10Minutes
on talent priorities

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Four ways your people strategy makes or breaks business strategy

Highlights

Rapid globalization and rising activity in emerging markets have increased the need to deploy people globally and source talent around the world.

Smart businesses understand how to maximize their significant investments in talent.

Companies that don't carefully consider risk issues related to key roles, succession planning, and pension plans could face serious ramifications.

People are central to strategy. Identify where talent can help or hinder goals and how to manage the change.

Talent continues to top the list of executive concerns.[1] And it's no wonder, given that talent has such a far-reaching impact on every aspect of corporate strategy and operations.

But it's more than that: Changing business and workforce dynamics are challenging company leaders on many fronts. Technology and the digitization of the workplace are dramatically altering the way organizations attract, engage, and develop talent. At the same time, companies must address the distinct generations of their workforce, understanding that Millennial and Baby Boomer employees are motivated and engaged by very different things.

There's also intense pressure to ensure that an organization's talent strategy goes beyond *aligning* with its business strategy—it should be *indistinguishable* from it. That means having the right processes and metrics that ensure people are rewarded for behaviors and outcomes that drive the business strategy.

Where talent matters most today

Instead of thinking solely in terms of their people strategy, company leaders are zeroing in on where talent makes a fundamental difference in business strategy. They start with these guiding questions:

1. **Power growth.** Are we acquiring, developing, deploying, and retaining the talent we need for today, when new opportunities arise, and to support the way we will do business in 3, 5, and 10 years?

2. **Realize ROI.** Are we maximizing our investment in talent, from compensation and benefits spend to talent mobility and executive development?

3. **Manage risk.** How are we managing our significant financial risks related to pensions and healthcare costs? Do we have sufficient bench strength when it comes to our executive team?

4. **Enable transformation.** How do we ensure that we effectively integrate critical talent following a merger or acquisition? How do we remake the HR function so it is more relevant to the business?

1 PwC, *14th & 15th Annual Global CEO Surveys,* 2011 and 2012.

At a glance

Every industry faces unique talent challenges that affect a CEO's ability to meet strategic goals.

Percentage of CEOs who report:	More difficulty in hiring[2]	Deficit of skilled candidates[3]	Planning changes to talent strategy[4]
Pharmaceuticals/life sciences	51%	64%	74%
Insurance	49%	56%	82%
Technology	48%	42%	81%
Healthcare	47%	53%	69%
Industrial manufacturing	47%	40%	80%
Automotive	46%	48%	75%
Consumer goods	44%	54%	76%
All industries	**43%**	**47%**	**78%**
Entertainment/media	43%	41%	80%
Banking/capital markets	41%	46%	74%
Transportation/logistics	40%	56%	72%
Construction/engineering	40%	52%	82%
Chemicals	36%	56%	83%
Business/professional services	35%	48%	83%
Hospitality/leisure	34%	60%	79%
Communications	31%	38%	76%
Asset management	30%	39%	73%
Retail	22%	40%	72%

2 In general, has it become more difficult or less difficult to hire workers in your industry, or is it unchanged?
3 Of those who say more difficult, which of the following is the primary reason why?
4 To what extent do you anticipate some or major changes to your company in strategies for managing talent over the next 12 months?

Source: PwC, *15th Annual Global CEO Survey,* 2012

01

Power growth with the right people where you need them

Talent: The enabler of innovation and growth

Talent constraints hamper the ability of businesses to pursue new opportunities, particularly in new markets.


31% weren't/won't be able to innovate effectively


29% unable to pursue a market opportunity


24% canceled or delayed/will cancel or delay a key strategic initiative


24% couldn't/won't achieve growth forecasts in overseas markets


24% couldn't/won't achieve growth forecasts in the country where we are based


21% production and/or service delivery quality standards fell/will fall

Source: PwC, *15th Annual Global CEO Survey*, 2012

Business leaders know key talent is essential to attaining corporate goals. But they just might be surprised at how much it can hurt when you don't have what you need. Executives we surveyed have sacrificed new markets, initiatives, growth, and quality in the name of talent. For example, a healthcare company wanted to double its business in South America, with a particular focus on Brazil. It had the capital, the technology, and the enabling resources needed, but it lacked qualified people to lead the business there. Finding that talent has now become a priority, but how could the company have anticipated this need so it could quickly pursue its growth agenda?

Big data brings big insights

One way for companies to stay ahead of growth is through workforce analysis and planning. Here, "big data" is an important tool. By combining a company's performance, survey, and workforce data with rich public and private data stores, they can glean insights and predict future needs. Business leaders will need to continually assess forecasts against growth goals and market shifts. As many businesses look to international markets, competition is expected to increase for specific skills and roles, particularly technical and managerial positions, and in certain geographic regions, like China. The same may hold true for US markets. For example, certain sectors of the manufacturing industry are beginning to evaluate new production facilities based in the US, in response to rising transportation costs and in order to be closer to customers, suppliers, and R&D facilities.[5] Finding the right skilled labor to run those operations, such as machinists, will be one key to making a US production strategy work.

Anticipating generational issues

Staying on top of changes that affect particular segments of your workforce is also important. Consider that in 2007, nearly 1 in 2 workers was born between 1943 and 1960, but less than 1 in 3 made up this cohort in 2012.[6] This means Baby Boomers are departing the workforce every day, leaving behind gaps in leadership, knowledge, and expertise. Companies must manage the process and costs of this retirement wave, as well as fill skills gaps or loss of institutional knowledge that will result from their departure.

The right people in the right locations

Another important strategy for meeting workforce demands is through talent mobility programs. No longer focused on long-term international assignments or considered peripheral programs, mobility is now central to strategy. Nontraditional approaches to mobility that meet the needs of Millennials—including rotator assignments, long-distance commuting, and project-based relocations—are becoming more common. Ultimately, the goal is for companies to begin regarding their workforce as borderless. That could mean developing talent where the jobs are, relocating talent to the jobs, or moving jobs to where the talent resides.

5 PwC, *A homecoming for US manufacturing?*, September 2012.

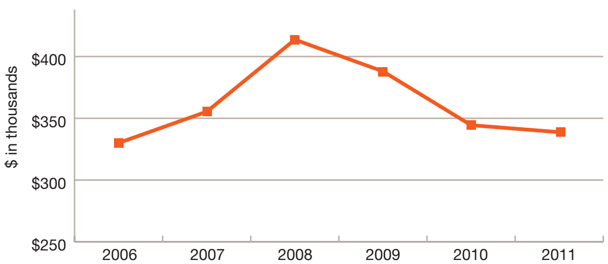
6 PwC Saratoga, *US Human Capital Effectiveness Report*, 2012.

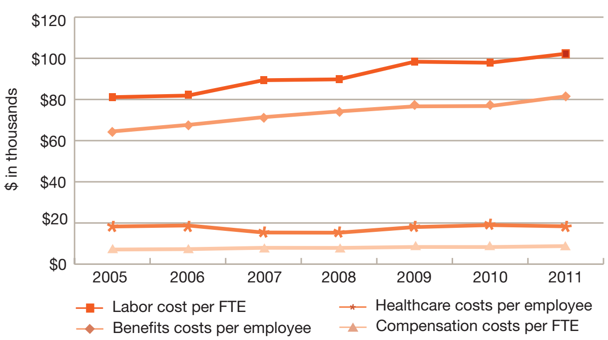
02

Realize the fullest return on talent investments

Measuring return on workforce investment

For the last four years, the amount of revenue generated per full-time equivalent (FTE) has fallen by more than 18%, while labor cost per FTE has increased by more than 14% during the same period.





Source: PwC Saratoga, *US Human Capital Effectiveness Report*, 2012

Human capital costs are understandably one of the largest investments: They represent more than one-quarter of all expenses for the average organization—and more than half of all expenses for many businesses.[7] Company leaders want to know they are making smart choices when it comes to compensation and benefits—and they want to understand how those people investments contribute to the bottom line.

It's all about ROI

The good news is that now the tools and technologies to effectively measure ROI are accessible for every company. Known as workforce intelligence in HR circles, the goal of this analysis is to answer two key questions: (1) What is our workforce investment? and (2) Are we getting the right return on this investment?

Companies will calculate workforce investment by considering all labor costs as a percentage of revenue. They'll also want to compare their findings to industry averages to see where they might be over- or under-spending. Every industry is unique; for example, in the manufacturing industry, the median return on workforce investment was 18.5% in 2011, while hospitals—which are more people-intensive—averaged 45.5%.[8] Once a company has calculated its current return on workforce investment, it can begin applying workforce planning strategies in order to anticipate how future talent needs will affect ROI.

Managing escalating healthcare costs

A sizable chunk of those labor costs go toward healthcare benefits, with plan costs continuing to outpace inflation.[9] To maximize their investments, companies are determining the right mix of incentives, wellness programs, and other benefits. For example, they are offering value-based plans that reward employees for using services more wisely and that can increase the likelihood that employees will comply with treatment plans and engage in healthy behaviors. Others are experimenting with new care delivery options, like workplace clinics that reduce costs, boost productivity, and lower absenteeism.

Matching cost and benefit

In making smart workforce investments, forward-thinking companies are being forthright about matching cost and benefit. They understand that workers of different ages and backgrounds have different needs and priorities. At the same time, they acknowledge that not all roles are of equal value to the organization. They consider these differences across all of their programs.

For example, a company would structure a wide variety of global mobility programs, depending upon the employee. For a business unit leader who is critical to a new market, the company would provide a very different package than that for a less-experienced worker setting out on a plum developmental opportunity.

7 PwC, *HR innovation*, summer 2012.
8 PwC Saratoga, *US Human Capital Effectiveness Report*, 2012.
9 PwC Health Research Institute, *Behind the numbers*, 2012.

03

Address talent risks that could sideline the business

The roles that make things happen

In most organizations, it's easy to spot the star performers, and it's essential to engage, develop, and retain those employees. But by focusing solely on this group, companies risk overlooking other roles that are essential to the business. Called pivotal talent, these are the people who disproportionately add value to the organization.

Take the case of a major food distributor that assumed its sales people were one of its most important roles and compensated them accordingly. After investigating a stream of customer complaints, the company discovered that its truck drivers were in a make-or-break role, interfacing with customers and handling problems on the spot. How was it rewarding them? With long work hours, undesirable schedules, and inefficient operations, leading to low employee engagement and higher turnover. Once the company realized the true impact of their role, it could make changes to address their needs.

Filling the talent pipeline

Succession planning used to be solely about whether the company had identified its next CEO. That's changed: Today, driven by compensation committees in particular, succession-planning discussions delve three or four levels down the org chart to ensure the company has a deep bench for the next 20 years. Companies are also identifying one or more candidates for other leadership positions, as well as looking at how to internally fill pivotal roles to minimize business disruption. In 2010, less than half of the organizations tracked in the *PwC Saratoga Human Capital Benchmarking Study* drew upon their internal pipelines to fill key positions, but just a year later, that number had risen to nearly 2 in 3.

Managing pension risk

One growing area of concern is pension plan risk: Can the company meet its pension obligations without severely impacting its balance sheet? Companies with defined benefit pension plans—where the plan sponsor assumes the investment risk—aren't always sure how to measure, set, or monitor risk levels. They also don't account for black swan events. To better manage this liability, pension committees must quantify risk using tools borrowed from financial investment analysis. From there they can set their "risk budget," then develop strategic asset allocations, such as more diversified portfolios, that work within their established risk guidelines.

Keeping an eye on new risks

As companies rethink their talent strategy to support global growth, they also need to be mindful of new risks. As they expand mobility programs, they will need to weigh complex regulations and tax considerations for international relocations. For instance, changing tax rules for short-term business travelers is one new area to watch. Other issues on the radar? Rising immigration barriers where political considerations about work visas limit the movement of skilled workers, and developing nations that are competing to attract talented foreigners or encourage Western-trained natives to come home.

04

Transform the organization—and its people—to keep pace with change

Catching up to technology's far-reaching impact

Technology has been one of the greatest disrupters to the business—altering how work gets done, how workers engage with one another, and how the organization deals with its customers and suppliers. While technology is the focal point, companies can't lose sight of how the changes affect their people. This is especially true when organizations invest in technology to transform an internal function such as IT, finance, or HR. Businesses need to assess how the new technology changes their business processes, where they will need to bring in new skill sets, and how to effectively communicate and manage the changes effectively.

At the same time, companies can take advantage of technology to facilitate talent mobility. Online training, video networking, and collaboration software enable people to work together on a single project from disparate locations. That eliminates any concerns about immigrations restrictions, moving costs, and employee resistance to relocation. The master engraver for upscale jeweler Tiffany, for instance, travels to other countries to train local employees, but then follows up via video conferencing.[10]

Making the most of M&A transactions

When it comes to mergers and acquisitions, identifying potential people challenges is crucial. There are risks throughout the integration process, including how you identify and retain the people pivotal to integration and longer-term success; design a new organizational structure; adopt an approach to selection and staffing that is perceived as both fair and transparent; and blend the organizations around a single company culture. Things get even more fraught when conducting an international deal with an entity in a different country that is subject to different employment regulation. Wherever the deal takes place, however, well-conceived communications and change management strategies are essential.

Remaking HR so it's relevant

In order to better meet the company's strategic priorities, companies are rethinking the way HR delivers value to the business. This requires a shift in emphasis from tactical activities like managing job requisitions and annual performance management processes to more strategic activities like data analysis and workforce planning. It also means reevaluating the numbers it shares with leadership. Instead of measures about the function's efficiency, such as HR staff-to-employee ratios, HR leaders will look at those that are business-focused—like return on workforce investment or incentive compensation differences between high and low performers—in order to improve organizational performance.

10 PwC, *10Minutes on global talent mobility*, June 2012.

Upcoming 10Minutes topics

Beyond the banks: The impact of derivatives reform on the corporate world

For non-financial services companies, regulations introduced by Dodd-Frank and Basel III mean major changes in how they manage risk with over-the-counter derivatives. And every aspect of business will ultimately be affected—from risk strategies and corporate funding to operations and accounting. 10Minutes discusses what corporate users of derivatives need to do now in order to meet impending reform deadlines and ensure they're well equipped to manage increased costs and compliance responsibilities.

Toward a more flexible supply chain

Volatility has become a fact of life in today's business landscape. Yet, after years of global expansion, many companies' supply chains are brittle, unable to respond to frequent fluctuations in demand and supply. This 10Minutes explores strategies companies can deploy to make their supply chains more agile and adaptable.

Beyond outsourcing and shared services—to real business value

Operations, traditionally seen as spenders rather than contributors, have cut costs heroically in the last several years to protect margins. But in the face of slow-growth prospects and volatile economies, companies are asking operations leaders for even more. Along with greater savings, can operations deliver flexibility, scalability, and innovation? 10Minutes discusses transformations in business services and why a move to a global business services model may be the answer.

Pinpointing potential in China's health reform

With the approval of the 12th Five-Year Plan, China's healthcare industry is—and will continue to be—flush with investment opportunities. Stronger infrastructure, expanded insurance coverage and reformed public hospitals mean private and foreign investors can partner with the country more readily than ever. This 10Minutes explores the current and future options for business in the open, decentralized healthcare field of China.

How PwC can help

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