December 18, 2009

Trendsetter Barometer™

A survey of leading privately held companies in the US

Hiring in the recovery

As private companies expect to increase hiring and workforce expenses, a clear understanding of talent management ROI is critical

Highlights

- 57% of all leading private companies plan to increase their total workforce expenses over the next 12 to 18 months.
- Over the next 12 months, 39% of respondents plan to invest or are currently investing in talent management programs, the majority of whom intend to use these programs to better capitalize on their existing workforce.
- Only 8% of private-company leaders claim to know the return on investment their company receives from their investment in critical talent.

Economists have begun to herald the end of the Great Recession. In November, economists from the National Association for Business Economics (NABE) reaffirmed their October announcement of the recession's end and again revised upward their projections for economic growth in 2010. And, after a year of low expectations, a similar sense of optimism can now be found in the boardroom: PricewaterhouseCoopers' Private Company Trendsetter Barometer, November 2009, a survey of 260 CEOs and CFOs of leading private companies in the US, found that 43% are optimistic about the US economy, up 26 points from 17% one year ago.

While until now, the gradual ongoing economic recovery has been marked by continued job losses, economists suggest that trend may not continue for long. "While the recovery has been jobless so far, that should soon change," said economist and NABE president Lynn Reaser. "Within the next few months, companies should be adding instead of cutting jobs." And in this, too, private-company leadership appears to agree: While 57% of leading privately held businesses report being affected by reductions in their companies' workforces, the same proportion (57% report), planned increases in workforce expenses over the next 12 to 18 months—most, nearly 60% of whom are planning new hiring.

"We're seeing the leading private companies looking to hire new workers or increase the compensation of existing employees," says Ken Esch, partner with PricewaterhouseCoopers' Private Company Services practice in Chicago. “While many are simply looking to fill skills gaps or retain their qualified workforce, this is a clear signal that CEOs believe the tide is turning.” The turning tide, while welcomed, presents challenges unique to private companies. “Private companies generally operate with fewer people, so it’s expected they will need to act quickly when they anticipate demand to pick up for their products and services.”

In this context, an understanding of the cost, and value, of talent—and the programs companies use to manage, develop, and retain talent—is critical, not only for those companies hiring in preparation of a wider economic recovery but also for those seeking an understanding of how to do more with less.

Managing—and investing in—talent

Some 57% of private companies report being affected by reductions in their workforce as a result of the economic crisis. While most employment areas were affected, there was a particular emphasis on middle management and skilled labor. In contrast, of those surveyed, 40% reported no layoffs or reductions as a result of the economic environment.

Despite workforce reductions, 61% of Trendsetter respondents believe their company’s current workforce is well aligned to business objectives that must be met over the next 12 to 24 months. Sixty-one percent also believe their organization has the right skills at the management level to effectively lead the company over the next 12 to 24 months.

At the same time, 35% of leading private companies believe they will have to fill in some skills gaps, 82% of whom are planning to fill those gaps by hiring new talent. Additionally, 68% plan to train or develop existing talent, 32% plan to redeploy talent, and 22% plan to rely on contractors to contribute the needed skills (figure 1).

Figure 1. Companies that need to fill skill gaps plan to:

Multiple responses were allowed.

Some 39% of Trendsetter respondents say they will be investing in talent management programs over the next 12 months, with the chief goal (reported by 88%) being to better capitalize the existing workforce. One in five, or 20%, reports a goal of better positioning their company from a recruiting perspective as an employer of choice as the economy recovers (figure 2). To that end, these companies are investing in training and development (92%), mentoring/coaching (55%), incentive programs (43%), and flexible work arrangements (19%). Just under half of these respondents, or 16%, report having recently cut or delayed their investment in these programs.

Figure 2. Companies with talent management programs identify the following goals:

Multiple responses were allowed.

"Many companies are analyzing their salary and benefit programs to attract and retain the best talent. Some are restoring salary reductions and/or benefits cut during the recession," says Esch. "Others are training and developing existing employees to work in other areas of the business. Overall, it's important to have the right number of people and your people in the right seats."

Experience has shown that this is best achieved through a strategic, rather than administrative, approach to talent management. This approach can be viewed as a combination of four key elements. First, leadership must identify business objectives, not just in terms of short-term priorities during an economic crisis, but also in terms of long-term business goals. Next, pivotal positions should be identified or created if necessary that align directly with these objectives. Third, leading companies will create workplace solutions, through job design, performance management and rewards, that align with the expectation of the talent that fills those pivotal positions. Finally, companies must be sure they can deliver on what they promise employees with effective processes and technologies.

Understanding the cost

For most companies, people comprise the largest business expense—up to 60% of operating costs in some organizations.[1] As such, this cost must be understood. Yet only 17% of Trendsetter respondents report that they measure ROI on talent expenditures. And only 8% of Trendsetter respondents claim to know what return they are getting from their investment in critical talent.

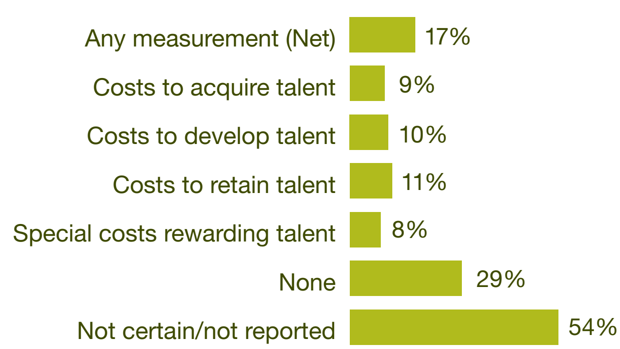
67%

do not know what return their company is currently getting from their investment in critical talent

"In a tight economy like today, businesses should take a close look at every expense to ensure the money being spent will move their business forward. The same is true for new hires; it's imperative to decide what a new employee's impact on the business will be and map that back to how they're being compensated," adds Esch.

Yet while some Trendsetter respondents report tracking costs around the acquisition, development, retention, and rewarding of talent, more than half are uncertain or not reporting (figure 3).

Figure 3. In measuring return on investment in talent, metrics include:



Multiple responses were allowed.

The key to the accurate evaluation of ROI is developing a set of metrics around core talent data. In addition to tracking revenue per employee, management should track key talent indicators in areas including talent supply and demand, workforce characteristics, and employee values and expectations. Leading companies also monitor and quantify the ROI of HR expenses, such as labor and overhead costs. This will enable management to have a clear view of the company's turnover rates and hiring costs.

The long view

People are among a company's largest costs—and assets. As such, this is the first area to see cuts when times are tight, but is also the foundation of a company's ability to compete when the economy returns. Companies that want to emerge competitively from the recovery must develop and maintain an understanding of the necessity and return on investment of talent management programs.

[1] PricewaterhouseCoopers, 2008. *10Minutes on Managing Pivotal Talent.*

PricewaterhouseCoopers' *Private Company Trendsetter Barometer* tracks the business issues and best practices of leading privately held U.S. businesses. The 3Q09 results incorporate the views of 260 chief executive officers (CEOs/CFOs) interviewed between July 31, 2009, to October 30, 2009:

Profile of management panel demographics:

Average number of employees	908
Average revenues	$155.1 M
Average enterprise revenues	$194.1 M
Average five-year growth	99%

PricewaterhouseCoopers' *Private Company Trendsetter Barometer* is developed and compiled with assistance from the opinion and economic research firm of BSI Global Research, Inc.

For more information about Barometer surveys, including recent economic trend data and topical issues, please visit our Web site: www.barometersurveys.com