



INDUSTRY STUDY

The Convergence of Learning and Performance Management

Has Talent Management Arrived?

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September, 2005

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Executive Summary

Overview

This research report examines the emerging convergence between Learning Management and Performance Management Systems and defines a new category of HR applications we call Talent Management. Information in this report was obtained by examining trends and implementation practices in 552 different organizations. The detailed methodology and demographics of the study are described in *Appendix A: Study Methodology and Demographics*, on page 42.

This report is designed to help HR and corporate training managers plan and implement their overall human capital systems strategy. It examines the markets for Learning Management Systems (LMS) and employee Performance Management Systems and illustrates how Talent Management solutions are emerging.

Today's HR Systems Environment

In the 1980s and 1990s, corporations rushed to buy enterprise systems that automated customer relationship management, logistics and manufacturing, payroll, and accounting. These corporate applications (Enterprise Resource Planning, or ERP) are now well understood by most IT, accounting, sales, and financial managers. Although many organizations still are working hard to select and implement these systems, their purpose and value is clear and well established.

In the area of Human Capital Management (HR and Training) however, enterprise applications are more confusing. There are many varieties of Human Capital applications and the market is far less mature and clearly defined.

The core system in HR is the HR Management System (HRMS), which serves as the single system of record for employees. HRMS systems are a "must-have" for any organization: they store vital employee information (payroll, hire date, benefits, management hierarchy, etc). The HRMS is transactional. It is designed for HR managers and employees to view, modify, and update information. Every company of any significant size has some type of HRMS.

But there are many employee-related business processes which go beyond payroll and record-keeping. We believe there are more than 40 different employee-related business processes which could be automated, including:

- **Learning & Development:** Enterprise training management, as well as assessment, certification,

compliance, e-learning, content development, content management, customer education, management education, executive education, communities of practice, and much more.

- **Performance Management:** Establishing performance plans, managing the achievement of goals, storing and analyzing performance reviews, ranking and rating employees, skills assessment, 360 feedback, competency management, goal alignment, and coaching.
- **Talent Management:** Using learning and performance management to identify high performing individuals, perform succession planning, and identify critical skills and current or projected skills gaps.
- **Workforce Planning:** Using Talent Management to plan resource needs, move people to the right jobs, establish hiring targets, and create teams and pools of critical resources.
- **Recruitment:** Access to job-banks, hiring, managing resume databases, background checking, candidate assessment, and salary surveys.
- **Compensation:** Time and attendance processing, compensation planning, benefits administration, rewards management, and long-term incentive planning.
- **Financial HR Applications:** HRMS systems of record, budgeting, payroll administration and planning, and vendor management.
- **HR Tools:** Portals, self-service systems, and human capital analytics.

This broad set of application needs has made it difficult for HR and Training executives to decide which systems to build or buy. Although ERP vendors (primarily SAP and Oracle) sell integrated suites, the suites still are missing pieces. As a result, most HR and training organizations today have a wide range of manual processes, internal systems, and vendor products that make up their tapestry of HR systems.

The Challenge for HR and Training Managers

HR and training managers would like to have a single “Human Capital Management” (HCM) application that handles all HR and training business process needs. But given the fragmented nature of the market and the vast number of business processes to automate, they face a critical set of questions:

- Which of these HCM business processes should be automated and why? What is the ROI of automating one process vs. another?
- Which of these systems should be bought vs. built?
- Does it make sense to buy an integrated suite of HR applications? What applications should be bundled together and why?
- Should we buy an independent Learning Management System (LMS) or buy an LMS as part of a suite?
- How do we do integrated Talent Management? Should we implement a corporate-wide or department-wide skills and competency model? If so, how?
- How can we implement an enterprise-wide employee performance management and goals management system, which drives operational business performance improvement? How can we use this information to drive learning and development, succession planning, and other talent management functions?

Application Convergence is Taking Place

For many years, software vendors have been selling the vision of an integrated Human Capital Management system. Yet over the years, our research has found that few of these integrated solutions were implemented.

Today, however, we believe this application convergence is starting to take place. Understanding this convergence will help HR and Training managers plan their strategy. The major trends we see are as follows:

Trend 1: Growth in Performance Management Applications

As we describe in the Performance Management section of this report on page 22, the #1 focus area for HR managers today is improving the process of employee performance management. This demand has created a market for a wide variety of performance management systems vendors. Although only 11% of our respondents have automated the performance management process today, we expect this to become a major trend in the next several years. There now are dozens of small and large companies selling performance management software solutions.

Trend 2: Mainstream Adoption of Learning Management Systems

Because of the heavy focus on e-learning in the last five years, Learning Management Systems now are being adopted as a

mainstream corporate application. Our analysis, starting on page 16, explains this trend. LMS vendors have grown in size and strength and LMS implementations of 20,000-150,000 employees are common.

Trend 3: Emergence of Talent Management as new Function in HR and L&D

The third finding we realize is the increasingly common focus on a suite of HR and L&D applications we call “Talent Management.” We see a distinction between two broad categories of HR or Human Capital functions: HR Management (HRM) processes and Talent Management (also called HRD) processes. Talent Management encompasses the functions of Learning & Development.

Examples of the differences between the two are shown in the following table.

	HR Management (HRM)	Talent Management (HRD)
Definition	Corporate-wide HR functions that require corporate-wide adoption, many are transactional in nature. “HR Management”	Learning & Development functions, which are line-of-business specific, and are learning, development, and performance management in nature. “Talent Management”
Core Functions	Payroll, Benefits, Recruitment	Learning Management, Performance Management, Skills and Competency Management
Examples	Hiring, Promotions	Training, Certification, e-learning, Assessment
Analytical Processes	Compensation Planning, Workforce Planning	Identification of Critical Skills and Competencies, Creating Skills and Competency Databases
Related Processes	Opinion Surveys, Employee Communications	Goal Alignment, Succession Planning

Figure 1: HR Management Domain vs. Learning & Development Domain

Although all these applications work together, each of the two areas has a different focus. HR Management focuses on HR processes and resource planning: How do we run the employee part of the

company? Talent Management focuses on the Learning and Development part of the company: How do we train, assess, manage, and improve our people?

The two domains overlap in many ways.

For example one, Talent Management function may be the identification of high performing individuals. The HR Management function associated with these individuals may be establishing the right incentive and compensation plan to retain these individuals.

Another example may be identification of critical skills. In an electric utility, the Talent Management function may identify a set of critical skills that are in short supply and the business risk of these people retiring. The Talent Management function also would develop a learning plan to codify these skills and create a larger pool of available resources. The HR Management function then would measure these workforces and make sure the right people are hired to fill these gaps.

Trend 4: Focus on Alignment between HR and Training

As these domains are identified, most companies realize that they need to change the alignment between Training and HR. Training, which typically focuses on line-of-business performance problems, needs to also accommodate the broader Talent Management issues that HR has identified. This requires a stronger and different alignment between HR and Training.

Trend 5: Emergence of the Talent Management Suite

The final trend we see is the emergence of a **Talent Management** suite of applications that combine the traditional definition of LMS, Skills and Competency Databases, and employee Performance Management (PM) Systems.

This application suite is being built by LMS vendors, ERP vendors (SAP and Oracle), and HR-Performance Management vendors.

The Learning Management Systems market is large and growing. The Performance Management Systems market is smaller but growing even faster. The two are naturally linked together through skills and competencies and learning offerings. Forward thinking organizations are starting to ask their suppliers to link these applications together.

Some vendors call these suites Human Capital Management systems. We see them as integrated Learning and Development solutions, which include Learning Management, Performance Management, and Skills and Competency Management. The term that we believe better describes these solutions is Talent Management Systems.

Impact on HR and Training Organizations

What does all this mean to the HR or Training manager and executive?

1. **Changing roles:** The Training organization and HR now need to work together to decide if and how to implement a Talent Management process. Who should be responsible for identification of critical skills and competencies? Who should be responsible for the management of performance management systems and processes?
2. **New integrated vendor solutions to consider:** These converged applications come from companies such as Cornerstone OnDemand, MeridianKSI, Plateau, Saba, SAP, and Softscape. Other companies are creating alliances and partnerships to build these solutions (SumTotal integrates its skills and competency system with SuccessFactors, for example). Corporate buyers have a new set of systems to consider.
3. **A need to focus:** As these new integrated approaches become available, organizations must maintain focus. What is the most important problem to solve today? Should we focus on an e-learning system? Or should we work on a solution to identify and close critical skills gaps? How long will it take? Is it worth the effort? The Talent Management vision is broad and it must be implemented in stages.

This research report examines these issues and trends in more detail and gives readers insights into this convergence of HR and L&D applications.

HR vs. Training Perspectives

In order to discuss the trend toward integrated HR and Training applications, it is first necessary to discuss how HR and Training (or Learning & Development) functions relate to each other.

How Training and HR Differ

In 2005, we conducted a major research study on best practices in the organization and management of corporate training. Our research showed that although most training organizations have strong linkages to HR, they function very differently.

	HR	Training
Key Goals	Focus on <i>HR processes</i> which create high levels of <i>retention, employee satisfaction, and hiring excellence</i> .	Improve <i>business performance</i> by improving skills and competencies and identifying human and organizational performance problems.
Operational Issues	<i>Processes:</i> Hiring, termination, payroll, talent management, performance management, benefits, succession planning, and retention programs.	<i>Programs:</i> Developing training programs in a wide variety of operational and management topics, delivering programs, measuring and improving programs, embarking on e-learning initiatives.
Organization & Focus	<i>Centralized:</i> Strategy and policy are set centrally with some distributed service operations.	<i>Decentralized:</i> To line organizations with some "corporate" training and other "line" training. Distributed units have much autonomy.

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Figure 2: Training vs. HR Perspectives

As the figure above illustrates, HR managers and executives focus on strategic **people processes**: How do we most efficiently and effectively hire, manage, train, and develop people? HR managers worry about retention, compliance with government regulations, employee morale, succession planning, compensation and benefits, management processes, and leadership development. In general, these processes are corporate-wide in nature. They cross the entire organization. As a result, HR organizations typically are centralized at the corporate level with small teams that work with lines of business.

Training, by contrast, operates differently. Training's biggest mission is to improve operational business performance by identifying performance problems and **delivering programs** that improve skills and competencies. Trainers live by programs (as opposed to processes): the development, launch, management, and measurement of training programs is their livelihood. They also have a much deeper interest in technology. Learning technology is an entire discipline in itself that takes a significant amount of time and effort from training professionals. The best training organizations, as our research shows, are decentralized or "federated"¹. Training organizations constantly reach out to line business people to identify problems, changes in the business, new product and service launches, market changes, and other line business challenges.

The way we visualize the difference is shown on the following chart:

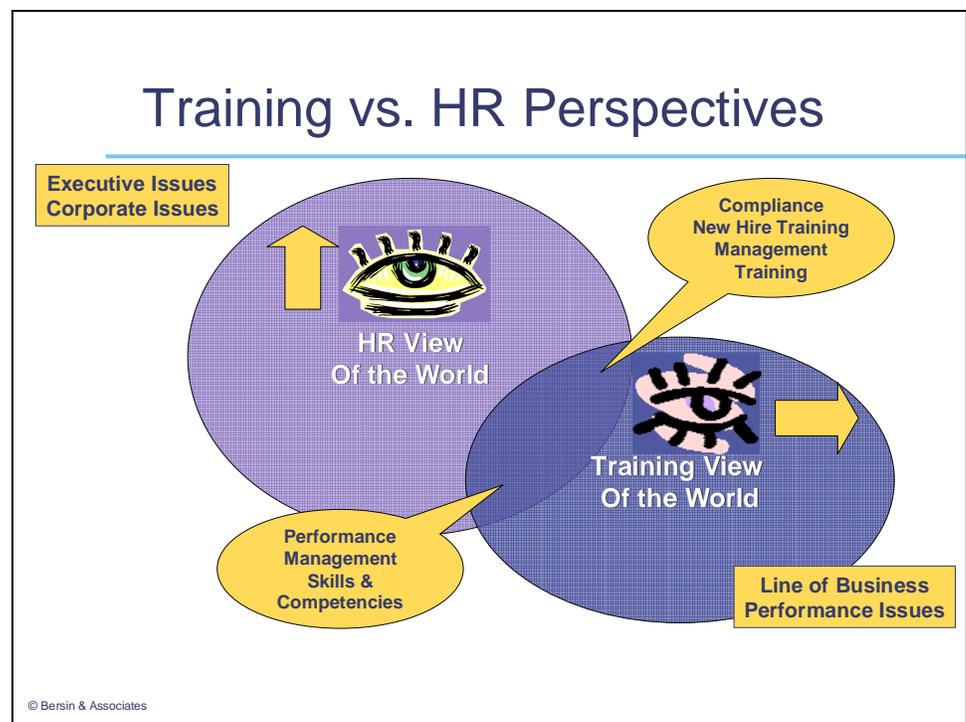


Figure 3: Training vs. HR Perspectives – Visually

The HR organization looks “upward” at corporate and executive issues. HR managers and executives worry about corporate-wide issues and implement systems and processes that touch every employee. They are accountable to the CEO and CFO.

The Training organization, by contrast, looks “outward” at line-of-business problems. They worry about sales, customer service, manufacturing, IT, and other functional needs. They are

¹ Federated: We define the “federated” model of training in our best practices in training organization study. Federated organizations have a central group (i.e., the Federal Government) and decentralized groups (i.e., the State Governments).

accountable to the VP of Sales, VP of Customer Service, VP of Manufacturing, CIO, or COO.

Where Training and HR Come Together

The two do not operate at 180% differences, but they do operate somewhat tangentially – we like to think of the organizations as 90% apart – with an overlapping area in the middle. Our High Impact Learning Organization² research shows that best practice organizations keep the two functions independent in this way but have several areas of overlap.

The key areas where HR and Training work closely together are:

- Management Training and Executive Education
- Leadership Development
- Compliance Training (usually government mandated)
- Skills and Competency Databases and Definition
- Performance Management.

Each of these five areas has something key in common: they are both development- and process-oriented. They focus on the development of people, but this must be done at a corporate-wide level for consistency and broad adoption. We call these functions the “Learning & Development Domain.”

Our best practices research finds that in these five areas, Training and HR professionals work closely together. In the latter, Performance Management, HR tends to take the lead.

Demand for Alignment: Training vs. HR Perspectives

One of the biggest buzzwords today is **alignment**. In May of 2005, we asked 526 training managers what their biggest challenges were. As the following chart shows, the top priority for corporate learning professionals is to be aligned with the business strategy. This is a good thing: corporate training is not truly a learning function. We think of it as a business performance improvement function. Any training program that does not directly improve business performance should probably be questioned.

² *The High Impact Learning Organization*, an in-depth study of best practices in the management and operations of corporate training. Available to research members or for purchase at http://www.bernsin.com/research/high_impact.asp.

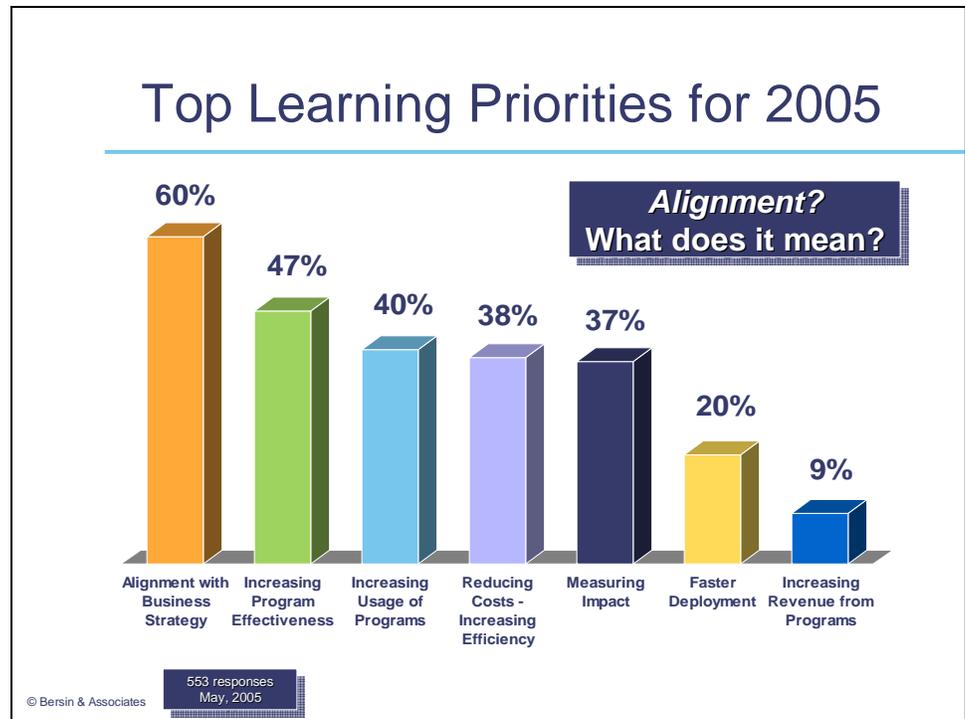


Figure 4: Top Training Priorities – Alignment

The second biggest priority among training managers is increasing program effectiveness, again focused on improving business performance.

If we look again at the definition of alignment from an HR and Training perspective, we see a somewhat different set of issues:

What does Alignment mean?

Training Perspective	HR Perspective
<p>Making sure all training programs solve a <u>critical</u> and <u>timely</u> business problem.</p>	<p>Making sure all goals, performance plans, and processes are <u>consistent</u> and <u>cascade</u> throughout the organization.</p>
<p>Meeting Current Line of Business Needs</p>	<p>Talent Management</p>
<p>Crystal Clear</p>	<p>Somewhat Fuzzy</p>

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Figure 5: Training vs. HR Perspectives on Alignment

If we look at what alignment means for Training and HR managers, we once again find that the two are related but different. When we asked HR professionals about their biggest priorities for alignment, they mention words like talent management – ensuring that goals, performance plans, and skills are driving corporate-wide behaviors that are consistent with the corporate-wide objectives. Again, an important issue – but focused at the corporate-wide executive level.

An Example of Alignment: Aetna

A good example of an organization that has taken HR and Training and created corporate-wide alignment is Aetna. In the last several years, Aetna has implemented a corporate-wide business process that integrates corporate goal setting, operational goals, individual performance plans, and learning. This process, which is described in detail in our case study on Aetna³, ties learning programs directly back to these corporate goals through the Performance Management process. Aetna built its own systems to automate this process.

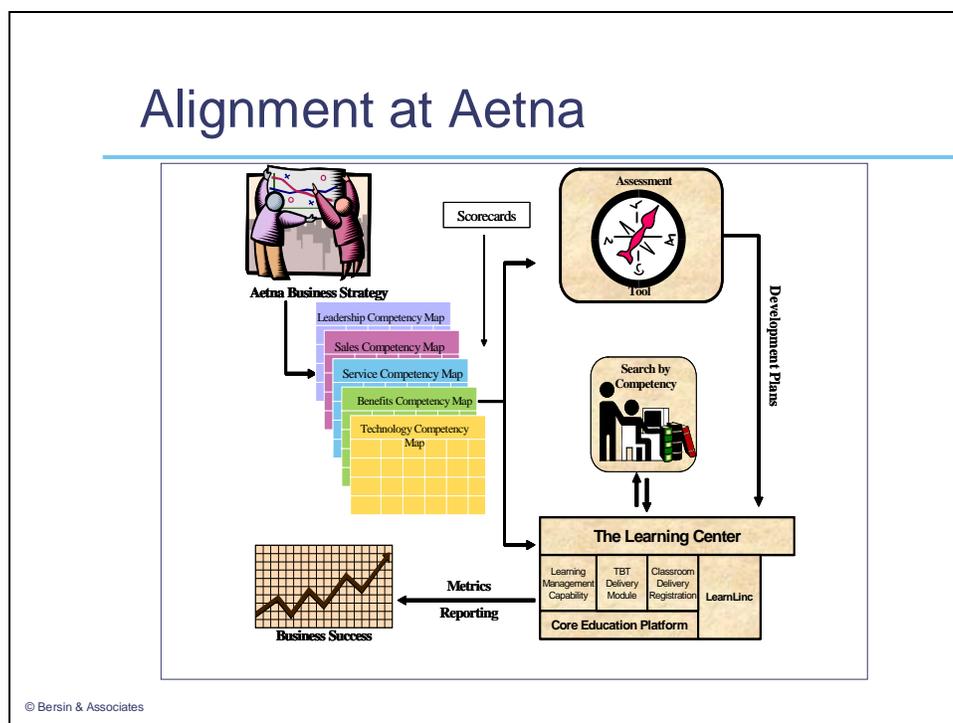


Figure 6: Alignment Processes at Aetna

As this figure indicates, the Performance Management process is the linkage that “operationalizes” these goals into the right behaviors. This leads us to the Performance Management market and how it is being integrated into Learning Management.

³ The Aetna integrated performance management case study is available to Research Members at <http://www.elearningresearch.com>.

The Learning Management Systems Market

Now that we have identified the dynamics between HR and Training, let us look at the market and dynamics that drive Learning Management Systems.

Defining an LMS

Learning Management Systems are a well established corporate application for the management of training, e-learning, compliance, customer education, and corporate universities. Our research tells us that the LMS market in 2005 is approximately \$450 million and growing at 15-20% per year.

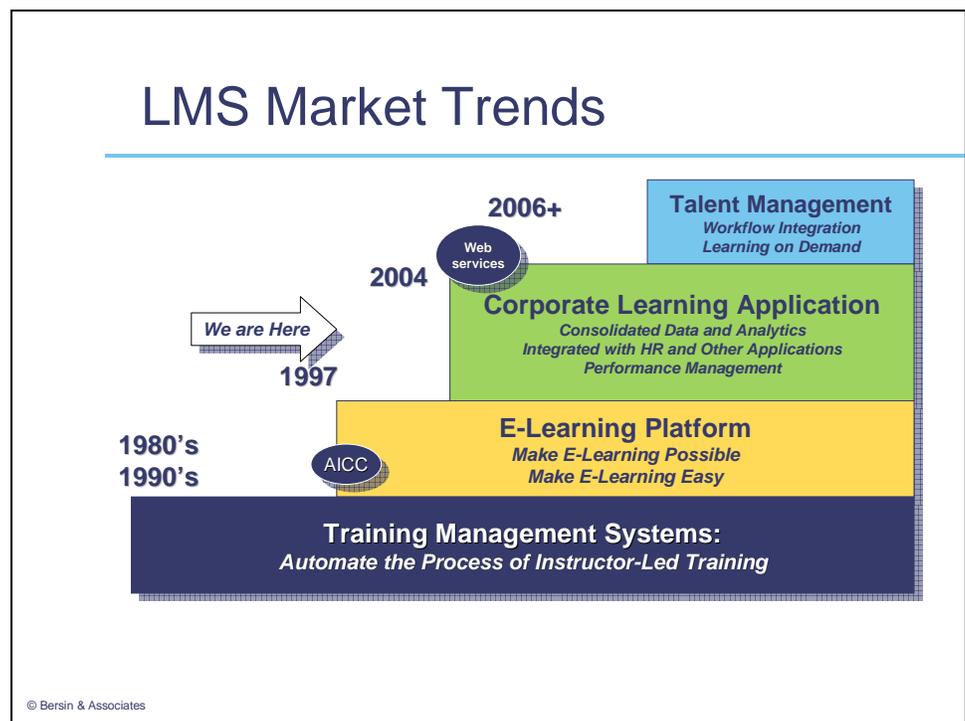


Figure 7: LMS Market Evolution

As the figure above shows, Learning Management Systems have evolved from Training Management Systems, which were used in the 1980s and 1990s to manage the logistics and enrollment of instructor-led training. In the late 1990s, and throughout the last five years, the LMS market has focused on enabling e-learning. Most LMS today focus heavily on features, tools, and capabilities to deliver, manage, track, and analyze e-learning, as well as instructor-led training. These functions are business-critical in most organizations and we find that 55-65% of organizations have some

kind of LMS already (although many of these are in the process of being replaced).

In the last few years, Learning Management Systems have evolved from training-centric applications into enterprise-wide corporate applications. This evolution (the green box in Figure 7, above) has taken place because organizations are realizing that to truly manage learning and development functions they must have a centralized system that is supported by IT, integrated into the company's HR applications, and used consistently across all business units. Although this centralization trend is continuing, the majority of organizations still have multiple systems that are not integrated into one.

The next big wave is Talent Management. As this research paper discusses, organizations that use their LMS for a corporate-wide application start to extend the platform to meet new needs. These include talent management, on-demand delivery of learning, and tighter workflow integration with other HR and customer-centric systems.

Business Drivers

The business drivers for an LMS implementation continue to be focused on administration and efficiency. LMS typically are purchased by training organizations to help them manage the logistics, enrollment, tracking, and measurement of the training function. These functions are very difficult to do by hand and often are business critical for compliance applications, product launches, new company initiatives, and many other applications.



detailed data, please read our LMS 2004 and 2005 Market Research⁴).

Several mergers and acquisitions took place in 2005. Oracle acquired PeopleSoft, Saba acquired ThinQ, and SumTotal announced plans to acquire Pathlore. Despite these consolidations, many new LMS vendors emerged and many of the smaller companies achieved very high rates of growth. The reason for the fragmentation is that the market itself has different segments: small- and medium-sized businesses have very different needs from global enterprises; customer training has different requirements from a corporate university. We expect this fragmentation to continue.

Implementation Realities

When organizations implement an LMS, they quickly find that one of the biggest challenges is data integration. The LMS must have a consistent set of information about every employee (or every customer). The LMS must have information about each learner's job role, location, language, and where they fit in the organizational hierarchy.

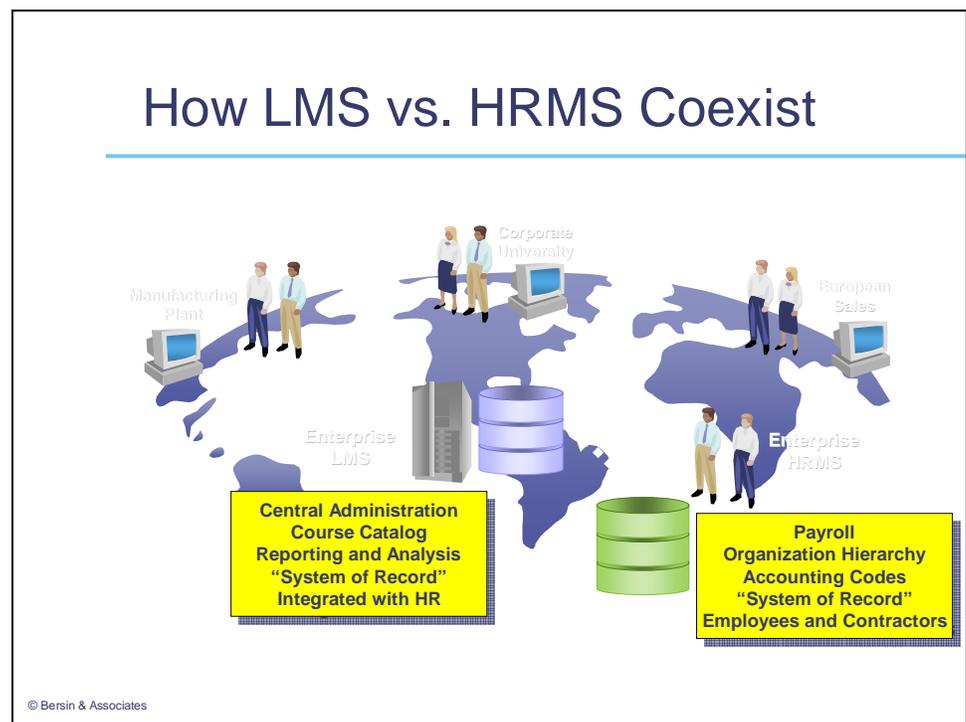


Figure 10: LMS Integration with HRMS

⁴ LMS 2004-2005: Facts, Practical Analysis, and Trends for Corporate Buyers, Vendors, and Consultants. Available to research members and for purchase at <http://store.bersinassociates.com/lms-2004.html>.

As the Figure 10 shows, typically the LMS gets this information from some HR Management System (HRMS), which is the system of record for employees. The HRMS houses business critical information, such as employee start date, salary level, benefits, etc. It usually is a legacy system that has been in place for some time. The LMS only needs a subset of this information, but it must be kept consistent.

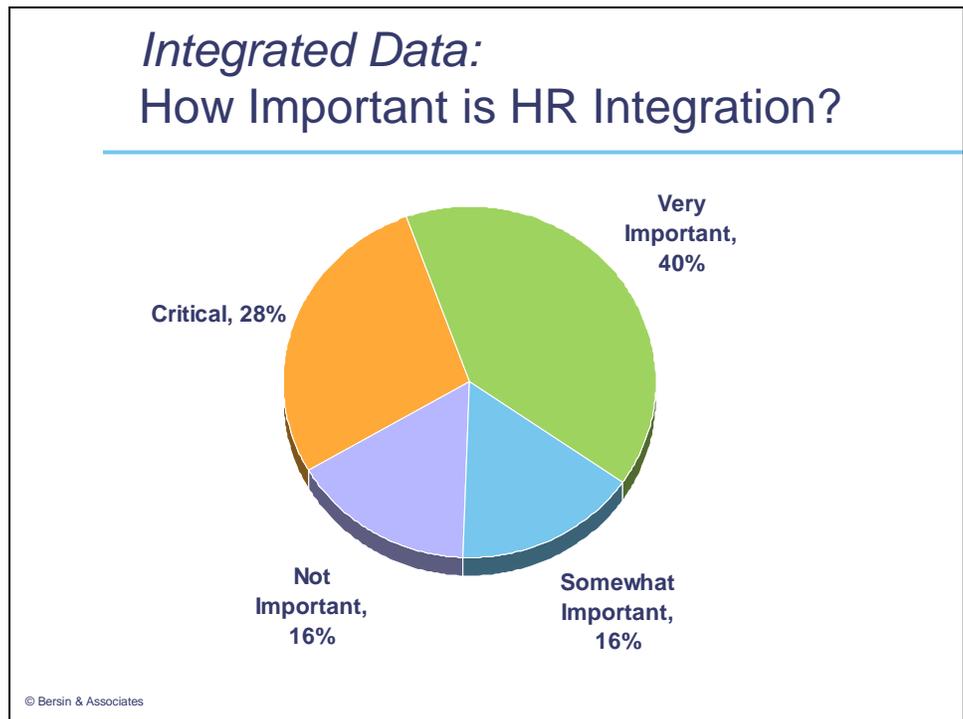


Figure 11: Critical Nature of Data Integration

Companies tell us that this integration is vitally important. In order for the LMS to be “the single source of truth” for training, it must be kept consistent with “the single source of truth” for HR information.

Should the LMS come from your HRMS or ERP Provider?

One would imagine that the best possible solution to the integration problem would be to buy an LMS from the HRMS provider. Unfortunately, this has not been a viable option. PeopleSoft was in the middle of launching its integrated LMS solution, which actually does *not* share the same database as the HRMS, when it was acquired by Oracle. Oracle now is in the middle of re-engineering its LMS strategy to integrate its solution with the Oracle e-Business Suite. The only major vendor HRMS system today which delivers a single integrated database is the SAP Learning Solution (LSO). SAP’s solution is tightly integrated but still new and does not yet have many of the features and flexibility options that LMS buyers demand.

Today, less than 5% of Learning Management Systems come from an ERP provider, although this number is growing.

The Performance Management Market

In the last year or so, the topic of Performance Management has risen to the top of HR managers' agenda.

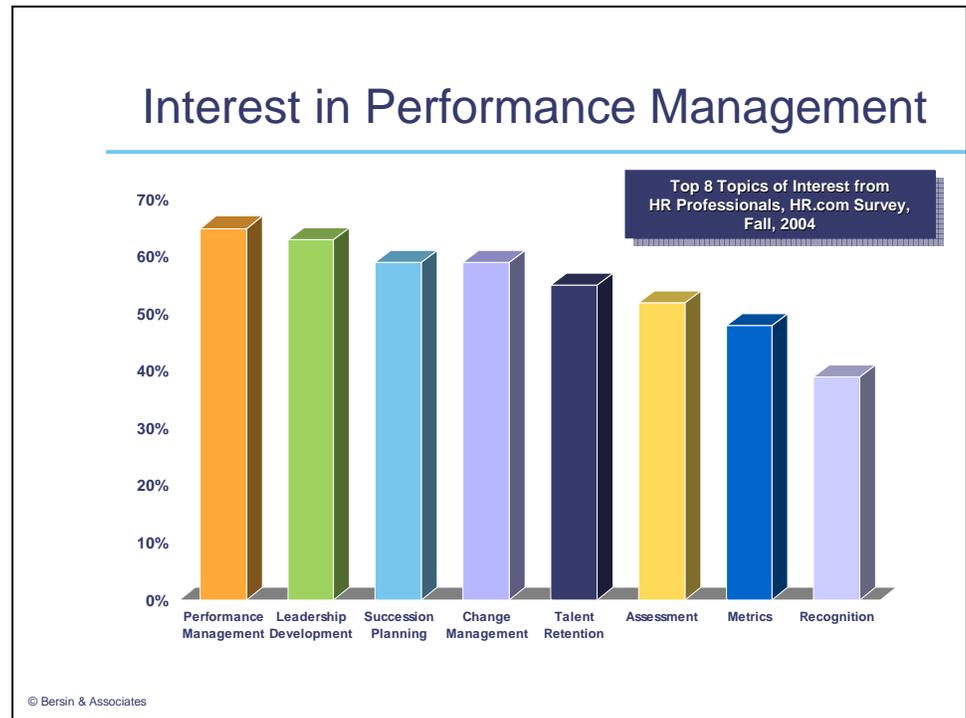


Figure 12: HR Interest in Performance Management

We believe this growth is due to four factors:

1. **Economic Growth:** As the U.S. economy grows, companies now find themselves growing again and are focused on aligning new and existing employees toward new products, services, acquisitions, and market opportunities. A performance management process is needed to operationalize these goals.
2. **Retirement of Key Skills:** A generation of older workers is retiring. As these individuals leave, the organization must identify the critical skills that leave with them. The U.S. government, for example, will lose nearly 20% of its adult workforce to retirement in the next 10 years. A performance management and skills management system is needed to identify the gaps and make sure they can be filled.
3. **Remote and Disconnected Workers:** As organizations become more decentralized, with people working in remote locations, managers no longer sit in the "office in the corner" where they can watch over employees. An automated performance management system makes a manager's job

much easier. Employees can use self-service to create goals, get them approved, and measure their attainment.

4. **A Top-down Focus on Results:** CEOs and Senior VPs are focused on results. When a company undergoes a major change in strategy or crisis, the CEO wants to manage change closely. Performance Management Systems, which show a top-down organization-wide view of goal alignment and attainment, are very attractive as operational management systems.

Business Drivers for Performance Management Systems

What specific business drivers do HR managers see for the implementation of a Performance Management System?

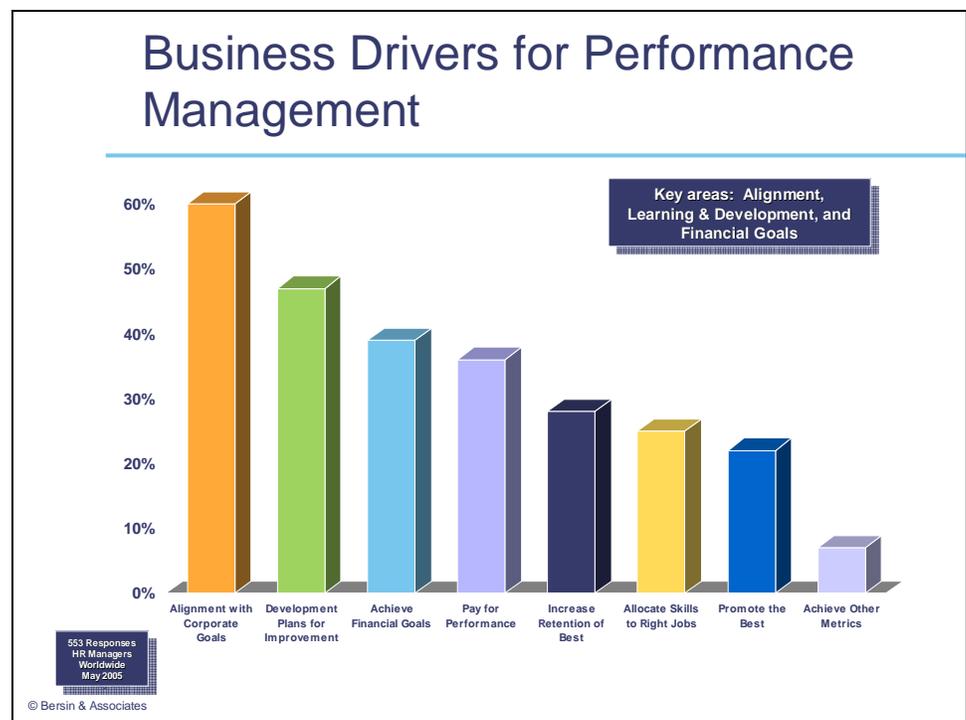


Figure 13: Business Drivers for Performance Management

As Figure 13 shows, HR managers see two major business drivers: (1) alignment with corporate goals and (2) creating development plans for employee performance improvement.

These are fully consistent with our definition of alignment – and it is interesting that the development priority is even higher than retention and pay for performance. *HR organizations realize that one of the biggest benefits of a good manager (and management process) is not just higher output, but the ability for employees to learn how to improve.*

Defining Performance Management

People can define the term Performance Management in different ways. For the purposes of this paper, we define Performance Management as:

“Management processes, which set measurable goals and objectives for employees, assess achievement and attainment of such objectives, and then use this information to improve performance through coaching, compensation, training, and other means.”

When we ask HR managers how they define Performance Management, they indicate the following:

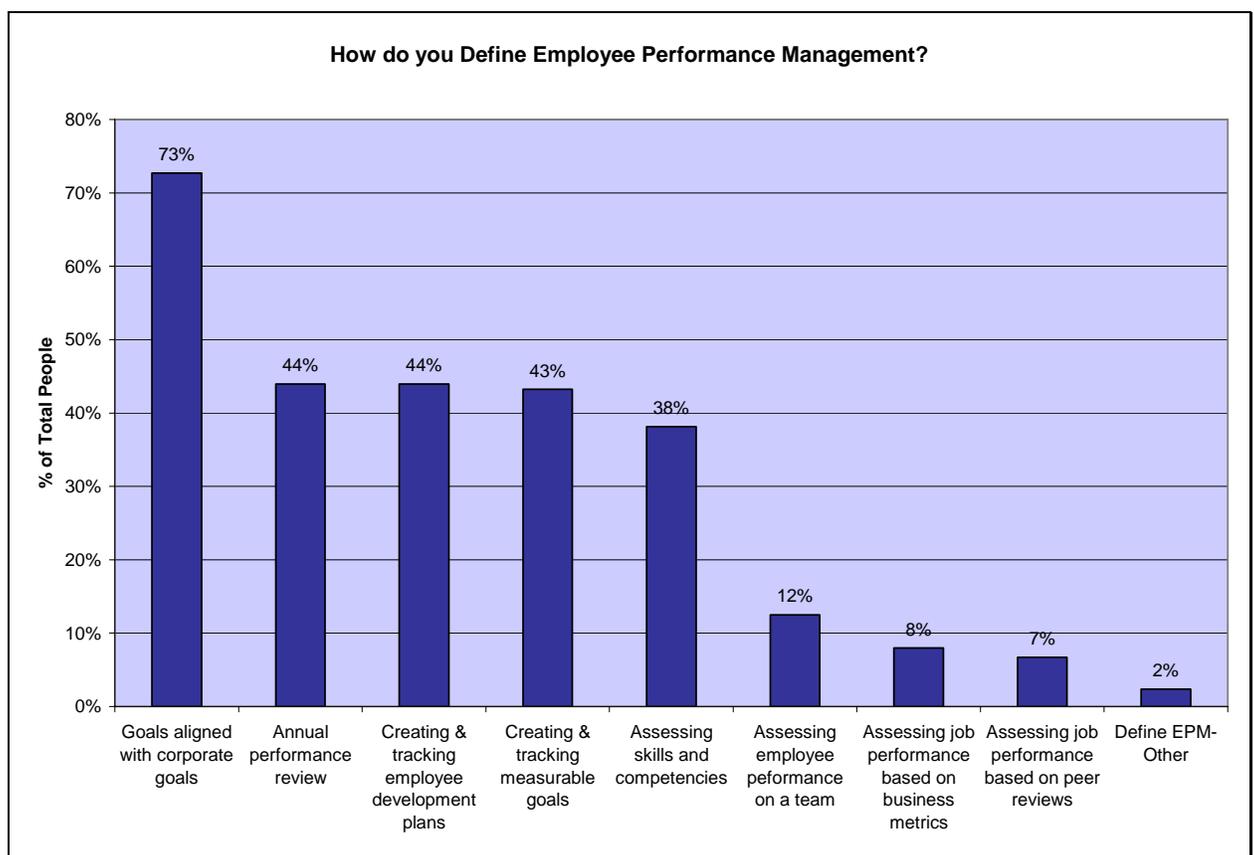


Figure 14: How HR Managers Define Performance Management

As you can see, HR managers view goal setting, performance reviews, and skills and competency assessment as key parts of a performance management process. Interestingly, only 8% of HR managers see “assessing job performance based on business metrics” as a critical part of the process. Again, this indicates how HR professionals focus on corporate-wide issues – it is left to the line manager.

Need for Flexibility

As Figure 14 shows, organizations define performance management in different ways. Some organizations use 360 assessments, some use very measurable goals, some use development plans. Each of these elements may use standard or customized goal templates, skills and competencies, and assessments. The system must accommodate this wide range of options and provide a wide range of reporting solutions to let managers, executives, and HR administrators view progress, alignment, and compliance with the process.

Adoption of Performance Management Today

One of the reasons the Performance Management Systems market is growing so quickly is that many companies do not feel they have an adequate solution today. When we ask HR managers about what business processes they feel need most improvement, they tell us the following:

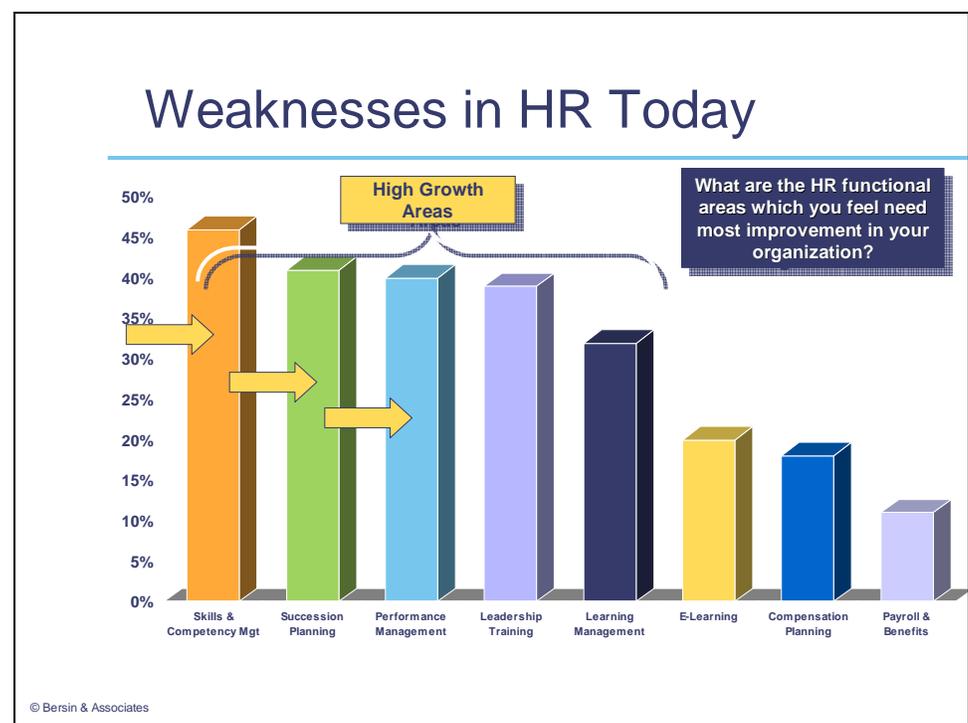


Figure 15: HR Processes That Need the Most Improvement

As Figure 19 shows, the three areas of biggest dissatisfaction in HR are Skills and Competency Management, Succession Planning, and Performance Management. Competency Management and Performance Management go hand in hand.

When we look at how widely Performance Management processes are implemented (Figure 16), we find that the market still is evolving. Less than 1/3 of organizations have an enterprise-wide Performance Management process in place. Approximately 68% of respondents have some process, but almost half have no real standards in place.

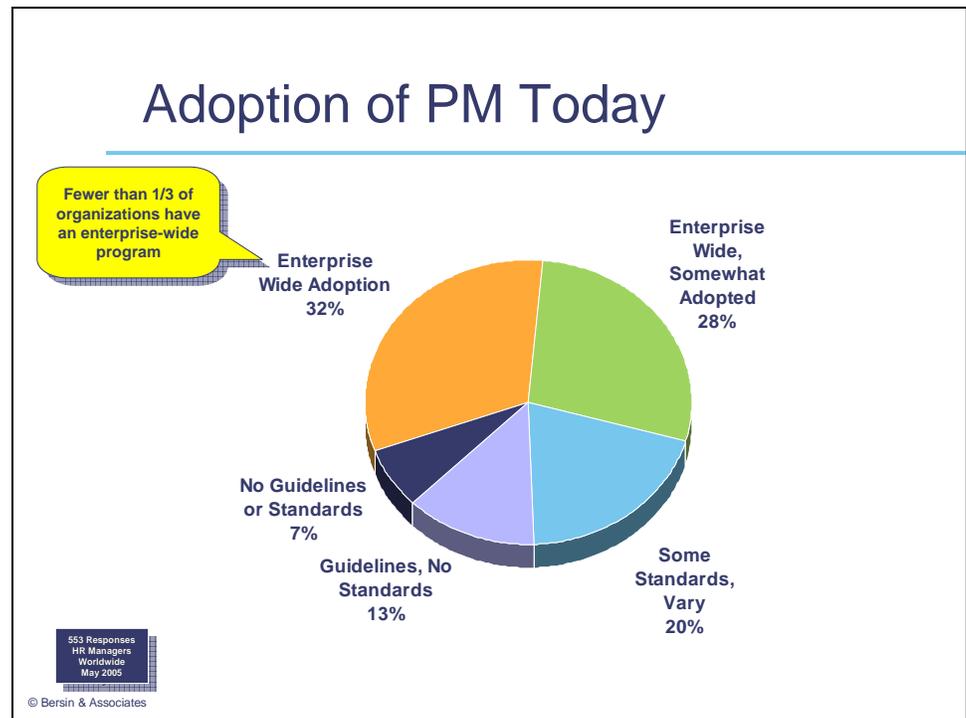


Figure 16: Adoption of Performance Management Processes Today

This figure tells us that HR organizations have some work to do. The first step in implementing an enterprise-wide solution is to establish the processes you will standardize on. Then you can implement the systems, training, and change management needed to operationalize a consistent process.

Adoption of Skills & Competency Management

One important piece of Performance Management, as supported by the definitions by HR managers above, is the development of a set of standardized skills and competencies that employees and managers can use to assess performance.

Skills and competency management is a difficult process. It is very rare for companies to adopt an enterprise-wide model (12% of respondents claim to have done this) because of the rapid changes in business needs and, therefore, job needs. Interestingly enough, almost half of respondents have some well-defined skills and competencies already, so we see this as an enabler that many organizations can draw upon.

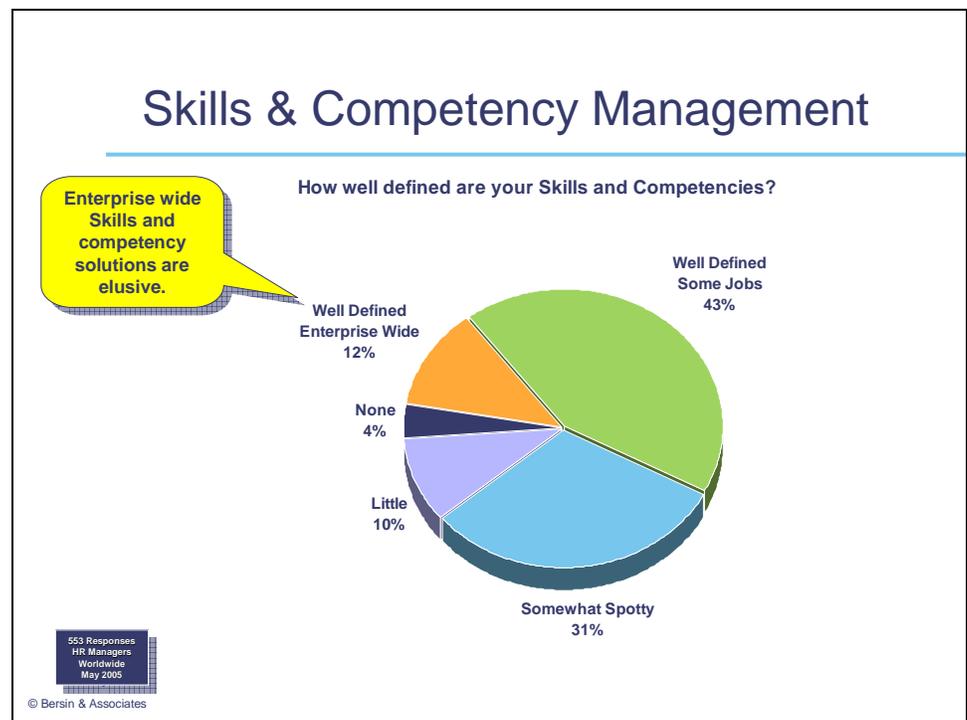


Figure 17: Adoption of Skills and Competency Management

One of the reasons why skills and competency management is getting easier is the broad range of off-the-shelf skills libraries available. Most organizations we talk with purchase standard libraries and then customize and enhance them for organization-specific needs.

Building a Critical Skills and Competency Library at BC Hydro

BC Hydro (the primary utility for British Columbia) is like many organizations today in that they have many long-time employees with critical skills that are not necessarily written down. Much of the company's older equipment no longer has documented procedures for operations and maintenance. The skills to maintain this equipment is in the memories of workers – many of which are retiring. These are business-critical skills.

In order to create a Performance Management process, BC Hydro had to define these skills and implement them into their Performance Management System. This required many months of hard work by a seasoned HR professional, working directly with line managers in operations.

BC Hydro uses a refined process called DACUM (a job-task analysis process, <http://www.dacum.org>) to build a competency profile for each job. This process helps to identify the critical skills for each job – those skills and competencies that drive success in that particular assignment. Once these critical skills are established, then you can establish competency standards and a rating scale for performance management.

Finally, once these critical skills and competencies are established, the organization can map learning offerings to these competencies to create an integrated Performance Management – Learning Management solution.

Adoption and Use of Performance Management Systems

As one may expect, since the Performance Management market still is evolving, the use of technology is undergoing rapid change. Today, of the organizations with an enterprise-wide performance management process, only 35% have any kind of automated system. Only 11% have a vendor-provided solution.

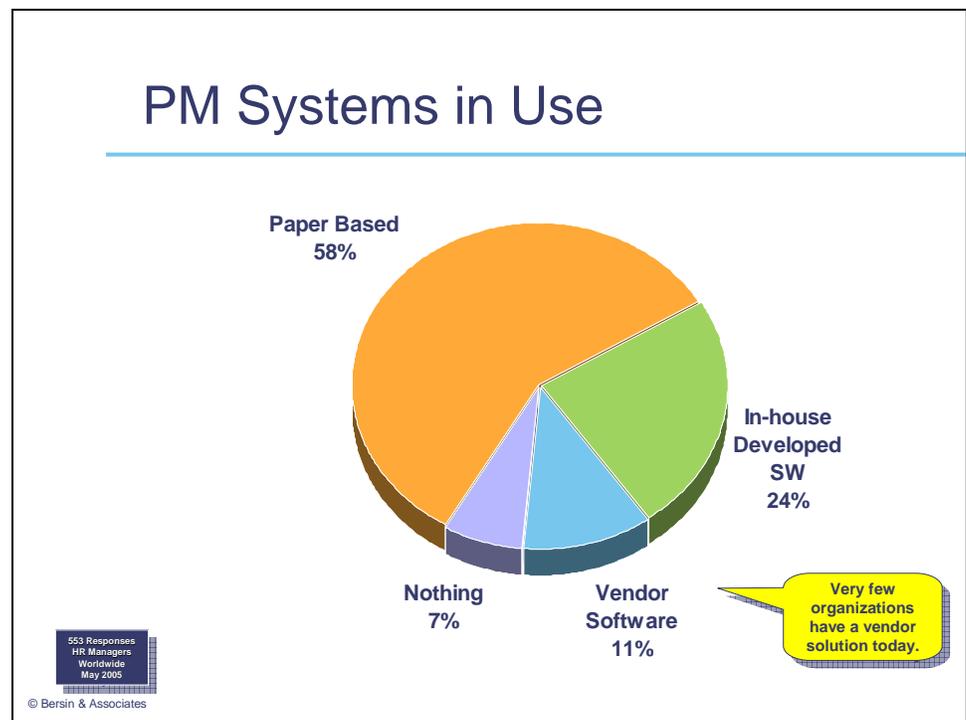


Figure 18: Adoption of Performance Management Systems and Tools

Figure 18 illustrates why the Performance Management software market is growing so rapidly. One may ask why there is such a small adoption rate given the demand. We believe that vendors are just now beginning to offer the right level of flexibility, functionality, and services to automate this complex process.

In our upcoming report, *Fall 2005 Performance Management: What Works[®]*, we will publish vendor market share and key vendor profiles.

Our data also shows that automation of Performance Management really does work. When we asked respondents about their satisfaction with their Performance Management Systems, we found that 42% either are satisfied or very satisfied and only 13% are unsatisfied.

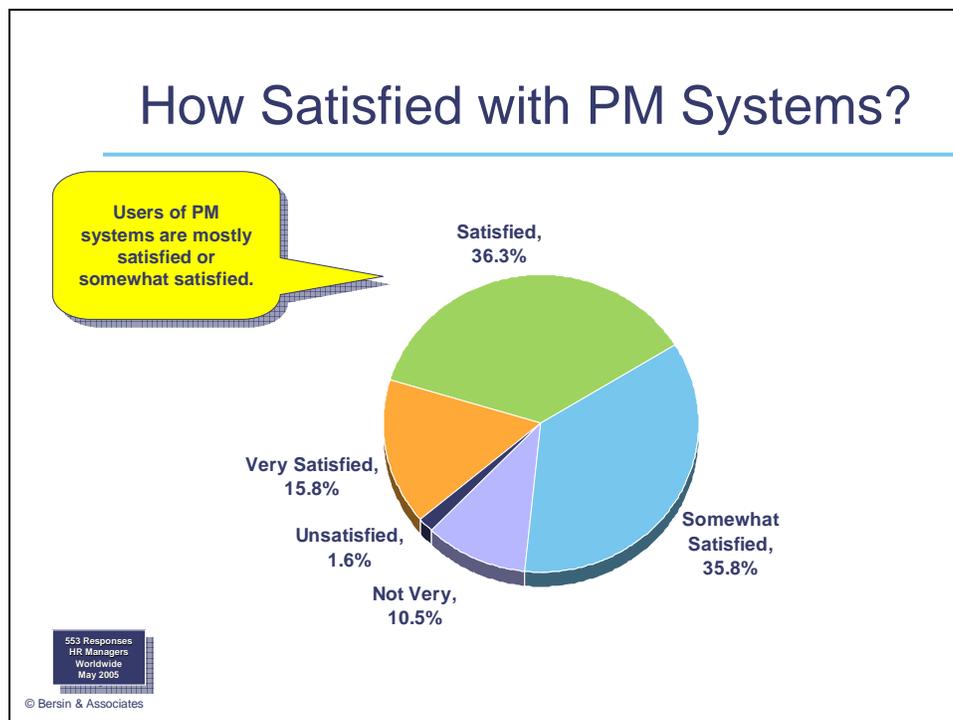


Figure 19: How Satisfied are Buyers of Performance Management Systems?

What this tells us is that the system itself is less important than the automation process. When implementing these systems companies see great improvements in productivity and access to data, thereby making them wonder how they lived with paper-based processes for so long. As we continue this research, and the number of automated systems grows, it will be interesting to see if these satisfaction levels stay as high.

Biggest Issues with Current Systems

Among the 11% of companies that have vendor-provided systems, what are the biggest issues they face? As the following chart shows, the top three issues are ease of use, flexibility, and integration with learning management.

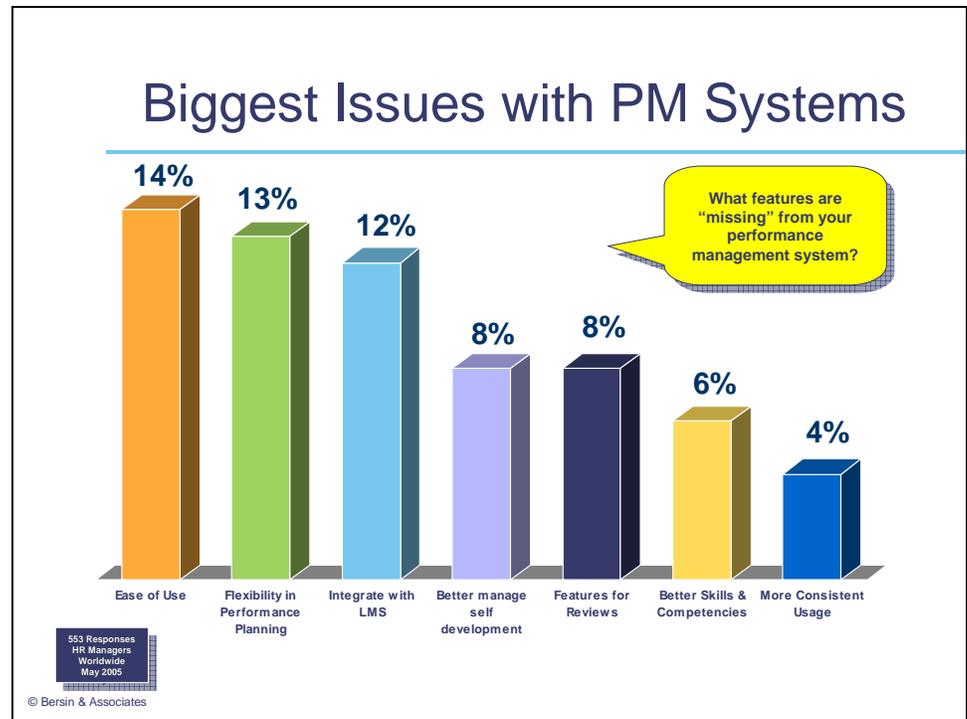


Figure 20: Biggest Issues with Performance Management Systems Today

Ease of Use

Performance Management Systems are used by many people: managers, employees, line workers, and executives. Like learning management systems, the PM application is one of the few employee-facing applications that may be used by everyone in the company. As a result, it must be very easy to learn and easy to use.

Need to Integrate with Learning Management Systems

When we asked respondents how they value the integration between Performance Management and Learning Management, the results were striking:

- 69.3% stated that LMS-PM integration was Very Valuable or Highly Valuable.
- 91% stated that LMS-PM integration was Very Valuable, Highly Valuable, or Valuable.
- Only 9% stated such integration had somewhat or little value.

One would ask whether standalone Performance Management vendors can survive without integration with LMS vendors.

Such integration has many benefits. When an employee creates an annual performance plan, there often is a development plan. This development plan requires that the employee embark on development activities, some of which are delivered by the training organization. If the systems are separated, training results must be entered manually.

From the training perspective, if the systems are integrated, the training organization has immediate visibility into the demand level for different types of learning activities.

In our study, we asked respondents what they perceived to be the benefits of integration between Learning and Performance Management Systems. As the following chart shows, nearly 1/3 of the respondents believe such integration will help managers more easily create development plans, and about 1/3 believe this integration will help in developing more pertinent training programs.

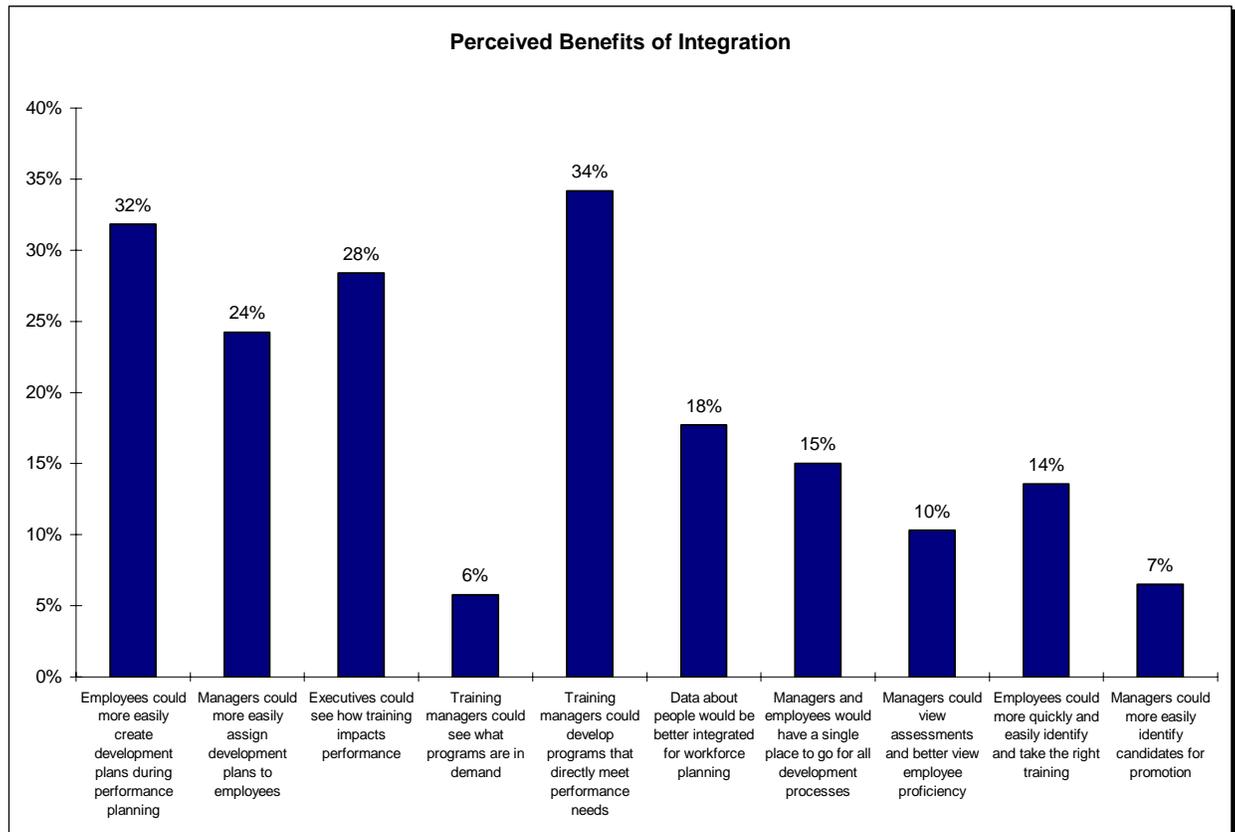


Figure 21: Perceived Benefits of LMS Integration

Clearly, there are important potential benefits here.

How Applications Converge

We have examined the differences between Training and HR, and we have explained the dynamics of the LMS and Performance Management Marketplace. How are these applications converging to define Talent Management?

Linkages between HR Applications

Let us first examine the entire range of HR applications and how they fit together. (Focus is on the L&D set of applications.)

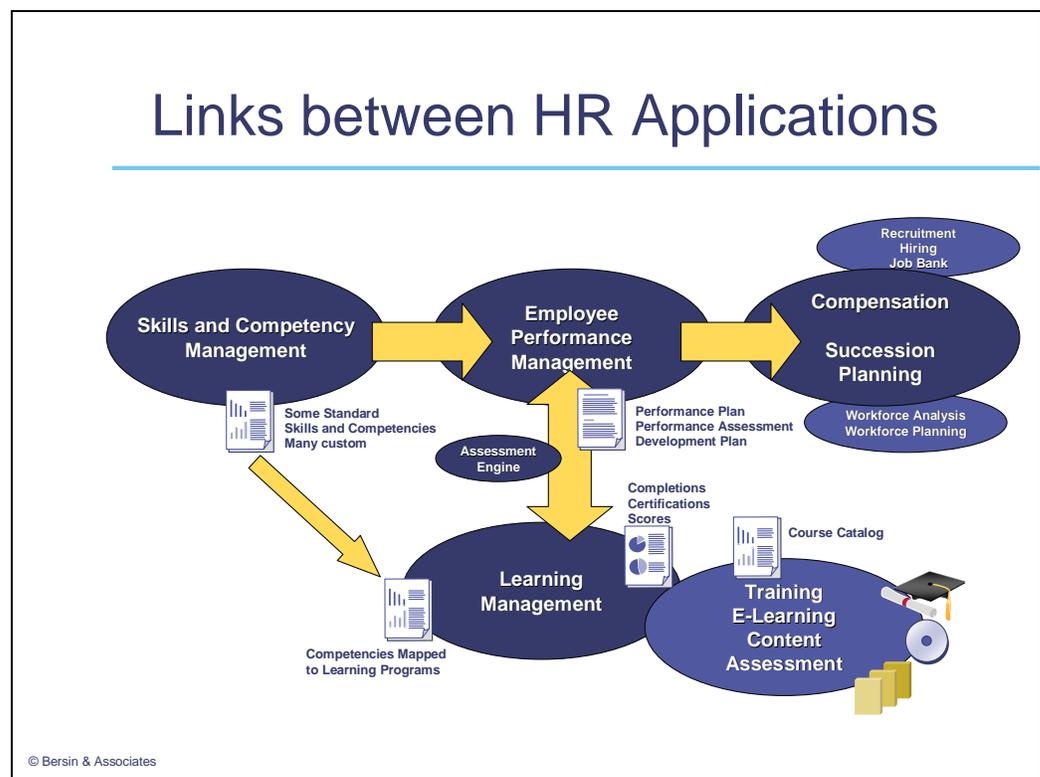


Figure 22: Linkages between HR Applications

As Figure 22 shows, HR applications tend to fit together. Performance Management and Learning Management each use an integrated skills and competency database. The skills and competency database, if it exists, often is tied to job titles and job descriptions, which usually reside in the HRMS. You can implement a Performance Management process without an enterprise skills and competency database, which most organizations do not have, but over time, this database will be built up by managers. As it grows, training programs and assessments are needed to support these skills and competencies. Hence, the two applications are linked.

The output of a Performance Management System is used for many other functions: compensation planning, salary reviews, succession planning, and workforce planning. When a manager wants to staff a project or look for high-potential individuals to promote, their performance plans and appraisals will be very important. Over time, therefore, the Performance Management System might need to feed a compensation planning and workforce planning system.

If Performance Management is done manually, as it is done in most organizations today, this information must be obtained by contacting the manager and reading the reviews. If it is automated, individuals can be identified much more easily.

The Vision of Human Capital Management (HCM)

Let us briefly discuss the vision of HCM: If all these applications share data, why shouldn't they all be integrated into one suite? Why shouldn't they all be made available from a single vendor?

This argument makes perfect sense. In a perfect world, all these applications should work together. In the real world, however, the problem is very complex. No single vendor provides every single HR, training, and performance management-related application. Even the ERP providers (SAP and Oracle), who have larger R&D budgets than all the other vendors put together, are just now building out their Learning Management Systems and Performance Management applications.

The question for HR and Training managers to focus on is this: "What business problems are we trying to solve?" *Ultimately, these problems will drive the business case for the system.* For example:

- If you have a large training organization and need a solution to manage e-learning content, certifications, resource scheduling, and reporting – a robust Learning Management System is the key component.
- If you see a big problem in skills deficiency, retirement, or inconsistent compensation programs, Performance and Skills Management will be the primary focus.
- If you are focused on recruiting and retention (a high growth business perhaps), you will focus on training, identification of top performers, and using this information for succession planning and retention programs.

As you evaluate Learning and Performance Management solutions you will start to see the benefits of an integrated system. The key question is: are you ready to implement multiple applications or are the pressing business issues in one area or the other? And when you look at vendor solutions, which have a wide variety of modules and options, which ones provide the most value-add for your organizations overall talent management needs?

How Applications Converge

If we revisit the application linkage chart we showed earlier, one can see that the purple area is the Learning & Development or Talent Management domain, and the blue area is the HR Management domain.

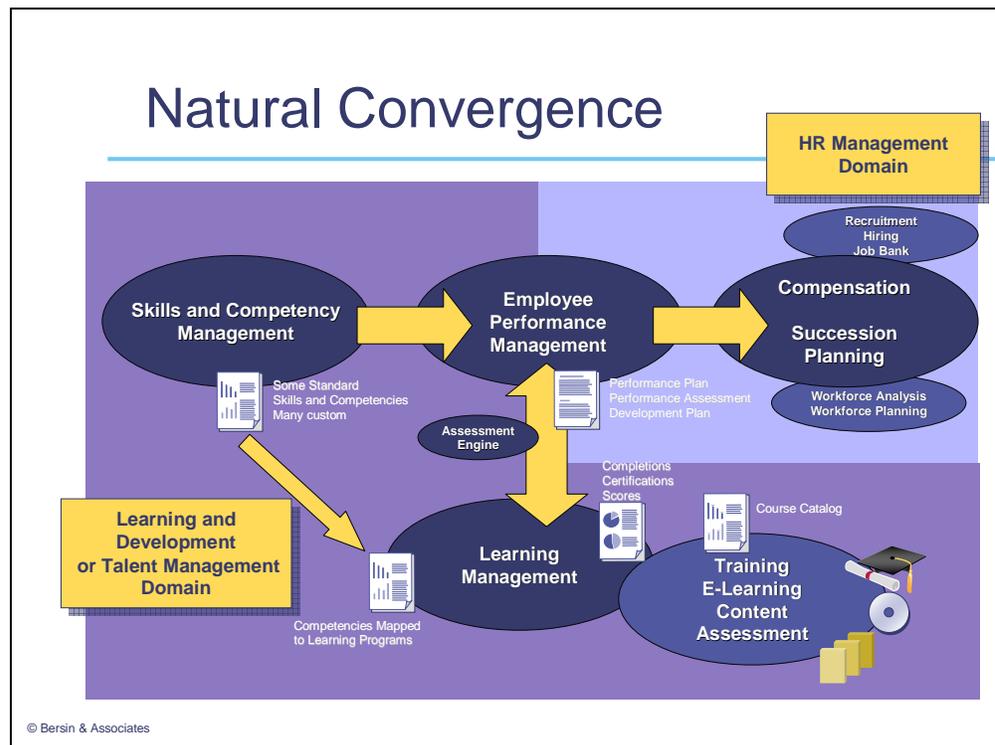


Figure 23: L&D Domain vs. HR Management Domain (not to scale)

As you can see from this chart, Performance Management, because it draws upon skills and competencies and often includes development plans, tends to fall in the middle.

Increasing use of the term Talent Management

As we described earlier, forward thinking organizations tend to call this integrated set of processes Talent Management. Talent Management refers to the HR and Training processes used by an organization to develop, enable, and manage employees for maximum performance – and to use those processes to make sure the right people are in the right jobs. Many training organizations now report to the “VP of Talent Management,” and many HR executives are being renamed “VP of Talent.”

Business Benefits of LMS-PM Integration

What are some specific business benefits that organizations see from these integrated systems? In our research we asked people to tell us:

- What benefits do they see in LMS-PM integration?
- What benefits have they achieved from integrating these functions?
- What problems would they like such integration to solve?

Aligning Training with Business Needs

The biggest benefit from a training standpoint is that with an integrated solution, the training organization has visibility into precisely the performance plans, goals, and improvement plans needed in the business. This information lets the Learning & Development organization build programs that align directly with current and urgent business needs.

Ease of Use for Managers and Employees

With an integrated LMS-PM solution, managers have a single place to go to develop performance plans, create development plans, assess, rate, and review the progress of employees. Ease-of-use accelerates adoption. If a manager (and employee) can go to a single place to see their performance plan, development plan, training schedule, assessments, and goals, then they are much more likely to use the system.

Integrated Skills and Competency Management

As we described earlier, both applications require some set of standard competencies. Performance plans may be competency driven (e.g., you must achieve level 5 in Java programming) and, as a result, learning objects must be available to deliver these competencies. Once the two applications are integrated, it makes more sense to build a common set of competencies.

A word of warning here: Our research finds that companies that embark on enterprise-wide skills and competency mapping projects often fail. The best way to implement skills and competencies is to either adopt broad categories that managers can tune and refine for their business units, or focus on one job function or business area at a time (i.e., IT, manufacturing). Development of standard skills and competencies takes focus, an interdisciplinary team, and time. Do not let a skills and competency project hold up your implementation of Learning and Performance Management applications.

Integrated Assessment Tool

Both Learning and Performance Management have extensive needs for assessment. With an integrated platform, the assessment tool can be shared, thereby enabling analysts to easily create assessments for a wide variety of uses: from competency assessment to compliance to learning program surveys and assessment. Organizations often use a number of tools for different types of surveys and assessments. An integrated HRD system can provide a single tool for all these uses.

Integrated Workflow

By integrating these two systems, workflow can be integrated. For example, when a new employee is hired they may have to (A) attend new hire training, (B) sit down with their manager and develop a 90-day performance plan, (C) create goals for their first and second quarters, and (D) set in place a learning and development plan for their first year. In an integrated platform, this new hire process can be created once and used again and again by all managers with new employees.

Integrated Reporting and Analytics

Both Learning and Performance Management have needs for many levels of manager, director, and executive reports. First line managers need to see an integrated view of performance attainment, learning achievements, and status of planned activities. They need to have a dashboard, which shows the status of goal achievement, compliance with training, and achievement of target skills in a single place. By merging the applications, these dashboards and reports can be integrated and easy to use.

Integrated HR Data

Both applications require a reliable, consistent database that identifies each employee, the managerial hierarchy, department and accounting information, geography, language, and other HR-related information. Why not leverage this integration with the core HR system?

Case Studies

The following brief case studies describe examples of companies that have built, or are building, integrated Learning and Performance Management solutions. These are not intended to be detailed case studies but rather examples of why organizations see the value of a truly integrated solution.

Aon Consulting – Competency-based Learning

AON Consulting, a worldwide human performance consulting organization, has been building an organization-wide competency model that is used both by Performance Management and the Training organization. The company uses a standardized 360 degree assessment process and has started to implement performance management in its integrated platform.

AON Consulting describes the benefits of an Integrated Learning and Performance Management System:

“As a training group, we realize that training is always overhead so we want to be embedded in the needs of the business. As we looked at the competency idea, we wanted a means to making sure that our training offerings were aligned with the business needs. By integrating our Learning Management with the company’s Performance Management process, we will get a complete needs analysis every year. Linking Training to Performance Management enables us to make sure training directly meets overall business demands.”

Washington Mutual – Talent Management

Washington Mutual (WAMU) is the largest thrift in the U.S., with more than 50,000 employees and 2,000 branch offices nationwide. With such a large employee base, the company realizes that Talent Management and Human Capital Management are critical to organizational success.

In 2000, the company started looking for a software platform that provided integrated Talent Management. For Washington Mutual, the term Talent Management refers to:

- Learning Management, including teller training, technical training, and management training
- Performance Management, including goal setting and employee evaluations

- Succession planning and career profiles
- Compensation: links between these three applications and the compensation planning system

The company searched for solutions and the primary driver for a new platform was Learning Management. Prior to implementation of a new integrated platform, the company used spreadsheets, a mainframe system, and Registrar, a PC-based system. The organization has hundreds of training people in a decentralized organizational model.

As the company decided to implement the LMS, they decided that it also was important to automate the many processes used for Performance Management. WAMU has many incentive-based sales people and needed a consistent process for measuring employees and developing compensation plans.

Washington Mutual describes the benefits of an Integrated Learning and Performance Management System:

- *Managers know that Performance Management, Learning, and Talent Management are linked so managers think about goals, learning, compensation, and succession planning in an integrated way.*
- *Training is built based on specific needs for individual managers, rather than “pushing” training down to managers and individuals.*
- *We now have an enterprise-wide view of the organization’s competency needs and can better invest in the right training to meet these needs.*

Pitney Bowes Integrated Platform

Pitney Bowes provides a wide range of postage and mailing services through a network of facilities and more than 35,000 employees nationwide. The company originally had a Docent LMS and a partially implemented Performance Management System. Their desire was to implement an integrated solution that included performance planning, development planning, a 9-box grid for rating high potential people, and an enterprise-wide competency database to help managers find critical skills in the operational units.

The company searched for a platform and reviewed many vendors and is in the process of implementing an integrated solution today.

Pitney Bowes describes the benefits of an Integrated Learning and Performance Management System:

- *Organizations need to bridge the gap between learning professionals and HR professionals to integrate performance management processes with training plans and training offerings.*
- *An integrated platform makes it possible for Pitney Bowes to accelerate the process of Performance Management. Prior to using an integrated platform, Performance Management was done once per year. With an integrated platform, the company expects to enable managers to manage performance on a regular basis.*
- *The company needs a way to identify critical skills when workload shifts. The use of an integrated platform means that a manager, in a specific location, will be able to identify just the right manager or line worker to help them meet the changing demands of the business.*

Conclusions:

In most organizations today, the Performance Management and Learning processes are owned by separate groups. But in many organizations, there are major forces bringing them together.

1. **Economic growth:** Now that we are in an expanding economy, companies are growing, merging, and rapidly announcing new products and services. This growth creates stress in the workforce. “How do we get everyone trained in the new product we’re launching?” “Do we have the right skills in the right place for the growing business in the southeast?” “What are the key skills in our newly acquired company and where can we leverage them?” “What are the skills gaps and how can we fill them to meet increased customer demand?” “How can we develop more managers and improve retention of these individuals?” These are forces we did not see in the last recession – and they create demands for integrated talent management.
2. **The aging workforce and critical skills shortages:** In many industries (Government, Utilities, Telecommunications) the baby boom workforce is retiring in the next 5-10 years. These highly skilled individuals have senior positions in line and management. Organizations are very worried that this skills exodus will cause an enormous disruption in the business. Savvy HR executives see this coming and are making plans to identify these skills, codify them, and create training and development plans to transition these skills to new, younger workers.
3. **Need to improve L&D Alignment:** Companies always are looking for ways to increase the alignment and effectiveness of the training organization. By becoming directly aligned with the Performance Management process, Learning and Development can build precisely the right programs that business managers demand. Most training managers strive to be performance consultants. By understanding performance gaps and performance plans in detail, the training organization can act as a strategic partner to business units.

HR and Training managers should start to consider their HRD applications as an integrated suite. Although some companies will select and implement Learning Management and Performance Management solutions separately, there are significant benefits to be achieved through integrating the two. Organizations should investigate and plan for integration – either now or over time.

New platforms, from companies such as Cornerstone OnDemand, MeridianKSI, Plateau, Saba, SAP, Softscape, and others are beginning to make it possible for organizations to create an

integrated platform that links Performance Management and Learning.

We still see that the biggest challenge in integrating Performance Management and Learning is not technology – but processes and people. The emergence of integrated platforms enables HR and Training organizations to team up and implement Talent Management to improve workforce performance. But in order for this to take place, HR and Learning organizations must work together to create standard processes, competency models, and training programs to make sure that managers are fully ready to use these integrated processes.

For more information on best practices in this critical new area, please read our new report, *The High Impact Learning Organization: What Works in the Management, Operations, and Governance of Corporate Training*⁵. We will continue to research best practices and case studies in this important new area. If you have experiences, successes, or challenges you would like to share, please contact us. We look forward to your comments and feedback in this exciting and emerging area of Human Capital Management.

⁵ Available to Research Members or for purchase at <http://store.bersinassociates.com/governance.html>.

Appendix A: Study Methodology and Demographics

This study was conducted during the winter and spring of 2005 and was sponsored by Cornerstone OnDemand, a vendor of integrated Human Capital Systems. The study included a detailed survey, as well as extensive telephone interviews with 15 different organizations.

The respondent profile was as follows:

- Number of Respondents: 553
- Average Organization Size: 15,100 employees
- Median Organization Size: 2,500 employees

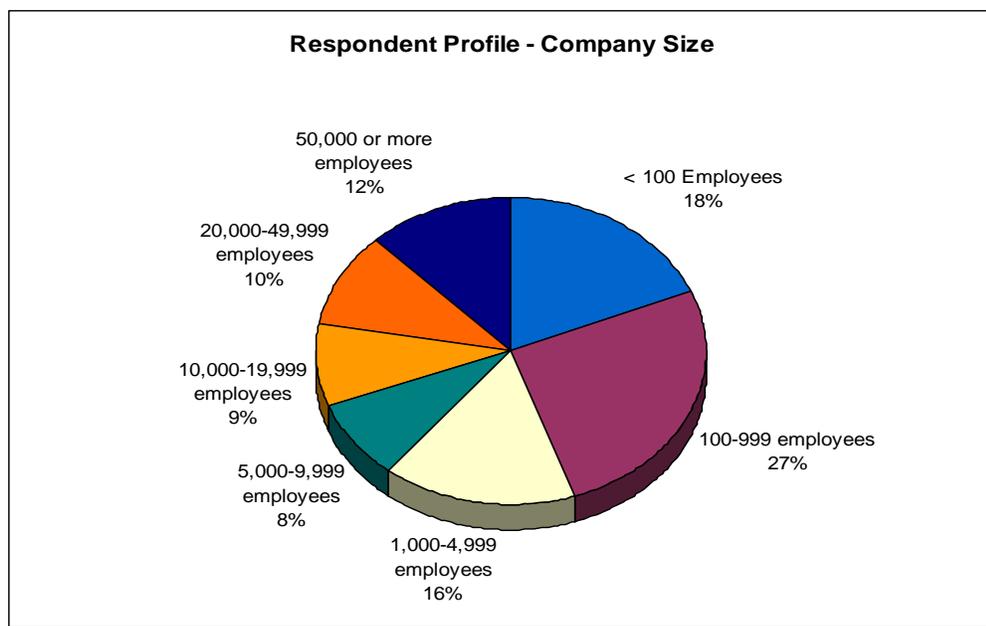


Figure 24: Organization Size of Respondents

As the following data shows, the respondents came from a broad range of decision makers, including executives, directors, and managers from both HR and Training. The weighting between Training and HR is approximately equal. Since 40% of respondents were Director level or higher, and 93% were Manager level or higher, we believe that this study represents the trends and opinions of decision makers.

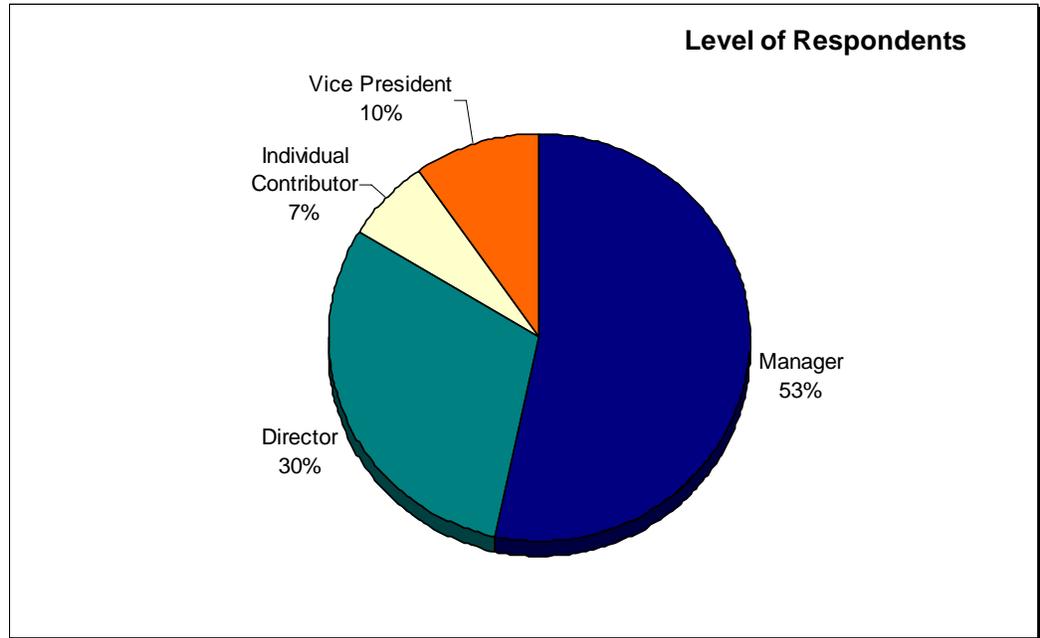


Figure 25: Level of Respondents – Decision Makers

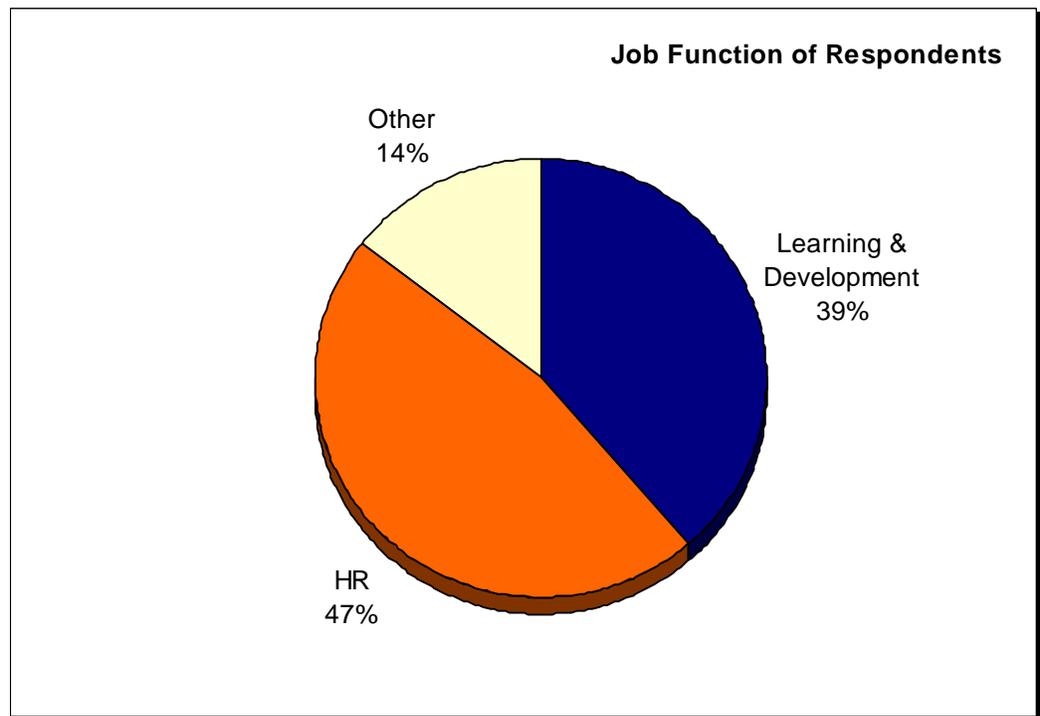


Figure 26: Job Function of Respondents – Balanced between HR and Training

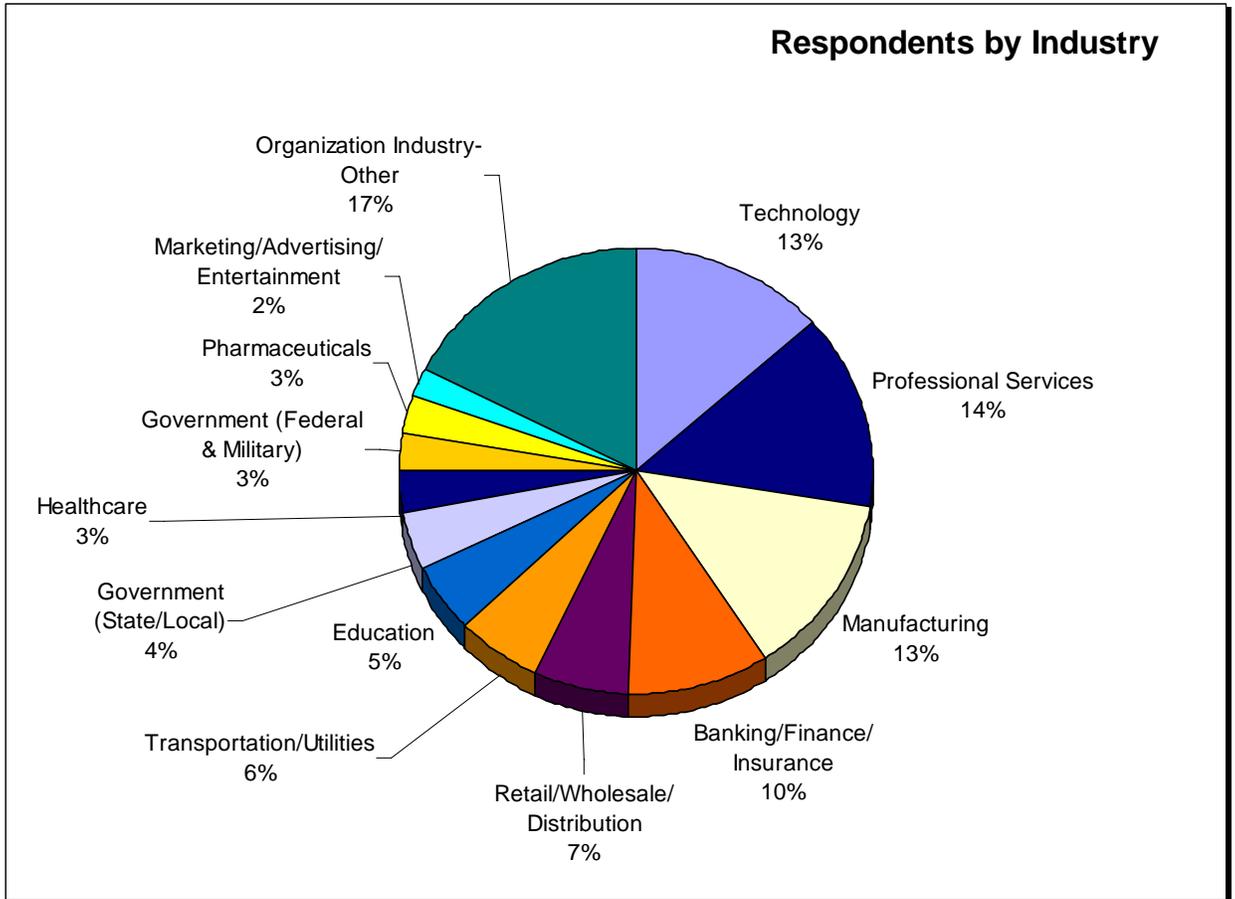


Figure 27: Respondents by Industry

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About Us

Bersin & Associates is the only research and consulting firm solely focused on What Works™ enterprise learning and human capital management research. With more than 20 years of experience in e-learning, training, and enterprise technology, Bersin & Associates provides a wide range of services, including market research; best practices; vendor and product analysis; corporate workshops; corporate implementation plans; and sales and marketing programs. Some of Bersin & Associates innovations include a complete methodology for learning management system (LMS) selection and application usage, an end-to-end architecture and solution for training analytics, and one of the industry's largest research studies on blended learning implementations.

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This research was sponsored by Cornerstone OnDemand, <http://www.cornerstoneondemand.com>.