
Workforce inclusion: maximizing business performance

Is your top talent flying under the radar or soaring to its full potential?

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Advisory, People and Change

At a glance

The talent war is back on.

Inclusion is critical.

Engage talent to fuel
growth and innovation.

How to engage, innovate, and win with inclusion through workplace flexibility

- The talent war is back on; while many business leaders want to hire new talent, many are concerned that a limited talent pool will adversely affect business success.¹
- Many leaders don't realize they've failed to be inclusive. The downturn led to a 53% drop in discretionary effort, as disengaged workers remained in place.²
- The definition of diversity is expanding beyond and transcending traditional classifications.
- A singular 'command and control' style of management is increasingly regarded as obsolete in today's workforce, where inclusion is a must.
- It's all about engaging talent to fuel growth and innovation.

Flexibility is a critical challenge. Just ask the White House.

Recognizing that businesses today need to tap into a broader, more skilled workforce encompassing working mothers, Generation X, Baby Boomers, and Millennials the White House notes:

*"The truth about innovative workplace flexibility policies is catching on: flexibility about when one works, where one works, or how much one works can help employees balance work and personal responsibilities, while simultaneously improving employers' bottom lines through greater productivity, lower turnover, and reduced absenteeism. In fact, workplace flexibility is a must-have to keep America competitive in a 21st century global economy."*³

Cut turnover and costs.

We've found that instituting flexible workplace policies has cut our turnover by nearly half. To get there, the talent management recipe for high performance stirs in the recognition that having a diverse workforce alone is not enough.

People work best—and remain engaged and loyal—when work enables and empowers them to be fully who they are.

Diversity absent inclusion erodes employee engagement: involvement in and commitment to their work, and to the company's strategy, mission, and value proposition. The organization must be not only diverse, but also inclusive and flexible.

¹ Source: PwC 14th Annual Global CEO Survey

² Source: *Driving employee performance and retention through engagement: Rethinking employee engagement*, Corporate Leadership Council, 2004-2009, referenced in *Managing people in a changing world—Key Trends in Human Capital 2010: A global perspective*. PwC Saratoga.

³ Source: the White House, posted February 8, 2011, <http://www.whitehouse.gov/blog/2011/02/08/workplace-flexibility-american-imperative>

“The word is spreading far and wide: Workplace flexibility is not a ‘nice to have’—it’s a business and national security imperative.”

—the White House⁴

March with the individuality of your different drummers.

What that entails will vary greatly from individual to individual. It can get complicated in a workforce that has never been more demographically and geographically diverse, from four generations working together, to more varied and complex family styles, to cyber-workers contributing from distant vistas, perhaps in different languages and time zones—and certainly with widely divergent styles, motivations, and challenges, both personal and professional.

When people are forced to fit in, conform, or sacrifice important aspects of their identity, innovation and productivity plummet and turnover climbs.

Your mission: Figure out your talent’s ‘Aha comfort zones’ and enable workers to balance life and work within them. Do this and you’ll see results in higher employee engagement and retention and, ultimately, greater, more impactful innovation and competitive advantage.

The power of difference is distinction. Are you there yet?

For years, business leaders have heard warnings about a looming talent war: through the migration into corporate corridors of Generation X and the Millennials, through the drumbeat over Baby Boomer retirement and the quagmire of the economic crisis that capped off the first decade of the new millennium, to the rapid acceleration of new technology and globalization.

The time to stop worrying about the future is passed. And that’s because in the second decade of the new millennium, the talent war is back on. The number of unfilled, skilled-worker jobs is expected to grow to 14 million by 2015, according to the US Bureau of Labor Statistics. Recognizing that it’s time to get refocused on active management of talent, leaders are grappling with how to find the right people with the right skills in the right places, engage them, and retain them.

Talent is top of mind for CEOs; strategies for managing people lands first on their list of areas where they anticipate change in response to the global business environment,⁵ with more than 80% planning to alter their strategies for managing talent over the next year and more than half wanting to add to their organization’s ranks. But 66% worry that a limited supply of candidates will adversely affect business success over the next three years.

They needn’t agonize. The answer might be closer than they think. There are talent gems in most populations that are already on board. Leadership just needs to understand where they are, who they are, and how to reach them—to unleash what they can do. It’s powerful stuff.

As CEOs shape talent strategies with an eye toward motivating and deploying staff, they should zero in on crucial resources who can inject their organizations with a healthy dose of zeal.

⁴ Source: the White House, posted February 8, 2011, <http://www.whitehouse.gov/blog/2011/02/08/workplace-flexibility-american-imperative>

⁵ Source: CEO response data in this section derived from PwC 14th Annual Global CEO Survey

For example, only about 10% of CEOs we surveyed said they envision changes to their strategies for engaging women, older people, and younger workers, when asked, “To what extent do you plan to change your people strategy in the following ways over the next 12 months?”

Finding ways to more deeply engage this talent pool can alleviate concerns about finding the right people with the right skills. And turnover is a costly enterprise. We know that historically, voluntary turnover increases after a recessionary cycle. For example, when the unemployment rate fell in 1993, voluntary turnover jumped 15% in the next two years. In another consistent trend, employers have continued to spend more dollars per hire, with a recent increase of more than 25%, bringing the average per-hire cost to more than \$3,300.⁶ This number is significantly larger for knowledge workers. Turnover costs represent more than 12% of pre-tax income for the average company and up to 40% of earnings for companies at the higher end of the spectrum.⁷

With one in four high-potential employees saying they intend to leave their employer during the next 12 months,⁸ employee engagement can be an organization’s best ally in curtailing such losses. Research shows, and our experience confirms, that deeper employee engagement is related to improved retention, customer loyalty, revenue, sales, and profit.⁹

Beyond dollars, there’s sense. If they engage the entirety of the talent pool, employers can soar above the crowd by accessing the kind of innovation-inspiring input they need to succeed in this hotly competitive, technologically enabled, global marketplace. Or, put more succinctly, “The business case is simple. Diversity is needed to have the best answers,” stated Bob Moritz, US Chairman and Senior Partner, PwC, May 2011.

The key to unleashing this power is to recognize and engage the wide variety of workers who can bring to the table a vast array of talents, skills, and ideas. That means expanding the reach of diversity, upping the degree of inclusion, and using flexibility to bring the pieces together as a dynamic and unified force.

“Are you a ‘we’ organization or a ‘they’ organization? The difference matters. Everybody wants autonomy, mastery, and purpose. The thing is, ‘we’ can get it—but ‘they’ can’t.”

—Daniel H. Pink in ‘Drive, the Surprising Truth About What Motivates Us’⁴

6 Source: PwC Saratoga 2010/2011, *US Human Capital Effectiveness Report*, “Executive Summary”

7 Source: *Driving the bottom line: improving retention*, 2006. PwC Saratoga

8 Source: *Managing people in a changing world—Key Trends in Human Capital 2010: A global perspective*. PwC Saratoga

9 Source: 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

Evolving workforce calls for flexibility, inclusivity

Driven by necessity, technology, and cultural norms, the workforce taking shape today, while divergent in many ways, shares an undeniable and natural affinity for flexibility, fresh perspectives, individuality, and innovation. Employers can navigate these complex dynamics to spur growth and retain pivotal talent.

Organizations have become a home away from home to multiple generations of employees, who bring varying perspectives, points of reference, goals, and challenges. The Millennials now represent about 25% of the workforce.¹⁰ As a group, they are likely to wield a high degree of workforce influence and are unlikely to remain in an environment they perceive as failing to share their values and win their trust.

Millennials approach their careers with an expectation that flexibility will be a natural part of the enterprise, along with mobility, which they are likely to see in terms of cross-border assignments and moves between various—and perhaps competing—employers; as such, their loyalty should not be taken for granted. Voluntary separations among this group, also known as Generation Y, remain consistently higher than those of their counterparts: more than double that of Baby Boomers and nearly twice that of Generation X.¹¹

Such newer dimensions to the talent mosaic push the borders of the diversity and flexibility discussion beyond such traditional issues as gender, race, and work-family balance, but do not supersede them. Just as businesses today operate amid unprecedented, complex, and global challenges, today's workers face myriad, often conflicting demands on their time, energy, and checkbooks. They also increasingly seek to further their own education to keep up with the dynamic rate of change. The Department of Education found that between 1970 and 2006, the percentage of students ages 25 and above who were enrolled in degree-granting institutions rose nearly 40%: from 28% to 39%.¹² At the same time, around 30% of US college undergraduates end up in first jobs that do not require a college degree.

10 Source: US Bureau of Labor Statistics, Labor Force Demographic Data, http://www.bls.gov/emp/ep_data_labor_force.htm

11 Source: PwC Saratoga 2010/2011, *US Human Capital Effectiveness Report*, "Executive Summary"

12 Source: Department of Education (2009)

“Traditionally, the argument made for diversity was that we ought to hire more ‘minorities’ and women because it was the right thing to do. The next milestone was when it became recognized by practically everyone that diversity is also a business issue. But today, the global economy is so deeply integrated that there are even more compelling reasons for practicing diversity—reasons not based on what we as individuals ought to do but rather on what we as business leaders must do. Our 14th annual global CEO survey reveals that the issue at the top of CEOs’ agendas worldwide is talent. And diversity is essentially linked to talent.”

— Bob Moritz, US chairman and Senior Partner, PwC

The challenges facing dual-income parents and those responsible for eldercare remain well known and ongoing; in most US households, each adult holds a position in the workforce—and about 8 million employed Americans have acted as unpaid caregivers to an adult family member in recent years.¹³ The pressure is increasingly becoming an equal-opportunity challenge, affecting men and women alike. For example, despite taking on an increased role in the care of their children, only one in 10 fathers has access to parental leave.¹⁴

As pointed out by the White House, flexibility is not just a ‘nice to have’, but an imperative for business and national security and a strategic enabler in the global economy. By helping to manage the mélange of traditional, ongoing, and emerging interplays between the demands of work and life, flexibility can help lift the employer brand to attract and retain key talent in a cost-effective way. It can also help employers push the right buttons to make the most of a diverse workforce and boost the bottom line.

Diversity is more diverse than ever

Family status is just one element in the emerging face of diversity. Whereas diversity once primarily referred to gender and race, today the definition is far broader. The spectrum of diversity transcends the notion of protected classes and traditional ways of thinking about what constitutes differences—and how those differences should be managed. The appearance of diversity alone is not enough. To encourage cultural dexterity and stimulate innovation, organizations need to embrace what makes workers who they are based on the infinite array of traits and details that make each individual a distinct contributor to the team.

It’s important to think of diversity outside of the traditional definition that includes only race, gender, age, ethnicity, sexual orientation, and physical ability. This can mean anything from marital and parental status to where an individual lives or has lived, to organizational position, recreational choices, religious affiliation, income, and more.

It’s not enough for the workforce to reflect a diverse population. Leadership should recognize, embrace, and engage this diversity. Without a strong and steady connection between diversity and inclusion, employees will not feel valued or achieve their potential for contributing at the topmost heights of performance. Is your organization doing all it can to build a better workplace and enhance the bottom line?

¹³ Source: Work-life balance and the economics of workplace flexibility, Executive Office of the President, Council of Economic Advisers, March 2010

¹⁴ Source: Jeremy Adam Smith, *The Daddy Shift: How Stay-at-Home Dads, Breadwinning Moms, and Shared Parenting are Transforming the American Family*, 2009

Figure 1: Workforce America



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Internal and External dimensions are adapted from Marilyn Loden and Judy Rosener. *Workforce America!* (Business One Irwin, 1991)

Know them; ‘get’ them; develop them; motivate them; win with them

Today’s multigenerational, mobile business environment houses numerous norms. Are you an early bird or a night owl? A Baby Boomer or member of Generation X? A new mom or a recent college grad? The answers matter. These varying profiles translate into differences in philosophy, work style, needs, and goals. The ability to motivate lies in the ability to understand, literally and figuratively, where people are coming from.

What signifies career commitment to you? For many people for many years, loyalty meant ‘punching in’ on a timely and consistent basis. But today’s notion of diversity requires that employers recognize that some workers might be less inclined to log ‘face time’ and more likely to demonstrate their loyalty by consistently following through and managing expectations, or ‘dropping everything’ to deliver on a critical project. Recognition of these variations in work style and receptivity to their value can help the organization make the most of its talent and generate a culture of inclusion and innovation.

We now know there’s a surprising disconnect between traditional assumptions about what motivates people and what really is effective from role to role. It turns out that the carrot and stick so long associated with cultivating high performance doesn’t always deliver beyond a certain level of bonuses and financial rewards, depending on the kind of work being done. One study

shows that higher bonuses enhanced performance related to mechanical tasks, but diminished performance for work requiring cognitive skill.¹⁵ Additionally, many organizations have learned that monetary rewards are not valuable when they require people to give up the very thing they work for—their families.

Some forward-thinking organizations are starting to implement creative approaches to building motivation. For example, one study found that 1% of more than 1,200 large North American companies surveyed now offer unlimited paid vacation time,¹⁶ thereby extending employee autonomy, boosting business brand, and motivating workers to contribute with a real stake in the operation. That enthusiasm is likely to reverberate within the organization—and also be heard by prospects and clients beyond. Note that it’s not enough to offer flexibility policies if the culture doesn’t support them. For example, unlimited vacation time is valuable only if people feel they can unplug responsibly without engendering negative consequences.

Autonomy, too, is a critical motivational trigger. It’s a matter of having the institutional courage to let people be who they are so they can contribute with the whole of what they can bring to the team. Think in terms of the work acting as a strategic enabler to self-actualization, where employees can achieve autonomy to control their work, and master and improve what they do with purpose, as a part of something that, by virtue of being bigger than they are, can deliver life-enhancing satisfaction and promise.¹⁷

Employees who feel autonomous also feel trusted; they’re more likely to be deeply committed to and engaged in their work—and less likely to look for the exit door when retention is critical to meeting talent needs and controlling turnover and hiring costs. Flexibility gives a diverse workforce room to breathe, which in turn fosters thinking, and facilitates regeneration and innovation. Thus, synergy between work and life, employee and employer, need and opportunity, diversity and inclusion, can launch a thousand wins.

We see sustainable improvement when entities change or redefine organizational and job design, and leadership and organizational values and mission. We recommend that organizations:

- Pool employees by pivotal roles in ways that matter most to the business and assess engagement within those groups
- Use engagement studies to anticipate and address barriers to inclusion, productivity, or 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 (customer satisfaction, product or service quality, and safety)
- Understand exactly what—aside from money—motivates all of your employees
- Act on that insight with creative, customized incentives

¹⁵ Source: 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

¹⁶ Source: “Paid Time Off Programs,” *WorldatWork*, May 2010

¹⁷ Source: Daniel H. Pink, “Drive, the Surprising Truth About What Motivates Us”

Are you flexing your flexibility muscle or falling behind?

Q: Is your organization doing enough to attract, engage, and retain the right talent?

A: Your policies should reflect the diverse needs of your employee population and the motivating factors that can empower your talent base and organization. It's crucial that your programs be managed and monitored to confirm that the benefits are transparent and outweigh the costs.

Q: Does your organization have a good handle on its talent base, the profile of its workforce, and a view of its future talent needs? How can the business gauge engagement?

A: Most organizations don't know how they're faring; they risk finding out the hard way, when turnover skyrockets, hiring costs soar, and innovation lags. A 'talent audit' can provide a quantitative and qualitative assessment of strategies, policies, reward programs, and attitudes about the workplace, roles, collaboration, inclusion, and flexibility to answer the questions many are starting to ask—from the White House to your own employees.

Q: Does your organization make the most of metrics to measure and evaluate diversity, inclusion, and flexibility?

A: It's essential to be able to measure the effectiveness of your organization's workforce strategies. This enables you to see the ties between employee engagement and business results. We estimate that 80%–90% of large companies conduct generic engagement surveys that provide only a broad peek at employee commitment. Just 5%–10% of those companies tie their surveys to business outcomes or use them to determine what's really hampering the effectiveness of pivotal employees.¹⁸ For a powerful engagement survey, you should look at the people you rely on to deliver, without segmenting them along strictly traditional demographic lines. Look instead at grouping them in ways that align directly with your business goals.

¹⁸ Source: *The Saratoga Review*, Newsletter Issue: October–December 2010

www.pwc.com/us/peopleandchange

***To have a deeper conversation
about how this subject may affect
your business, please contact:***

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