

Saratoga
Human resource services

The Saratoga Review

Newsletter Issue: May 2009

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What's happening at PwC Saratoga

Some of the key activities coming up at PwC Saratoga include:

- May: Annual US Human Capital Effectiveness Report is produced. Benchmarks will be available the first week of June.
- May 11 - 14: PwC Saratoga presents its unique experience-driven approach to Workforce Analytics at SAP's Sapphire event in Orlando. Learn how to leverage Business Objects business intelligence functionality with Saratoga's content and capability for a winning solution to your Workforce and HR analytic needs.
- May 15: Health and Wellness survey data submission deadline for members of PwC Saratoga's Federal Contractor Consortium.
- June 1: Early bird participation discount deadline for recently launched Consumer Products Benchmarking Consortium, which provides a forum through which members can benchmark HR and workforce metrics with industry peers. To learn more, please contact Shebani Patel: (408) 817-7445, shebani.patel@saratoga.pwc.com
- June 9: PwC Saratoga's Metrics 101 course held in Dallas, Texas. To register or learn more: www.meetpwc.com/saratogametric101
- June 28 - July 1: PwC Saratoga hosts a booth at the 61st Annual SHRM Conference & Exposition in New Orleans, Louisiana.

To learn more about any of these activities, please contact your local Saratoga representative, or call (866) 727-2864.

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Organizational restructuring: Harvesting value while reducing costs

The current economic recession has created a difficult challenge for CFOs: cut costs without eroding value. Immediate cost cutting is vital for survival, but so is retaining the right people to manage through this difficult period and beyond.

This is an excerpt from the PricewaterhouseCoopers article titled: Harvesting Value While Reducing Costs. To view the full article, click [here](#).

The precarious state of today's economy is no secret. Amidst the cacophony of trends contributing to the current challenges—everything from the epidemic of dismal credit failures, the imploding real estate bubble, and skyrocketing food and fuel prices—two simple words are on many leaders' minds: cost reduction.

Unfortunately, there is great potential to cut value when attempting to cut costs. From a strategic perspective, companies need to be wary of poorly targeted reductions. Across-the-board budget cuts, percentage-head-count reductions, and recruitment and salary freezes that potentially cut the good with the bad can hinder growth strategies.

A conventional approach to reorganization applies standard, across-the-board target reductions through a one-size-fits-all solution across organizational units, and may use subjective methods to assess staff targeted for exit. These traditional methods may achieve the organization's overall target, but they also run the risk of cutting into the "muscle" of units that provide high value or high efficiency.

When staff reductions are random, fungible staff—who may be perfectly willing and able to perform other value-added roles within the organization—may be let go. Laying off an employee who has knowledge of the company's culture and working practices and is qualified and willing to move internally may actually cost the company money in the long term.

To avoid the disadvantages associated with conventional restructuring approaches, organizations should

consider a value-based initiative, which incorporates tailored reduction targets based on business contribution. Strategic talent assessments inform exit decisions, enabling organizations to cut "fat" and not "muscle," thereby preserving talent and optimizing long-term value.

Value-based assessment takes place in three steps:

1. Organizational assessment
2. Talent assessment
3. Staff selection and deployment

1. Organizational assessment

The organizational assessment identifies and analyzes indicators of efficiency within the organization. Role redundancy, layers of management, staffing pyramids, and staffing ratios are some of the efficiency levers assessed during this phase. The organizational assessment may include questions such as the following:

Does the organization or unit have any:

- Levels in the hierarchy that do not add value?
- Duplicate or unnecessary roles?
- Distorted staffing pyramids?
- Span-of-control issues as compared to company and industry averages?

Assessing these indicators and comparing them to benchmarks will enable the company to quantify potential efficiency gains within each unit. Opportunities within units should be reconciled against enterprise targets.

An organizational assessment enables the reliable and valid measurement of business contribution, which will result in reduction targets that are tailored to individual units or work groups. Rather than cutting 10% from each unit across the board, businesses can become leaner while preserving key talent by making more significant cuts in units that have lower efficiency and added value (for example, cutting 20% from a unit that has lower contribution, and 5% from a unit that has a higher contribution). Strategic companies will consider not only current contribution, but also potential future contribution and growth potential as part of the organizational assessment.

The organizational assessment provides reduction targets that are driven by the organization’s objectives and strategy. Ultimately, by identifying value-based reduction targets for specific units, the organizational assessment creates the blueprint for a competency-based talent assessment.

2. Talent assessment

Organizations cannot afford to allow cost-reduction efforts to compromise people and growth strategies. In order to intelligently execute on the reduction targets uncovered in the organizational assessment, the company needs to first assess people against defined competencies that are linked to its strategy. A talent assessment provides guidance for organizations to exit and retain the right talent.

Talent assessments provide management with an in-depth understanding of strengths and gaps in a company’s talent pool. Companies assess employees against a set of validated competencies (skills, knowledge, and abilities) they have identified as indicators of high performance and aligned with business strategies. Results of the talent assessment, combined with historical performance data such as

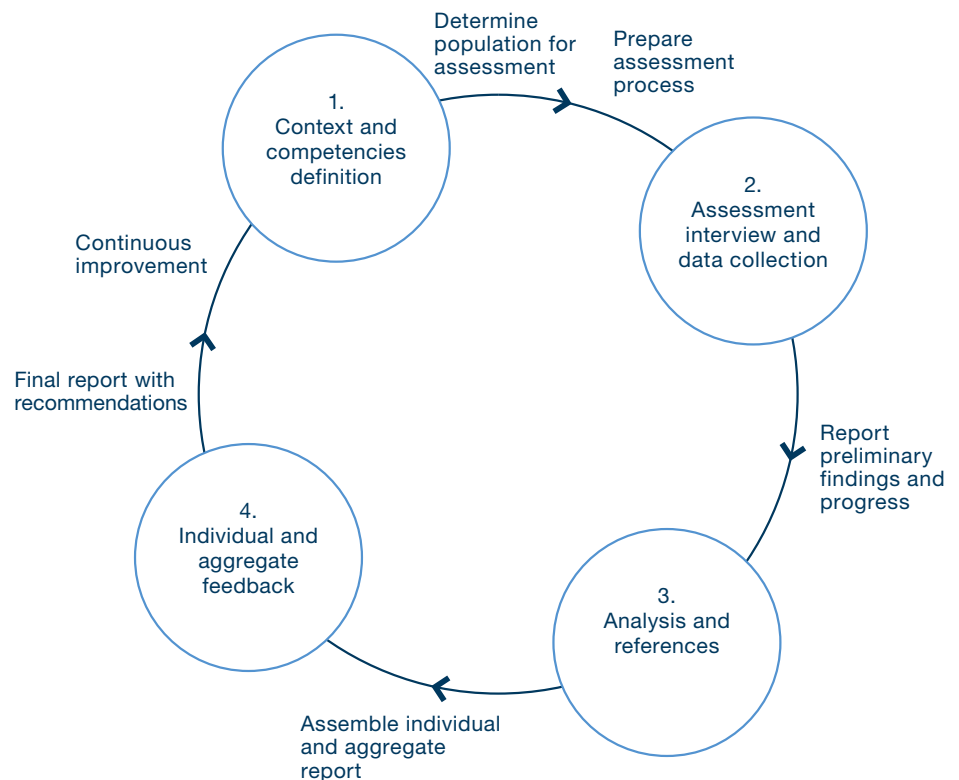
past performance reviews, will provide the necessary rigor and due diligence to make informed decisions on talent retention. Assessment of talent strengths and gaps requires an understanding of a company’s future strategy and goals. Organizations in transformation should design talent assessments to measure current-state talent against future-state strategy and goals.

The results of the talent assessment can also be applied to other business initiatives, such as developing and/or redeploying talent.

3. Staff selection and deployment

By strategically defining reduction targets and identifying specific talent strengths and gaps, the organization

Figure 1. Talent assessment



A talent assessment is a thorough process for assessing individuals against a set of validated competencies aligned to business strategies. It provides the rigor and due diligence to make informed decisions around talent retention, development and exits.

will be prepared to select individuals for exit or redeployment.

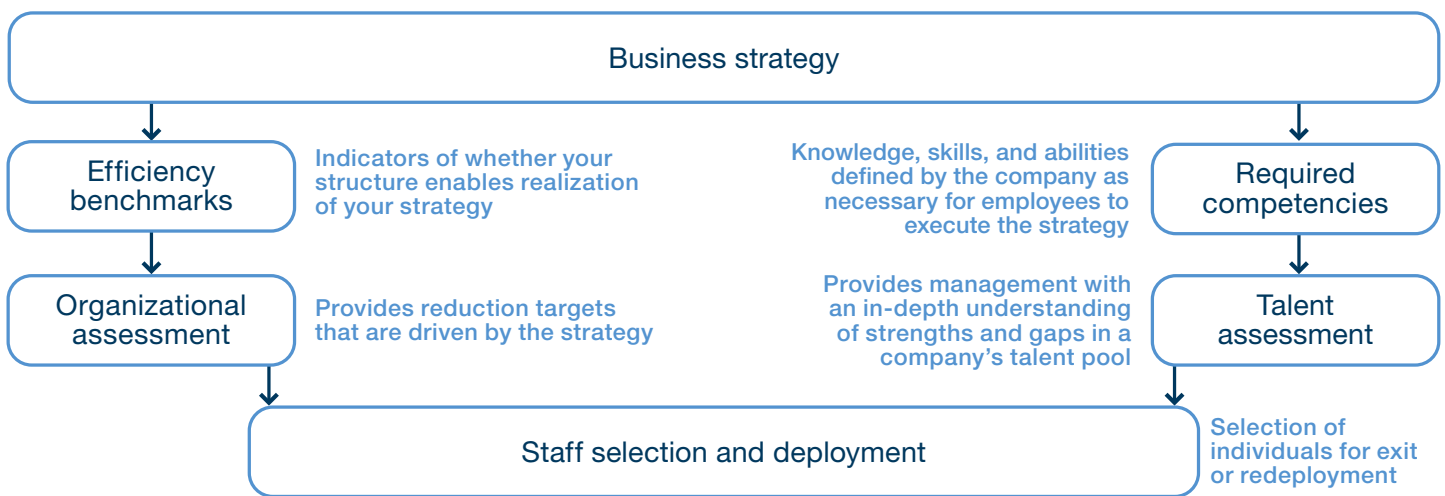
As the final step prior to staff separation and to minimize the risk of losing high-value performers, the company can use the results of the talent assessment to determine which employees can be deployed to new or open roles. The results of the organizational assessment will likely indicate strategic changes to roles and positions and point out opportunities to match staff to openings based on job requirements and competencies.

Staff selection and deployment is a critical step in achieving both short- and long-term benefits. A strategic approach to selection and deployment can position the organization to harness the right people and skills for the future by accelerating the development of high performers for broader or stretch roles. Selection should factor in bench strength to promote depth, especially for pivotal positions and critical skills.

Value-based organizational restructuring preserves the potential for growth while achieving cost savings, but the method does come with some inherent risk, which can be mitigated by factoring in the following strategies:

Critical success factor	Description
Plan for the future.	Consider not only staffing changes, but also current and potential value of talent and objectives of the business.
Communicate, Communicate, Communicate.	Provide frequent and strong communication about the benefits of restructuring, linking cost savings to future value and to the achievement of the organization's objectives.
Set your goals.	Budget for both design and implementation. Savings from restructuring efforts should be budgeted for subsequent cost-reduction efforts.
Establish ownership.	Assign defined owners and champions who are held accountable for the results of the program.
Allocate dedicated resources.	Assign sufficient and competent resources to perform the assessment and restructuring work.

Figure 2. Value-based organization restructuring



Both driven from the company's strategy, the organizational assessment and the talent assessment can be conducted in parallel. Taken together, the results of these assessments drive smart decisions around employee redeployment and exits.

Key highlights from PwC's 2009 Global CEO survey: Balancing talent retention and cost reduction

CEOs around the world are retrenching, with many claiming to be entering "survival mode." PricewaterhouseCoopers' 12th Annual Global CEO survey shows how the financial crisis has shattered short-term confidence. The percentage of CEOs who were "very confident" about their one-year revenue growth prospects dropped to 21 percent, the lowest level in six years. Uncertainty about the future is still running high and confidence, no doubt, continued to deteriorate after we completed the survey in December. This month we focus on the survey's results for CEO views of the workforce.

To view a full copy of the results, please click [here](#).

In the short term, many CEOs are understandably less worried about a skills shortage because their attention has turned to survival. Globally, the percentage of CEOs who are concerned about the availability of key skills fell from 61 percent in 2008 to 46 percent in 2009.

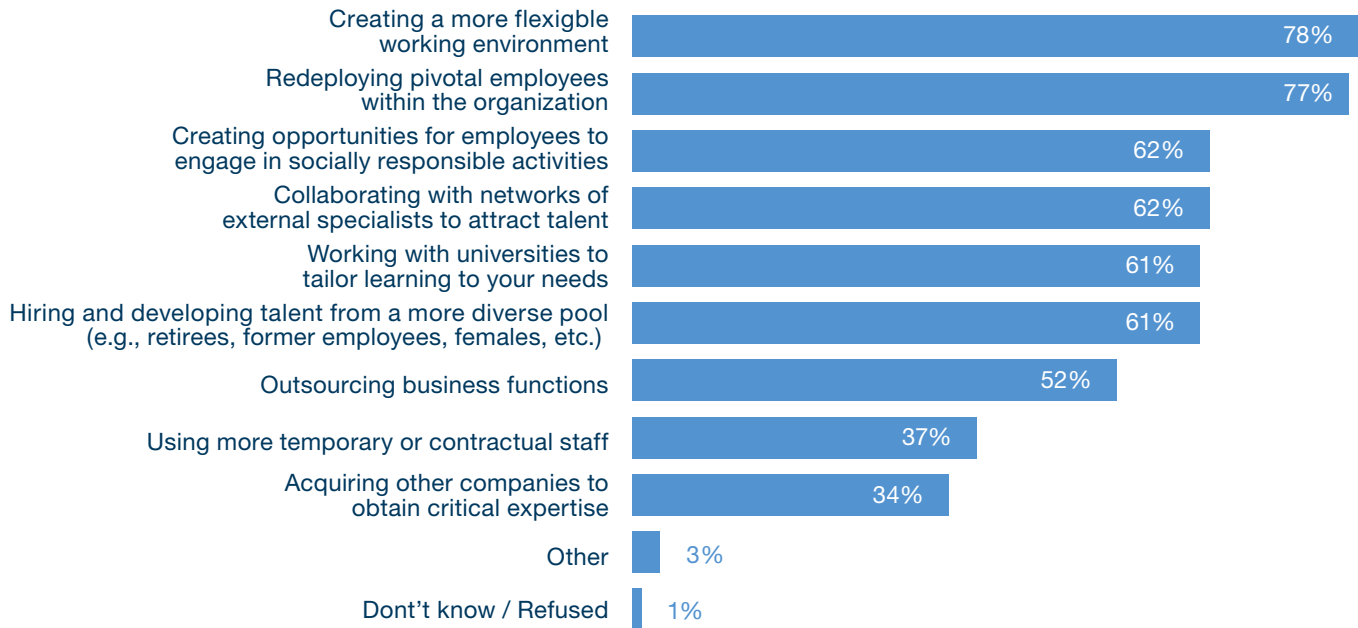
CEOs are trying to balance cost reduction with the need to support critical talent and improve productivity so that their companies can weather challenging times and prepare for a return to growth. Chip Hornsby, Group Chief Executive of the UK-based international construction products, materials and services supplier Wolseley plc, explains: "We have focused a lot of attention on recruiting, training and retaining. Unfortunately in this business environment we have to reduce headcount due to declining top line of revenues. I do have a major concern as we move into the middle part of the next decade, really not far away, about six years now, or less. The shortage of talented people in many of the markets where we are, is going to be a huge concern, just for sheer demographics. That's why the investment in technology is going to be even more critical, so people have the tools to be able to provide more sales per employee with the same amount of demand on hours as they have today."

As the breadth and depth of economic deceleration becomes clearer in 2009, CEOs may have to change

their plans, but many are heading into the year hoping to not sacrifice long-term staffing priorities for short-term survival. As Hornsby says, the war for talent remains a major strategic concern. Ninety-seven percent of CEOs believe that the access to and retention of key talent is critical or important to sustaining growth over the long term. Most (72 percent) rate it critical. A similar number (69 percent) say that a limited supply of candidates with the right skills is a key challenge.

The long-term supply of key talent depends more on education systems than on business cycles, and many CEOs do not believe governments are doing enough to create a skilled labor force. For example, despite rising unemployment in the US and the UK, the percentage of CEOs who remain concerned or very concerned about the availability of key skills is 43 percent and 40 percent respectively, not far below the global average. Only 17 percent of US CEOs and 18 percent of UK CEOs agree that the government has been effective in creating a skilled labor force. In contrast, one of the lowest rates of concern about key skills (25 percent) occurs in China and Hong Kong, where CEOs top the global table (43 percent) in believing that their domestic governments are effectively creating a skilled labor force. Still, this means the majority of CEOs in every economy do not agree that governments are effective. A summary of key measures organizations are undergoing to ensure the long term success and durability of their business appears below.

Figure 1: To retain talent, companies increase workplace flexibility and redeploy workers



Q: In order to ensure the long-term success and durability of your business, does your strategy regarding your people include any of the following measures? Base: All respondents 1,124.

Source: PricewaterhouseCoopers' 12 Annual Global CEO Survey 2009.

Concern about the long-term skills shortage may have made CEOs somewhat more cautious than they would otherwise be about downsizing. Sixty-one percent of CEOs expect their staff levels to decrease (26 percent) or stay the same (35 percent) in the next 12 months. During previous economic downturns, many companies aggressively reduced their headcounts and investments in people. For example, in the downturn of 2001 to 2002, spending on learning and development fell 20 percent.

Cost-cutting can be an effective policy, not only to help companies survive in weak economic conditions, but also to help them shed non-core operations and make necessary but unpopular changes, for example, to compensation schemes. But the risk is that companies may cut the wrong investments, impair their competitiveness, and lose out to others who are using the economic winter to hire good people or gain market share. Sun Mingbo, President of China-based Tsingtao Brewery Company Limited, says, "In the face of crisis,

many companies go into hibernation. At Tsingtao, we have a slogan: 'We don't hibernate in winter. We will achieve something while others hibernate. We will seize a share of the market when they hibernate.'" Many CEOs feel that they are, in effect, trying to conduct surgery by candlelight because they do not have a complete picture of the workforce, the money invested in employees and the skills needed for the business. For example, many companies do not know the total size and costs associated with payroll workers, the contingent workforce (e.g., contractors) and outsourced services, making it impossible to predict the full impact of cost cutting.

Only 30 percent of CEOs believe they have a comprehensive understanding of employees' views and needs, while a separate PwC Saratoga survey found that fewer than 50 percent of companies calculate their total investment in training. To keep their balance on the scales of cost cutting and talent retention, CEOs need to improve the way they identify, interpret and apply information about the workforce.

Metric of the month: Management Span of Control

The current economic crisis has led to an increased focus on organizational efficiency. Organizations want to know how their costs and structure compares to their peers. While PwC Saratoga offers hundreds of organizational cost and structure metrics, one of our key assessments of organizational structure is Management Span of Control (MSoC), which is calculated as follows:

$$\text{Regular Headcount} / \text{Management Headcount}$$

MSoC examines the average number of employees each management-level employee (manager, director, and executive) supports. For instance, a span of control of 10 suggests that each member of management supports an average of 10 employees. PwC Saratoga defines management in accordance with the EEO1 guidelines.

Organizations with high MSoC results (meaning management supports a high number of employees) may find leaders stretched too thin and unable to devote the time and energy to effectively mentor, manage, and coach employees. Additionally, if stretched too thin, management may begin to experience burn-out, resulting in higher turnover among the ranks of management.

Conversely, a relatively low MSoC (meaning management supports a low number of employees) may suggest the organization is top heavy, which can negatively impact productivity. It's important for organizations to strike an appropriate balance between management and staff populations.

PwC Saratoga also offers a more detailed analysis of an organization's leadership span of control with our Manager Span of Control, Executive Span of Control, and Percent of Management with No Direct Report metrics.

An analysis of PwC Saratoga benchmarks reveals that communications/media, financial service, and professional service organizations tend to have the lowest MSoC numbers, while hospitals and retailers have the highest numbers.

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

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We're often asked about how metrics are impacting organizations and want to hear your experiences. How is your organization using metrics/measurement to influence change/reduce costs in your organization?

We'd love to hear your stories and feature your experience in one of our upcoming newsletters, which is read monthly by thousands of HR practitioners. If you have a story to share, please contact saratoga@us.pwc.com.