

# *A new vision for growth*

## Key trends in human capital 2014

A look at the key workforce trends from around the world using data from PwC's Saratoga benchmarking database



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## About PwC Saratoga

PwC Saratoga is the recognised leader in the measurement and benchmarking of human capital in organisations, HR and finance function performance and transformation. Our specialists help clients to develop predictive analytics capability by identifying connections between HR, people, functional and organisational performance, using a range of quantitative and qualitative tools. This is supported by a global repository of metrics and qualitative best practice information from more than 2,600 organisations.



# Introduction

Two years ago, our fifth edition of *Global Trends in Human Capital* told the story of a downturn with a very noticeable human capital impact – those that had survived some harsh workforce cuts were left disengaged, with the youngest generation of workers suffering the most.

Today, the story is very different. The regions hit hardest are accelerating out of recession and organisations are focused again on growth. But the recovery has brought with it some familiar problems: low employee engagement, wage inflation in some markets and most importantly, skills shortages.

Many business leaders will say they've walked this road before – that the race to recruit as the recovery takes hold is what organisations need to do. But this recovery is unlike any other. The rules have changed.

That means that you need to think again about what you think you know: about the behaviour of organisations during a recovery, about the nature of emerging markets, about workforce management and the role played by diversity and trust, even about the impact of HR itself.

It means thinking carefully not just about the immediate future, but about the fundamental question of where the world of work is heading, and what that means for organisations and for HR (discussed in our recent report, 'The Future of Work: A Journey to 2022'). The world has changed and continues to change – and that means that the same arguments and approaches no longer apply.

The organisations that will stand out from the crowd in the next few years will be those that coax every drop of value from their investment in human capital. That means accepting a new truth: thinking far more carefully about where your people will come from, what they'll do and how they'll contribute to performance. It means making full use of the growing arsenal of tools and information that's available to HR – and it means HR finally demonstrating that it can bring valuable insight to the table. This sixth edition of *Global Trends in Human Capital* asks you to think again, to break the habit of familiarity – and in doing so, set yourself apart from the crowd.

## Key messages



### Break the recovery habit

As developed countries emerge from recession, organisations are following a habitual pattern – when growth returns they rush to recruit. PwC Saratoga data confirms that external recruitment rates are already rising sharply and competition for talent is increasing.

We could all sit back and watch another talent war unfold, or we could choose another path – smart growth. This means taking a more strategic approach to recruitment, while maximising productivity among existing staff. Do more with the same, then more with more to maximise the return on investment in human capital.



### Think again about emerging markets

The temptation for years has been for multinational organisations to think about emerging markets as a single group to which a collective workforce strategy can be applied. The reality, though, is that not all emerging markets have the same workforce concerns.

Demographic forces, and the need to find new ways of competing as the wage gap between developed and emerging markets narrows, are creating contrasting priorities. A workforce strategy that works in Asia won't necessarily work in Africa. Knowledge, in the form of analytics, will be power.



### The real value of diversity

Demographic changes mean that workforce diversity will become a necessity rather than an objective over the next few decades. It's widely accepted that diversity brings value – but there's a vast difference between being a diverse organisation and making diversity work.

The real value of diversity goes far beyond accessing greater talent supply; it comes from harnessing a wider range of perspectives. That means thinking beyond gender, age and ethnic origin, and opening the corporate mind to new ideas.



### The changing nature of trust

CEOs agree that trust between employer and employee is critical in building workforce value; rebuilding trust has been a priority in recent years. The real value in trust comes when it encourages greater innovation – where ideas can be tested without fear of failure.

What we understand as 'trust', though, is changing. Portfolio careers, far greater flexibility at work and our new-found ability to access everything we need to know (and everything that others know) about organisations through social media has changed its very nature. Today, you can't build trust without transparency.





## HR that brings value to the business

HR professionals are adapting to the new world of work as strategic workforce planning becomes a critical differentiator. HR models are beginning to evolve, placing far more emphasis on technology to improve networks and data, and focusing on HR as a consulting function.

Leading HR is based on three elements: innovation in the operating model; analytics capability that brings real value to the business; and technology to support reliable data. Data analytics is a new phenomenon for many HR functions and the necessary capability still has to be built. HR must take ownership of its data before others do.



# Exit velocity – Learning the lessons of the downturn

*As developed economies emerge from recession, the human capital decisions being made by businesses will separate the best from the rest. Many organisations will have lived through a downturn before and will do what they've done before when the recovery arrives – recruit to grow. But there's a better way.*

*The organisations that outperform their competitors will be those that transition from 'doing the same with less' in the recession to 'doing more with the same'. To do that, many need to break a habit.*

## What happens during a downturn?

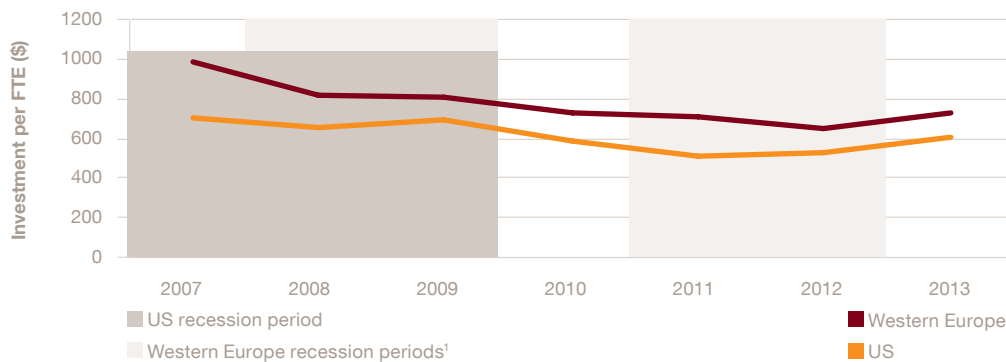
Employers tend to display a predictable pattern of behaviour during an economic downturn:

- Cut back on investment in training.
- Reduce headcount.
- Freeze recruitment.
- Restrict pay awards.

PwC's Saratoga data shows that the latest recession<sup>1</sup> has been no exception. Learning and development spending, for example, fell from 1.9% to 1% of compensation in Europe between 2006 and 2012 (see Figure 1).

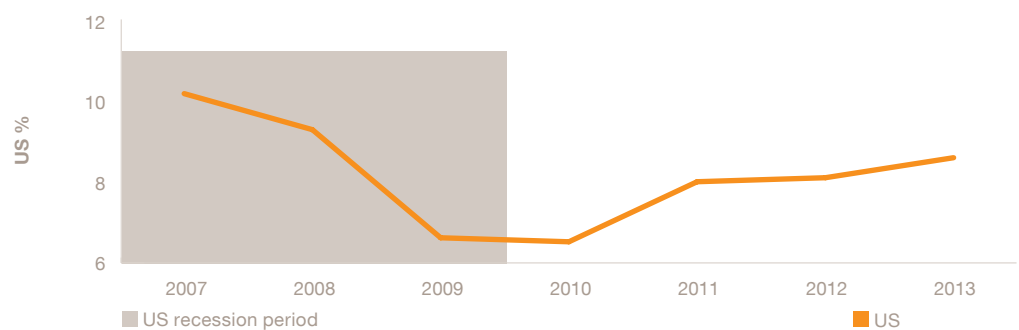
The decisions taken by employers to counteract the economic conditions have been necessary, but could take their toll on the workplace: promotions are harder to come by, people delay moving jobs or retiring, and a general malaise sets in around employee engagement.

Figure 1: L&D Investment per FTE



Source: PwC Saratoga

Figure 2: US promotion rate



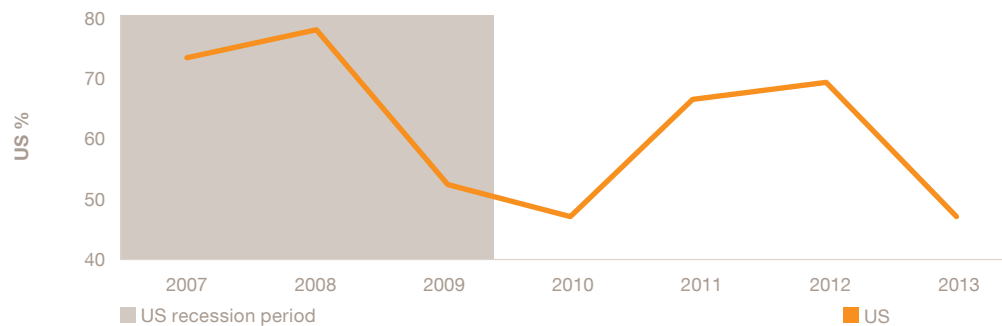
<sup>1</sup> The recessionary periods examined are Q2 2008 to Q3 2009 and Q4 2011 to Q2 2012 in Western Europe, and December 2007 to June 2009 in the US

PwC's Saratoga data for the downturn years confirms this:

- The promotion rate in Western Europe fell from 3.7% to 1.7% of the workforce between 2007 and 2009. In the US it was 10.2% in 2007, falling to 6.5% in 2010.
- The resignation rate fell in Europe from 10.4% to 6.6% between 2007 and 2012.
- Succession pipeline utilisation fell from 77.5% to 45.7% in the US with the depth of succession pipelines<sup>2</sup> in relation to identified key positions down from 1.7 to 1.1.
- The average time to fill a vacancy increased from 45 to 56 days in Europe between 2007 and 2009, because of the number of employees applying, and because employers become more selective with a wider pool of candidates.
- Absence rates in Western Europe climbed from 3.8% in 2007 to 4.2% in 2010, an absolute increase of more than 10%.

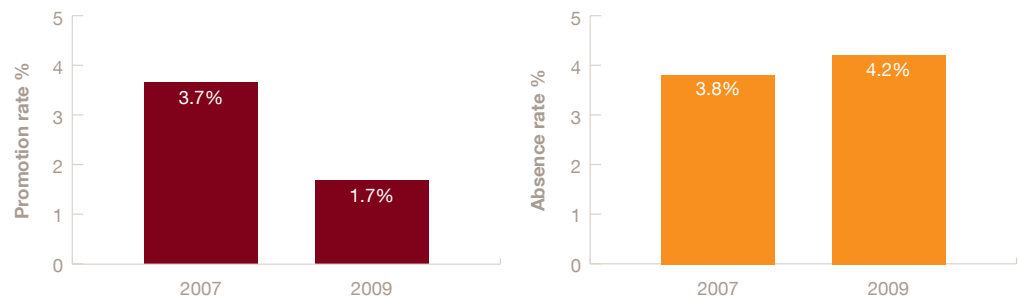
Our 2012 Global Trends report painted a vivid picture of the effect that cost cuts by organisations in recession-hit regions has had on engagement, particularly on the younger workers – the 'Rookies' – who were the biggest casualty of cuts in Western Europe and the US. The warning was clear: employers who neglect engagement were going to suffer when economic conditions start to improve.

**Figure 3: US succession pipeline utilisation**



<sup>2</sup> Succession pipeline utilisation = number of key positions filled by succession planning pipeline candidates

**Figure 4: Western Europe promotion and absence levels**



## Habits of a recovery

So what happens during a recovery? Organisations once again follow a pattern. Typically, once the first signs of growth appear they race to recruit, to fill the posts they need to meet rising demand and strengthen their depleted succession pipeline, but also because their competitors are recruiting and they don't want to be left behind.

But at the same time, disaffected employees start to leave. In the US, our data shows that the exit rate for high performers increased by 13.6% in absolute terms during 2012, almost three times higher than the increase in overall voluntary turnover during the same period (see Figure 6).

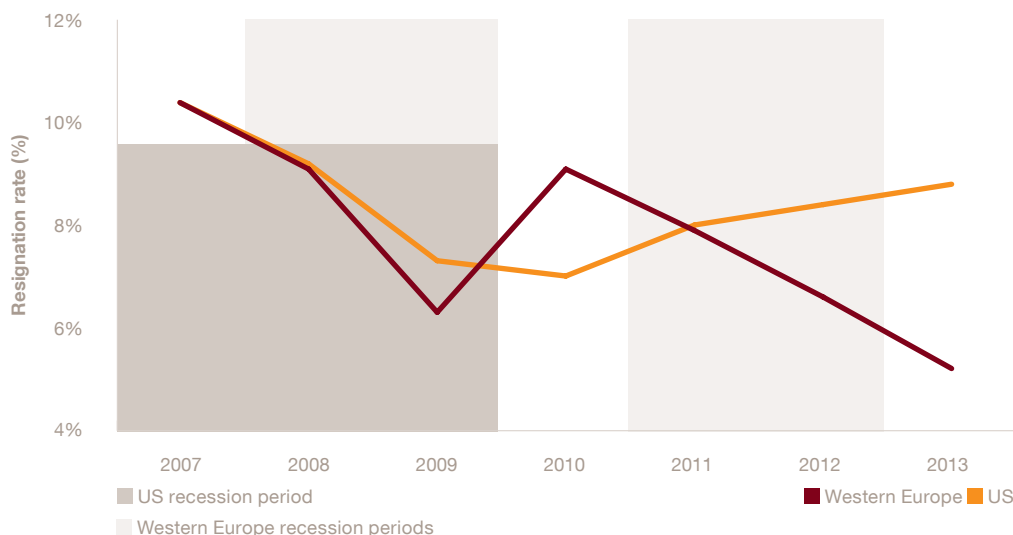
High-potential employees are also on the move – resignations for this group in the US increased from 2.4% in 2011 to 4.4% in 2013. Overall, we see resignations fall during the downturn and then increase sharply as economic conditions improve, first in Western Europe and then in the US (see Figure 5).

This creates two problems for organisations – the exodus of high performers makes it harder to refill already depleted succession pipelines, and it places even greater pressure on recruitment. Our data shows that external recruitment rose from 11.5% to 13.7% in the US in 2013, indicating that organisations are filling positions with outside candidates rather than internal talent in an attempt to keep up with employee turnover.

But rapid recruitment comes with risks: a poor hire quality (often indicated by a high first-year resignation rate) can cause a dip in productivity. The first year of service turnover rate in the US increased from 21.5% in 2011 to 24.1% in 2013, for example, suggesting a poorer fit between talent and jobs.

The result is a very familiar talent bloodbath – 63% of CEOs are now worried about the availability of skills.<sup>3</sup> We could just watch the talent war play out again. But there is an alternative – let's call it 'smart growth'.

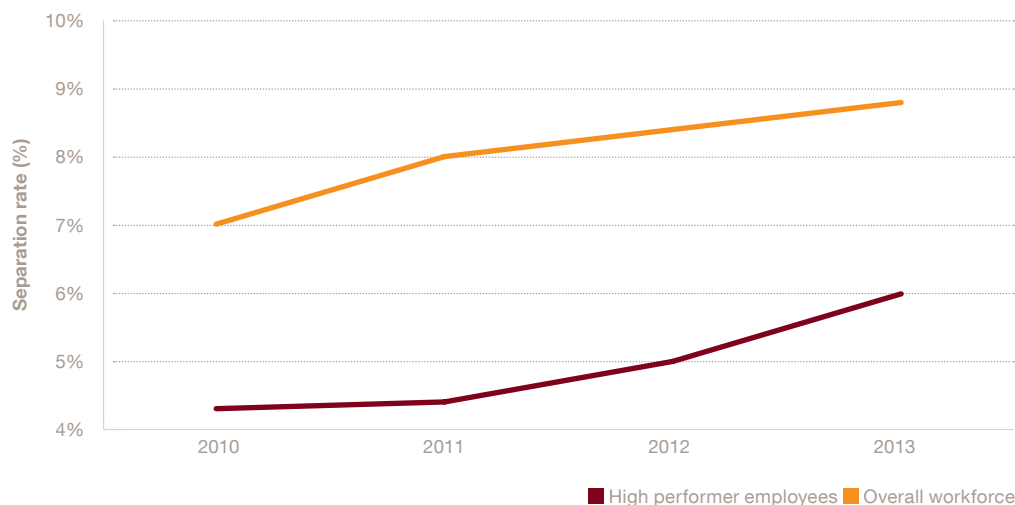
**Figure 5: Resignation rate**



Shaded areas show recessionary years in the US (2007-2009) and Western Europe (2008/09 and 2011/12), indicated by two successive quarters of negative GDP growth.

Source: PwC Saratoga

**Figure 6: US resignation rates**



<sup>3</sup> 17th Annual Global CEO Survey, see [www.pwc.com/ceosurvey](http://www.pwc.com/ceosurvey)

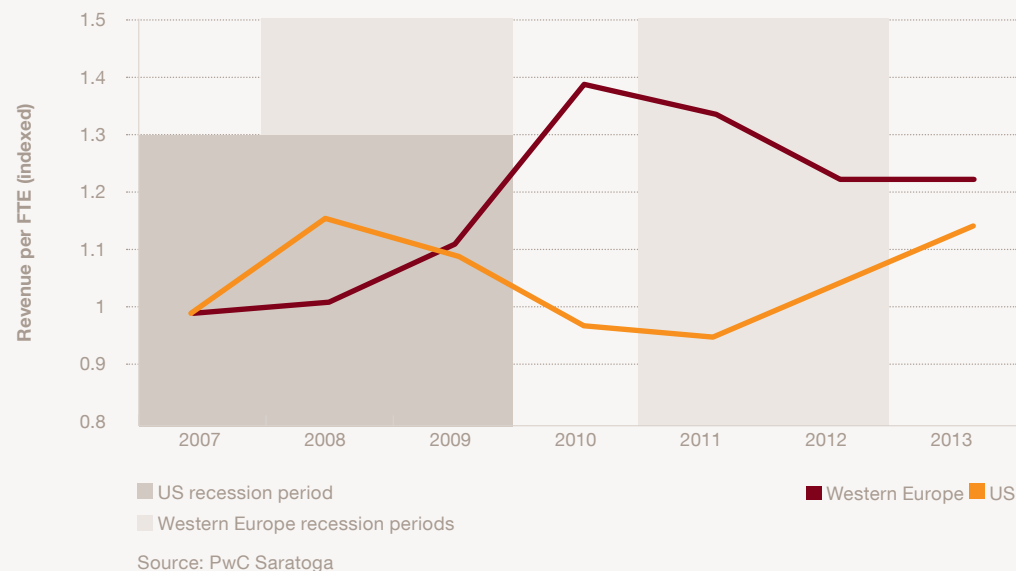


## Measures and meaning

Good talent decisions are based on knowledge, understanding and analysis – in other words, on human capital metrics. The best organisations are using analytics to predict talent supply and inform their hiring and talent management decisions.

But it's not enough just to use metrics; familiar measures can give misleading messages at times of economic uncertainty. For example, revenue per full-time employee (FTE) often rises in the early stages of a recession (see Figure 7), simply because the workforce is depleted. Other measures, such as the voluntary turnover rate or high performer separation rate, are more likely to uncover emerging problems.

**Figure 7: Revenue per FTE**

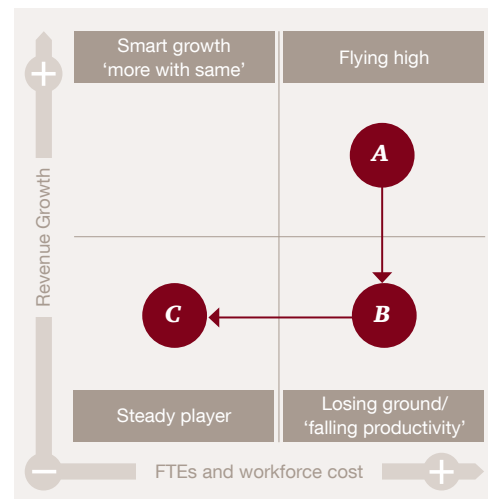


### Getting exit velocity right

‘Smart’ growth means growing within your current means – doing more with the same, and eventually, more with more. It’s clear from our CEO survey that business leaders believe that the discipline around cost needs to continue – 64% said they planned to cut costs this year. The most successful organisations will bring themselves out of the downturn by increasing the return on their investment in human capital<sup>4</sup> (Human capital ROI) more quickly than others, and by sustaining it.

Figure 8: Smart growth at an organisational level

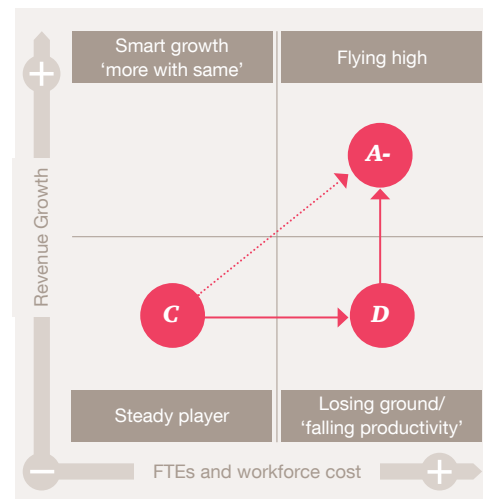
#### Reacting to recession



Source: PwC Saratoga

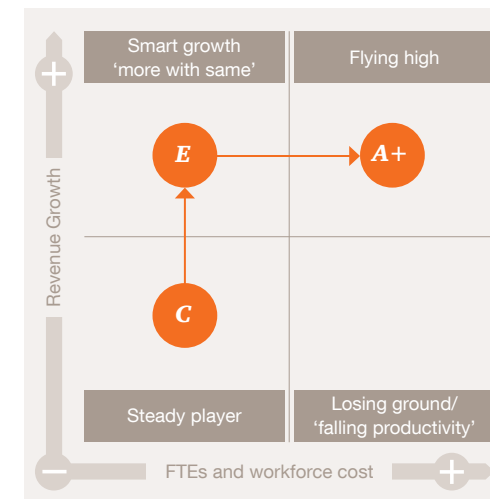
- At the start of a downturn, revenue begins to slow and employers respond by cutting costs and headcount. Productivity drops, but the company eventually gets to a steady state [A→B→C].

#### Typical responses to recovery



- The arrows [C→D→A] show the typical response as the recovery begins. Resignations begin to rise and employers react by increasing their recruitment drive and paying more to keep their existing staff.
- A more balanced approach to post-downturn growth [C→A] is where the organisation increases its workforce incrementally, in balance with the increase in revenue.

#### Ideal path to new growth



- ‘Smart growth’ – doing more with the same. The ideal path [C→E→A+] shows how leading organisations are able to grow smartly by using existing resources before growing the workforce at a lower rate. Rapid recruitment lowers overall productivity while new recruits learn – smarter organisations increase workforce productivity first and then recruit.

<sup>4</sup> Human capital ROI is the profit returned per unit of currency spent on employees



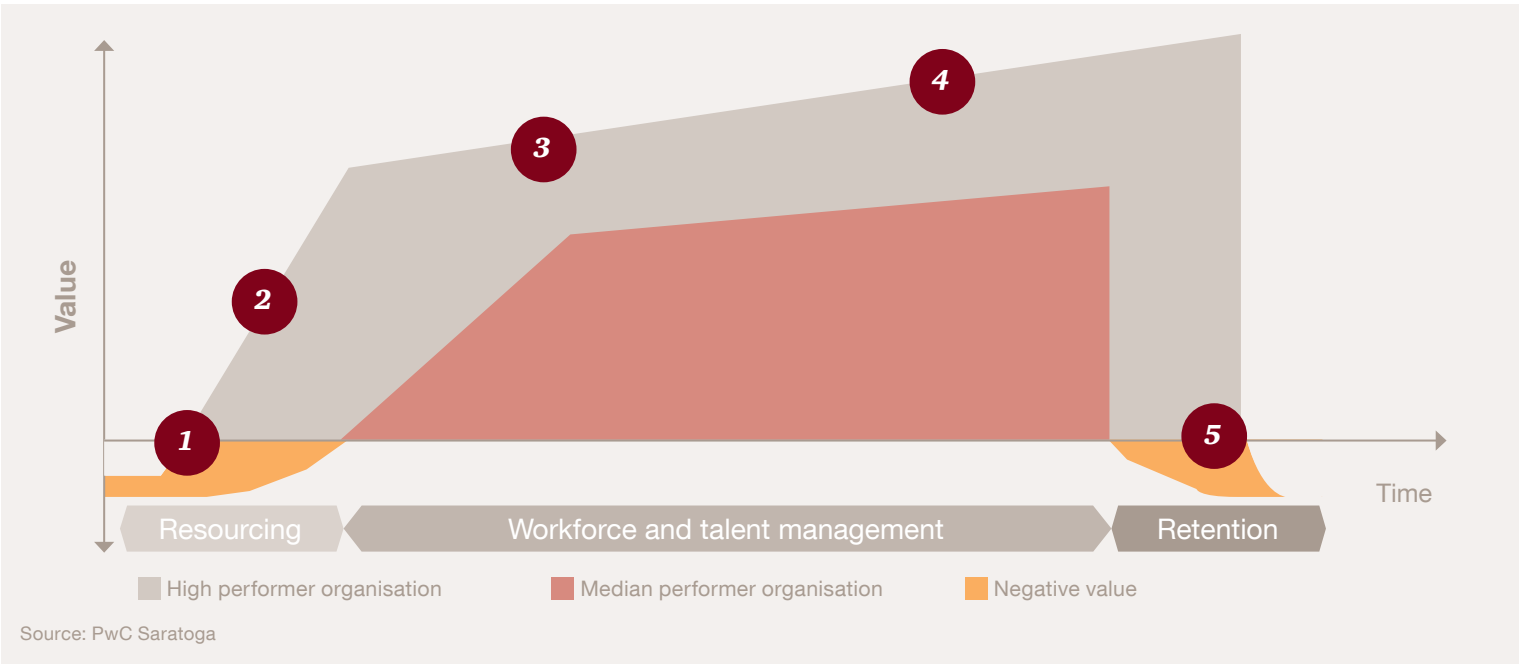
What does an efficient exit from a downturn look like?

While it’s important to note that different parts of an organisation may be at a different point in the cycle at any one time, the essential elements behind ‘smart growth’ are a more strategic approach to recruitment, which is based on a thorough analysis of the skills that the organisation needs now and in the future, and maximising productivity among existing staff.

Common to each is the concept of adaptability<sup>5</sup>. In adaptable organisations, employers look differently at sources of talent, investigating new geographies and sectors as well as investing in existing employees, equipping them with the necessary skills and motivating them to adapt to meet new challenges. Similarly, adaptable people are those who are prepared to embrace change and apply their skills somewhere new.

Equally relevant is the use of automation to maximise productivity, particularly the latest wave of technology that’s able to take over from knowledge workers. There are advantages and drawbacks to greater automation, but its existence requires a careful, balanced consideration of where, when and whether it should be used. Jobs are constantly changing: some will no longer exist and new roles will be created, which makes talent management all the more challenging.

Figure 9: Smart growth – at an employee level



By recruiting more efficiently, matching people carefully to their roles and encouraging greater productivity by paying attention to engagement and training, high-performing organisations outstrip their competitors as they exit a downturn (see Figure 9):

- Workers are recruited more quickly and cheaply. (1)
- They are trained more quickly, more effectively and are more productive afterwards. (2)
- Their on-the-job competence is higher. (3)
- They’re more engaged and productive – less time is lost. (4)
- They stay for longer. (5)

Latest PwC Saratoga data for the European market shows how high-performing organisations outperform the average in key human capital measures:

Figure 10: Comparing the median to best performers

Employee life-cycle metric	Median quartile	Best quartile
Time to accept a job	35 days	23 days
Job offer acceptance rate	93.40%	97.20%
L&D investment (as a percentage of compensation)	0.90%	1.50%
Absence rate	3.70%	2.20%
Resignation rate	6.70%	3.40%
Average tenure	7 years	12 years

5 For more on adaptability, see the PwC report commissioned by LinkedIn, ‘Adapt to survive: How better alignment between talent and opportunity can drive economic growth’

Smart growth at both the enterprise and employee level will translate into significant improvement in an organisation's Human capital ROI ratio in two respects:

1. The rate of growth Human capital ROI is enhanced in the journey out of recession.
2. The peak in Human capital ROI that will be achieved is higher, and extended further into the future.

Figure 11 illustrates comparative Human capital ROI profiles for best quartile organisations and the chasing pack in key sectors, together with the 'lost' \$ value of being a follower, rather than a leader.

**Figure 11: The value of smart growth**

Industry sector	upper quartile >	rest of market <sup>6</sup>	Marginal profit per employee
Banking	1.97	1.32	\$53,103
Insurance	1.73	1.31	\$37,126
Communications/Media	1.55	1.10	\$31,431
Technology	1.50	1.14	\$23,855
Pharmaceuticals	1.48	1.20	\$20,649
Chemicals	1.62	1.29	\$24,406
Engineering/Manufacturing	1.43	1.15	\$16,858
Utilities	2.66	1.28	\$104,550
Retail and Leisure	1.43	1.14	\$14,121

There is a clear opportunity cost of not maximising Human capital ROI as you exit the downturn

<sup>6</sup> ROI for the 'rest of market' is the midpoint of the first, second and third quartiles



### What does this mean for HR?

'Doing more with the same' means maintaining the level of cost discipline that began during the downturn, while looking closely at your current and future workforce needs.

Underpinning everything should be an understanding of the factors that drive Human capital ROI, and a close monitoring of the right business measures.

- Align human capital strategy with business growth strategy.
- Review KPIs for your talent pool, mobility, progression and attrition.
- Track employee engagement trends.

- Encourage a culture of adaptability within the organisation and review performance measures: Are they penalising adaptability?
- Consider how automation technology is changing your business, and your future talent needs.
- Analyse reasons for leaving and resignation trends, particularly for high performers and first-year employees.
- Use predictive modelling for flight risk.
- Look outside your usual sources of talent supply, considering new geographies, disciplines and existing employees with the right attributes.



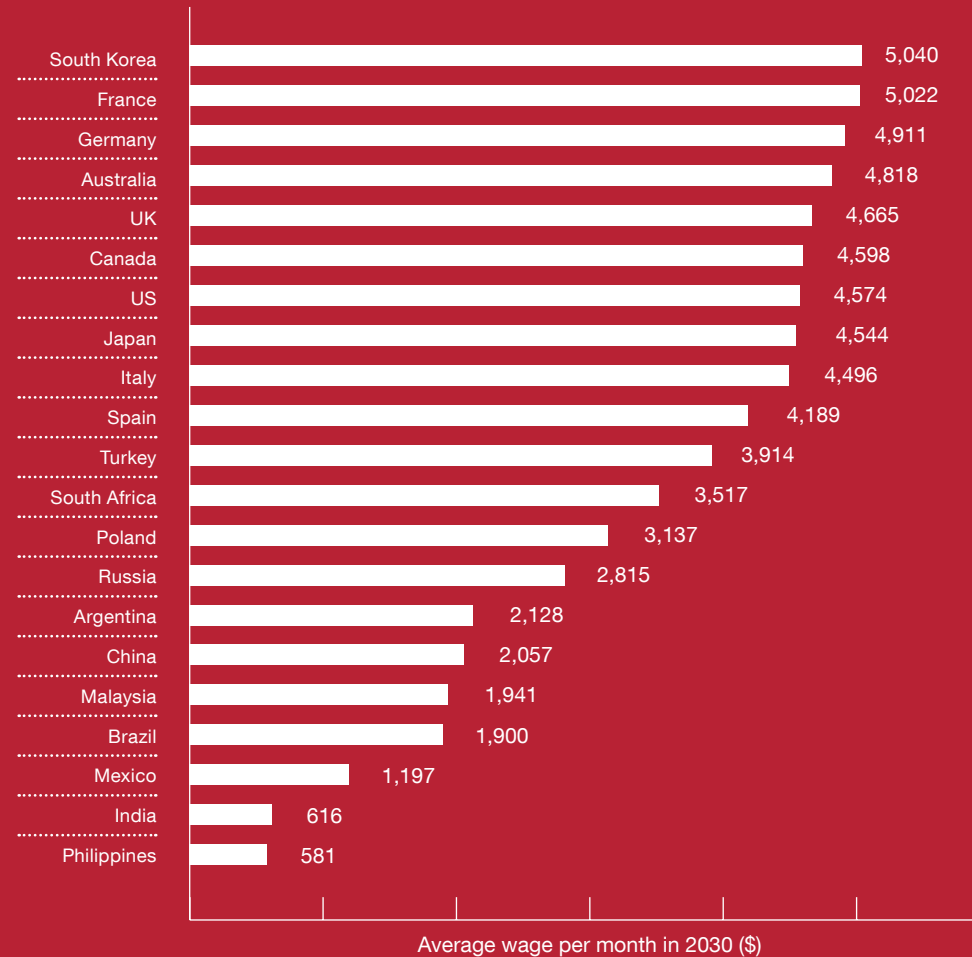


# Emerging economies

## No longer competing on cost alone

*While developed economies grapple with the recovery, emerging economies have different priorities. A consistent theme is rising wages – the gap between emerging and mature markets is closing, more rapidly in some markets than in others.<sup>7</sup>*

The closing wage gap is forcing emerging markets to find new ways to compete, but it's also highlighting that countries have different priorities, particularly around talent supply and management. It's been tempting in the past to talk about 'emerging markets' as though they're a single group to which the same arguments generally apply: the reality is much more complicated.



### Demographics matter

Demographic changes will affect emerging economies more than most in the coming years. One of the most significant demographic shifts underway is the population boom in parts of Asia and Africa, which is effectively lowering the average age of the workforce.

We're already seeing the implications of this in parts of Asia as the workforce is swelled by the Millennial generation. Millennials tend to display particular traits, such as the expectation of rapid career progression, which has forced many employers to adapt their recruitment and talent management processes. Job-hopping among the under 35s, for example, is already endemic in many markets and is particularly pronounced in Asia.

### One size doesn't fit all

The risk with emerging markets is that they are viewed collectively by some organisations – and collectively, the workforce issues in these parts of the world are beginning to resemble the profile of developed markets. The reality, though, is that not all emerging markets have the same workforce priorities. The challenges of dealing with India's 'demographic dividend' mean that demographics is seen as a significant megatrend by Indian CEOs, for example, while in China, demographics are not considered to be a transformational trend. And diversity is seen as the top challenge for CEOs in India, while in Russia it's far less of a priority.

<sup>7</sup> PwC, Global Wage Projections to 2030. We projected real wages in domestic currency terms forward to 2030 using annual labour productivity growth estimates from our latest 'World in 2050' study, which is available from [http://www.pwc.com/en\\_GX/gx/world-2050/the-brics-and-beyond-prospects-challenges-andopportunities.jhtml](http://www.pwc.com/en_GX/gx/world-2050/the-brics-and-beyond-prospects-challenges-andopportunities.jhtml)

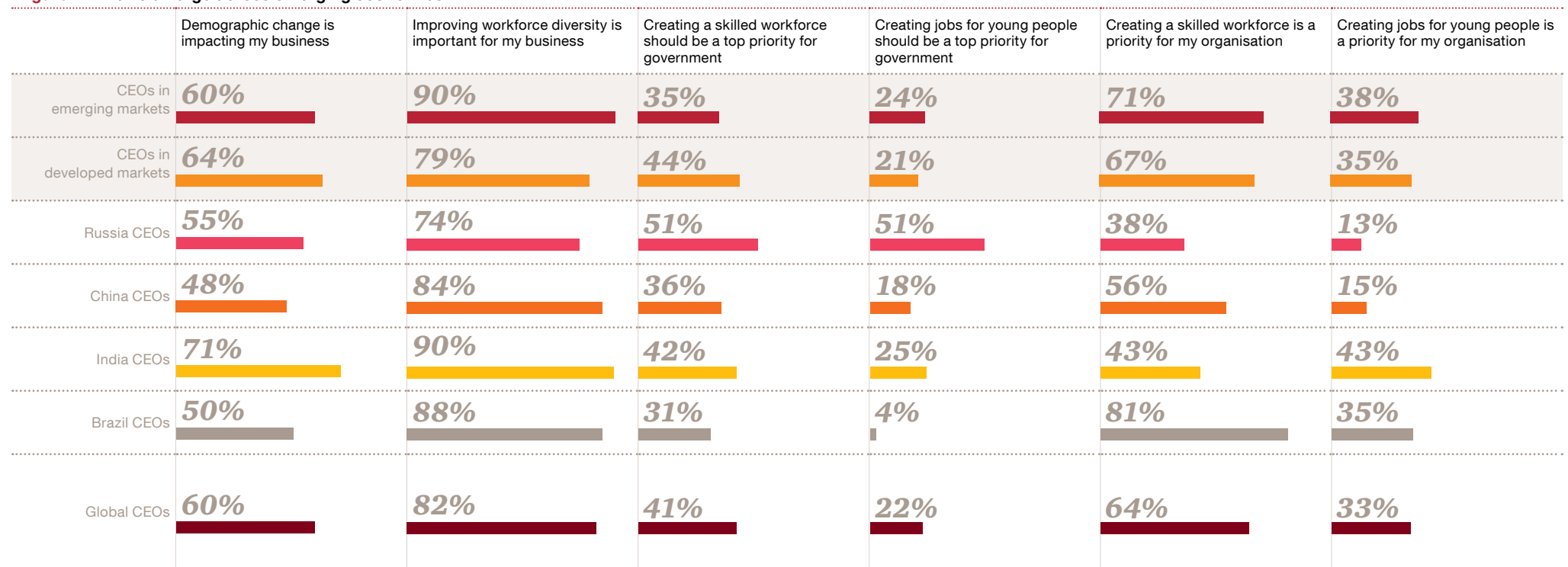
While each market has different talent management priorities, an added complication is that the delivery of HR is maturing at different rates in different regions. In some, there is a shift under way from an administrative focus to a more formal HR management, while in others the movement is from a basic HR model to a more strategic approach.

This all suggests that organisations should be applying very different workforce strategies in selected emerging markets – what works in India, say, certainly won't be as successful in the Middle East.

### What does this mean for HR?

- Understand each market – general assumptions about emerging markets won't necessarily apply to individual countries, to regions within those countries, or to organisations operating within those countries and regions
- Balance localised and centralised HR
- Make smart use of analytics to predict potential problems
- Focus on adding value through the workforce – finding and developing the right skills to encourage innovation and creativity

**Figure 12: Views diverge across emerging economies**



Source: PwC 17th Annual Global CEO Survey

# Adding value through your workforce

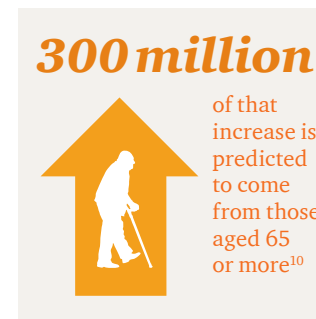
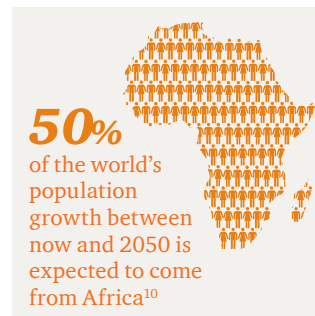
## The role of diversity and trust

*While organisations in developed and emerging markets have different immediate priorities, business and HR leaders everywhere agree that two factors will play a significant role in the next few years: diversity and trust in the workplace.*

### **Beyond compliance: the value of diversity**

Over the next few decades, diversity will become a necessity rather than an objective. It's a matter of simple demographics; women are joining the labour market at a quicker rate than men, and the birth rate is far higher in Asia and Africa than it is in Europe, which is shifting the supply of future talent.

Our Megatrends<sup>8</sup> report cites demographic change as one of the five most transformative trends that businesses face in the coming years, as an ageing population in many developed economies, combined with high birth rates in many emerging markets, force organisations to adapt to changing sources of talent supply. Sixty percent of CEOs named demographic change as a critical transformational trend – only technological advances were seen as more significant.



<sup>8</sup> [www.pwc.co.uk/megatrends](http://www.pwc.co.uk/megatrends)

<sup>9</sup> Financial Times

<sup>10</sup> UN Population Division, World Population Prospects 2012

<sup>11</sup> PwC Talent Mobility: 2020 and beyond (2012)

### ***Does diversity add value?***

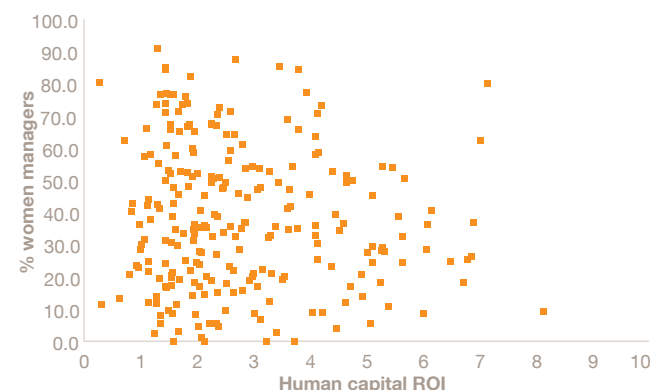
Demographic changes are forcing some organisations, and persuading others, into increasing the diversity of their workforce. Diversity naturally increases the talent supply pool, but it's widely accepted that it brings other benefits too. The perceived wisdom is that as diversity is increasing in many organisations, these benefits will come naturally. But think again – there is a vast difference between being a diverse organisation and making diversity work.

For example, the most high-profile discussions to date have been about gender<sup>12</sup> diversity in the boardroom. Various studies have attempted to find a link between gender diversity and financial performance, but direct cause and effect has remained elusive. Our own data shows no direct correlation between gender diversity and Human capital ROI:

**Figure 13: Human capital ROI to % of women executives correlation**



**Figure 14: Human capital ROI to % of women managers correlation**

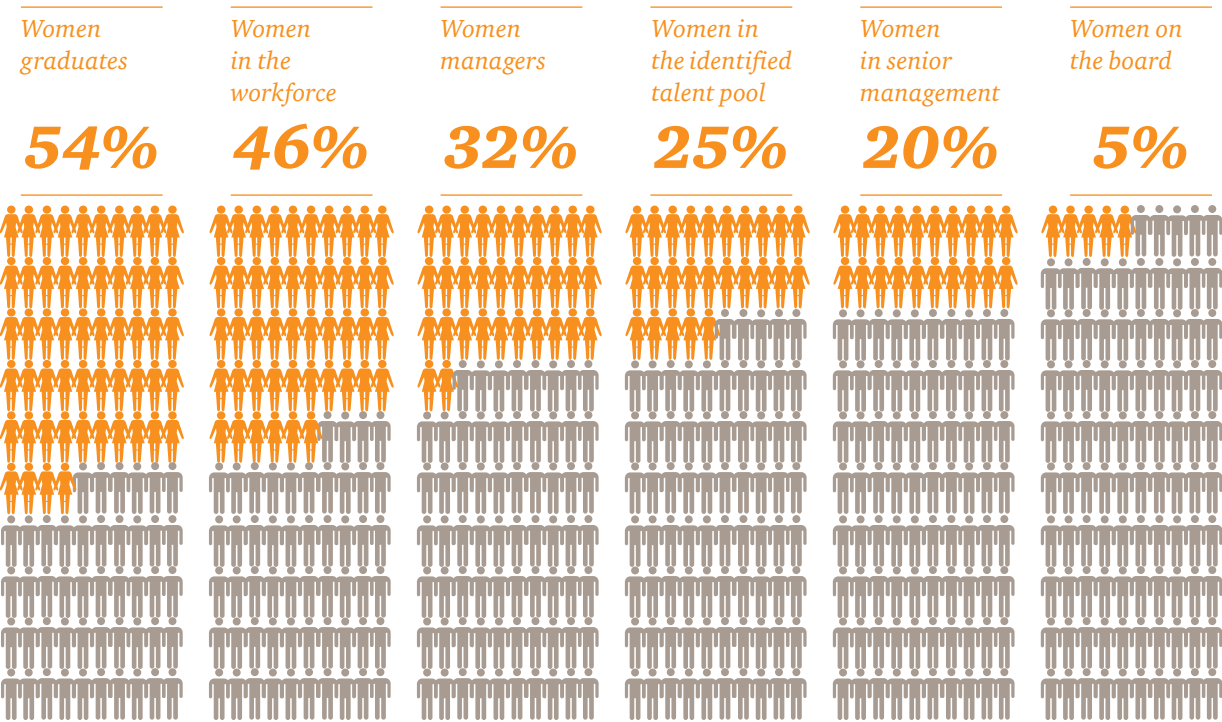


<sup>12</sup> Such as Gender Diversity and Corporate Performance, Credit Suisse Research Institute, and Catalyst 2011

This doesn't prove that gender diversity is a waste of time; what it proves is that there's a difference between employing people and using them well. One billion women will enter the workforce in the next decade;<sup>13</sup> 54% of graduates today are women and

yet the percentage of female boardroom executives is below 5% in almost every country with no legally enforced quota. In other words, businesses are selecting their senior executives from a seriously depleted talent pool.

**Figure 15: Diminishing use of gender diversity in the talent pool**



Source: PwC Saratoga data 2014

<sup>13</sup> For more on the impact of women in the workplace, see [http://www.strategyand.pwc.com/global/home/what-we-think/third\\_billion](http://www.strategyand.pwc.com/global/home/what-we-think/third_billion)







### ***Think again about diversity***

The power of diversity goes far beyond talent supply; it's becoming widely accepted, for example, that an organisation is more likely to predict consumer preferences if it has a workforce that mirrors its customer base. And there's evidence<sup>14</sup> that workforce diversity brings greater innovation and creativity, a reduction in 'group think' and improved governance.

But it's important to understand that diversity comes in many forms. A recent report from the Center for Talent Innovation in New York identified 'two-dimensional diversity' – this distinguishes inherent or surface-level diversity (gender, race, age, religious background, socioeconomic background, sexual orientation, disability, nationality) from acquired diversity (cultural fluency, generational savvy, gender smarts, social media skills, cross-functional knowledge, work experience, a global mindset).

Acquired diversity means, in essence, a proliferation of perspectives. Our work with Professor Roger Steare, Corporate Philosopher in Residence at Cass Business School,<sup>15</sup> into the role of ethics in leadership and management has shown how differences – especially gender, age, religion and politics – influence ethical perspectives when making decisions.

Organisations need to work with inherent diversity as they adapt their talent strategy in response to unprecedented demographic change, but they must cultivate acquired diversity if they are to realise the greatest value.

<sup>14</sup> Catalyst, 2011

<sup>15</sup> See Trust: The behavioural challenge for more on this, see [http://www.pwcwebcast.co.uk/dpliv\\_mu/Trust\\_the%20behavioural%20challenge\\_Oct%202010.pdf](http://www.pwcwebcast.co.uk/dpliv_mu/Trust_the%20behavioural%20challenge_Oct%202010.pdf)

### **Driving innovation: The value of trust**

CEOs have been painfully aware over recent years of the need to improve the relationship between stakeholders – particularly employees – and their organisation. They are doing their best to address the problem; 39% told us that they'd seen an improvement in trust levels from employees in the past three years<sup>16</sup>. Trust matters.

Organisations need to encourage a mutual atmosphere of trust because when employees trust an organisation they:

- are more likely to stay and to recommend to others, and
- are more engaged and productive.

The real value of trust, though, comes with the relationship between trust and innovation. The game-changing benefits of innovation are most likely to be realised when an environment of mutual trust is created.

This isn't just about physical environment, it's about creating a level of trust embedded in behaviours and culture.

In a trust-based environment, employees can try ideas without fear of failure, relax and collaborate without fear of it being assumed that they're not working, and can share ideas without fear that they'll get stolen (we've seen this model reap dividends in technology and creative companies).

As the proportion of Millennials in the workplace increases, this will be even more important – our research has indicated that trust and flexibility are key expectations of this generation.

### **How trust is changing**

But what do we really mean by 'trust'? We'd argue that the essential nature of trust is changing because of three critical trends:

#### **1. Speed – the modern workplace is a more fluid environment.**

The concept (and reality) of a job for life is rapidly becoming a thing of the past; a quarter of the Millennial generation expect to have six jobs or more during their career. Longer working lives for all of us mean that a portfolio approach is increasingly being taken by all generations. In this environment, there isn't time to build trust over a long period of time and engagement – it needs to be given up-front. Millennials expect to be given responsibility and opportunity, and successful employers will embrace this, as well as the associated risk.

#### **2. Information.**

In the days before social media, as consumers we trusted brands and companies because of our own experiences. We might ask friends for recommendations, but our access to information was limited. Today, we have access to the opinions of millions of people through websites such as tripadvisor. Evidence and opinion is crowd-based and instantly accessible. The same is true for employers – LinkedIn, Glassdoor, career portals, forums and best places to work surveys are at our fingertips. We don't inherently trust an employer brand; we validate and test our views against this abundance of information. This means that today, you can't build trust without transparency.

#### **Flexibility – A crucial part of building a trust-based environment is forsaking the traditional workplace.**

Our research showed that the majority of employees of all generations are requiring more flexibility at work, whether that means working from home or working non-standard hours. Millennials, in particular, don't believe that productivity should be measured by the number of hours spent at the office, but by output.<sup>17</sup> They view work as a 'thing' and not a 'place'. In practical terms this means that flexible working practices need to become the norm if you are going to satisfy your employees' desire to be trusted and empower them to be productive and innovative.

<sup>16</sup> 17th Annual Global CEO Survey

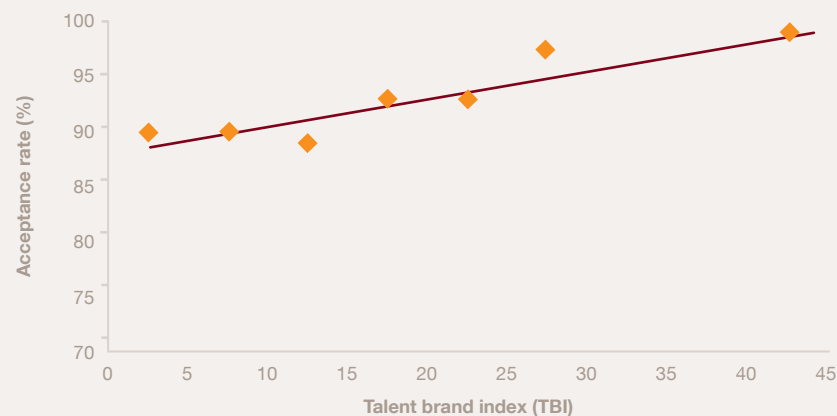
<sup>17</sup> For more on this, see PwC's NextGen: A global generational study

### **The employer brand**

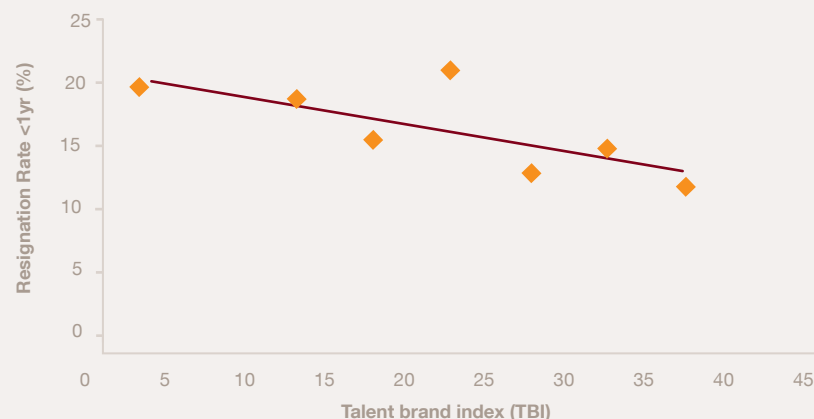
Employees have more choice and information than ever before, which means that a strong online employer brand is essential.

PwC Saratoga's recent research with LinkedIn<sup>18</sup> highlighted the link between quality of hire and the employer brand and internet presence (measured by LinkedIn's Talent Brand Index, TBI). Our research showed the correlation between key engagement statistics – the acceptance rate and short-term resignations – and TBI. A 1% increase in TBI can generate a 1.5% increase in the acceptance rate and a 1% decrease in short-term resignations:

**Figure 16: TBI vs. Acceptance rate**



**Figure 17: TBI vs. Resignation rate**



Source: PwC / LinkedIn<sup>20</sup>

### **It's all about culture**

It's clear that there's value to be gained from paying attention to diversity and trust in the workplace – both in terms of improving talent supply and in encouraging innovation and productivity. But it's important to recognise and understand that neither is straightforward; diversity means much more than ethnic origin and gender, and trust has taken on a new meaning in the modern world.

It's vital, of course, that both are measured as far as possible. This is about much more than numbers and employee engagement surveys, it's about addressing and even changing corporate culture. The real value difference in diversity comes when the corporate mind is open – not just to new sources of talent but to different perspectives. And the real value in trust comes when an atmosphere of mutual trust is part of everyday behaviour.

<sup>18</sup> See Adapt to survive, <http://www.pwc.com/talentadaptability>

<sup>19</sup> The Talent Brand Index measures internet presence by evaluating the awareness of LinkedIn members of an employer brand against the employer's engagement with LinkedIn members. The higher the score, the stronger the talent brand

<sup>20</sup> Data points represent TBI and acceptance rates for clusters of organisations



### *What does this mean for HR?*

- Get the basics right. Know your workforce – monitor and measure diversity, in all its forms, but look beyond the accepted indicators. Diversity means more than race and gender
- Widen your range of talent sources including experience hires, graduates in other disciplines. Diversity means people with different perspectives – it goes beyond geography and demographics
- Redesign workforce structures and adapt job design to attract and retain previously untapped sections of the workforce
- Think about training needs. Would your managers benefit from specific training, such as leading diverse teams? Has unconscious bias seeped into the organisation?
- Make internal decisions, such as performance management criteria and reward, more transparent
- Trust employees to make their own decisions
- Think about how you can offer flexible working options, demonstrating the trust you have in your workforce
- Look at leadership behaviour – what do their actions say about the integrity, honesty and consistency of your leaders?









# Leading HR

## The practices driving new business impact

*Strategic workforce planning has become a critical competitive differentiator – and that places a heavy responsibility on HR. For years we’ve been saying that this is the opportunity HR has been looking for to claim a seat in the boardroom and prove its strategic worth.*

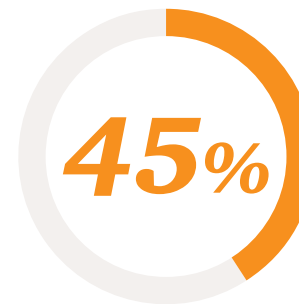
*It was always clear that many HR functions would need to make changes if this was to happen. The assumption within the profession was that transforming HR would create a strategic function, which would in turn transform its value to the business. But it now appears that transforming the HR model alone isn’t enough.*

### A crisis of confidence

There’s strong evidence of widespread disillusionment in HR from business leaders – even HR leaders themselves feel uncertain that their function will find the skills that businesses need.

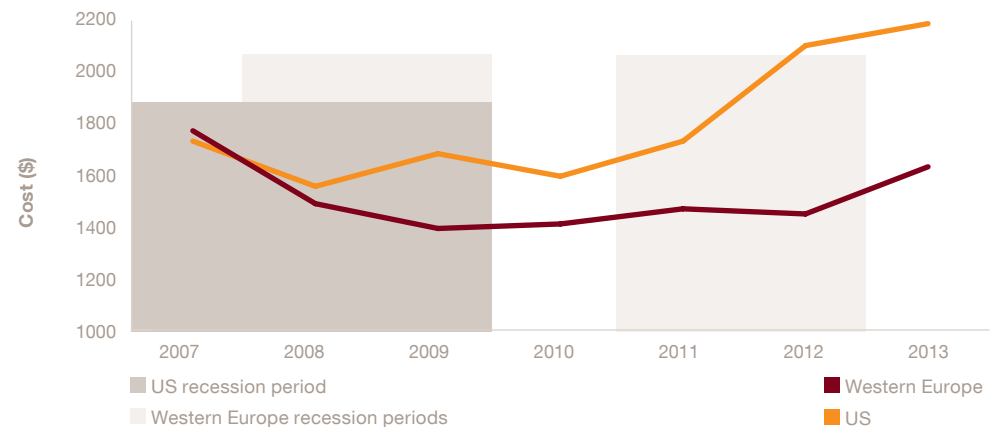
The downturn in developed economies hasn’t helped. HR cost per FTE in Western Europe and the US has risen since 2009, most likely as a result of an overall reduction in headcount.

At the same time, the number of full-time HR professionals looking after each company has fallen. Most significantly, the generalist HR population has remained roughly constant while the business partner (BP) population is steadily growing. Businesses are clearly seeing value in the BP role.



*Less than half of HR leaders are very confident that they’ll have access to the right talent to execute on the business strategy<sup>21</sup>*

Figure 18: HR cost per FTE



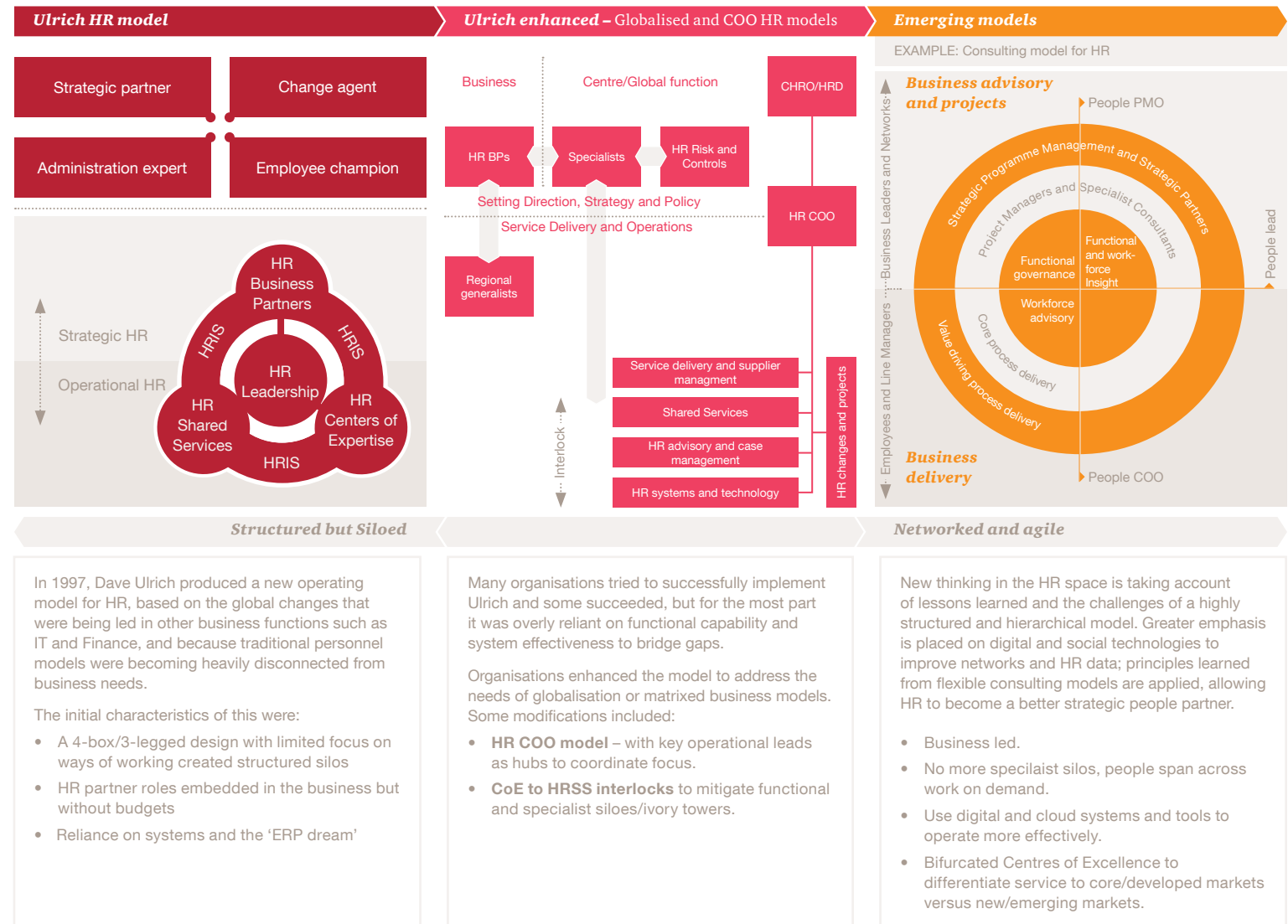
Source: PwC Saratoga

21 PwC Senior HR buyers survey, 2013

## HR structures evolve

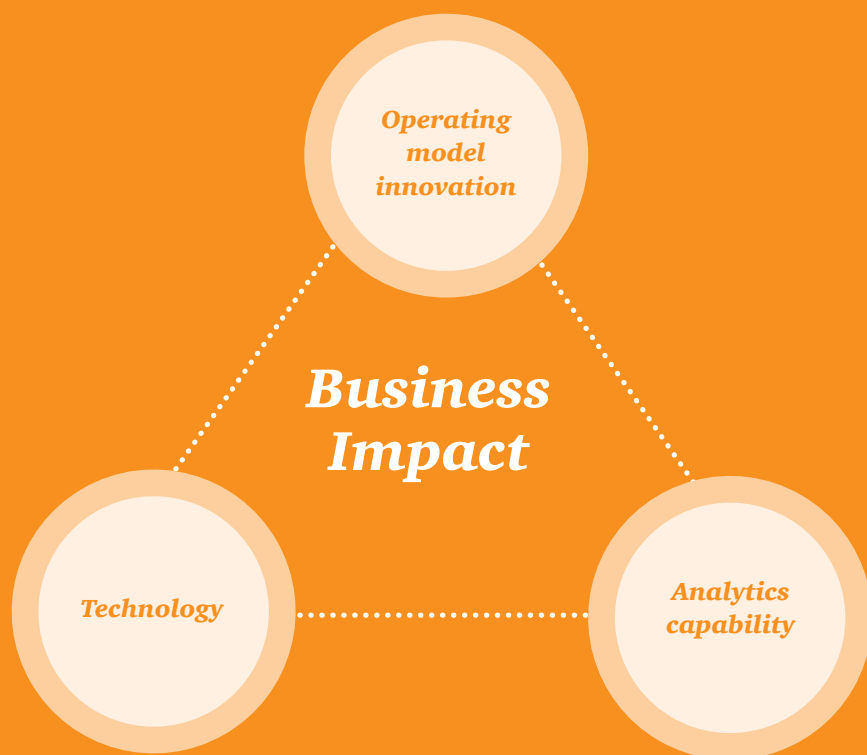
This, in turn, is affecting HR delivery models. While some organisations successfully implemented the Ulrich model, others have struggled to create a truly global operating model and processes. As a result, the model has been evolving since 2005 – variations include an ‘HR COO’ model, where operational leads act as ‘hubs’ to coordinate HR work.

We’re now seeing models evolve still further, where greater emphasis is placed on the use of technology to improve networks and HR data, and where the focus is on HR as a consulting function. This might include different ‘layers’ of HR specialists with different capabilities, backed up by HR support. This is business-led and demand-led HR, powered by social, digital and cloud technology.



### **What does leading HR look like today?**

There are three elements to creating a leading HR function:



#### **Operating model innovation:**

- Ulrich model variants
- Partnering/consulting capability
- Customer service focus

#### **Analytics capability:**

- Analytics roadmap
- Workforce analytics CoE
- Hiring analytics experience
- Investing in HR skill development

#### **Technology:**

- SaaS and BI applications
- Data architecture
- Dashboards
- Data visualisation tools

These elements must work together, as each on their own are not enough to create a high-impact HR function: transforming the HR model alone doesn't automatically create a strategic function; good technology is of little use without the HR model and capabilities that interpret and use the data; and analytics won't be trusted if the data collected is of low quality.

We're seeing a shift in the capabilities needed by HR as a whole (not just within the business processes function) in order to meet the needs of organisations, particularly around analytics – we're increasingly seeing, for example, the development of analytics as a Centre of Excellence.

Many organisations are using this trend as an argument for changing their core HR systems and adopting integrated SaaS solutions – a concern for some in HR who are reluctant to give away data access to other parts of the business. While SaaS brings the potential for better human capital management, it won't happen without more investment in skills and structures around analytics.

### Predictive analytics is here and now

If HR is to prove itself as a strategic partner, it must make use of the tools at its disposal. The best HR functions are already showing that they can provide genuine insight that helps businesses make better decisions, through their use of predictive analytics.

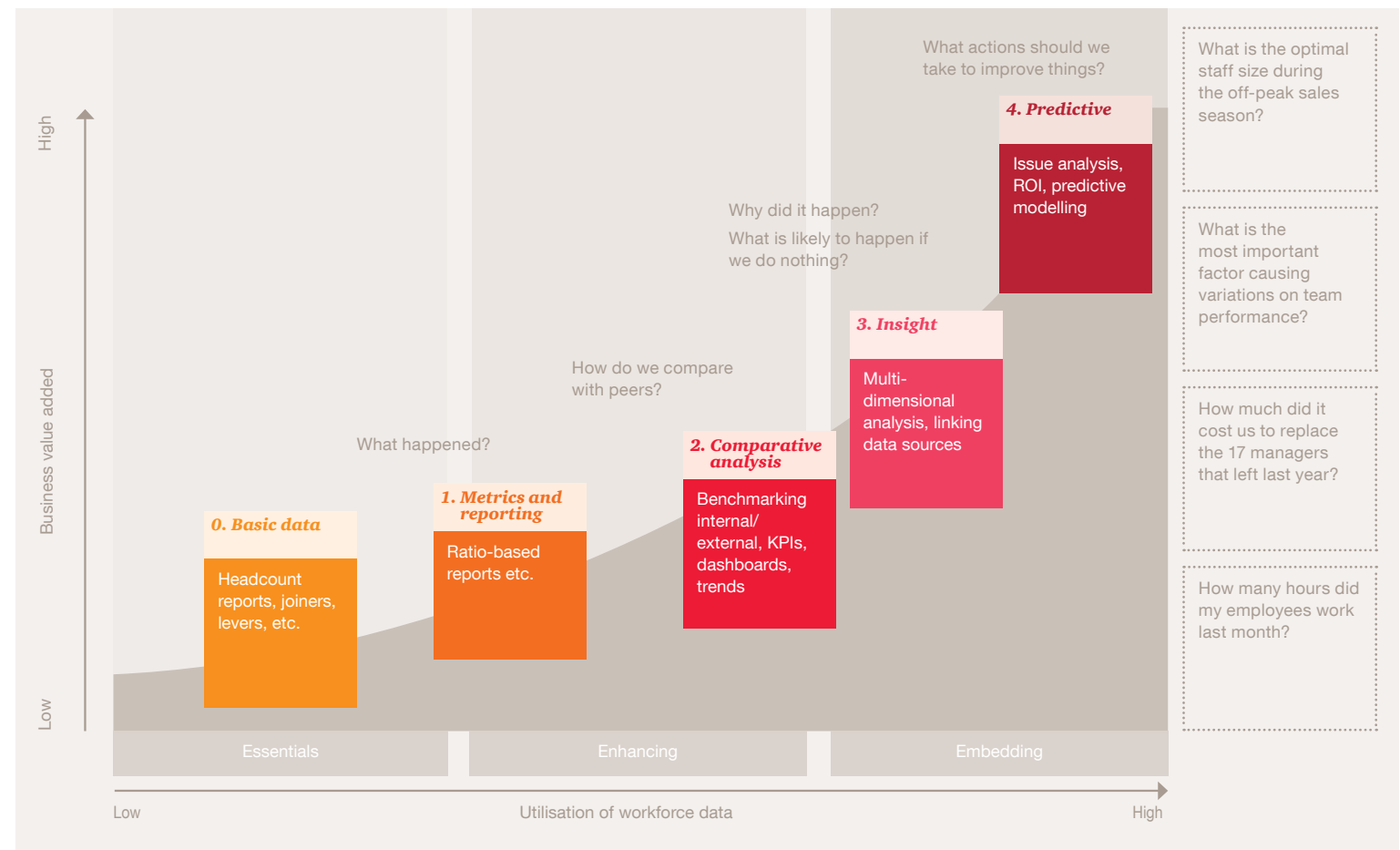
But this must be analytics to support the business, and not just data for data's sake. Too many organisations are limiting their use of HR data to describe what has already happened (points 2 and 3 on the curve), rather than using analytics to predict what might happen and find ways to address the problem.

The excuses often put forward by HR professionals who have moved slowly on analytics – such that HR is not mature enough for predictive analytics, or doesn't capture enough data to do predictive modelling – no longer apply. Predictive modelling is about testing hypotheses with relevant historic data, and is about the quality of that data rather than its quantity.

HR is relatively new to data analytics; as a function it lacks statisticians, analysts and data visualisation experts. HR analytics is about telling the story, rather than focusing on the numbers – business leaders aren't looking for a statement of fact, they need the 'so what?'.

We've warned repeatedly that HR needs to act if it is to become a true strategic partner – the window of opportunity for HR professionals is closing.

Figure 19: The maturity curve for HR and workforce analytics



### *What does this mean for HR?*

- Analytics must become a core competency for the HR function
- Make analytics capability a fundamental requirement for new hires
- Look beyond traditional sources for HR talent – skills such as cloud technology will soon become invaluable
- Question your use of data and analytics. Is the information relevant, and valuable? And are people using it in the business?
- Think predictive – CEOs want help in planning for the future, not a narrative on what's already happened.







## *Create your alternative future*

Organisations are facing major talent challenges across the globe, many of which will seem familiar. Solving them requires a new way of thinking. We've entered an era where the competition for the best talent is more intense than ever, where talent supply is difficult to predict, and where the pressure to maximise the return on investment in people has never been higher.

All this is a challenge for HR, but also an opportunity – maybe the last opportunity. Advances in analytics and technology mean that HR is capable of great things and of contributing to the strategic heart of the organisation; it also means that it needs to fight to own its subject and prove its worth.

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