

The people agenda:

Optimising Performance at the Front Line*

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‘My role is to concentrate on managing people as the drivers of revenue, rather than on hitting the bottom line.’

CEO, Sweden

The people agenda: Optimising Performance at the Front Line

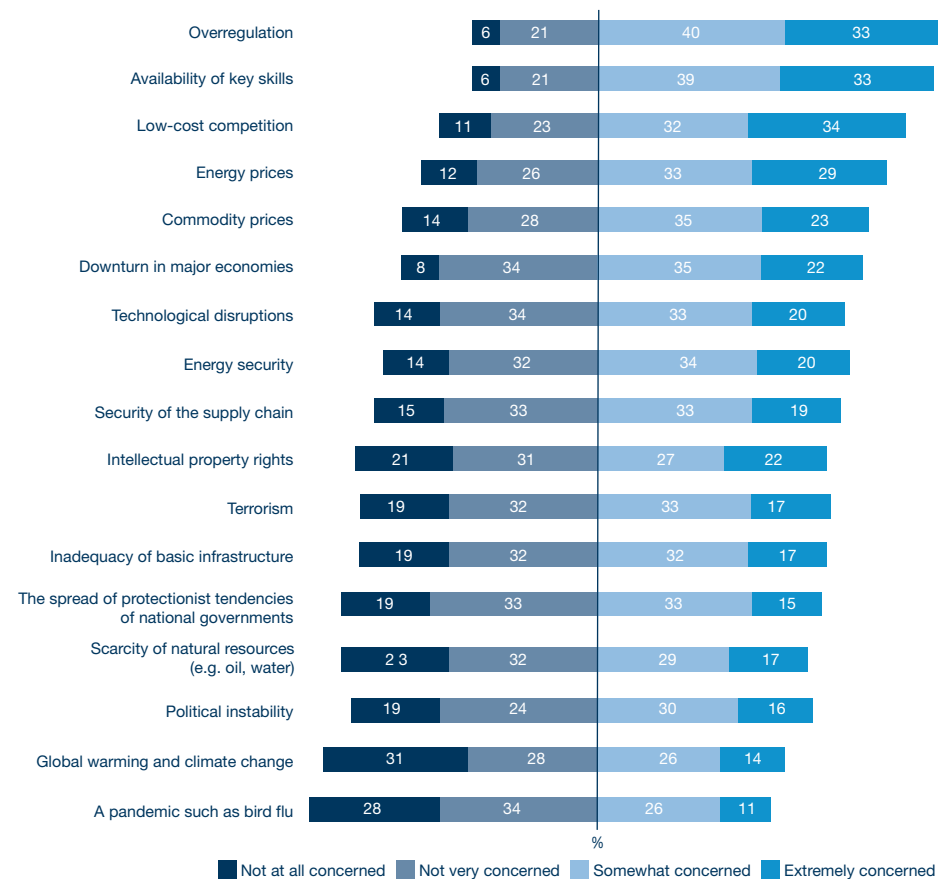
People, we frequently hear, are at or near the top of the agenda for every CEO. This year, 70 per cent of the participants in PricewaterhouseCoopers’ CEO Survey indicated they lacked the right talent in their business to be able to execute their plans.

As the global war for talent grows increasingly fierce, the management of people is a key concern among the CEOs surveyed. Once thought of primarily in terms of cost, people in successful companies are now being valued as rich sources of talent, skill and diversity, which are critical to the success of the enterprise.

Now that CEOs have identified the shortage of key skills as one of the main threats to prospects for growth, they are devoting a greater share of resources to protecting themselves. In fact, the number one legacy most CEOs hope to leave their organisation is the ability to develop the required talents and skills of their people through training and creating a great working environment.

For this reason, the role of HR in an organisation has been, and continues to be, scrutinised in terms of how it can add most value and operate as a business partner with the rest of the organisation, helping to overcome the challenges inherent in the people agenda.

Serious concerns about business and macro threats indicate CEO optimism is not unbridled



Q: How concerned is your company about each of the following potential business threats? (Base 1,084)

Source: PricewaterhouseCoopers Global CEO Survey

Legacy to the business at hand – long-term financial success, market domination, defense of current position – is the focus of a third of the CEOs, followed by legacy to employees and legacy in social and ethical terms

Employee issues (develop talent and skills in the business, develop staff education, create a great working environment)	21
Social and ethical goals	14
Long-term financial success	12
Market/industry domination	12
Maintaining/defending current position	10
Succession/leadership development	7
Innovation	5
Achieved operational/business objectives	4
Environmental goals	3
International expansion/globalisation	3
Good quality/price of services or products	2
Turnaround	1
Mergers & Acquisitions	1
To be known for having done a great job	1
Company growth/restructuring	1
Other	3

Q: As a leader, if you could achieve one lasting result that would stand as your legacy, what would it be? (Base 1,084)

Source: PricewaterhouseCoopers Global CEO Survey 2006

But just as finance issues can't simply be solved in the finance department, people issues can no longer be solved only within the human resources function.

As John Kotter, one of the foremost authorities on change leadership, found in the 1990s and a wealth of new evidence supports today, key to the success of change projects are people and their personal engagement.

The successful implementation of change is dependent on the way that people understand their roles in a broader strategic context; how closely aligned they are to a shared vision; and their ability to see how their actions and decisions impact in a wider context. This requires CEOs and their leadership teams to be fully engaged.

The survey results identify three major dimensions of the people agenda that are likely to determine how successful CEOs can be in realising their strategic objectives:

- Attracting and retaining the right talent;
- Increasing the effectiveness of people in the business; and
- Managing people through change.

This document offers some brief perspectives on each of these issues in order to help build a picture of the people management challenges facing organisations and how they might begin to address them.

The successful implementation of change is dependent on the way that people understand their roles...



Talent – finding it, winning it, keeping it

CEOs cite the availability of the right talent as one of the major challenges they face. As organisations compete on an increasingly global stage, they are having to think hard about how, and from where, they can find the talent they need.

There is now intense competition from organisations within emerging economies and talent shortages are already being reported in India and China, driving up costs significantly in some cities.

Elsewhere, the workforce in Europe and the US is ageing fast, and the available pool of talent is shrinking accordingly. A new generation of individuals – some have characterised as the millennials – are emerging that have different aspirations and expectations from the organisations that they want to work for. Taken together, these factors mean that a new approach to talent is needed.

The people dimension is often missed from the strategic planning cycle – yet skills and talent availability is likely to be critical to achieving strategic goals. A plan that promises a high level growth over a five-year period, for example, should also reflect the number of people who will be required to deliver that growth, and critically where and how they will be recruited. All too often this is overlooked.

Our experience shows that there are three immediate steps organisations should be taking to find, win and keep talent:

- Creating the right incentive model is an important starting point. Companies need to be sure that in order to keep the right talent in place, they have an incentive model which rewards the right behaviours. Incentives should support what is important to the growth of the business and to shareholder value. Having a robust governance and risk model underpinning any incentive plan is also key.
- Throwing money at the problem will not make it disappear. When dealing with talent, a complex set of motivations are at play. A major investment bank we are working with is seeing their top talent leaving to work for small boutique outfits like hedge funds and private equity houses – the motivation to leave is not only the reward package, but the working environment and other factors. We are working with the client to create a working model with greater appeal to top performers. Reward programmes must consider all the elements: long and short term, equity arrangements, pension, benefits etc.
- Managing talent mobility in terms of grade and international experience is also crucial, as more companies see international experience as an important credential for top performers. Our research indicates the average assignment costs around US \$300,000 every 12 months. We also discovered

that on average 40% of assignees leave the organisation within a year of returning to the host country. This represents a significant cost to companies. One of the key factors for low retention rates is the lack of employee engagement and investment in personal development whilst on assignment and on return.

- Understanding the financial value of your talent is important, particularly in order to understand the impact on your business of losing that talent. How good are your retention rates? How does this compare to the competition? And what are the real costs of replacing talent who leave? Few companies are measuring talent in this way, but we have the data within PricewaterhouseCoopers to help companies quantify the value of their human assets.

Various functions cover the tasks and processes that come under the heading 'talent management'. These include recruitment, training, development and reward. These have to be effectively integrated. Without integration, they run the risk of creating policies and initiatives that do not join up and make sense to employees or drive towards business goals.

‘Talent management – attracting, retaining, developing and promoting outstanding talent – is one of the critical capabilities that will distinguish a successful organisation now and in the future.’

Chairman of the Board, President and CEO, United States

Case Study: Aligning remuneration structures for General Managers to business strategy

One of the world’s largest financial services companies wanted help in aligning the remuneration structure for General Managers and their equivalents in a number of countries in Europe with the key drivers of the client’s business strategy, to:

- Create more flexibility in the mix of fixed versus variable pay to aid recruitment, retention and staff motivation;
- Create a clearer link between the remuneration structure and performance; and
- Balance the need for more consistency in the treatment of General Managers.

PricewaterhouseCoopers carried out a review of the remuneration structures and came up with recommendations for a new compensation approach for General Managers, which were discussed with various stakeholders. Based upon the approval of the Executive Board, it was decided that the proposed new total compensation approach should be implemented. To this end, PricewaterhouseCoopers worked with the client to set up sub-committees to deal with:

- Communication strategy – to engage, inform and reassure the General Manager population, and to develop materials to respond consistently to questions and concerns of the wider audience;
- Compensation proposals – to work on the transition from the existing structure to the new structure; and
- Characteristics – to develop a set of characteristics for becoming a General Manager and to link these with the criteria required for membership to the Management Committee.

People effectiveness – transforming HR to deliver on the people agenda

A further dimension of the people agenda – the effectiveness of the people organisation – has been the subject of considerable debate. Today people – at up to 70 per cent of overall costs – are often the biggest expense for the organisation. Yet, by and large organisations do a much better job of measuring their physical assets than they do measuring the impact of people on business results. Few organisations have achieved truly global and real-time people measurement capabilities.

Effective people management on a global basis demands a comprehensive range of data and metrics available in one place. These will come from a wide variety of systems including applicant tracking, performance management, compensation and so on, as well as more general business systems and financial performance data. Creating such a people data warehouse means gathering information from a wide variety of sources – a company with 20,000-plus employees is likely to have a minimum of 50 sources of data that relates to people and performance.

But the range of data is not the only challenge that effective people management systems require. It is not enough to count people and turnover manually because the lag between the currency of the data and producing any meaningful reports and actions could be a quarter to six months. Measurement capabilities need to be real time or close to it. At the very least businesses need to be using people data that is less than 30 days old.

Having these data capabilities creates the foundation for highly effective people management. Of course, the benefits of achieving a more efficient and effective people organisation must ultimately be mapped to the external business results that it delivers. It is critical to link the internal measures of employee satisfaction, engagement, innovation and so on with relevant metrics for customers to create a complete view of how people are contributing to the achievement of optimal business results. Understanding these links between your people and your bottom line performance is not as

intangible as many people believe. PricewaterhouseCoopers has a sophisticated human capital measurement model – Saratoga – which can access data from over 10,000 companies worldwide. On a daily basis we are working with companies to understand and interpret the ‘human impact’ of their organisation and how this benchmarks against the market and competition. For example, we have recently been working with a multinational organisation to illustrate in financial terms how employee satisfaction has a direct correlation to customer satisfaction and revenues.

‘In our new global society, more and more companies compete for the same group of people and companies must therefore identify, recognise and develop the best talent in order to retain it.’

Executive President and CEO, Spain

Case Study: Driving HR functional effectiveness

A global, speciality pharmaceutical company set financial goals above average annual sales growth and investment in R&D. As a consequence, all operations across the organisation were asked to look at costs.

The HR Director wanted to gain a deeper understanding of the people related issues in the organisation along with the effectiveness of the current HR function by:

- Establishing relevant HR metrics for the business units to report people management progress and issues; and
- Ensuring the HR delivery model is appropriate to deliver required service at competitive cost/FTE numbers.

PricewaterhouseCoopers conducted an assessment of the current state of HR service delivery including an understanding of:

- Business and people objectives;
- The business impact of people, policies and processes and the cost and efficiency of current HR operations;
- Relevant people metrics;
- The HR delivery model through interviews with key staff to understand the effectiveness of service levels delivered by specialist central teams and business partners;
- Executive and employee perceptions of the priorities and effectiveness of the service they receive from HR; and
- What activities HR staff are undertaking by job level and role within four categories: strategy, consultancy, advisory and administration and made recommendations for;
 - Improvements to current service delivery; and
 - Improvements to human capital performance.

Following the successful completion of the initial assessment, the client has retained PricewaterhouseCoopers to implement the recommended HR service delivery model and assist with the transition to the BPO.

Based on the outcomes of the project, the client has since conducted a feasibility study into IT infrastructure options to increase data availability in order to improve Human Capital Reporting needs. With the support of PricewaterhouseCoopers, they have also undertaken a deep review of specific HR processes including the roles and responsibilities of all internal and external entities/technologies.

Making business change sustainable

There is a wealth of empirical data that point to the fact that organisations struggle to address change effectively. Many major change programmes fail to achieve the benefits that they are intended to deliver. But the need to change – and change more rapidly and more frequently in the face of a faster moving global business environment – is pressing more urgently on all organisations. And what's more, that change has to be sustainable.

Achieving sustainable change is complex and difficult. What makes it so tough? In a word, people.

Change fails to take hold for a variety of reasons, but they all largely come down to people's attributes and behaviour. It could be because leadership fails to deliver a coherent and credible message; it might arise from the fear or complacency of middle management; the lack of the right skills and capabilities could prevent change taking hold; misaligned cultures may also play their part. These and other factors are all likely to hinder the required change envisaged at the top of the organisation getting through to staff at the frontline.

A clear illustration of this comes from the experience of many organisations in the post-Enron financial reporting world. One of the major discoveries for many companies when addressing financial reporting controls – as a result of Sarbanes Oxley legislation – was that most people tasked with the responsibility of exercising specific controls, did not understand their purpose in a wider context. Complex, multiple systems of financial documentation and controls were rigidly enforced across many organisations. However, few had managed to create an

embedded controls culture that addressed why people were performing specific actions, and how these contributed to an overall goal of effective financial control.

Learning from this, many organisations are now beginning to identify and encourage behaviours that will help to connect the vision and strategy of the board right the way through to the staff on the frontline in as direct and powerful way as possible

Rules, processes and systems are not enough. Behaviour has to change.

While every change scenario is different, there is a single common principle that defines the process – change is personal. It starts with each individual and so the basis for understanding what motivates an individual to change is critical in building a bigger picture of more pervasive organisational change.

And though there are no universal, one size fits all prescriptions, our experience repeatedly shows that the following broad strategies are essential components of effective change:

- **Top-down engagement** – Our experience of working with many different organisations demonstrates time and again that the commitment of the business leaders to change is crucial. This has to be demonstrated with both a clearly communicated plan and the personification of change in the leaders' actions – creating a vision that is simple and possible for people to understand in their own personal terms. Momentum can then be created by the identification of some tangible, measurable first steps to demonstrate

to everyone that change is happening and that it is serious. Leadership teams set the tone for the rest of the organisation and establish the behaviour that others will emulate.

- **Change versus business as usual** – Often change projects are taken 'off-line': the linkages with the main organisation are severed and only at the end of a project is it reintroduced to the mainstream. A change project needs to be at the heart of the organisation from the start. Organisations need to resource change projects appropriately. Individuals are often selected on the basis of their availability rather than the relevance of the skills they possess and there can be a lack of clarity about how an organisation values and recognises an individual's contribution on a change project. If leadership wants to succeed, the onus is on them not only to change and to ensure that they are effective and highly visible sponsors, but to put the right people of the job.
- **Clear, concise and consistent communications** – Personalising the change message, keeping it simple and digestible and stressing the benefits for an individual's team as well as the business as a whole. The drip, drip, drip of individual, personal actions sends out a very clear signal to the business that things are being done differently and that everyone is expected to do the same.
- **Meaningful measures** – Measuring the indicators of change is essential. Organisations will only be truly successful if they can find the right measures to drive the desired new behaviours. Very often, corporate

‘A good leader builds a cohesive and synergised team and provides an enabling environment in which talent and opportunity can be optimised and people can perform to their potential, contributing to the growth of the organisation.’

CEO and Managing Director, India

objectives and performance indicators are established in isolation from individual performance management metrics. But individual incentives and motivations have to be aligned to the desired outcomes for the organisation. Often, we see a misalignment between

the assessment of individual behaviour and the broader measures of corporate performance. But successful change can only be made to adhere if the system for measuring results is consistent across both the corporate and individual systems.

In short, managing change successfully requires leadership to take behaviour, motivation and communications as seriously and rigorously as they would when they make changes in processes and technology.

Case Study: Transforming people management in the public sector

As part of a major reform programme designed to meet 21st century challenges in a flexible and strategic way, a major public sector organisation wanted to transform the way they manage their people through implementing a new HR service delivery model. This meant centralising and outsourcing administrative and transactional activities and transforming existing HR teams to work in real partnership with the business front line. These core elements are supported by a best-in-class IT solution, making extensive use of self-service by staff and line managers, and management information and data to drive business decisions.

For this organisation, it was a critical success factor that the change programme was about transforming the way that they worked in the long term, rather than just about new systems or support services.

As part of a consortium with major global IT and shared services organisations, PricewaterhouseCoopers lead the business transformation. We took an integrated approach, recognising that all the elements needed to reinforce each other for the change to be embedded in the longer term.

Our involvement included:

- Benchmarking current HR position and customer service levels against industry metrics and best practice. This established a performance baseline allowing benefits to be monitored, as well as a strong sense of vision and focus for the transformation ahead.
- Together with their own subject matter experts and HR Leaders, we led the redesign of HR processes to develop a consistent set of processes. This has been pivotal in creating ownership in processes that are ‘fit’ to their particular context.
- In any transformation it is key that the roles and organisations support the ways of working, and through working very closely with the HR Directors, we led an organisation design that will enable the shift in mindset and behaviours across HR.
- We wanted to make the change about people, and about building their willingness and capability to do things differently. We defined a change strategy focussing on the journey the staff groups will take; recognising that impact and needs are very different. As a result our communications, training and support are targeted on what is appropriate in their culture, and fits the needs of individuals.
- To inform and measure our change approach, we undertook comprehensive data gathering and Change Readiness Assessments across the 30,000 staff population. This gave us a very clear view of what was important to them, likely causes of resistance and how they wanted to be supported through the change.
- Communications were innovative, accessible to everyone and modelled the new behaviours expected of everyone. Most important, the change was visibly endorsed by the leaders throughout all the communications.
- Training was a big challenge for this organisation. We developed several training programmes to support both the broad staff and managers needs, and the in-depth development needs of the HR community. This was key to demonstrating senior leadership commitment, and gave HR leaders and their teams the skills and confidence to become true business partners – a fundamental element of sustaining the new model.
- Across all the strands of the transformation, we measured the effectiveness of change through regularly speaking to the customers at the front-line to ensure that messages, and the way they were delivered, ‘hit the mark’.
- To sustain the long term benefits, we put in place hands-on practical business advisor support, able to draw on the global industry good practice across PricewaterhouseCoopers and integrated with an ongoing development programme for the HR community.

As a result, there is belief and passion about the change and how it can make a difference, as well as realistic expectations about what can be achieved along the journey.

Feedback from the HR Leaders across the business demonstrates the journey is well underway but there is still some distance to go, PricewaterhouseCoopers will continue to be an important partner in making the sustainable change happen.

People can be an organisation's greatest asset...



How PricewaterhouseCoopers can help

People can be an organisation's greatest asset or liability. The good news is that whether it is the former or the latter, it is entirely within management's control.

PricewaterhouseCoopers works to solve complex business issues – locally and globally. Our teams draw upon skills in finance, regulation, risk, tax, people, operations and technology to devise, deliver and embed lasting change. We advise and we implement.

In particular we can help you to:

- Engage employees in the change process;
- Develop leading reward and retention strategies;
- Improve HR function cost and effectiveness;
- Leverage benchmarking and implement appropriate metrics;
- Create employee share plans and executive compensation solutions;
- Manage international assignment programmes; and
- Create leadership and learning programmes for staff and management.

We take the time to listen to your situation and offer a range of smart choices to consider – choices based on independent and challenging insights, supported by facts and industry benchmarks. We help organisations maximise human impact to deliver business success. For more information please visit www.pwc.com.

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