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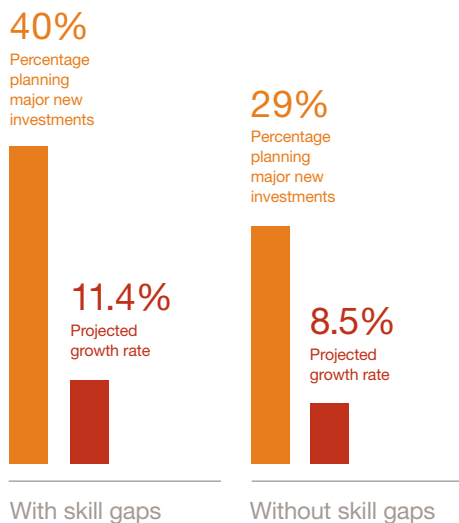
Talent riddle

Where are the workers who
will power growth?

Talent riddle: Where are the workers who will power growth?

Talent management on autopilot won't take private companies where they need to go. To out-innovate their competitors and beat them to new markets, they may need to replace old talent strategies with more creative ones.

Private companies anticipating faster growth have larger skill gaps



Source: *Trendsetter Barometer: Private Companies Face Talent Shortages*, PwC, March 2011

A conundrum has dogged CEOs in recent years: Despite record-high unemployment rates, skilled workers are at a premium. In the United States alone the number of unfilled, skilled-worker jobs is expected to grow to 14 million by 2015.¹

Private companies are already feeling the pain—the majority of them say they lack skilled employees in key areas of their workforce. The good news? Many of the talent challenges we see private companies facing are the result of new growth momentum. Private-company leaders who say their businesses have skill gaps expect faster growth than company leaders citing no skill gaps; they're also planning more major new investments than the latter group.²

These growth-focused companies are looking to make strategic hires that can help propel their business forward—workers who are innovative, technologically savvy, collaborative, and comfortable venturing into new frontiers. “Those are not, for the most part,

the workers who were laid off in the early days of the recession,” notes Frederick Eisenhart, a partner in PwC's Private Company Services practice. “And so the skill gaps that many companies currently face cannot be filled through simple rehiring.”

While private companies do have strategies for filling these gaps—such as training and developing current employees and hiring new ones—those approaches are unlikely to suffice in today's world, let alone the world of tomorrow.

To deliver real competitive advantage, talent strategies need to go beyond the old tactics. Which is not to say it doesn't make sense to further invest in training and developing employees—something private companies have been doing more of in recent years.³ First, however, private companies should identify their key talent (including people in pivotal roles⁴) and determine how engaged they are. Doing so would help make employee-development efforts more targeted.

¹ US Bureau of Labor Statistics

² *Trendsetter Barometer: Private Companies Face Talent Shortages*, PwC, March 2011

³ Ibid—Among the private companies surveyed, 80% said they would focus on training and developing current employees, up from 68% of *Trendsetter* respondents who were asked about this in the third quarter of 2009.

⁴ People in *pivotal roles* are distinguished from *high-potential* and *high-performing* individuals by virtue of pivotal roles' having a disproportionate effect on business results. While these descriptors are not mutually exclusive, they serve different purposes in workforce planning, deployment, and recognition.



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“We’ve begun consolidating our work sites around an educated workforce.”

Charles Grant
CEO and President, SP Industries

Likewise, as private companies invest in special incentive programs, they should pause to consider whether they have the *right* incentive/reward models to retain top talent, while also contemplating the impact on their business if they don’t. Too often, companies do not measure the cost of losing their best people (or the cost of over-incentivizing others).

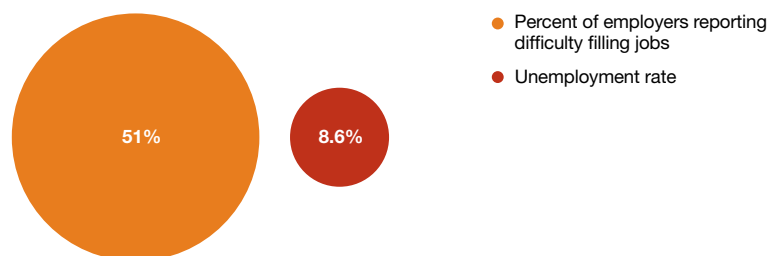
Admittedly, some of the best people are leaving for the simple reason that they’ve reached retirement age. As over 10,000 Baby Boomers pass that milestone each day (a rate that will continue for roughly the next two decades),⁵ the available pool of talent is shrinking. Within management ranks, about one-third of executives will be retirement eligible in several years, as will nearly one-quarter of managers.⁶ CEOs rightly fear they won’t have the best talent to compete effectively. Over half of those who participated in PwC’s *Annual Global CEO Survey* worry that talent shortages will constrain their growth.⁷

Such worries are often felt most acutely by CEOs of midsize and privately held companies, says Sayed Sadjady, leader of PwC’s Organization Design and Talent Management group: “Private companies generally can’t afford extensive specialization within their workforce. As a result, they tend to rely on fewer people to fill the strategic roles that will power growth. Agility and entrepreneurial skills are therefore key traits that private-company leaders must look for as they seek top talent.”

People possessing these traits in sufficient measure are at a premium these days and increasingly hard to find. In search of them, some companies are relocating operations. One such company is SP Industries, a privately held business that designs, makes, and sells laboratory research and process equipment for the life sciences community. “We’ve begun consolidating our work sites around an educated workforce, migrating our operations to parts of the country where there’s better intellectual capital,” says the company’s CEO and president, Charles Grant.

Talent mismatches

Despite high unemployment in the United States, the majority of private companies are having trouble finding people with the right skills to fill the jobs available.



Sources:
Oxford Economics
Trendsetter Barometer: Private Companies Face Talent Shortages, PwC, March 2011

⁵ <http://pewresearch.org/databank/dailynumber/?NumberID=1150>

⁶ *From Brain Drain to Brain Trust*, PwC, 2010

⁷ *Growth Reimagined: The Talent Race Is Back On*, PwC, 2011

Challenges in finding adequate local talent are being faced by private and public companies alike: “Jobs move in search of the right people,” said Microsoft’s General Counsel Brad Smith in his testimony to a Senate subcommittee on immigration this past summer. “We will not bring unemployment down to the extent desired until we ‘skill up’ the population to attract the jobs that otherwise will be located elsewhere.”⁸

In many cases, elsewhere is in emerging markets, where US private companies are finding tremendous growth opportunities, as well as increasingly relying on local talent as they expand their operations in those regions.⁹ This adds a new level of complexity to HR’s role. It requires quick learning of the local norms and practices in foreign locations, as well as rapid development of insight into the dynamics of the talent pools there. US companies are also steering some of their best homegrown talent into those markets to help oversee operations and make the most of business opportunities—including reverse innovation, whereby businesses innovate in emerging markets to meet the needs of customers there, and then adapt those innovations to penetrate new markets back home—before competitors sprint past them.

Clearly, the talent race must keep pace with the race to new markets—both here and abroad—if growth-minded companies are to regain momentum post-crisis. To win either race, US private companies will have to rethink their strategies: Business as usual won’t keep them out front.

Making the most of your key talent

Knowing who they are and what they want

With companies being so strapped for talent, one might easily wonder why CEOs aren’t focusing more on better engaging the following workforce groups: women, older workers, and younger workers. Only a minority of CEOs in our 14th *Annual Global CEO Survey* anticipated changing their talent strategy vis-à-vis these groups.

Just 12% of those CEOs said they saw poor retention of female talent as a key business challenge over the next three years, and 56% said they had no plans to change their policies regarding women. Only 11% of CEOs globally were planning significant changes in policies aimed at attracting and retaining more female employees.

More encouragingly, 60% of private-company CEOs in the United States have said they plan to make flexible work arrangements a top area of focus in their effort to attract and retain talented workers¹⁰—an important workplace attribute for women in their child-rearing years. The key is to find the right model—one that will accommodate top female employees’ need for greater work/life balance while also ensuring high levels of productivity and connectivity within this group.

⁸ <http://www.bloomberg.com/news/2011-08-07/employers-ready-to-hire-in-u-s-can-t-find-qualified-workers-among-jobless.html>

⁹ *Building a Presence in Today’s Growth Markets: The Experience of Privately Held Companies*, PwC, 2011

¹⁰ *Trendsetter Barometer: Private Companies Face Talent Shortages*, PwC, March 2011



It's important to understand exactly what — aside from money — motivates your top talent.

With respect to younger workers (known as Generation Y and Millennials), luring and keeping these individuals for any length of time will entail offering them more autonomy, increased flexibility in their career options at a company, and greater opportunity for peer recognition. CEOs should be careful not to assume that because national unemployment still hovers around 9%, new entrants to the workforce ought to count themselves lucky in finding a job (with or without the aforementioned perks). Unemployment among college graduates is 4.7%,¹¹ meaning that Millennials with the right education and skills are in a better position to be choosy than many other workforce demographics. In an effort to reach the best and brightest of these younger workers, prospective employers have increasingly leveraged previously nontraditional job-recruiting avenues such as social media.¹²

Companies will need to bend tradition in other ways as well if they wish to retain Millennial workers once those employees come on board. For instance, corporate

hierarchies will have to become flatter, with less of an apparent pecking order. An ideal work environment for Millennials—who came of age with Wikipedia and Facebook—is a collaborative one, where business-transforming ideas are more likely to be crowd-sourced than generated by a committee handpicked by the CEO.¹³

Fostering employee inclusiveness may be less of a challenge for private companies than for sprawling public ones. At family-owned Bush Brothers & Co.—best known for its canned baked beans—a “culture of participation” is central to how the company operates, according to its CFO and SVP, Al Williams. “By truly listening to your employees and taking a team-based approach, you’ll find they become engaged in everything you do,” he says. “Their engagement creates an attachment that makes it hard for them to leave. The key is to make sure your workers know you trust and believe in them. You can’t fake that.”

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Gauging engagement

Most companies don’t have a good handle on their talent base, the profile of their workforce, and their future talent needs. As a result, they’re often caught unawares when turnover jumps, hiring costs spike, and innovation lags. Here’s what they can do to assess and deepen engagement among the various segments of their talent pool:

- Pool employees by pivotal roles most relevant to the business and assess engagement within those groups
- Use engagement studies to anticipate and address (1) barriers to productivity and sense of inclusion and (2) flight risks within particular groups of employees
- Bring HR partners and business unit leaders together to develop engagement strategies, particularly for employees in pivotal roles
- Analyze how engagement measures tie to performance outcomes (e.g., customer satisfaction, product/service quality, safety)
- Understand exactly what—aside from money—motivates your employees
- Act on that insight with creative, customized incentives

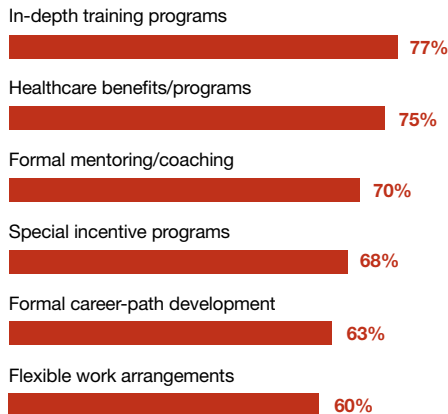
11 US Bureau of Labor Statistics: <http://www.bls.gov/news.release/pdf/empisit.pdf>

12 <http://online.wsj.com/article/SB10001424052748704029304575526641294699972.html>

13 For a recent example of this approach, see http://money.cnn.com/2011/10/11/news/companies/pwc_powerpitch_contest.fortune/index.htm?iid=SF_F_LN

Where private companies plan to invest

Top areas of focus for attracting and retaining talent



Source: *Trendsetter Barometer: Private Companies Face Talent Shortages*, PwC, March 2011

Employee inclusiveness is equally important at Gypsum Management and Supply, a privately held distributor of drywall and other specialty building materials. “Everyone who’s still with us post-recession is now a member of the A team,” says the company’s CFO, Michael Callahan. “And we make sure they feel that way. Our employees’ contributions are consistently made visible to leadership so that each worker is recognized and appreciated. We find that this often means as much as or more to people than a standard pay raise.”

Greater inclusiveness and recognition, while especially prized by Millennials, are things almost any employee would appreciate, older workers very much included. In revamping their talent management strategies, companies need to make sure they don’t lose sight of the latter group, which they risk doing if they focus too intently on Millennials. Older employees possess a wealth of knowledge, skills, ideas, and experience that’s of considerable value to a company. It could also end up a considerable loss when those individuals retire, absent a formal knowledge-retention program.

Such a program is worth putting in place. Although a good many Baby Boomers are poised to retire in the near future, a fair number of them are delaying that move—in part because of reduced retirement savings post-crisis, but also because people are living longer, healthier lives, with a desire to keep working. This buys companies time to turn a potential brain drain into a brain trust. Hence the challenges that delayed retirement brings to employers (e.g., the additional cost of funding health and retirement plans) can

be counterbalanced by capturing Baby Boomers’ large repository of knowledge — both the “explicit” knowledge (knowing what to do) and the trickier, “tacit” kind (knowing how to do it) — and then transferring that knowledge to younger workers, before it heads out the door.

And then, of course, there is Generation X, which outnumbers Generation Y by more than five to one in the workforce.¹⁴ It is Generation X that will dominate the scene for years to come, increasingly assuming senior leadership roles and requiring substantial organizational attention.

Generation X values freedom and responsibility in the workplace, disliking micromanagement and a top-down approach from leadership. Members of this group (many of whom are juggling parenting duties with management responsibilities at work) also expect greater work/life balance than their Baby Boomer colleagues looked for in the past.

“With four generations in the workforce at once, companies’ approach to talent management will need to be multilayered, as well as nuanced,” notes PwC’s Eisenhart. “The needs, wants, and expectations of one workforce demographic often overlap with those of another.” While accommodating all of these is a tall order, it’s one that companies will have to execute successfully if they are to thrive in the 21st century.

Maximizing metrics

It's essential to be able to measure the effectiveness of your organization's workforce strategies. Doing so enables you to see the ties between employee engagement and business results.

We estimate that 80% to 90% of large companies conduct generic engagement surveys that provide only a broad peek at employee commitment, with just 5% to

10% tying their surveys to business outcomes or using them to determine what's really hampering the effectiveness of pivotal employees.

For a powerful engagement survey, a company should group employees in ways that align directly with its business goals (rather than segment workers along traditionally demographic lines).

Money still talks

Most top workers clearly crave more than just financial reward from their employers, but that doesn't mean they're likely to eschew a pay raise or bonus if presented with one.

Certainly that's the view of Dan Schneider, founder and CEO of SIB Development and Consulting in Charleston, SC. He's taken the novel move of offering \$50,000 bonuses to any of his 30 fulltime employees who stick with the company for five years—a decision he made when he realized that providing training as an employee motivator/benefit can be expensive.*

While few private companies are likely to follow suit (big cash bonuses tend to be the province of large corporations), they have other equity incentives they can offer, such as stock options or shares of restricted stock. However, traditional deferred compensation arrangements like these are on the wane among private companies.

"More and more in the current business environment private companies are choosing to be organized as limited liability corporations," says Ken O'Neal, a tax partner at PwC. He notes that because LLCs don't issue stock, "they must find other ways of designing a plan that gives employees a stake in the company's ultimate success."

This brings both challenges and opportunities, with an emphasis on the latter for companies willing to take a creative approach. "An LLC's equity structure is much more flexible than that of a standard corporation," says O'Neal, "enabling businesses to customize their equity incentives in nontraditional ways."

*http://money.cnn.com/2011/11/08/smallbusiness/bonus/index.htm?iid=SF_SB_River

Rethinking reward

Because traditional incentive models generally are not enough these days to deliver a star turn from top talent, companies must find ways to help their employees make their roles be more than just jobs. “We develop people for the long term,” says Gypsum’s Callahan. Taking that approach results in roles that help an employee grow—positions that evolve with the individual, rather than ones that are to be filled for a finite time en route to the next thing. The worker’s professional development is considered as big a reward as his or her paycheck.

Private companies in general are coming around to this view. A greater percentage of them plan to steer investment toward in-depth training (77%) and formal mentoring/coaching (70%), compared with those planning investment in special incentive programs (68%). A good number of private companies are also planning to invest in employees’ formal career-path development (63%).¹⁵

Of the main worker demographics, Millennials are the ones who value development and training the most—three times as many of them rank this as their first choice of benefit, compared with cash bonuses.¹⁶ As with any employer initiative, how well such benefits achieve their intended purpose depends on how strategic the company is in designing and implementing them. “It’s important that as companies invest in learning and development, they make sure those investments are appropriately targeted and driven by the company’s future skill needs,” says PwC’s Sadjady.

He also notes that while many companies believe their reward strategy drives a high-performance culture, they might not be tracking the key talent they are losing and then analyzing how, why, and at what level. Such tracking can help employers better understand what motivates key talent (which may differ among employee demographics—e.g., Gen X vs Gen Y). That analysis should, in turn, lead to better incentive models.

Talent mobility

Private companies that acknowledge skill gaps are more growth oriented than those claiming to have no skill gaps. Unsurprisingly, they’re also more engaged internationally. These days, growth orientation and international expansion go hand in hand for many private companies. Our research has consistently found that US private companies with an international presence report markedly higher prospective spending on operations, capital investment, and M&A than their domestic-only peers.¹⁷

Although private companies operating abroad are increasingly leveraging local workers and managers to run their operations there, most of them still enlist personnel brought in from headquarters. As one might expect, skills required for international assignments (e.g., language skills, familiarity with business practices/customs in a particular country/region) are often harder to come by than the skills required for home-country positions.

That doesn’t mean, however, that there’s a shortage of willing candidates. Millennials, for instance, tend to expect international work opportunities to be available to them. And so companies are increasingly using international assignments as a way to attract and retain these workers. Over half of the participants in our *Annual Global CEO Survey* told us they are planning to send more staff on international assignments.

¹⁵ *Trendsetter Barometer: Private Companies Face Talent Shortages*, PwC, March 2011

¹⁶ *Managing Tomorrow’s People: Millennials at Work*, PwC, 2009

¹⁷ *Trendsetter Barometer Business Outlook*, PwC

Technological advances that are transforming mobility will help enable such assignments, as well as help companies manage locally hired staff in foreign locations. We are already seeing companies use GPS mobility tracking, virtual assignments, and other technological solutions to close global skills gaps. However, talent mobility comes with significant costs. One way companies are reducing those costs is by reserving their use of long-term postings abroad to address strategic needs, while relying on short-term assignments for training, providing specialized skills on project teams, and addressing specific customer needs.¹⁸

Is HR ready?

While its functions have changed considerably in the past decade, HR may lose its relevancy in the next decade unless it becomes a true strategic business partner in driving growth through the next phase of global economic development.

To become a true strategic business partner means having more than just a broad understanding of the company's business, industry, and strategy. In addition to acting as a consultant to the company on all people issues generally, a strategic HR function will also need to provide insights that can help company leaders make the right business and investment decisions (e.g., regarding entry into new markets), as well as use financial measures to gauge how well talent-management efforts align with the company's business objectives.

Conclusion

As companies seek renewed growth through innovation, technological advances, and emerging market penetration, they'll need to build their talent management around workers who can deliver on these fronts. The alternative? Lost business opportunities and forfeited revenue growth. Consider, for instance, private companies that say

innovation is a priority for them (75%): Talent shortages and inadequate skill sets pose the biggest barriers to achieving that goal. The top business objectives private companies want to meet via innovation? Improved profits/earnings (81%), increased revenues (78%), and new-market entry (56%)—goals that few businesses would shrug off lightly.¹⁹

So that these growth objectives and other critical business goals are met, private companies should keep the following talent-management imperatives in mind:

- **Wed your talent strategy to your business strategy.** Make sure every aspect of your talent strategy directly contributes to your overall business plan and to creating value.
- **Face the future.** Look at where your business is going: What is its future growth engine? With that in mind, continually ask whether your talent pipeline will give you what you need, when you need it, where you need it.
- **Prioritize pivotal roles.** Put the right people into roles that have a disproportionate ability to create (or diminish) business value, and pay careful attention to them.
- **Map the metrics.** Make measurement, benchmarking, and analytics part of your plan. Consider the financial implications of your talent-management decisions (e.g., what will be the cost of failing to retain top talent?).

For companies with talent-management strategies that aren't grounded in these fundamentals, it's time to go back to the drawing board.

More information

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¹⁸ *International Assignments Perspectives, "The Missing Piece: Why Mobility Programs Need a Talent Management Strategy,"* PwC, 2011

¹⁹ *Trendsetter Barometer*, PwC, November 2011

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1 2011 Forbes America's Largest Private Companies List