HR Magazine 1/1/2010

Where Counting Counts

Vol. 55 No. 1

Data document a dramatic turnaround in employee relations among accounting professionals.

By Michael J. Fenlon and Susan Albers Mohrman

Imagine being confronted with skyrocketing turnover, plummeting employee engagement and truly negative feedback. Then, critical appraisals from outside evaluators forecast that it will take years to turn attitudes around. PricewaterhouseCoopers' leaders faced this situation in 2002, when workers were still feeling the effects of the merger of Price Waterhouse and Coopers & Lybrand and were shocked by the Enron and Arthur Andersen meltdowns and passage of the Sarbanes-Oxley Act. The resulting—and revolutionary—financial disclosure requirements and intensified legal risk made high-quality audits crucial and increased demand for accounting services.

PricewaterhouseCoopers LLP (PwC) is a global network with more than 155,000 employees in 153 countries. In fiscal 2008, these workers generated approximately $28.1 billion in revenue. The U.S. firm employs about 29,000 in 70 locations. PwC employees primarily focus on clients' data, yet this article shows how the firm's leaders now rely on other kinds of numbers—internal measurement, analyses and research, plus rapid organizational learning—to continually improve the experience of working there.

Prologue to Commitment

Human capital is the source of value in any professional services firm, and competition for talent in PwC's Assurance, Tax and Advisory lines of service intensified early in the decade. PwC managers used a traditional human capital model for professional services that was designed to:

Provide employees with increasing responsibilities as they moved through a lock-step progression from associates to senior managers, with turnover increasing at each level of the pyramid.

Motivate new hires, most direct from college, with the brass ring of partnership held out as a distant reward to sustain commitment.

Select candidates for promotion—eventually, a minority of staff members become partners, with others usually leaving the firm.

By 2002, PwC's turnover had reached 26 percent—higher in some critical positions—compared to 17 percent to 18 percent in the accounting profession. The traditional human capital strategy described above no longer fit the expectations and aspirations of college graduates.

Despite vigorous recruitment, managers were swimming upstream to fill positions due to rapid turnover costing approximately $40 million annually. Leaders worried that the loss of talent would deplete the ranks of skilled managers just as the workload was increasing.

As Kimberly Liu, a senior associate at the firm in 2003, explains, "We had a hard time keeping up with the work because the high turnover created a revolving door on my teams. Some of our stars couldn’t see futures for themselves at the firm and didn’t feel free to talk about it."

Later in 2002, the firm applied but failed to be named to *Fortune*’s list of "100 Best Companies to Work For." PwC rated so low that executives were advised not to apply again until they had significantly transformed the culture; judges estimated that the task would take at least eight years.

PwC leaders took this as a personal challenge, vowing to achieve a quick turnaround. As Mike Burwell, operations leader and chief financial officer, explains, "Turnover was not just a matter of cost, but also quality. There’s a deep connection between the experience our people have and the experience they provide to our clients. For us, attracting and retaining top talent is a strategic imperative."

Data Gathering, Learning

Faced with skepticism from partners and staff, top executives began to listen to staff regularly through biannual employee surveys. They used the data to drive measurable change by engaging staff, strengthening client service teams and increasing retention. Leaders openly shared survey results in town hall meetings and other venues that foster two-way dialogue. Human resource leaders developed scorecards featuring retention and other survey results; the scorecards hold every manager accountable for improving employee satisfaction.

Leaders knew that survey data simply measure the current situation. To take action, partners would have to assess the root causes. Why were people leaving? Why were attitudes so negative? What actions would be effective? Some leaders concluded that employees were leaving to get greater total compensation. While the firm already offered competitive compensation, some wondered if more bonuses and incentives would stem turnover. Yet, top executives and HR leaders understood that while compensation alone might marginally reduce turnover, it would not create an environment where most employees would perform to their potential and rate PwC as a "best place to work."

To understand the value of the PwC professional experience, HR leaders commissioned a 2004 study from the Center for Effective Organizations at the Marshall School of Business at the University of Southern California, Los Angeles. The research found that:

Only 20 percent of new hires joined PwC intending to build a long-term career at the firm.

Opportunities to engage in challenging work and continually develop knowledge and skills that position them for future career growth were factors in gaining employees’ commitment. This was not something that could be provided easily through training courses; workers were looking for development and coaching on the job.

Among PwC staff members who intended to leave, work/life balance, pay and job satisfaction were predictors.

Future compensation growth relative to other potential jobs was more important in predicting retention than current compensation.

Alumni who stayed at PwC to gain management experience had greater long-term financial and career gains than those who left earlier, regardless of whether they became partners. The challenge: retaining and developing these employees as they become increasingly valuable in the marketplace.

Executives now had a base line of employee attitudes, a process for tracking them through regular surveys, and an understanding of the factors driving turnover and job satisfaction. PwC leaders, working with HR professionals, set to work on a "Unique People Experience" strategy.

Robert Daugherty, U.S. sourcing leader, says, "We had to strengthen our fundamental approach to retaining our people—by really understanding their goals and aspirations and providing the coaching, connectivity and experiences that would both develop and challenge them and improve the quality of our client service."

This strategy recognizes knowledge workers' desire to have portfolios of job experiences that continuously upgrade their marketable skills. It recognizes that every staff member has a personal constellation of interests that vary during the course of one's career, and that a cookie-cutter approach to development no longer suffices.

Yet in a firm run by partners, each an owner, a new way of operating requires both changing the way partners understand their accountability to the firm and their staffs and an appreciation for workers' changing motivations. It requires changes in relationships, teams, and HR practices and processes—in short, continuous learning.

In the spring of 2004, Dennis Nally, senior partner and chairman at the time, began talking about change. Every employee received the survey findings with a message from Nally expressing his commitment to address their concerns. At all-hands meetings, attendees from the Assurance, Tax and Advisory lines and from HR, finance, information technology and administrative services began to determine what the findings meant for their units.

Through training activities, partners became aware of how they could strengthen relations with staff, provide higher-quality and more-timely feedback, and build stronger teams.

Each office generated an action plan that was frequently updated following biannual surveys. For example, all-hands meetings in one California office revealed that many employees considered leaving because they were receiving little feedback. Hence, the plan in this office included regular one-on-ones between partners and managers and managers and associates, and more-qualitative comments on assessments after each engagement.

Struck by interview data showing that staff members felt distant from partners and the business, in 2004 each staff member and manager was linked to a partner accountable for getting to know these employees and providing career coaching.

At the same time, the Assurance practice began a transition to market teams. Staff members, managers and partners worked together to determine how to deliver excellent service to clients. These teams create the feel of working in a small firm in terms of community and accountability while maintaining a large firm's access to special expertise for clients and career development for staff.

During the three-year transition to market teams, data were collected about team effectiveness, and the information was quickly shared to drive improvement. A critical criterion was whether the teams were providing the developmental opportunities the staff desired. A balanced scorecard was created to ensure that teams focused on client, business and staff results and that teams received regular feedback about progress. The scorecard includes measures of workload balance and satisfaction with development opportunities that relate strongly to retention and effectiveness.

Coaching the Coaches

The role of HR professionals was forever changed as they began:

- Visiting teams at client sites.
- Teaching coaching skills, performance management and feedback.
- Helping managers with talent management as they assign staff to engagements.

An internal certification process began preparing HR professionals to conduct workshops and advise leaders on coaching; the firm now sponsors training for PHR and SPHR certification.

As the Tax and Advisory practices orchestrated their shifts from large practices with pools of staff to smaller, more-cohesive market- and industry-based teams, employees reported a deeper understanding of clients and the important features of their work, exercised greater influence on their own developmental assignments, and were given more information about business performance.

In this environment, Liu decided to stay with PwC, becoming a manager and even switching to marketing. "Now there is great support for pursuing different career opportunities," she says.

Bob Moritz, chairman and senior partner, adds that "Our focus on listening to our people has helped us to learn."

By 2007, other changes included:

More-specific performance expectations, higher standards for recognition of exceptional performance and incentives aligned with performance.

A "PwC Careers" initiative and Internet resource that describes career paths, options and mobility; development opportunities; and rewards.

Careful monitoring and management of individual workloads within teams.

Flexible work arrangements such as compressed workweeks, reduced work schedules and telecommuting.

Sabbaticals that enable employees to pursue educational goals, work with nonprofits and community organizations, or explore other personal interests for four to 16 weeks.

A program that enables individuals to leave PwC for longer periods, often for life-cycle events such as becoming a parent, while continuing to develop skills and network to facilitate re-entry.

Consistent, explicit support for diversity and building cultural dexterity skills. Diversity includes more than just gender; gay, lesbian, bisexual and transgender issues; and ethnicity. It encompasses career paths and family life stages as well. For example, a "mentor moms" program supports reintegration after a maternity leave. Cultural dexterity skills have been developed through such activities as one-on-one conversations between partners and staff of diverse backgrounds and mentoring.

Employee survey "heat maps" for team leaders developed by PwC’s Saratoga Institute. They define survey results and help leaders develop action plans.

Leadership Challenge

The human capital transformation has been led by the partners in response to market forces and employees, with HR leaders developing and creating the strategies. Initiatives, such as enhancements to the performance management system, are planned by cross-line service teams and vetted by partners.

No surprise: Human capital decisions at PwC remain data-driven. Top leaders rely on sharing and interpreting surveys; client feedback; and environmental, demographic and market trend data. Unit leaders develop detailed action plans based on these measures.

As Jim Walsh, HR leader for the Assurance practice, observes, "We’ve been able to translate data into insight, and insight into action."

And this commitment to gathering data, and focusing on it to catalyze change, has paid off:

The April employee survey yielded the highest overall score since 2002 and demonstrates continuing improvement.

Turnover has fallen from 26 percent to less than 10 percent annually, including significant declines before the current recession.

In 2005, when PwC reapplied to *Fortune*'s "100 Best Places to Work" list, it landed at No. 82. In 2009, the firm rose to No. 58.

PwC's story highlights the value of using data as a tool to align human capital strategies, the needs of clients and top talent. Moritz concludes, "We are continuously challenging ourselves to create an environment in which top talent thrives and in turn develops the talent of others. And that translates directly into a winning experience for our clients."

Michael J. Fenlon is people strategy and U.S. markets HR leader at PricewaterhouseCoopers in New York. Susan Albers Mohrman is senior research scientist at the Center for Effective Organizations at the Marshall School of Business at the University of Southern California, Los Angeles.