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Saratoga
Human resource services

The Saratoga Review

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In this issue

What's happening at PwC Saratoga

The following key activities are coming up at PwC Saratoga:

- **December 2010:** Results from PwC Saratoga's 2010/2011 Indian Human Capital Effectiveness Report will become available.
- **December 2010:** PwC Saratoga launches our global technology workforce planning survey, which looks at FTE ratio, management span of control, and turnover for approximately 15 functions for nearly 20 countries throughout North and South America, Europe, and Asia. To learn more about this effort, please contact Scott Pollak (scott.pollak@us.pwc.com; 408-817-7446) or Shebani Patel (shebani.patel@us.pwc.com; 408-817-7445).
- **January 2011:** PwC Saratoga is hosting semimonthly, Web-based demonstrations of our data collection and reporting tools. Web-based demonstrations are held the first Wednesday at 2 p.m. EST and the third Thursday at 11 a.m. EST. To learn more or register for one of our Web-based demonstrations, please call 1-866-727-2864.
- **January 2011:** PwC Saratoga will announce our 2011 Metrics 101 and Metrics 200 class schedule.
- **January 4, 2011:** PwC Saratoga will launch the 2011 US and Latin Human Capital Effectiveness surveys.
- **Early 2011:** PwC Saratoga will be conducting a survey on employee diversity that will focus on the costs of employee diversity programs and a detailed assessment of diverse employee hiring, promotion, leadership, and turnover rates. This survey will supplement the nearly 20 diversity metrics currently available from PwC Saratoga.

To learn more about any of these activities, please see the final page of this newsletter for the contact information of your local Saratoga representative or call 1-866-727-2864.

Engaging pivotal talent

The following article is a summary of a recent "10 minutes on engaging pivotal talent" article. To view the full article, please click here.

Companies often focus on retaining star performers or leadership talent, overlooking pivotal roles—jobs that have an outsized ability to create (or destroy) the value customers expect.

Focusing on engaging pivotal *roles*, not just key *people*, can help improve retention while also improving company performance. It's important to understand what people in pivotal roles want from their work and to find creative ways to motivate them. For some, nonfinancial incentives can work better than more money.

If these early days of economic recovery show us one thing, it's that companies around the world are committed to getting the most out of smaller workforces. Though productivity rose steadily during the recession, companies may now be paying the price in engagement, which we define as employees' involvement in and commitment to work and to their company's strategy, mission, and value proposition. After the layoffs and salary freezes of recent years, many workers have become stretched and demoralized.

There could be even more at stake. Research shows—and our experience with companies supports—that higher employee engagement links to improved retention, customer loyalty, revenue, sales, and profit.[1] But not all roles are equal, and organizations that strive to raise engagement among *all* their people may be failing the ones who make the biggest difference to the business.

Finding and targeting the roles that make the biggest difference to the business

Pivotal roles vary by industry and company and aren't always high profile. A little digging will reveal them.

Explore your value proposition, and you just might find a few surprises

Consider a coffee-shop chain. You might assume that the roles with the biggest influence on performance are the baristas behind the counter. And you'd be partly right. But you'd be overlooking the treasury specialists who hedge coffee bean prices—an equally important role in the company's ability to deliver the coffee customers expect, at prices they can afford.

By not zooming in on pivotal roles, companies may leave on the table real opportunities to improve performance. But where to start?

Zero in on the factors that influence customers in their decision to choose your company's offerings. Which processes create that value—and what are the greatest risks to the processes? Digging deep into your organization can reveal the roles that have an outsized effect on creating or destroying the value your customers expect.

Load up on the value customers want

Take the case of a major food distributor. A stream of negative customer feedback prompted the distributor to conduct detailed customer and employee surveys to figure out exactly what was going on. In this sales-oriented company, compensation favored the salespeople. But to management's surprise, the surveys revealed that truck drivers were, in fact, the most pivotal role.

The drivers' role ranged from delivering groceries and interfacing with restaurant managers to invoicing and negotiating problems on the spot. Drivers were truly the face of the company to customers. But factors out of their control — long work hours, undesirable schedules, and logistical problems—had a big impact on engagement and turnover, which was hurting customer satisfaction. For instance, trucks were being packed inefficiently at the warehouse, making it harder for drivers to quickly unload items without damaging the goods.

1 J.K. Harter, et al., "Causal Impact of Employee Work Perceptions on the Bottom Line of Organizations," *Perspectives on Psychological Science,* 5, 378-389, 2010.

Bringing different departments together to change the packing process and allow drivers to participate in their own route scheduling led to significant improvements in driver engagement, addressed customer concerns about timely deliveries, and reduced the costs associated with breakage.

While US policymakers focus on restoring jobs to nearly 15 million unemployed Americans, companies face other tough talent issues.

1. Demographic pressures are challenging some industries. In the professional, scientific, and technical services sectors, the percentage of workers aged 55–64 increased by 45 percent from 2000 to 2007.[2] Across industries, more generations are in the workplace at once than ever, and they have different motivations.

2. Productivity decreased by almost 2 percent in the second quarter of 2010 before rebounding in the third quarter[3]—an early sign that workers might be reaching their limits.

3. Even with unemployment high, voluntary turnover is rising. After falling by 1.4 million from its November 2006 peak to its September 2009 trough, the number of voluntary quits rose by 326,000 between September 2009 and September 2010.[4] People are starting to seek out new opportunities.

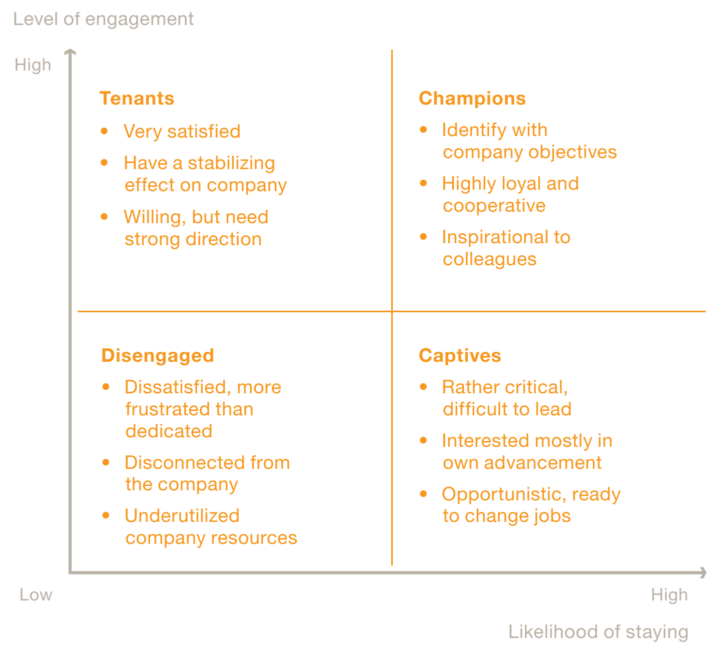
Looking at engagement through a new lens

PwC estimates that 80 percent to 90 percent of large companies conduct off-the-shelf engagement surveys that provide broad readouts of how strongly people feel committed to their work and the business. But only 5 percent to 10 percent of these companies link their surveys to business outcomes or use them to determine what's preventing key employees from excelling in their roles.

A powerful engagement survey begins with how you look at your own people. Instead of segmenting employees only along traditional human resources lines, such as age, gender, or tenure, companies would do well to also segment in ways that line up directly with business goals — such as pivotal roles and future leaders, for example.

Who fills your company's pivotal roles?

Companies can dig even deeper into survey results, segmenting people in pivotal roles based on engagement and loyalty. This can help leaders anticipate and address vulnerabilities.



What makes your people tick?

When it comes to motivation, research shows that financial incentives may not always be most effective and, in some cases, can even be counterproductive.[5] One study found that, as long as a task involved only mechanical skill, higher bonuses led to better performance. But for tasks that required even basic cognitive skill, higher bonuses actually led to poorer performance.[6]

Why?

Beyond a certain base level of pay, motivation may matter more than money. Some employees may respond better to personal incentives, such as solving complex problems on their own or making a real difference in the lives of customers.

2 Integrated Public Use Data Series (IPUMS-USA).
3 Bureau of Labor Statistics, November 9, 2010.
4 *Ibid.* December 2010.

5 Samuel Bowles and Sandra Polanía Reyes, "Economic Incentives and Social Preferences: A Preference-based Lucas Critique of Public Policy," CESifo working paper No. 2734, presented at CESifo Venice Summer Institute, July 2009.
6 Dan Ariely, Uri Gneezy, George Loewenstein, and Nina Mazar, "Large Stakes and Big Mistakes," Federal Reserve Bank of Boston, Research Center for Behavioral Economics and Decision-Making, 2005.

Creating a motivating work environment that's focused on results

Companies are trying to structure work in ways that tap into nonfinancial motivators. For example, one study found that 1 percent of more than 1,200 large North American companies surveyed now offer unlimited paid vacation time.[7] This policy resonates with people who value autonomy and signals to employees that the work they do and the value they bring are more important than the time they spend at their desks.

Such efforts have the added benefit of boosting the employer brand from the inside out, especially when people in pivotal roles feel motivated to advance the company's mission and communicate it to the outside world.

Making a fundamental shift

Taking a new approach to learning about, understanding, and improving engagement may be easier said than done. It goes beyond the program and policy changes typically entrusted to HR; it requires a fundamental shift in the way all company leaders—from HR to the business units and up to the C-suite—think about the value people bring to the business.

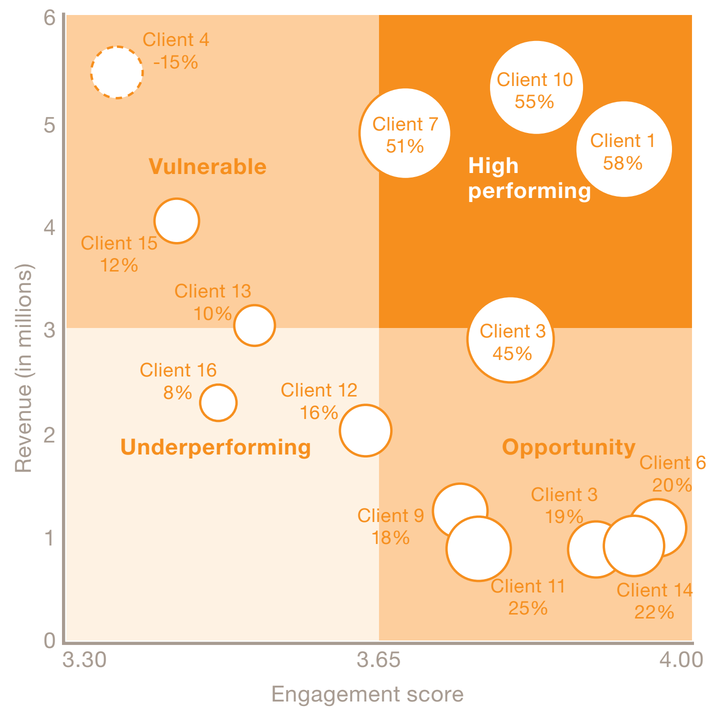
Engaged employees can be your engine for growth

In tight times like these, what—or rather, *whom*—do you invest your limited resources in? Where do you place your bets?

By focusing employee engagement on talent in pivotal roles, companies can realize bigger returns on their efforts to raise productivity and grow revenues without necessarily expanding the workforce. And they can do all this while mitigating the disproportionately high costs of turnover in the most important corners of the business.

Engagement links directly to business performance

An analysis of employee engagement and, in this case, client team performance data, reveals the link between engagement and revenue growth, and highlights important risks and opportunities.



Sample analysis for "Company X": The relative bubble sizes represent individual client teams' revenue growth. The dashed perimeter represents negative growth.

Source: PwC Saratoga

Diagnosing and treating the problem to get the results you want

No single formula to improve engagement will work for every business. The approach will differ by industry and company and will always depend on the goals a business wants to achieve.

For example, an on-site laboratory services provider to hospitals wanted to improve sample quality and turnaround time. Internal analysis traced the problem to high turnover in a previously overlooked pivotal role: the office manager.

7 "Paid Time Off Programs," WorldatWork, May 2010.

Office managers were overwhelmed with a huge number of minor administrative transactions and didn't have enough time to focus on critical tasks or provide coaching to staff. The lack of morale was causing excessive turnover that impaired cost and quality. Reallocating work to give office managers more time to do critical tasks and to coach raised their engagement levels, improving both quality and turnover rates.

A different problem plagued a clothing manufacturer, which could not keep up with the latest fashion trends. It lagged in sending new designs to the factory floor and, as a result, wasn't meeting the stringent demands of its largest customers, the big-box stores.

While the company recognized that designers played a pivotal role in the customer value proposition, they were surprised to discover the reasons for designers' high turnover, dissatisfaction, and underperformance.

A survey of designers revealed that they were leaving in part because they lacked the latest design technology, as well as other time-saving tools that competitors provided routinely. Upgrading the company's technology backbone helped to reduce turnover, inspire creativity and design innovation, and shorten the design-to-production cycle.

Facing up to the challenge of change

Think about some of the companies that have grown their businesses by tapping into what really makes their people tick—Google or Netflix, for instance. The companies that come to mind have at least one thing in common: they're innovators, perhaps even industry disruptors.

Perhaps that's no surprise. One national study found that roughly 60 percent of engaged employees felt strongly that their jobs inspired creativity, compared to just 17 percent of those who were not engaged and 3 percent of those who were actively disengaged.[8] Engaging your people, particularly those in pivotal roles, to pursue innovation and performance improvement may require new management thinking, both in the business units and HR.

Common organizational problems to anticipate might include:

- Getting business units to take ownership of the talent agenda rather than delegating it to HR
- Resetting employees' long-standing expectations of financial incentives, which may now be deemphasized
- Loosening rigid decision-making structures to give people in pivotal roles more autonomy
- Motivating employees in nonpivotal roles who may see resources shifting; nonpivotal does not mean unimportant
- Redesigning jobs so they appeal to the strengths of those you hope to engage
- Mitigating the consequences of natural turnover—from baby boomer retirements or job-hopping Millennials, for example—such as the loss of important institutional knowledge or expertise.

Joined with HR, all C-suite executives should ask the following strategic questions:

- What are the roles that create disproportionate value for our company, and do we have the right people in them?
- Are the pivotal roles receiving adequate resources and management attention?
- How might we segment our workforce in ways that align with business goals?
- Can we identify barriers to productivity and reveal opportunities for improvement?
- How can we develop a solid, fact-based understanding of what really motivates our people in pivotal roles?
- To motivate people in pivotal roles, do we have the right programs and incentives in place—from strong coaching and mentoring to work arrangements that inspire autonomy or creativity?
- How can we create a work environment that focuses on results and individual value?
- Does our succession planning cover pivotal roles, not just company leadership, and do we have a good pipeline of talent for these roles?

8 "Engaged employees inspire company innovation," Gallup, October 12, 2006.

Making mergers work

How merging companies can increase their chances of successful integration

Your organization has decided to make an acquisition. You've done your homework and found the right company with the right strategic fit. You've completed your diligence reviews and examined the numbers from every angle. You've considered all of the likely market reactions. In short, you're convinced that this deal represents an excellent opportunity to create shareholder value.

But you also know that difficulties loom.

You suspect the two corporate cultures might not mesh as tightly as you'd like. You've already identified extensive job overlap. In fact, you fear that the best and the brightest at both companies may already be heading for the exits. Indeed, for both your employees and the incoming workforce, the strategic rationale for the deal may involve adopting an entirely different operating model.

You're not alone. Only 36 percent of finance executives report a "very favorable" outcome for profitability and cash flow following a deal, according to the results of a PwC survey about mergers and acquisitions (M&A) integration practices and outcomes. Favorable results were least likely in the areas of employee retention, energy and enthusiasm, and morale (all at 23 percent); decision-making speed (21 percent); productivity (16 percent); and speed to market (14 percent).

How can companies planning a merger improve their integration of work practices, decision-making styles, human resources policies and processes, and organizational reporting relationships? Here are some of the key steps.

Set the course

As with any other large-scale, enterprise-wide change, a merger or acquisition is an excellent opportunity to chart a new course, both operationally and across the various support functions of the newly combined business.

Setting the course empowers members of the integration team to define the road ahead through actionable tasks, such as those discussed below, and ensure they are carried out.

Assess executive leadership

One of the most important initial steps in successfully setting the course is to determine the parties who will be establishing the blueprint. Specifically, decisions must be made regarding which senior leaders from the combining companies will assume which leadership roles, both during the integration effort and longer term.

At this stage, leadership tends to fall into one of two categories:

- **Leading the integration effort:** Establishing leadership for the short- to mid-term integration effort often falls to the acquirer prior to close. Assembling an effective integration leadership team is a critical prerequisite to achieving strategic goals and synergy targets. Key leaders of both organizations often make up the integration steering committee.
- **Setting the course and leading the newly combined organization:** Laying out the blueprint for the future also is often done by the acquirer prior to close. Sometimes, though, key leaders from the target are given a significant role in shaping and executing the plan.

Identify the people you need to keep

Many acquiring companies pay significant retention bonuses. But all too often, they spend money on retention programs without linking the rewards to integration goals. The development of the retention program should include defining criticality.

Before a company can direct financial incentives to key people, it must define their relative importance to the business — both during the transition and beyond. For example, some individuals may be integral to facilitating an orderly transition of the target's customer base to the acquirer, while others may be essential to managing or otherwise maintaining the target's ongoing operations. Still others may be critical simply because no one else is doing, or can do, their jobs.

The levels of criticality can be described as follows:

- **Strategically critical—**Those most essential to the ongoing operations of the new combined organization
- **Integration critical—**Those most essential to the merger integration effort
- **Knowledge transfer critical—**Those most essential to the transfer of ongoing specialized knowledge

The financial (and other) incentives that comprise retention awards will vary based on the talent objectives for staff at each level of criticality and their specific retention timelines.

The exercise of categorizing staff by level of criticality forces a company to evaluate employees individually and determine whether it will need different retention packages for managers at different levels or locations. The process also makes it easier to redeploy strong performers to other positions within the new organization, especially if two solid employees perform similar roles.

Plan for Day One, and execute

Even if you make the very best decisions as you set the course, a lot can still go wrong at close. Proper planning and execution can head off trouble.

Though Day One can be a milestone for celebration, it is also the time for smooth transition of mission-critical operations. After all, normal work doesn't stop when a deal closes. How do you assure your new company hits on all cylinders from the start?

Select staff

Fitting the right people into the right roles is never easy. It takes time, discipline, and selection practices that are comprehensive, yet relatively straightforward to implement. At a minimum are these requirements:

- **Clarify the core competencies and skills required for key jobs.** Workforce plans must clearly articulate job requirements. Employers must accurately identify the jobs that will change because of the integration, as well as how they will change. Create job descriptions that adequately define each position.
- **Identify skill gaps.** Highlight and prioritize skill gaps as soon as possible once the new organization's design is available. The workforce must be sufficiently skilled to adjust to resulting systems and process changes.
- **Match job levels.** Properly matching job levels between the two companies should begin as soon as possible after close.
- **Tailor the assessment and selection process to deal timing.** Selection of talent can be staged throughout the integration process; leadership and top management positions are filled during the early stages leading to Day One or shortly thereafter. Layering the selection by management levels enables the company to simultaneously make strategic selection decisions and build its organizational design.
- **Provide needed job training.** Training may be necessary to support core transitional requirements where new systems or processes are introduced. Pre-close training can be fundamental to ensuring the uninterrupted delivery of services on Day One regardless of whether the employee operates in the field, in a call center, or in the corporate headquarters.

Training should address basic issues such as new phone greetings, impact on customer bills, specifics of the newly combined product and service offerings, and processes for new customer orders.

Set organization structure and define role clarity

It is a widely accepted theory of merger integration that little permanence can be established following a deal until the organizational structure has been set. Fear, indecision, and just plain confusion often paralyze the new organization until people have some sense of where—and even whether—they fit.

People will naturally be curious to know what's expected of them, what they're accountable for, and what decisions they own. You can't expect effective execution of an integration effort until you publish the decision-making authority for each position on the organizational chart and people know to whom they answer for results. You also must define the ways the structure will create sustained economic value.

Of course, many decisions about organizational structure and job roles can't be finalized until after the transaction closes, but smart acquirers can still begin planning the shape of the combined company well in advance of Day One. CEOs seldom experience more pressure to clarify authority, control, and reporting relationships than after the announcement of a deal. Senior leadership must make critical decisions about organizational design and reporting structure. It's important for leadership to resist pressure to make decisions that favor form over function, title over accountability, and hierarchy over role clarity.

Design and maximize future operations

Assess and transform corporate culture

Managers face certain challenges in their efforts to align two company cultures. A cultural assessment can identify dominant operating styles and entrenched behaviors of each organization. Identifying and mapping the differences between the operating styles, cultural drivers, and HR policies and practices of the two companies can give the acquirer a clear picture of the size of the gulf between them and may help defuse any cultural roadblocks to integration progress.

Building an elite integration team is also critical to transforming culture. Companies can no longer afford to choose members of their integration teams based just on availability. Instead, the companies most adept at integration assign star performers out of their usual roles to partner with leadership and an effective integration management office.

Communicate with employees

M&A transactions carry risk: They disrupt business, distract employees, and diminish performance. So it's not surprising that disruption, distraction, and uncertainty can drive the economics of a transaction. These risks can lead to serious negative consequences:

- **Productivity declines,** as anxious and distracted employees — confused about today's priorities and tomorrow's direction — spend inordinate amounts of their workday speculating.
- **Workforce exits,** as employees rapidly lose confidence in management that fails to communicate a clear direction early on. The first to go are usually the best and the brightest who don't want to put their careers on hold while their leaders tread water.
- **Market share shrinks,** as competitors go after both customers and employees, capitalizing on external concerns, internal problems, and often a general sense of neglect.

Executing a strong, clear communications strategy is a necessary element in combating the distractions and anxious behaviors that result from an integration effort and a key contributor to successful M&A integration.

Organizations considering a merger or acquisition must devote appropriate time and resources to planning and executing for Day One. The role of human capital throughout the process is critical. Organizations must identify executives and individual contributors who are key to the merger, clarify employee roles, and actively communicate with their workforce and other key stakeholders.

Summary

Organizations considering a merger or acquisition must devote appropriate time and resources to merge company cultures, HR policies and processes, and organizational reporting relationships. PwC's disciplined approach to delivering people integration helps companies achieve early wins, build momentum, and instill confidence among stakeholders. PwC takes an active, hands-on approach to helping clients focus on the right things at the right times, thereby accomplishing early and sustainable capture of deal value.

PwC's time-tested integration processes support client integration teams and supplement these teams with experienced professionals who fill resource and technical gaps as needed.

Metric of the Month: filled requisitions per recruiter

According to PwC Saratoga's US Human Capital Effectiveness database, hiring rates have decreased each of the past three years. While hiring rates have decreased more for industries such as manufacturing and financial services, for example, the pace of hiring in the healthcare industry has remained much more consistent.

As organizations continue to seek ways to maximize the efficiency of the HR function, HR leadership focuses increasingly on metrics such as efficiency of recruiting. One of the key efficiency metrics to assess the recruiting function is Filled Requisitions per Recruiter. PwC Saratoga's formula for calculating this metric is:

Total Filled Requisitions/Recruiter FTE

Given that some organizations use a single requisition to fill multiple positions, it is important that organizations count each unique position to appropriately assess recruiter efficiency. Additionally, it is critical to assess both recruiting efficiency *and* effectiveness through measures such as 90-day turnover, first-year turnover, and surveys of hiring manager satisfaction.

To learn more about PwC Saratoga's measurement programs, visit www.pwc.com/saratoga or call (866) 727-2864.

Key contacts:

East

Nik Shah
nik.shah@us.pwc.com
(703) 918-1208

Midwest

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

West

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

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