

# The Saratoga Review

Newsletter Issue: October 2008

## In this issue

<b>How to ensure strong leadership for the future</b>	<b>1</b>
<b>Managing your current and future workforce during economic challenges</b>	<b>3</b>
<b>Metric of the month: Labor Cost per FTE</b>	<b>5</b>

# How to ensure strong leadership for the future

*According to PwC Saratoga's 2008/2009 Human Capital Effectiveness Report, nineteen percent of managers and twenty nine percent of executives will be eligible for retirement within five years. This anticipated "baby-boomer drain" raises a big red flag, propelling succession planning to the front lines in the quest for future success.*

Executives have neglected to look ahead to anticipate, plan for, and develop their workforce of the future. Now they must be quick to develop talent capabilities and build a pipeline of high-potentials who will be at the ready to fill current and future vacancies. But companies face many challenges in getting to that point.

## **A tougher playing field that continues to shift**

Adding to the problem, this hole in the leadership talent pool comes at the very time when the playing field is growing more global and dynamic. This translates to tougher competition in the marketplace, making the search for high-potential people more difficult and the goal of future success more elusive. Furthermore, the urgency to accelerate the time to competence compounds the challenge of building a strong leadership pipeline.

## **Strategies to address the escalating demands of a changing workforce**

Generational shifts are changing expectations in the workplace. There is more demand for autonomy, and for a work environment that encourages creativity and innovation. As organizations across industry sectors compete for top talent, the best talent is gravitating to those organizations that encourage, reinforce, and reward innovation.

To address the increasing demands of a changing workforce, organizations must develop and execute a comprehensive succession strategy and plan. Companies have an opportunity to implement a sound process that enables the identification, development, and retention of capable people and their mobility into pivotal roles.

How should organizations best address these challenges?

## Our perspective

### **Succession takes an integrated approach that focuses on building a deep leadership pipeline at multiple levels**

To ensure that your organization has the right talent on tap when and where it is needed, you must find a way to translate your company's future business vision and strategies into a clear set of success factors, or leadership competencies. Great care must be given to the consideration and development of these success factors; they will become both the foundation for succession management and the criteria for assessing, planning, and evaluating talent going forward.

It is important to define a transparent road map for continuous development and to ensure that senior leaders play a key role in both developing the program and mentoring high-potential talent. Since top talent is such a critical asset for the company, it is vital that organizations devote sufficient time to all decisions related to the development and mobility of people. A sound succession management process not only identifies those high-potentials who are ready to lead now, but also encompasses plans to accelerate readiness for emerging leaders.

An effective and well-integrated succession management plan will:

- Ensure continuity of leadership
- Define successors and plans for the top leadership level
- Build a deep leadership pipeline at multiple levels
- Provide a development road map and individual plans
- Make mentorship a core leadership responsibility
- Plan for the transfer of critical knowledge in anticipation of transition

Some of the key milestones on the road to a strong talent pipeline include:

- Alignment of people strategy with business strategy
- Articulation of succession strategy
- Identification of pivotal roles within the organization
- Assessment of current bench for these pivotal roles
- Planning for acquisition and/or development to address gaps
- Design of development program(s)
- Implementation of development programs
- Implementation of succession plan
- Alignment of reward systems
- Integration of succession management with business activities

Organizations that have what it takes to respond quickly when opportunities arise are in a better position to win in tomorrow's business world. When it comes to succession planning, complacency is not an option. Speed is obviously important, but so is getting it right.

A comprehensive talent strategy—one that is aligned to the company's business strategy and that encompasses the right action steps at the right time—will result in the strong leadership bench you need to be quick off the mark when opportunities arise.

“Getting it right” means taking the time to touch all the key milestones along the way to the future. And, since the business environment continues to shift under our feet, it also means keeping your eyes on the horizon to be sure you can anticipate rather than just react to any changes, and adapt the succession management process accordingly.

# Managing your current and future workforce during economic challenges

*Between May and August 2008, the unemployment rate in the United States increased from 4.7% to 6.1%. Given the current turmoil in the financial services industry, the unemployment rate seems likely to continue to increase. Because business is cyclical, implying both down and up turns, letting people go in droves may solve a problem today, but it can create problems in the future - including the need to hire, train, and bring new hires up to speed, a process that requires great expense and effort.*

So what can organizations do? While there are no easy answers, this article presents a number of ideas to keep talented people busy, motivated and engaged with your organization.

## **Re-deploy staff**

In anticipation of business picking up in the future, many organizations are transferring key personnel to emerging areas. Re-deployments can be to different job families or different locations. While this has a dual benefit for organizations—they keep hold of their best workers while simultaneously filling the skills gap in other areas—the employees themselves may not be so enthusiastic about the change. Employees might regard a re-deployment as a temporary measure as they have no other option – but leave as soon as possible. It's important to consider how to best position a re-deployment for each individual.

## **Reduce work hours**

A number of organizations are offering reduced work hours rather than laying off key employees. It is important to appropriately position this to employees. For instance, highlighting the opportunity to enjoy a more balanced work/life schedule is more convincing than saying that you can't afford to pay a full-time salary anymore.

## **Hiring freeze**

Hiring freezes may be less painful than layoffs, but they can create frustration amongst workers who still have to struggle with their original workload as well as any new work that a new hire would have taken. Organizations involved in hiring freezes should acknowledge the challenges employees are facing; a communication from leadership acknowledging that they know employees are busy but that the organization is not in a position to bring in new people can help create goodwill. Forward thinking organizations may wish to seek out suggestions from employees about how to improve things in the long term.

### **Candid communications with employees**

In previous economic downturns, many employers focused on maintaining morale and may not have been completely candid with employees. Painting a false picture has its drawbacks – especially if job cuts are announced out of the blue. Laid off workers walk away with their misery compounded by a sense of betrayal, while those who remain may feel embittered on behalf of their ex-colleagues, not to mention jittery about their own situation – just at the time when their loyalty and commitment is most needed.

An increasing number of employers are trying to be open and honest with their workforce about the challenges ahead. This can help to create the sense that everyone is in this together, and that better times lie ahead if people ride out the storm as a team.

### **Other internal projects**

Some companies are re-igniting plans that were on hold while they dealt with business in the good times. One organization about to relocate to a new office decided to assemble an internal team (operating at under-capacity in their ‘day jobs’) to organize the move’s design and logistics, instead of hiring a third party for this.

### **Alumni network**

When employees leave an organization, relationships end and organizations end up ignoring a highly valuable resource for future hires, referrals and brand ambassadors. An increasing number of employers recognize that investing in a comprehensive alumni program carries measurable value including re-recruitment opportunities and referrals to top-tier employment candidates (and their associates). Depending on the structure and scope of the alumni program, former employees can be provided with a number of valuable resources, including a social network engine that connects them to each other and your organization, a career center, events and news pages, as well a directory of their peers.

### **Maintain positive relationships with jobseekers**

In order to maintain a positive employer brand in the market, it is critical to treat potential recruits well, and continue to be open and honest with them in your communication. One professional service firm sends monthly e-newsletters to registered jobseekers. This keeps candidates warm by giving them general news about what the company is doing, often around community or corporate responsibility initiatives. This active and positive outreach will increase the odds that when the organization is once again ready to hire, candidates will still feel good about them.

# Metric of the month: Labor Cost per FTE

While Saratoga has hundreds of workforce metrics, our annual Human Capital Effectiveness Survey is not a salary survey. Rather than looking at detailed, position-specific salary information, we focus on broad compensation and benefit costs. Labor Cost per FTE is one of Saratoga's key labor cost metrics. The formula for this metric is:

$$\text{(Compensation Cost + Total Benefit Costs) / FTE}$$

While Saratoga does not include the cost of stock options in our definition of labor costs, we do include base pay, all bonuses, variable pay (e.g., overtime, pay premiums, etc.), payments for time not worked, healthcare costs, legally required payments (e.g., Social Security, FICA, workers compensation), retirement and life insurance premiums.

Saratoga recommends that organizations track labor costs relative to organizational financial performance through metrics such as Labor Cost Revenue Percent, which focuses on the amount invested in workforce labor costs to generate revenue, and Human Capital ROI, which looks at the profit generated for each dollar invested in workforce labor costs.



## Key contacts:

### Northeast

Michael Tindall  
michael.tindall@us.pwc.com  
(646) 471-1296

### Midwest

Patrick Meyer  
patrick.meyer@us.pwc.com  
(312) 298-6229

### Southeast

Nik Shah  
nik.shah@us.pwc.com  
(202) 414-3866

### West

Scott Pollak  
scott.pollak@us.pwc.com  
(408) 817-7446

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).

The Saratoga Review is copyrighted and protected by federal law. The re-use of its content is restricted (see copyright statement below), but we allow sharing it in part or whole so long as proper attribution and our copyright are included. However, you are permitted, in fact encouraged, to forward this newsletter, in its entirety, to as many of your associates and colleagues as you wish. Or, have them sign up for their own copy at [saratoga@us.pwc.com](mailto:saratoga@us.pwc.com).

To unsubscribe from the Saratoga Review, please send an email to [saratoga@us.pwc.com](mailto:saratoga@us.pwc.com). Make sure to include the word UNSUBSCRIBE in the subject field.

For more information, call 866-727-2864 or visit us on the web at <http://www.pwc.com/saratoga>

© 2008 PricewaterhouseCoopers. All rights reserved. PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity. PM-09-0228-A