the identification of which managers would thrive in which role, companies are able to improve the job match of managers and subordinates, reducing unwanted turnover, or worse, continually underproducing, "less-engaged" employees.

Pain Point 4: Matching the Right People to the Wrong Jobs

There has been a great deal written about the pending talent storm and the shortage of appropriate talent.

Through a Six Sigma approach to systematically capturing, defining, and measuring data, companies are finding that the problems around skills and job performance are more about skilled personnel in the wrong jobs, rather than a lack of available skills. There is some belief among executives that companies

consistently underutilize the talents of their people, leaving a significantly untapped talent reserve.

With the help of a Talent Audit skills database, companies can more accurately identify job performance skills and competencies, much like insurance companies use health and behavior metadata to accurately assess and predict their financial risk. Once the defects – or health risks in the case of the insurance company – are discovered, an action plan can be put in place to systematically remove the defects.

A Talent Audit database can provide organizations with a complete inventory of strengths and weaknesses for all employees in every key position. In looking at the salesperson job function as an example, the Talent Audit identifies **why job mismatch is so prevalent**. Companies too often have

one job description for sales representatives, regardless of the customer need. A Talent Audit uses competency scores that have been developed from research that has identified a full range of unique sales positions and various sales roles according to their unique markets and customer needs. In the simplified example below (see Figure 3), seven sales types are shown demonstrating a talent-based audit system.

For each position, statistically-predictive validations identify **the critical failure points and the key skills needed to overcome those failures**. For example, “Hunters” (new business development specialists) need skills such as qualifying prospects with standard probes and closing using logical, incremental steps. Meanwhile, “Farmers” (account management and growth specialists) need to be driven to produce

Overall Success Probability Scores for Specific Sales Positions

Name	Overall Success Probability Scores for Specific Sales Positions						
	Account Management	New Business Development	Sales Engineer	Technical Rep	Solutions Rep	Product Line Rep	Sales Management
Robbins	75	32	71	59	51	70	42
Baker	46	26	53	68	48	25	46
Klein	50	56	58	36	43	35	48
Mayer	41	71	42	57	28	52	59
Billman	39	48	75	49	88	41	65
Stevens	67	72	89	77	55	67	68
AVERAGE	53	51	65	58	52	48	55

Figure 3

increased sales to existing accounts. The chart below (see Figure 4) shows all of the specific, critical skills for the Account Manager (Farmer) role.

By putting a talent audit to use, companies have been able to:

- Identify salespeople most adept at developing new business
- Determine which salespeople have the skills to move into management
- Identify skill gaps that can be remedied with training
- Discover which associates should support key accounts

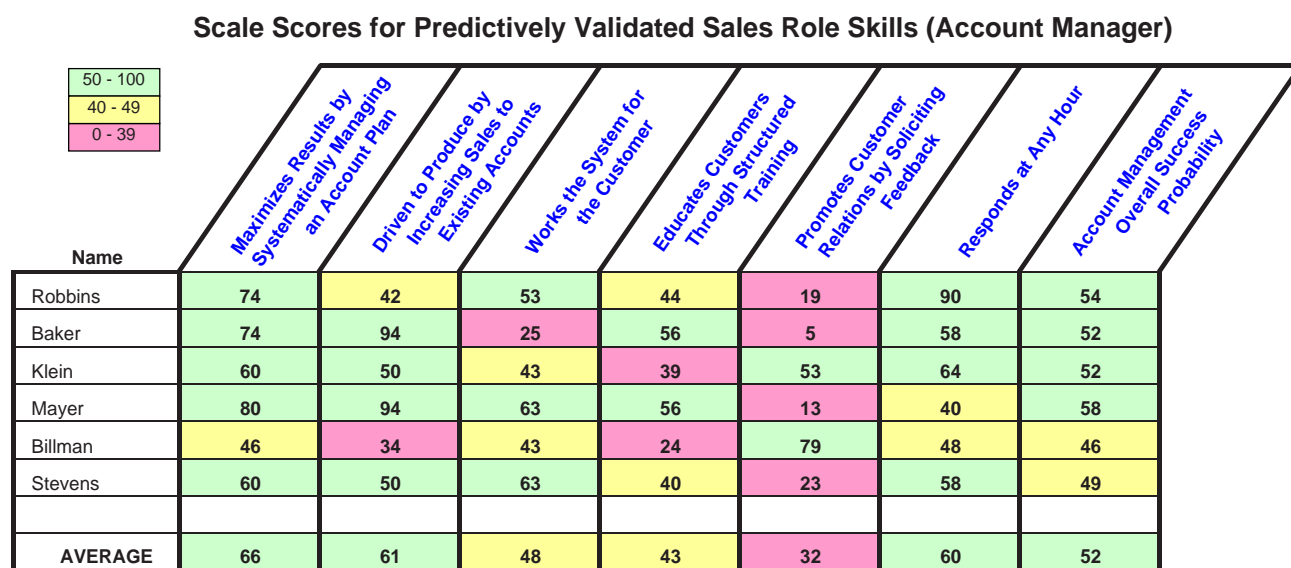


Figure 4

Pain Point 5: Training the Wrong Personnel

Most estimates of effective training suggest that individuals can improve their skills by no more than 20%. This means that people in the wrong positions cannot be trained to become top performers, only that their “bad” skills can be improved to “not quite as bad.” Clearly, training is too expensive to waste on the wrong people.

Four common challenges must be overcome for training to be effective:

- Maximizing people strengths rather than overcoming weaknesses
- Training the right personnel for the right jobs

- Training the “most trainable” personnel
- Focusing on the highest potential personnel

In the attempt to address these challenges, companies frequently come to the same conclusion: Training needs to be flexible and tailored to each individual job function.

The use of predictive job skill analytics such as those found in a Talent Audit database can help organizations tailor their training to the individuals that need it most. Corporate Express, for instance, used a Talent Audit system to redesign their sales training to address the gaps.

**Solution to the Pain Points:
The HR Chally Talent
Audit System**

The Chally Talent Audit system utilizes an extensive benchmark database comprising more than 35 years of research across 250,000 candidates and incumbents. Besides 866 assessment data points and measures of performance over time, the research results have led to statistically predictive effectiveness measures for 156 unique work skills. The Talent Audit is EEOC-compliant, enabling highly predictive assessments that dramatically improve talent management accuracy. In typical cases, Chally's clients have realized a 25-30% improvement in selection accuracy over conventional methods, as well as many times the return on their investment.

In an independent evaluation conducted at Wright State University, the Chally system was compared to major independently reported research studies and meta-analyses of other techniques used to predict performance. The Chally tools were found to be substantially more effective and less discriminatory than other selection techniques. In addition, the Chally assessment exceeded the correlations for all the other commonly used tests. The

study concluded, **"The scientific literature suggests that no measure predicts as well, or with less adverse impact, as the Chally assessment."**

Six Sigma Status	Company Quality Capability ¹	Application
Level 6	Approach or surpass Six Sigma accuracy	World-class manufacturing
Level 5	Significantly reduce error and improve quality through archival databases	Chally Talent Audit
Level 4	Leverage metrics toward quality improvement analysis	
Level 3	Implement error measurement practices	
Level 2	Adopt Six Sigma quality philosophy	
Level 1	Commit to metrics and measurements to identify error and sources of error	Typical selection and talent management systems

¹ Adopted from Carnegie Mellon Software Engineering Institute

The Six Sigma Framework Applied to Talent Management

Process	Talent Benchmark Metrics		
Define			
Company Standards	Productivity	Unwanted Turnover	Reduce Costs, Increase Profits
Measure			
Accurate Statistics	Competencies	Limitations	Improvable Weaknesses
Analyze			
Errors and Improvements	Best Job Fit	Career Potential	Level of Engagement
Improve			
Repeatable Processes	Selection and Assignment	Career Path	Recognition and Compensation
Control			
Processes and Measures	Accurate Assessment Measure	Development and Training	Succession Planning

METHODOLOGY

The Chally selected methodology was originally developed for the US Justice Department to discover a legally compliant, but predictively accurate, selection system for law enforcement officers. Initial stages of the research explored a wide variety of existing instruments including personality, "style", aptitude, and interest-based surveys. These instruments, in any combination, while descriptively accurate of the individual in the present, were unable to increase accuracy in predicting *future performance* over chance by more than 10-12%.

New instruments were then developed to measure work motivations (based on the research of McClelland and Herzberg) as well as work habits based on both personality and work attributes. Initial factor analyses were performed on these new instruments as well as the extensive job analysis data and criteria based on behaviorally anchored rating scales, plus documented performance data for over 5,000 civilians and law enforcement officers. The resulting scales were still only able to approximate an improvement in identifying effective competency performance by 14-17%. The Justice Department was unwilling to accept an error rate of 33% in empowering individuals to use lethal weapons.

Finally, actuaries within the insurance industry were consulted. Based on their recommendations, the "scales" were abandoned but new factor analyses were run on the instruments' 288 items that produced 866 data points. Using items that individually correlated with a given measure of effective skill performance produced "new" scales that could achieve predictive accuracy of 11-16+% over chance. More importantly, combinations of the new scales that each best predicted overall job performance for a given position were capable of reaching as high as 72% accuracy.

Over the ensuing three decades, additional research across 320 criterion-based validity studies has identified 156 unique and essentially independent competencies. Each competency has been verified in several independent validity studies so that each has been essentially demonstrated in its own "meta-analysis." Correlations for each average 0.33, or an increase in accuracy over chance of nearly 11%. In "best fitting" combinations, or "Profiles" of the most predictive skills for a given job, predictive accuracy can reach as high as 85%. This level of accuracy, however, can only be accomplished when job analyses allow for specialized versus the more common "generalized" definition of a job. For example, research to date has identified some 14 basic sales and customer-facing positions. While some types of sales roles are similar enough to be interchangeable, many such as "New Business Development" actually require opposing skills than "Account Management". Likewise, most successful entrepreneurs would not be as effective in a large corporate "staff" role. The final proof is that scales based on individual item correlations for uniquely identified and "specialized" positions are routinely capable of reducing *measured* unwanted turnover by more than 30% and increasing productivity per individual in excess of 35%.

