Getting the Measure of Tomorrow's Workforce

By Mark Carter

As the turmoil of the past two years seemingly settles, in the wake of the hoped-for upturn, most business leaders agree that one of the key factors which will determine the success of a business in the next 10 years will be the strength of the organisation's people strategy. But survival has been the priority in recent times, with many companies cutting headcount and significantly curtailing spend and investment, and leaders now admit they have paid insufficient attention to preparing people plans that are fit for the future, reports Mark Carter.

Accessing the best talent continues to be a key challenge for CEOs: in a 2010 global survey almost all (97%) business leaders agree that having the right talent in the right place is a critical factor for business success.[1] At the same time, CEOs believe that existing people management practices did not support the business when the crisis hit. They sense that employees lack the key skills needed to operate and compete in the new emerging environment, citing greater risk awareness, market adaptability, change management capability and customer responsiveness, amongst other attributes which are lacking. It is not surprising therefore that almost eight out of ten CEOs flagged a change in their approach to people management.

Measurement

The downturn has highlighted the need for more insightful human capital management information. Increasingly, CEOs, shareholders and analysts are likely to demand more rigorous assessment of human capital. It is therefore instructive to look at comparative performance of Human Capital Return on Investment (HCROI) in companies across various geographies.[2] HCROI measures the return on people investment, reporting the pre-tax profit produced for every euro paid out in remuneration.

US and Central Eastern European (CEE) organisations proved more agile than Western Europe in responding to the downturn. Following several years of uninterrupted growth, 2007 saw the first signs of decline in some economies. By 2008, with markets suffering, the HCROI index fell in Western Europe (1.7%) but held steady in the US. Remarkably, in CEE it rose by 28.6%. Remuneration over revenue and remuneration over total cost measures, two simple productivity metrics, indicate the USA's ability to quickly reduce costs when market conditions demand. These statistics suggest Europe should look more closely at how human resources are managed. The differences are not due to revenue growth divergences but rather to the ability of economies to adapt employment costs to market conditions.

Reward

During 2009 Irish employers took a variety of steps to control workforce costs,[3] including:

- **freezing base pay;**
- **bonus/incentive freeze and/or reduction;**
- **recruitment bans;**
- **limitations on overtime;**
- **unpaid leave;**
- **early retirement; and**
- **redundancies.**

Indications suggest many Irish organisations are keeping a close control on costs during 2010 – more than 70% of CEOs expect to hold the line on pay this year.[4] With many of Ireland's competitors for inward investment, particularly outside Europe, improving their competitive position, continued focus on labour cost controls is needed to improve our attractiveness as a corporate location.

In many parts of the world, whether as a result of regulatory or public

pressure, reward models are seen as no longer being fit for purpose. The crisis exposed a clear shortcoming that risk was not adequately reflected in reward, and the heavy burden of pension liabilities crippling many otherwise successful organisations. It is not surprising that over two-thirds (68%) of Irish business leaders indicate their bonus schemes will be redesigned, with a third overhauling their executive long term incentive scheme.[4] This suggests a fresh approach being taken to align their risk appetite and performance objectives. In addition 30% of Irish CEOs are planning to redesign their pension scheme.

Development

Speaking at a recent PwC Business Briefing in Dublin, Lucian Tarnowski, 26 year old founder of BraveNewTalent.com, a UK based social recruiting platform said, "There is a paradigm shift going on in the workplace. The 'Millennials' or 'Gen Y' this year outnumber the Baby-boomers in the workforce. They are approaching work with very different thinking. Interestingly, it is the first time that the youngest in the workforce are an authority on the biggest changes to impact the economy: technology, the internet and the social web. Largely this generation are choosing career development and training over salary and benefits. For employers to win the war on talent they need to change their approach to this generation — for many this will require a rethink in how they offer career development opportunities."

Some employers have grasped the idea that cash isn't the key to motivating all employees, particularly the younger generation, and this will be welcomed in light of the cost pressures which continue to be felt. Training and development is the top work-related benefit which younger employees globally desire (although only 3rd of younger Irish workers' preferences).[5] With many global business leaders believing that governments have largely failed to supply a workforce with the right skills, more than three quarters of CEOs plan to increase their skills investment[1]. Before doing so, they should carefully contemplate where this spend will be most appreciated and will generate the greatest business benefits.

The millennial generation are universal in their agreement that working with strong coaches and mentors is important to personal development. Many businesses only provide coaches and mentors to senior employees, but providing this kind of one-to-one development to younger employees could breed goodwill and engagement at a relatively low cost.

Engagement

Research suggests that employers with more highly engaged employees report higher productivity per employee and higher customer satisfaction. Organisations have therefore focused on better ways to measure and improve employee engagement. Indications of engagement levels include absenteeism rates, the link between employee pay and revenue generation, training and learning levels and grievances rates.

But it might be argued that employees are now also intensely focused on 'measuring up' the organisations they work for. Understandably perhaps, employee motivation has waned as a result of employers' actions during the downturn – many saw cash preservation as paramount, divesting assets and cutting jobs. Given this upheaval, the impact on workers' psyches was inevitable and strong indications have emerged that employees have become increasingly frustrated. It is therefore not surprising that over three quarters (76%) of Irish business leaders feel that keeping employees motivated is their top people priority at the moment.[4]

Mobilisation

Over this decade the global economy will face an unparalleled talent shortage that may hinder economic growth in both developed and developing countries if left unaddressed. By 2020 it is predicted that the number of international assignees will swell by 50% and the average number of host locations in which international businesses have workers will rise to 33 locations.[6]

For Irish companies doing business abroad, their top people mobility programme challenges include:

- **managing risk and compliance;**
- **effective cost management;**
- **implementing tax cost control strategies; and**
- **tracking employee movements.**

With 42% of Irish CEOs planning to enter new markets it is likely that a significant portion of the talent for these businesses will be sourced via international assignments. Fortunately the 'Millennials' see overseas working as something of a rite of passage and an important part of their personal development. Some employers will capitalise on this travel willingness so as to encourage greater movement amongst less senior employees, which could decrease some of the cost burden traditionally associated with incentivising senior people to work abroad.

Conclusion

While maybe somewhat difficult to contemplate right now, the competition for talent in the future is only likely to intensify. The organisations that have not evolved alongside the new generation of workers will find themselves left behind. Of course, focusing solely on any one generation is not the whole picture. The real challenge is much broader – how can employers simultaneously manage and motivate three or four generations in the workplace while juggling continually evolving working patterns, overhauling outdated reward systems, coping with increasing business across borders, and generating an acceptable return on investment?

Notes

1 13th Annual Global CEO Survey - 2010 (PwC)
2 Managing people in a changing world - Key trends in human capital 2010 (PwC)
3 Ireland 2009/2010 Salary Increase Trends (PwC)
4 Ireland CEO Pulse – May 2010 (PwC)
5 Managing Tomorrow's People series (PwC)
6 Talent mobility 2020: The next generation of international assignments (PwC)

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