For the last several years, there has been a tremendous focus on the emerging market for talent management software. Our research shows that the total market (including software used for recruiting, performance and succession management, compensation, and learning) will reach more than $2.6 billion in 2009 and more than $3 billion by 2010.

As Figure 1 illustrates, this market has developed through the slow but steady growth of five separate software segments:

**Figure 1: The Evolution of HR Systems**

• HRMS;
• Recruiting and applicant tracking;
• Learning management;
• Benefits and compensation; and,
• Performance and succession management.

Each of these five segments started at different points in time and has evolved in its own way. Today, unfortunately, most large HR organizations find themselves with a tapestry (maybe more of a “bag of doorknobs”) of systems, many of which do not work well with each other.

Around 2004, savvy HR software vendors realized that there was an “exponential” benefit to building an integrated suite. Such a suite would do far more than automate the existing processes for recruiting, compensation, learning or performance management – it would actually enable a new set of talent management applications, some of which were either impossible before or required “heavy lifting” from IT. These “new integrated” applications include:

• Pay for performance;
• Cascading goal management and performance management, integrated with development planning and succession management;
• Integrated and employee-wide succession management, based on high-potential\(^1\) identification;
• Coaching and development-based performance management, using peer- and mentor-based coaches throughout the organization;
• Implementing “learning on-demand” (including the management of training, informal learning, coaching, mentoring and employee development), in support of an employee’s career lifecycle;

\(^1\) A “high-potential employee” is an employee who has been identified as having the potential, ability and aspiration for successive leadership positions within the company. Often, these employees are provided with focused development as part of a succession plan and are referred to as “HiPos.”
• Identifying and tracking quality of hire and quality of source, through the employee lifecycle;

• Leadership development, coupled with succession and performance management;

• Enterprisewide competency and capability management;

• Lifecycle employee career management, for both professional and managerial roles;

• Workforce needs-based internal sourcing and employee mobility;

• Employee expertise-directories and team-based collaboration;

• Highly scientific analysis of employee fit, high-performing work profiles, candidate analysis and leadership potential based on true performance; and,

• Enterprisewide workforce planning, which identifies hiring needs, expected skills gaps, expected leadership gaps, and skills and capabilities gaps matched with the business plan.

If we consider the real talent challenges facing organizations today, they are both complex and integrated. Consider the needs of a global oil company that faces the retirement of 25 percent of its senior employees in the next five years? How does the company identify the replacements for these positions, recruit and train for these positions, and share knowledge among those leaders? How does it even identify the most critical risks when people leave?

In the healthcare industry, organizations face a tremendous labor shortage, coupled with the need to deliver ever-higher levels of patient service at lower operational costs. This demands a strong focus on strategic recruiting training, career management and performance management – but in an integrated way.

These types of problems plague almost every major organization – and they cannot be solved by an “automated recruiting application” or “online performance appraisals.”
Enter the Talent Management Suite: New Economic Benefits

Given these challenges, we must rethink the economic benefits of HR software. Rather than provide value by “automating processes,” and “reducing errors and paperwork,” we have really entered a new era – an era in which the benefits of software are “new integrated solutions,” not just more efficient online systems. Standalone HR systems do provide value, but not what we may have expected. It is important to automate existing processes, but if we cannot use the system to drive strategic value, then an automated HR system does nothing more than shift costs from “paper” to “computers.” As any experienced IT person realizes, automation is not always inexpensive. In almost any IT project, the costs for the first few years (including software, training, change management, integration, data management and systems maintenance) are five to 10 times the cost of the software itself.

Our most recent research illustrates that the corporate HR and learning industry has now “crossed the chasm” from automation to breakthrough applications. While most big companies cannot even implement a talent management suite (they have too many legacy systems in place), many smaller companies have now implemented an end-to-end talent management system – and they are showing five to 10 fold higher returns on investment.

Consider the following compelling data.

1. In our 2007 and 2008 research, High-Impact Talent Management® (which studied more than 700 global corporations in a wide variety of talent management practices and systems), organizations with integrated talent management suites deliver between 3.5 and five times greater returns from their top 62 internal HR processes than those organizations which use standalone, unintegrated software. In fact, this research shows that organizations with standalone

---


talent software (e.g., independent recruiting, LMS or performance management software) are not generating much better returns than those without such software.

2. In our 2008 Corporate Talent Management Factbook® (a global research study which looks at the practices and systems of more than 1,000 global companies), organizations with integrated talent management suites (fewer than eight percent of all companies) gained more than 270 percent higher returns on investment than those with standalone performance management, learning management or recruiting systems.

Consider the following benefit areas.

**Figure 2: Economic Benefits of Talent Management Software**

<table>
<thead>
<tr>
<th>Business Benefit</th>
<th>Suite Versus No Software</th>
<th>Suite Versus Standalone Performance Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability to develop a strong leadership pipeline</td>
<td>34% higher</td>
<td>66% higher</td>
</tr>
<tr>
<td>Ability to link compensation to performance</td>
<td>53% higher</td>
<td>210% higher</td>
</tr>
<tr>
<td>Ability to develop employees to meet business needs</td>
<td>54% higher</td>
<td>159% higher</td>
</tr>
<tr>
<td>Ability to build a culture of high performance</td>
<td>30% higher</td>
<td>161% higher</td>
</tr>
<tr>
<td>Ability to adapt to an aging workforce</td>
<td>18% higher</td>
<td>250% higher</td>
</tr>
</tbody>
</table>


---


This data (which is very compelling) illustrates the fact that, in today’s talent environment, “integration is far more important than automation.” While organizations may see some benefits from standalone HR applications, the end results pale in comparison with the potential benefits of an integrated solution.

**How Do You Gain the Benefits of an Integrated Suite?**

This is the $64,000 question. Today, because of the maturity level of today’s rapidly changing HR software market, there are two obstacles to achieving this level of integration.

**Challenge 1 – Your Company’s Existing Legacy Systems**

The first challenge we face is the fact that companies already have hundreds of thousands to millions of dollars invested in “legacy” standalone systems – systems which were “the best possible solution” available at the time they were implemented.

These legacy systems have a major benefit – they work. *(In fact, one of the best definitions of a “legacy system” is that it is a system which “works.”)* The reason these systems work is that companies have
invested years of time, money, customization and change management to make sure these systems automate the processes for which they were designed.

Unfortunately, most of these systems are not integrated with any other HR systems, aside from the organization’s ERP. For example, one of the world’s largest automobile makers uses PeopleSoft – but has still not implemented a global domain structure that would enable the company to use PeopleSoft for its global learning management system. Why? Because the PeopleSoft system has been focused on running global payroll, a very important application. Would the company sacrifice the ability to run global payroll for the potential benefit of integrated talent management? Of course not.

So these “legacy systems” must be treated gingerly and, in many cases, they must be “surrounded” and “integrated” with new applications.

Our research clearly shows that large organizations (that are more than 10 years old) have the toughest time migrating their applications to integrated talent management software. Added to this challenge is the fact that, in today’s tight economy, HRIS is not the top priority for many IT departments.

More and more large organizations are “biting the bullet” to make these transitions. Charles Schwab, for example, a very sophisticated IT company, is migrating much of its legacy talent management software to an integrated suite. Bank of America, one of the most complex organizations with legacy systems from more than a dozen acquisitions, is also about to do the same.

While the challenges are daunting, there is no substitution for “building a plan.” We are working with one of the world’s largest healthcare providers, as well as a well-known global oil company, to map out this plan today. Such an effort requires a careful look at existing systems and processes, and mapping the “new processes” against the “old processes” to make sure that a transition does not cause any business interruption. Most IT organizations now have experience with such projects and, as organizations come to understand the ROI of integrated talent management, we will see more and more of these.
Challenge 2 – Your Legacy Systems Vendors

The second challenge organizations face is the relatively slow and painful process that HR software vendors go through to build out an integrated suite. As Figure 1 shows, each of the talent systems markets (each colored oval) has 20 to 30 major software providers. Only a few companies have truly reached the nirvana of an integrated suite (our industry study on Talent Management Suites\(^6\) will help you identify the right provider). Even those vendors that have such suites tend to be strong in their primary application areas and weak in most others.

Moreover, you probably have an incumbent vendor you like for at least one system. This vendor (whether it is your LMS vendor, recruiting vendor or performance management systems vendor) may or may not be moving “fast enough” for you to get to where you want to be. They may be building out their suites via acquisition – which often creates a fast time to market but a slower end-to-end integration. Also, they may have a fantastically well-developed, long-term plan that takes years to implement. (*Oracle, SAP and PeopleSoft fall into this camp.*) You must trade off speed and functionality versus your own business relationship and experience with a vendor.

Worst of all, in a market going through such turmoil there are software companies that succeed and those which fail (and are often acquired). In your selection of a “strategic” platform, you must not only consider the functionality of the product and the company’s support – you must also consider the long-term stability (viability) of the company. If the vendor is not rapidly growing and gaining market share, it could easily be acquired.

**Bottom Line: The Economics of Integration Are Now Proven**

Even given these challenges, our data and research clearly shows that in today’s HR software market integration is an imperative. Some important guidelines include the following.

---

• The days of a new, standalone LMS are over. While the LMS market continues to be very large and complex (more than $600 million and growing), any system for internal training must have features or an integrated solution for development planning and integration with performance management. Almost all LMS companies now offer such an integrated solution.

(This is not to say that many standalone LMS systems for applications, like customer education, partner training, departmental training and other applications, are not valuable – but any new “corporate LMS” must now be an integrated talent management system.)

• The days of a new “performance management” system are now over. Companies that sold standalone performance appraisal automation systems are gone – being replaced by systems which include goal alignment, succession management, development planning and complete employee profiles (that import résumés and create a rich employee profile for workforce planning, expertise location and succession management). If you are considering the implementation of performance management software, think about it as an integrated system for performance management, succession management, career development and more.

• The days of a hand-crafted, standalone “succession” system are now gone. Many organizations built their own hand-crafted succession management systems. These are not attached to performance management and learning – and can now be replaced by integrated performance and succession management applications.

• Compensation should soon be considered part of the suite. Today, compensation management is a highly automated but very disparate process (often done on complex spreadsheets). We expect to see vendors build integrated, highly functional compensation management within their talent management suites. Organizations should consider looking at the new compensation modules offered by performance, learning and suite vendors. While the total compensation problem will not be solved
quickly by suite vendors, many of the management-level functions (e.g., pay for performance, sales compensation) are available in talent management suites now.

- Talk with your HRMS vendor. Even though many organizations have standalone payroll and HRMS systems built years ago, more and more of these systems are being enhanced with talent management functionality (e.g., Lawson and Workday, in addition to the ERP vendors). Ultimately, the talent management suite and the HRMS must have a strong level of integration, and we see the two converging. Standalone payroll vendors are starting to partner with talent management software vendors, as well.

- We must consider the role of social networking in the application suite. Finally, one of the fastest-growing new segments of talent management is the emergence of an employee social-networking platform. This system forms the basis of the “corporate Facebook” – and stores employee locations, skills, experience, interests, educational history and contact information.

- Today we see these systems being built by new companies (and by existing suite providers). Consider the role of these systems in your company’s architecture – the jury is out as to whether your social networking solution will come from your HR software provider or one of the 80-plus enterprise social-networking software companies.

- Develop a long-term plan. While no organization can rip out existing software and replace everything you have overnight, with a long-term plan you can gain the benefits of integration over the coming years. Give yourself some time, and consider the issues and benefits in this research as an imperative.

The changes taking place in HR software are profound, powerful and exciting. We are here to help you.