Talent Guardian™—Using Decision Science to Manage Risk

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The founders of small businesses and the managers of small groups know their employees well. They know the employees' family circumstances, where they live, the chemistry they have with fellow employees and supervisors, how much they're paid, and how they've progressed relative to others. These leaders also know which employees are particularly critical to the success of the business and what the financial impact would be of losing these employees. They can probably operate just fine without key metrics to determine how and where to invest in human capital, how to mitigate risk, and how to get the greatest returns.

As a business grows, however, it's difficult for decision-makers to maintain the same level of mental data processing regarding the state of the talent in the organization. They will gradually lose the ability to use their knowledge about people effectively as the number of people grows. Closing this gap requires a way of replicating the continuous learning and consideration of data that occur in the brains of the managers of the smaller businesses. Predictive models like Talent Guardian are designed for this purpose.

Talent Guardian Facts

Purpose: To understand the retention risk of employees and the primary drivers of that risk

How It Works: A proprietary predictive model combines data about your employees, your company, local market information such as hiring trends and economic conditions, and Hewitt's multi-million-employee database of employee behavior. The model assigns a Retention Risk Score to each employee, which indicates the likelihood that the employee will leave your company in the next 12 months.

Using your input to understand the critical talent issues in your organization, Talent Guardian provides a framework to perform additional analysis on:

- Drivers behind the risk
- The retention risk of critical talent pools
- Unknown pockets of risk among your key talent

How You Can Use the Results:

- To identify and target at-risk talent
- To target segments of risk for group interventions
- To discover retention performance differences across units
- To inform talent sourcing strategies
- To benchmark your company

A Model for Managing Talent Risk

To develop Talent Guardian, Hewitt Associates and Global Analytics leveraged Hewitt's database of employee behavior and Global Analytics' expertise in measuring credit risk. Together, they created a talent retention risk model that calculates a Retention Risk Score for each employee in the company. The Score indicates the likelihood that the employee will leave the organization in the next 12 months.

To test the model, a Retention Risk Score was calculated for each of the employees in the database—several million of them from across 75 companies. A year later the actual turnover of the employees in each risk category was calculated at those same 75 companies. These predictions turned out to be accurate—a preponderance of those who were identified ahead of time as having greater retention risk did, in fact, leave the organization, and those in lower risk categories stayed. Thus, the Retention Risk Score is a reliable predictor of retention.

Talent Guardian has been found to predict employee turnover at a level that is nearly twice as accurate as a credit risk score. As a result, Talent Guardian provides an unprecedented level of confidence in predicting the behavior of employees. The decision-makers of the company can use this information to manage human capital risks to increase the organization's competitive advantage.

Talent Guardian Analysis

Individual Retention Risk Score: The basic building block of Talent Guardian is the individual Retention Risk Score. To determine the score, Talent Guardian uses the following sources of information:

- Hewitt's human capital data on the behavior of participants
- Employee demographics such as age, tenure, and gender
- Employee history including pay progression and performance
- Company history of hiring and attrition
- National economic data such as housing statistics and price inflation or deflation
- General labor market data such as regional unemployment
- Local market data such as household income and hiring trends

The resulting Retention Risk Score assigned to each individual in the organization is a predictor of the likelihood that the employee will leave the organization in the next twelve months.

Risk Drivers: Talent Guardian also performs additional analysis to identify shared characteristics among groups of high-risk employees that may be the drivers behind that risk. Managers then have more information about how to address the risks in their work with at-risk employees. Additionally, risk drivers are key to performing organizational diagnostics that highlight trouble spots and improvement opportunities.

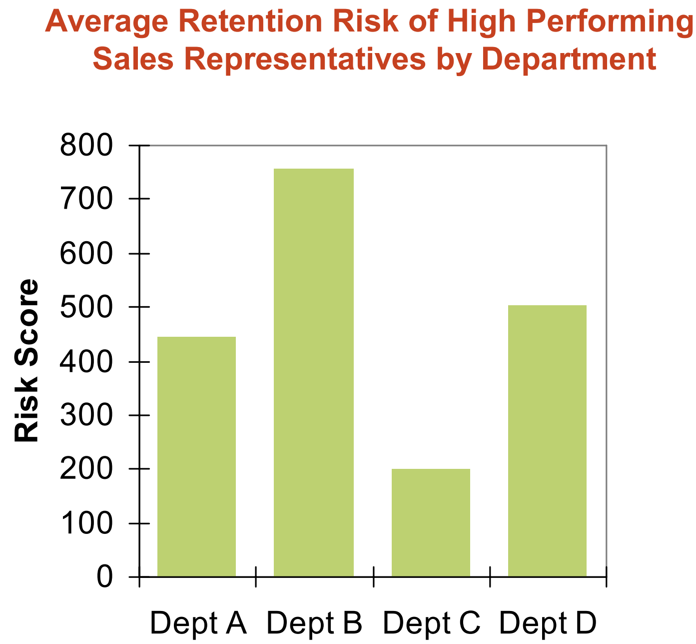
The retention risk scores and the risk drivers are then used in a number of ways.

Segmenting Employee Populations: Two of the most valuable outputs of the Talent Guardian model are the segmentation analysis and the "model-discovered" risk clusters. The risk clusters are groups of employees that Talent Guardian identifies as having a combination of characteristics that are high drivers of risk. For example, Talent Guardian may highlight a cluster of high-risk employees who are all in their early 30's, have a higher than average frequency of role changes in the company, and are good performers. Through review of these characteristics, management may determine that these are "career seekers"—ambitious and hungry for growth. Having identified this group, they may decide to focus their human capital investments for these employees around tools for career planning. This strategy would be a step toward reducing the risk of these good performers seeking careers at other companies.

While Talent Guardian discovers clusters on its own, companies can choose to look at the risk scores and risk drivers of specific organizational units or discrete employee populations that warrant focus. These company-defined groups are called "segments." Typically a company will analyze segments of high performers, critical talent pools, or key departments to understand the common drivers of risk in those populations. Talent Guardian allows you to understand the turnover risk in any segment of employees you wish to analyze. As an example, a company that wants to accelerate its growth my want to review the risk scores of the sales force and other departments that support business growth.

Because of its ability to cluster and segment groups of employees, Talent Guardian provides a sound basis from which to launch organization-level human resources initiatives and communication efforts.

This chart shows retention risk for high performing Sales Representatives in various departments in a client company. For this company, risk is significantly higher in Department B than other departments. This suggests focusing analysis—and investment—on the high performing Sales Representatives in Department B. A risk driver analysis uncovered that a lack of career opportunities in this department increased the risk of high performers leaving the organization. This company then focused their efforts on creating greater career opportunities for high performers in this department.



Cost/benefit Analysis—The Link to Shareholder Value

Mitigating risk is a good thing, but not if it costs too much. Therefore, cost/benefit analysis of human capital investments to address retention risk is critical. Investments in compensation and career development, for example, can be compared to the related savings resulting from a lower cost of turnover to determine if the investments will be worth their cost. Available benchmarks such as 1.5 x total pay—with a range based on the level of the employee, recruiting and training costs, etc.—may be all that is needed to make the business case for such talent management programs. However, such straightforward benchmarks may not capture the real *opportunity cost* of losing certain people and, as a consequence, may fail to provide an optimal guide for human capital investments.

In sports, the statistic "value over replacement player" (VORP)[1] quantifies the competitive advantage of any player. The corollary in human capital is the impact of losing "pivotal employees"—where better employees have a disproportionate impact on the business.[2] Hewitt research has shown that a 10 percent improvement in the retention of pivotal employees produces an increase in Cash Flow Return on Investment (CFROI®[3]) of 0.7 percent to 1.6 percent, depending on whether the company is a standard industrial company or financial services firm, respectively. For the average $10 billion company, therefore, retaining these pivotal employees means $70 million to $160 million to the bottom line.

Using Talent Guardian's rigorous predictive analytics grounded in data, managers have the ability to take actions such as:

- Measuring the cost/benefit of changing sales compensation plans
- Measuring the impact on retail store profitability of retaining better talent
- Creating discussion guides for managers to use in one-on-one conversations with those employees having the greatest retention risk.

[1] Yale Economics Review, Fall 2007 referencing the book *Moneyball* by Michael Lewis.
[2] *Beyond HR, The New Science of Human Capital,* by John W. Boudreau and Peter M. Ramstad
[3] CFROI® is a registered trademark in the United States and other countries (excluding the United Kingdom) of Credit Suisse or its affiliates. Credit Suisse HOLT is a division of Credit Suisse. CFROI is adjusted for asset age/life/mix, and allows for comparisons across companies.

Additionally, the business insights managers can glean from Talent Guardian will contribute greatly to work force planning and the eventual disclosure to the investment community of overall human capital performance.

The most powerful metrics for line managers and investors are those that depend on or impact people, in particular, those people who are able to execute the unique value proposition of the company—or, using a sports analogy, those people who are able to win. Talent Guardian will help you to guard these winners for your company.

About Hewitt

For more than 65 years, Hewitt Associates (NYSE: HEW) has provided clients with best-in-class human resources consulting and outsourcing services. Hewitt consults with more than 3,000 large and mid-size companies around the globe to develop and implement HR business strategies covering retirement, financial and health management; compensation and total rewards; and performance, talent and change management. As a market leader in benefits administration, Hewitt delivers health care and retirement programs to millions of participants and retirees, on behalf of more than 300 organizations worldwide. In addition, more than 30 clients rely on Hewitt to provide a broader range of human resources business process outsourcing services to nearly a million client employees. Located in 33 countries, Hewitt employs approximately 23,000 associates.

To learn more about how Human Capital Foresight can help your organization attract, motivate, retain, and optimize utilization of talent to produce greater organizational value, e-mail TalentGuardianMailbox@Hewitt.com