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Special Report: Dealing with the Downturn
The Workforce

The new talent equation

By Peter Cheese, Catherine S. Farley and Alan Gibbons

The objective at the heart of successful talent management in difficult times: to think ahead and to think more strategically about creating a workforce with the capabilities to outperform the competition as the economy turns around. A number of fresh approaches are available to help companies go beyond responses focused only on staff reductions.

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These are anxious times for workers and the companies that employ them . . . or used to employ them. But for employers, it isn't only a matter of how to effectively manage workforce costs in the short term. Just as critical is finding ways to use the immediate economic crisis as an opportunity to refashion an organization with the people and capabilities that can create competitive advantage in the longer term.

For many companies, seizing on that opportunity is going to take some work. The current business and economic environment is exposing a host of weaknesses in the talent management practices of many organizations, as well as the lack of a comprehensive understanding of skills, capabilities, key workforces and top talent.

Indeed, in making decisions about the future of different jobs and roles, many companies are flying blind. Without a clear sense of which workforce capabilities are essential and which are secondary, what workforces are business-critical and what are not, who the top performers are and whose performance is average or worse, companies cannot make the right talent decisions.

The result can be the loss of high-potential talent along with critical capabilities, knowledge and relationships, and a diminished ability to perform and compete successfully. Given what appears to be the longer-term nature of this downturn, it is all the more important for organizations to get talent management right. And soon.

Fresh approaches

Talent strategy is, in fact, as important as any other part of an organization's overall strategy, regardless of the business conditions. Unfortunately, the harsh glare of the downturn has exposed the fact that the talent planning and management capabilities of

many organizations are not equal to the challenges that lie ahead.

Once a first round of workforce reductions is complete, for example, then what? Such initial adjustments are relatively easy to make and are, for the most part, good for the company: Low performers are quickly identified, and the rest of the workforce rarely registers surprise at the choices made. But the next round of cuts, if necessary, is usually much harder, especially for companies with incomplete information about employee performance and capabilities. This kind of information is essential for achieving the objective at the heart of successful talent management in difficult times: to think ahead and to think more strategically about creating a workforce with the capabilities to outperform the competition as the economy turns around.

A number of actions and fresh approaches are available to companies to help ensure that their workforce capabilities and talent support their ability to stay competitive. With these approaches, companies can go beyond responses focused only on reductions. They can recalibrate jobs and salaries rather than simply cut positions or hours. They can identify the most strategically necessary roles, where hiring should continue even during a recession. They can support their workforce in new ways and increase opportunities for collaboration. They can identify the top performers who must be retained. They can finally act on the global sourcing strategies they've been considering to leverage talent in locations around the world.

Organizations can also do better long-term workforce planning, using this crisis as an opportunity to make changes they probably should have made years ago. And they can approach the downturn as an opportunity to develop a new generation of insightful and strong leadership.

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How to identify strategic talent

Organizations have had varying degrees of success with a number of new approaches to cutting workforce costs (see story). But what they need in addition is a more comprehensive approach to reducing workforce costs without impairing workforce quality. To do this effectively, a company needs a better understanding of the different roles within its workforce and needs to conduct what we call strategic role assessment, or SRA.

The purpose of SRA is to identify strategic talent—individuals who are top performers relative to their peers and who perform roles that directly support an organization's strategic goals (see chart below). An assessment of the entire workforce, function by function and business area by business area, can be conducted, plotting people according to two spectrums: performance (from exceptional to low); and value (from mission-critical to nonessential).

This analysis then enables organizations to become far more nuanced and informed about how they invest in their workforce. Many organizations today routinely waste payroll budget by failing to set salary levels properly. The result: too much money paid to the wrong people and too little to the ones whose contribution is mission-critical. During these economic times, such waste is unacceptable, especially since payroll can represent from 40 percent to 70 percent or more of revenues for service or knowledge businesses.

With the SRA approach, roles can be clearly segmented and reward decisions can then be made on a transparent and equitable basis, each job being paid according to its strategic value to the organization and market competitiveness. Base pay and total cash compensation levels can be set appropriately and then checked against local-market benchmark data.

One of the results of an SRA may seem counterintuitive during a recession: Some employees may actually need a pay *increase* because of their importance to the organization. This reinvestment is more than offset, however, by recalibrating the pay of "core" and "necessary" workers (depending on their performance grades) and by counseling low performers in nonessential roles out of the organization.

Of course, SRAs can also mean that some workers in fact receive salary reductions—perhaps back to levels from three to four years ago. Yet the assessment advantage from a cultural impact perspective is that the process is comprehensive and equitable. Management can say to the entire workforce, "We're going to use business-case data and workforce performance analysis to look at where strategic value is being created in the organization, and we're going to adjust pay scales in light of that assessment."

This approach also has the potential to encounter less resistance from labor unions. It does not unfairly target one location, factory or workforce segment over another. Its aim is simply to reallocate rewards where they will create the best return on investment.

The ultimate result of a strategic role assessment is a powerful compensation strategy that is tailored to the organization and thus difficult for its competitors to replicate. And the payoff can be significant: from 6 percent to 10 percent of total payroll costs over a one- or two-year period, with the added advantage of having a less negative effect on workforce morale and engagement. In fact, this is a strategy that can legitimately claim to protect jobs.



Source: Accenture analysis

Survival: Slashing jobs or slashing costs?

What organizations need is a more comprehensive approach to reducing workforce costs that does not compromise workforce quality.

One mistake companies can make during a recession is to confuse eliminating jobs with eliminating costs.

Making across-the-board headcount reductions, without adequately taking strategic capability or areas for growth into account, can be damaging to longer-term positioning. One major retailer, for example, recently instituted a voluntary retirement program for its workforce without adequately specifying who was eligible. The result: the exit of hundreds of employees with a wealth of knowledge and experience that the company really didn't want to lose.

Poorly informed cutbacks can weaken an organization in multiple ways. Such workforce reduction programs are damaging to the morale and goodwill of the company, and to the engagement and productivity of those workers who remain (see sidebar, opposite).

That damage can be long-lasting and especially insidious insofar as the extent of the problem may not be fully appreciated during the downturn. Temporary constraints on changing jobs may mean that voluntary attrition drops to near zero for a time. But high employee retention does not necessarily mean high levels of employee satisfaction.

For example, in a recent Accenture survey, the majority of more than 2,600 middle managers in 17 markets in North and South America, Europe, Africa and Asia Pacific said they were staying with their current companies only because they felt they had no choice. In addition to the 12 percent of respondents who are actively looking for a new job, another 60 percent said they would consider new employment but are not currently looking given current

market conditions. Not a comforting statistic.

Indiscriminate workforce cuts can also weaken the ability of organizations to perform at competitive levels. Performance degradation can show up almost immediately in lower revenues and higher customer attrition. It also can damage the workforce in the longer run by taking out top talent that was simply unlucky enough to work for the wrong unit or location at the wrong time.

Some organizations are trying new, creative alternatives to reducing workforce costs—for example, reducing base pay or using variable pay scales linked to performance. Another approach is to cut hours for all employees or to require them to take unpaid vacation days.

In March, for example, California announced “self-directed furloughs” for state workers, requiring affected employees to take any two unpaid days of their choice per month. The state estimates this will save \$1.3 billion through June 2010, at which time the furloughs will end. Only time will tell, however, what negative long-term effects such an approach—which amounts to about a 9 percent pay cut—might have on employee engagement and retention.

There are alternatives to cuts and layoffs of business-critical workforces. One major telecommunications company, for instance, has been actively seeking to lend its highly trained engineers to outside organizations on a temporary basis. The employees have the opportunity to work on fresh challenges at an equivalent salary, while the company is able to temporarily reduce headcount.

Such alternatives can be effective. But what organizations need in addition is a more comprehensive approach to reducing workforce costs that does not compromise workforce quality. To do this effectively, a company should do

what Accenture calls a strategic role assessment—an evaluation of the entire workforce according to performance levels and the business value delivered by different individuals and roles (see sidebar, page 6).

Repositioning: Workforce planning that reinvents the organization

An economic downturn is actually a time to think much more boldly about what kind of talent is needed to drive an organization forward, how essential skills should be sourced, what an optimal culture would be and so forth. So in addition to addressing their most immediate workforce cost problems, companies must also engage in more comprehensive kinds of planning that can bolster their medium-term ability to reposition themselves. People are expecting change, and it's important not to let that opportunity go to waste.

Done well, workforce planning is a rigorous process in four phases. The first phase begins by getting a handle on the demand side of the workforce equation: What kind of workforce with what kinds of skills is needed to execute business strategy? What are the critical workforces that need to be filled with top talent—near term and long term?

In the second phase, attention shifts to the supply side. First, what's happening? What impact does the fact that people are generally less inclined to leave a job voluntarily during a downturn have on the overall workforce mix? Does it slow the advancement of some emerging talent? What impact do those who are leaving have on organizational knowledge and experience? Is the organization capturing the critical

knowledge of top talent before they leave or retire?

Next, look at what's happening externally. It has become clear during the past few years that demographic changes and educational shortfalls are having a profound effect on the ability of companies to source and retain the kinds of workers needed to propel the business forward. Employees now entering the workforce—often called Generation Y or Millennials—are often less inclined to work on the terms long accepted by their parents; they're usually looking for a more balanced life, they have a strong focus on meaningful work and they want to work for companies with a social conscience.

The third phase of the planning process analyzes the gap between workforce demand and supply, which leads to the final phase: the development of the actual plan. The options available to companies at that point are especially important to repositioning the workforce for challenging economic times. They include the following.

Global sourcing and recruiting

A recent survey conducted by Accenture in collaboration with the Economist Intelligence Unit found that companies are increasingly turning to global sourcing and delivery in lower-cost countries not only as a means

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Keeping employees engaged in tough times

By Elizabeth Craig

During an economic downturn, keeping employees engaged—aligned with and invested in the company's current business strategy, and energized to overcome challenges—can be particularly daunting. But it can also make a critical difference in competitiveness.

Various studies have shown that highly engaged workforces produce better business results than disengaged workers—measured in terms such as higher productivity, improved customer satisfaction and better employee retention. But where do you start when you want to achieve those kinds of results?

Given the bewildering variety of approaches to raising engagement levels, many organizations may simply try to pull as many levers as possible—often in ways that do not really engage people or improve business performance. Without a deeper understanding of what inspires employees to engage, it is difficult for companies to set priorities for engagement initiatives, or to bring about substantial and lasting improvements in engagement.

One thing is important to note: Improving employee engagement is not necessarily expensive. Indeed, many of the things that really matter to a workforce don't cost anything at all.

To identify and understand the drivers of employee engagement and the appropriate organizational responses, the Accenture Institute for High Performance recently conducted a survey of more than 1,200 employees in large US companies across several industries. Our research highlights three keys to improving employee engagement.

Build a culture of trust and respect for the individual

Our survey found that people are four times more likely to be highly engaged in the success of their organization when leaders behave in trustworthy and predictable ways. When a company is downsizing, it needs to work particularly hard to retain employees' trust. It's usually not layoffs themselves that threaten engagement; it's the way they are handled. People are more likely to engage when critical business decisions are fair and transparent and are communicated by leaders in an open, honest and proactive way.

Trust and respect matter. People who perceive that fellow employees are treated with respect, dignity and attention to their positive self-regard are five times more likely to be highly engaged than people who report low trust in and respect for their organizations and leaders. Employees who do not feel respected are 17 times more likely to be highly disengaged than those who do feel respected. Simply letting employees know that their efforts are appreciated can boost engagement.

Create meaningful work and career opportunities

Leaders, particularly in uncertain times, must offer a clear and compelling direction and vision for the future and help employees understand how their work relates to the organization's goals. Individuals' sense of meaning and purpose in their work derives, in part, from an understanding of their roles and how they align with the objectives of the organization. Our research found that 72 percent of people who believe their work is significant are engaged, whereas only 24 percent of employees who see little significance in their work are engaged.

It is also crucial that employees have opportunities to develop themselves and advance their careers. Our research found that 60 percent of employees who report they are building skills and experience that will help them attain career goals are highly engaged, while just 7 percent of people without such opportunities are highly engaged. People without opportunities for career growth are 13 times more likely to disengage at work.

Support employees' well-being

Because stress is high in challenging times, maintaining the energy and well-being of the workforce is critical. Demanding long hours during the week and on weekends may deliver some results in the short term, but only at the expense of a long-term depletion of workforce energy. Our research indicates that when companies manage work demands so that people have opportunities to recover from stressful situations and overwork, employees are twice as likely to be engaged than when they have no chance to recover from their exertion.

Companies can also support engagement by providing critical resources, including information, additional training, increased autonomy, staff, and enabling tools and technologies.

When faced with budgetary constraints, organizations often first slash many of the resources that support employees. However, in our research, people who reported that they had the resources they needed to do their jobs effectively were nine times more likely to be highly engaged than those without them. Maintaining core training, connecting people across the organization to help them support one another, and encouraging knowledge sharing are all important measures to take to support employees.

By cultivating the three conditions explained here, companies lay the groundwork for employee engagement—inspiring their talent to help the organization survive these challenging times and achieve high performance.

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of reducing costs but also as a way to improve productivity, increase the pool of available talent and complete critical projects at a faster pace.

In the research, which surveyed executives across the Americas, Europe and Asia Pacific, 22 percent of respondents said they have seen direct business cost savings of more than 20 percent through global sourcing. Seventy percent have experienced increases in business productivity from global sourcing, and more than half have seen improvements in the quality of both business and IT performance.

This global perspective on the sourcing of work must also inform the way a company sources workforce talent in general. Companies need to be flexible in finding and recruiting talent wherever it exists. The shortage of leadership and of other critical skills has led to a much stronger focus on global talent sourcing in recent years, and the economic downturn makes that perspective all the more important.

Accenture's most recent study on the multi-polar world ("Strategies for achieving high performance in a multi-polar world: Global choices for global challenges," 2009) found that 51 percent of high performers (versus 34 percent of low performers) are likely to seek to expand their workforce in foreign markets, both by increasing the number of markets where they recruit and by expanding in markets where they already recruit.

Outsourcing and contingent labor

Using contingent workforces or temporary and contract labor is one way to shore up important capabilities without incurring the costs associated with long-term employment. But this approach carries risks. The longer-term

loyalty of temporary workers and their alignment to a company's goals and strategy are more doubtful. How much to invest in their skills building and development is also a question, so bringing in these kinds of workers is usually done with specific skill areas in mind.

Shared services and outsourcing approaches are other ways to reap the benefits of a variable workforce. Today, as in previous downturns, there is growing interest in outsourcing, especially for particular types of jobs. Non-core activities, areas of the business where attracting and retaining talent may be harder, or more repetitive transactional or analytical tasks where it is important to reduce costs without losing quality can be appropriate for outsourcing or partnering options.

One grocery retailer found itself in a situation where it could not effectively retain salaried workers in the forecasting function—an essential job but one involving repetitive analytic and reporting responsibility. The company's solution was to find an outsourcing partner that could provide a reliable source of forecasting experience and knowledge.

According to the company's senior vice president for planning and merchandise control, "The forecasting group involves very technical kinds of skills and experience, and so I prefer having a resource that can provide me with the very best people on an ongoing basis and who have a bigger pool of talent to draw from."

Retraining and redeployment

For companies working to turn talent into business advantage, retraining and redeploying that talent is another critical part of medium-term repositioning. If a workforce analysis finds exceptional performers in jobs that

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High-performance businesses ensure that their workforces are continuously equipped with the technical and managerial skills needed to respond to a changing global business environment.

must be eliminated, it is vital that companies find the means to retain those performers by matching them to more strategic roles.

Last year a global carmaker halted production of several models at a number of its US plants. But instead of letting the 4,500 affected workers go, the company opted to retrain these workers for new tasks and roles. Training classes included productivity improvement, materials handling and workplace hazards, diversity and ethics. According to one of the company's managers, "This was the first chance we've really had to live out our values. We're not just keeping people on the payroll because we're nice. At the end of all this, our hope is that we'll end up with a more skilled North American workforce."

An organization's ability to share knowledge, to deliver effective learning at the right time, and to capture experience and critical knowledge has never been more important. Learning is an essential talent management capability, but it is often the target of cost cutting in tougher times.

Now is the time to embrace and employ some of the new ways of learning and sharing knowledge. Web 2.0 technologies can have a huge impact on how people connect and learn, at lower delivery costs. When almost every organization is cutting back on internal expenses, collaboration tools and Web 2.0 communication approaches represent a real opportunity to keep people connected and engaged.

Our research has found that high-performance businesses ensure that their workforces are continuously equipped with the technical and managerial skills needed to respond to a changing global business environment. Nearly nine out of 10 high

performers—compared with fewer than six out of 10 low performers—have established an academy approach to learning, which more formally recognizes the key skill areas and learning programs they need to keep the capabilities of mission-critical workforces fresh and relevant.

Talent acquisition

A general slowing of the recruitment engine is inevitable during a recession, but smart companies will never turn it off completely. But isn't hiring during a severe downturn virtually unthinkable? In fact, skill shortages will remain and may even be aggravated in a downturn because the need cannot easily be masked. Many companies have discovered that they cannot entirely shut down university recruiting and then immediately restore it to full strength somewhere down the road. Some companies have taken years to reestablish a campus recruiting foothold after suspending their presence for an extended time.

Smart companies will also keep an eye out for skilled workers who in good times may have been too difficult or expensive to attract but who are now available thanks to workforce reductions in other companies.

Hewlett-Packard owes much to this mindset. Jim Collins, author of the bestselling books *Good to Great* and *Built to Last*, related in a recent interview that "if you go back in history, a few companies used difficult times to bolster their legions of talent. After World War II, all the government labs were shutting down, and engineers were streaming out. Hewlett-Packard was actually going through a layoff. But at the same time, Bill Hewlett and Dave Packard said the greatest opportunity they ever got wasn't technology; it was the opportunity to hire those engineers."

Growth: The importance of leadership development

All of the actions discussed to this point—workforce assessments and planning, retraining, global sourcing of work and talent—contribute to an organization's ability to position itself for growth when the economy begins to turn around.

One last, crucial element in turning talent to business advantage during this recession, however, remains: leadership development. It is no exaggeration to say that today's economic crisis is a leadership training and testing ground, under the most stressful conditions. So every organization must step up and use the current economic situation to test and develop its next generation of leadership. At the same time, it must also make sure it is looking after its current leaders, communicating with them and supporting them.

Here, insights from our colleague Bob Thomas's recent book, *Crucibles of Leadership*, are especially appropriate. In the book, he argues that what matters most in leadership development is not just innate capabilities but what one makes of experience—particularly the traumatic and often unplanned crucible events that challenge one's identity as a leader. As Thomas writes, "The ability to find meaning and strength in adversity distinguishes leaders from non-leaders." (For a related article, see "Turning experience into leadership," *Outlook*, January 2008.)

It is easy enough to say that companies that can rally their people will have a better chance to thrive during and after the economic downturn. But effective talent management is not simply a matter of exhortation or charisma. Close, comprehensive and scientific analysis of the capabilities needed to achieve high performance is vital.

If workforce cuts must be made, a scalpel and not a machete is in order. That is, the types of close analysis discussed here—strategic role assessment and comprehensive workforce planning—enable organizations to plot a path

The point is to turn the current economic situation into a learning experience that can benefit current leaders, as well as those who will form the next generation of leadership. Burt Tansky, CEO of Nieman Marcus, noted recently: "I've been telling many of our young people who have never been through this [kind of downturn] to study what's going on today, study the kind of things that are being put in place to minimize the stress, because as their careers develop, they're going to have to face some of this again."

The next step, then, would be for organizations to institutionalize those insights into what's happening today and use them to advance leadership capabilities throughout the organization.

Honda Motor Co., for example, has historically used work projects as the foundation for developing leaders. Honda project managers are expected not only to produce results but also to create a learning contract with the company around the leadership skills developed during the course of the project. Applied to a recessionary environment, that kind of project-based, experiential approach to leadership development can make young leaders attuned to what they are learning, and help them share experiences with their peers.

forward that is far more informed about what skills the company needs, who in the workforce has those skills, and how such skills can be sourced in the most cost-effective manner if they cannot be found or developed internally.

It's workforce talent that is feeling the effects of today's economic crisis most profoundly. At the same time, this crisis could well be the period when strategic talent management finally comes of age.

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