

Saratoga  
Human resource services

# The Saratoga Review

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# The world according to the CEO: critical skills for the workforce

*In an era marked by increasing change, the effectiveness of people plays a strong role in determining which businesses rise and which fall, something that most CEOs have come to realize. This is the second article summarizing PricewaterhouseCoopers' eleventh annual CEO survey, which was conducted with 1,150 executives from 50 countries. To view a full copy of this article, please click here. This month we focus on the workforce and the role people play in realizing change.*

Talent remains a major issue, but results fall short—suggesting competitiveness is hampered while opportunities lie within reach.

More than 80% of all CEOs rate eight skills (of the ten on which they were asked to comment) as critical to their organizations. They place a particularly high premium on the ability to adjust rapidly to internal and external change, the ability to lead and develop others and the ability to collaborate (Figure 1).

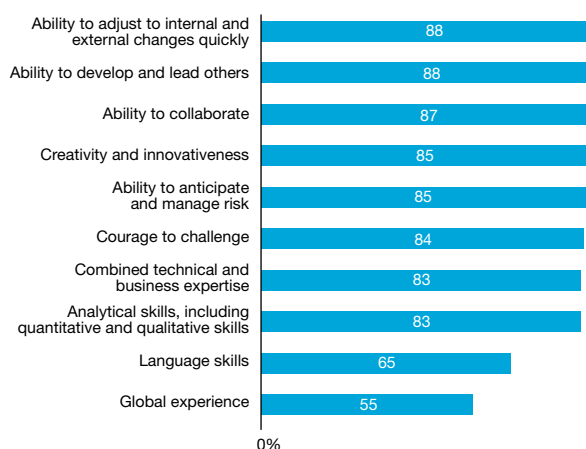
More than 90% of North American CEOs believe these eight skills are vital to their organization. However, they are much more skeptical about the value of global experience and language skills than their peers in other regions, with only 39% and 45% rating global experience and language skills as important, respectively.

Asian CEOs place less weight on the eight skills CEOs consider most critical, with response rates ranging from 65% to 75% in those categories. Like North American CEOs, Asian CEOs tend to discount the importance of language skills and global breadth. In contrast, CEOs across Europe regard them as critical attributes, with three-quarters of European respondents agreeing language skills are important—a fact that may reflect the linguistic diversity of the world's second smallest continent.

Two-thirds of CEOs want improvements in recruitment, motivation and development.

The struggle to recruit, train and retain the right people is one of the recurring issues identified in the CEO survey, as is the scale at which change is occurring. Within the past three years alone, 80% of CEOs have implemented new business strategies, 72% have implemented new business processes and 71% have implemented new technologies. Indeed, 90% of CEOs have made up to eight major kinds of change in the way they operate. Our findings demonstrate the extent to which change is now a constant in business. Although this is true in every region, change is particularly prevalent in North America—CEOs in the US and Canada lead the rest of the world in both the number of changes and the types of change they have implemented over the past three years.

**Figure 1: CEOs consider most of these skills critical**



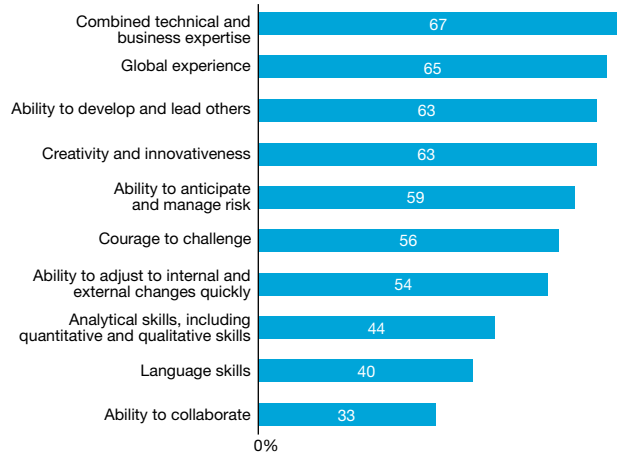
Q: Which of the following skills and characteristics are critical to your organization? (Base: All respondents 1,150)

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008.

**Leaders and all-around performers prove hardest to find, while organizational structures get in the way of collaborative people.**

Some of the strengths CEOs value are proving hard to find. More than two-thirds of respondents say that it is difficult to recruit people with a combination of technical and commercial expertise. At least 60% also say that global experience, the ability to lead and develop others, and creativity and innovativeness are all qualities in short supply. Straightforward skills like an aptitude for qualitative or quantitative analysis (44%) and ‘soft’ skills like the ability to collaborate (33%) are easier to find (see Figure 2). The overwhelming majority of CEOs (94%) are trying to address these shortfalls by investing in training and development, particularly in the areas that universities do not typically cover (see Figure 3). However, a pilot test of a talent measurement index conducted by Saratoga shows that many key positions are still filled by external candidates. Only 39% of the executive level jobs in the companies Saratoga surveyed were awarded to the internal successors who had previously been designated to fill them (when those jobs fell vacant). This suggests that some organizations may be neglecting the talent they already possess.

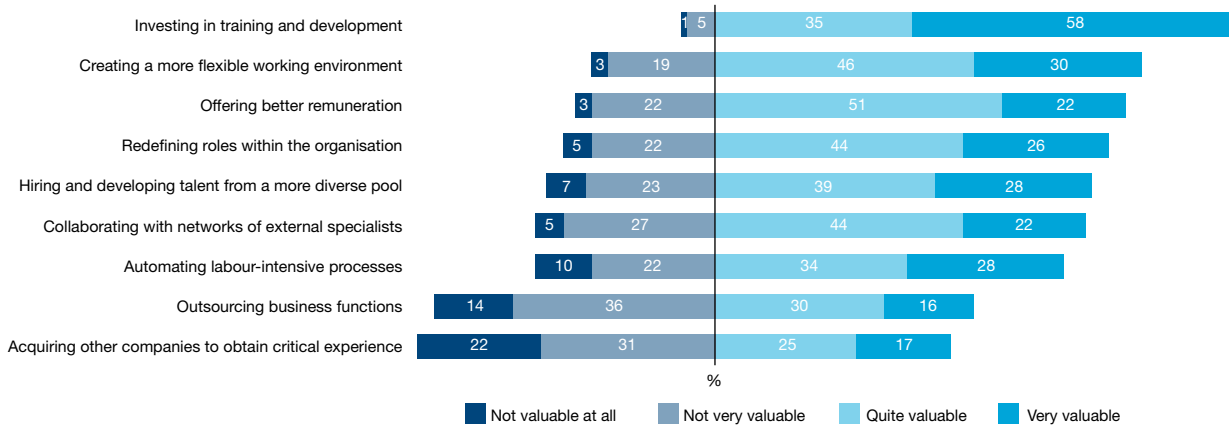
**Figure 2: CEOs identify the hardest skills to find: combined technical and business expertise, global experience, leadership skills, and creativity and innovativeness**



Q: Are you experiencing difficulty recruiting people with the following skills or characteristics? (Base: Respondents who stated particular skills were critical to their organization 636-1,012)

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

**Figure 3: To address their skills/talent shortage, CEOs find it more valuable to work with what they have, rather than go outside the organization**



Q: How valuable are each of the following methods in addressing skills or talent shortages in your organizations? (Base: All respondents 1,150)

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

73% of CEOs are increasing the rewards packages they offer, but are equally ready to use more imaginative methods, which reflect the dynamism and complexity of modern working life.

Conversely, only 46% of CEOs use outsourcing and only 42% use acquisitions as a means of getting access to critical skills. It seems CEOs prefer enhancing their internal resources over risking dilution of their control or resorting to measures that might ultimately prove to be 'quick fixes.'

### Senior or middle management weaknesses are blamed most often for hindering change programs.

Although CEOs express considerable confidence in senior management's ability to direct change, they blame many of the difficulties in realizing these benefits on the shortcomings of middle and senior management. 50% of respondents say that lack of motivation on the part of middle managers is a major obstacle, while 48% say that lack of change management skills and experience at more senior levels is a serious barrier.

In other words, there is a huge gulf between vision and reality. CEOs widely agree that people are one of their most important personal priorities and that their most senior employees are capable of leading change, yet they fault the very executives on whom they rely to champion and drive change through the ranks for their inadequate change management skills, know-how, and

commitment. A similar paradox exists when CEOs talk about collaboration. Although they say it is quite easy to recruit people who can cooperate with each other, CEOs report that lack of cross-functional collaboration is one of the biggest roadblocks in realizing the benefits of major change programs. This gap between willingness to collaborate and actual practice may suggest that the real problem is organizational—that many companies operate as functional silos and have yet to adapt to the notion that horizontal networks are more flexible than vertically-integrated hierarchies.

### A gap separates vision from execution. Discipline is needed to drive strategies through tactics, structures and results.

In short, our findings show that CEOs recognize the strategic importance of people and the need for agility (as they did in last year's survey). However, they do not believe that their companies can manage change adequately. So, what can they do to improve the situation? The evidence suggests that new organizational structures are necessary to facilitate collaboration, that more effort should be devoted to developing the leadership skills of middle and senior management, and that CEOs must empower their HR functions to adopt a more pivotal role. They will need to both task HR professionals with making their contributions more relevant to the current business environment and encourage them to become more innovative in competing for talent and driving organizational change.

# The crisis in quality of hire

For the past four years Saratoga has assessed the quality of hires in the US. Driven by corporate demand to improve the overall level of talent and better monitor and manage the staffing process, HR departments have increasingly been focused on quality of hire rather than cost per hire or hiring cycle time. Saratoga defines a “quality” hire very simply—did the hire stay with the company for more than a certain period of time (typically either 90 days or one year)?

Some organizations have more precise definitions, taking into account performance of remaining new hires; others quibble that a new hire might have been “high quality,” but chose not to stay for a variety of “non-quality” related reasons. But most of the HR departments that we work with agree that 90-day and one year separation rates are a good barometer of quality of hire.

The table below shows the median results for these two metrics. Additionally, for First Year Separation Rate, we have shown the breakout for certain major industries.

	2006
90 Day Separation Rate	8.5%
First Year Separation Rate	29.0%
Engineering/Manufacturing	32.2%
IT & Electronics	23.9%
Health Care	31.8%
Insurance	17.5%
Public Sector	28.9%
Utilities	24.8%

The results are stunning—nearly 3 out of 10 hires in America are of “poor quality.” The fact that this number is so uniformly high across various industries illustrates that this is not just specific types of workers quickly “cycling” through jobs. In fact, the results do not include a single retail or hospitality company, which we would expect to have the most significant cycling!

Saratoga typically calculates the cost of employee turnover as one-and-a-half the amount of an exempt employee’s salary and one-half a non-exempt employee’s salary, and the cost is even more acute with first year hires. Many employees take an entire year before they become productive, meaning the investment in the first year employee is a complete loss.

While the formula may seem inflated to a finance or senior executive, let’s examine some of the drivers. First off, there are out-of-pocket costs—the cost to hire, cost to train, facilities costs, cost to on-board, lost compensation, etc. Secondly, there is lost team productivity—hiring manager time to interview, on-the-job training, productivity lost during the learning curve, and more. Lastly, there is the cost of the vacancy itself—who is doing this person’s job when no one is in the seat? These costs include contractor expenses, overtime and lost productivity.

This above cost of turnover list does not even include softer (but no-less-real) impacts of first year turnover on many other things, such as:

- The existing team’s productivity
- Customer service
- Sales

In client work, Saratoga has found it a fairly straightforward exercise to justify the one-and-a-half times exempt employee salary and one-half times non-exempt salary formula. The new hire crisis takes on an increased sense of urgency when it is viewed as \$50,000 to \$60,000 per person walking out the door.

While there are many steps companies can take to address the issue of quality of hire, one of the first is to have an industrial strength process for understanding employee attitudes and perceptions throughout the first year, along with the opinions of those who have left. Unfortunately our experience suggests that the standard engagement survey isn't fine-tuned enough to address the poor quality of hire issue. On the one hand, the question set cannot focus on the hiring and on-boarding processes specifically; on the other, 30% of new hires of concern do not participate. Those that remain demonstrate a "halo effect," where first year engagement survey results show a greater agreement level than that of more tenured employees.

To be effective, Saratoga believes that multiple surveys may be required—addressing the new hire, hiring manager, hiring process, on-boarding process and level of engagement. It will be important to integrate these with the engagement and exit surveys so that trends and issues can be tracked across the employee life cycle.

As the sputtering economy pushes companies to examine cost structures, the cost of poor quality hires sits nowhere on the income statement. Nonetheless, HR departments that are able to improve the quality of hire may find they can save and/or improve program investment, even in the face of budget cuts, and drive even greater improvements to the business.

To learn more about Saratoga quality of hire programs, please contact [Scott Pollak](mailto:scott.pollak@saratoga.pwc.com) at (408) 817-7446 or [scott.pollak@saratoga.pwc.com](mailto:scott.pollak@saratoga.pwc.com).

# Metric of the month: average time to promotion

In our client work, Saratoga has found one significant area of focus to be employee development. There are numerous ways to measure employee development, including per employee investment in learning and development, number of learning and development sessions attended per employee and comparisons of the previous year's performance evaluations, to name a few. This month we will focus on an employee's ability to be promoted within the organization, measured by Average Time to Promotion. The formula for this metric is:

$$\text{Total Number of Months to Promotion} / \text{Total Promotions}$$

Saratoga defines a promotion as an employee promoted to a higher-level position or one of greater responsibility. We recognize that organizations in highly tenured industries may have limited promotional opportunities, but for those who do and are trying to attract and retain employees, Average Time to Promotion provides valuable information about the time required for an employee to advance within an organization.



Have an idea or topic that you would like Saratoga to write about? If so, we would love to hear from you! Please send your ideas and/or topics to [saratoga@us.pwc.com](mailto:saratoga@us.pwc.com).

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