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Talent & Organization Performance

The talent to grow

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New research suggests that few executives believe their recession-battered workforces are prepared to fully exploit the global recovery. To drive growth, companies need to embrace a human capital strategy that more closely links workforce planning to business objectives and looks at the broader implications for leadership and the organizational culture.

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For most of the world's companies, growth appears to have regained its place at the top of strategic agendas, displacing the cost-control mentality that has dominated boardrooms and executive suites for the past three years. That's the good news. But by having eliminated tens of millions of jobs during the Great Recession, are these companies now unprepared for economic recovery? Do they, in fact, have the talent they need to grow?

Almost half the companies that participated in Accenture's 2010 High-Performance Workforce Study report having a smaller workforce than they did before the recession, and almost two-thirds of them say they do not intend to return workforce numbers to pre-recession levels within the next couple of years. Add to the mix the fact that more than a third of companies based their workforce cuts not on individual performance or careful workforce planning but rather on who responded to buyout and early retirement offers, and you have a situation less than ideally suited to assembling a team of stars capable of driving growth.

It's not a pretty picture. Basic talent management functions—employee sourcing and recruiting, for example—have been allowed to atrophy during the downturn. Reduced workforce numbers increase the importance of incumbent workers for driving better productivity, yet confidence in the skill levels of today's critical workforces is not high. Companies are increasingly aware of how the ever-changing, multi-polar nature of the world's economy places tough new demands on their global reach and capabilities, yet few of their executives feel their workforces are prepared to adapt.

The broader implications

Developing the talent to grow will require coordinated initiatives that include developing a human capital strategy that more closely links work-

force planning to business objectives and looks at the broader implications for leadership and the organizational culture. New approaches to employee development will also be essential.

The ongoing uncertainties of the current economic situation underscore a critical fact about today's business strategies: Growing effectively, at the right pace and in the right ways, takes talent.

Economists are uncertain about what will happen to the near-term economy, but most expect growth to be somewhat lackluster—between perhaps 4 percent and 5 percent GDP growth globally over the next year. But our research finds that companies across industries and geographies are, in fact, focusing less on cost control and more on growth.

In mid-2009, during some of the worst months of the economic downturn, 41 percent of the companies in our study were dominated by strategies aimed at keeping costs under control. Today, that number is down to 27 percent, and executives show a degree of optimism about the coming year: Only 15 percent believe cost control will be their exclusive focus a year from now.

But looking at the numbers of workers still in place today after months of economic turmoil, one might well have doubts about how realistic those growth plans are. Sixty-three percent of companies globally have reduced their full-time employee workforce in the past year. Almost equal numbers do not expect to add jobs over the next year, or even in the next two years.

Less than top-notch

Companies that expect to execute growth strategies with fewer employees are placing an additional burden on the skills of existing workers to innovate and improve overall productivity. Yet few executives express confidence that their

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companies' most critical workforces—frontline positions such as sales and service—are world-class.

For example, a majority of executives who cited sales as their most important business function said their companies either lack the needed skills in the sales function (29 percent) or that a significant proportion of the skills they do have in sales are out of date (24 percent). Disturbingly low percentages of executives see some of their other important workforces as top-notch: engineering (30 percent), training (35 percent), customer service (30 percent), IT (22 percent) and strategic planning (23 percent).

Overall, just 16 percent of respondents consider the current skill level of their entire workforce as industry leading. Worse, 30 percent said it will take a year or longer for their organization's workforce skills to return to an effective level. The situation appears to be especially troubling among companies in the insurance, chemicals/natural resources and banking sectors, where only between 6 percent and 8 percent of executives said their overall workforce has industry-leading skills.

Did companies at least make sure to keep their top performers during the workforce cutbacks of the past couple of years? The analysis is again troubling. Thirty-five percent of companies based decisions about severance in part on who accepted a buyout offer or early retirement. Just over half used performance criteria to make such decisions, a number that was even lower at government agencies (24 percent) and health organizations (21 percent).

External marketplace and industry shifts also focus attention on changing skill needs. For example, as retailers expand their online and mobile presence, they need more people with digital skills and fewer for traditional

in-store positions. Financial services companies are looking for more workers with knowledge of risk management. Many industries, from manufacturing to high tech, require more employees with science, technology, engineering and math skills than are readily available, especially in many industrialized nations. This skill gap explains the number of unfilled jobs—3 million in the United States and a similar number in Europe, according to the Bureau of Labor Statistics and the European Commission—in spite of high unemployment rates.

The global nature of competition also has executives looking at the effectiveness of their operating models. In the United States, for example, recent data shows that 46 percent of the profits at S&P 500 companies come from abroad. We spoke recently with an executive of a US-based aerospace and defense company looking to address a situation in which 70 percent of its employees are in the United States but 70 percent of its customers are not—a situation that can make it difficult for any company to respond adequately to local needs.

Even when the capabilities to manage this kind of change exist, they often leave much to be desired. Companies report that substantial portions of their leadership and workforces lack resilience and the ability to manage through change. Just 8 percent of survey respondents said their workforce is extremely well prepared to adapt to and manage change through periods of economic uncertainty. Only 23 percent strongly agreed that their leadership was up to the task.

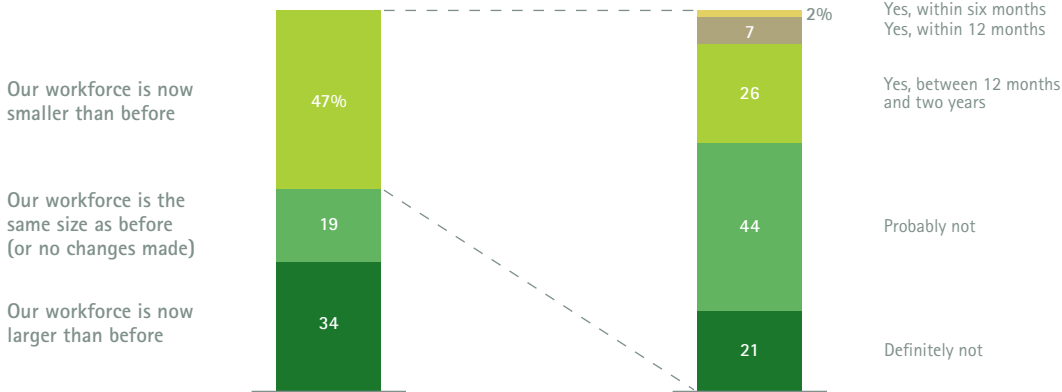
Putting the right capabilities in place to drive expansion in the coming years will depend in part on HR capabilities in areas such as sourcing, employee development and performance management, yet cuts made during the recession have weakened that part of most organizations. Nearly 30 percent of companies said they have

Under pressure

Nearly half of executives surveyed say their companies have smaller workforces now than before the recession—and almost two-thirds of those executives report they have no firm plans to increase headcount to previous levels. This puts pressure on organizations to execute a growth strategy while shorthanded.

How does the size of your workforce compare to its pre-recession levels?

Do you plan to eventually return your workforce to its pre-recession size?



Source: Accenture High-Performance Workforce Study 2010

either reduced or entirely eliminated campus recruiting, talent sourcing or experienced hire/executive recruiting in the past 12 months. Four in 10 companies said it will take them at least a year, if not longer, to return their talent management capabilities to the appropriate level.

Differentiated capabilities

A critical aspect of the Accenture High-Performance Workforce Study is a comparison of leading companies and their lower-performing counterparts across all relevant talent and organization performance domains. Leaders were identified as those companies with the highest total scoring in the self-assessment of their capabilities across all 18 critical dimensions, including workforce planning, training, performance management, sourcing and leadership development.

Overall, several characteristics separate leaders from laggards in terms of their readiness for growth.

For example, leading companies in the talent arena are more likely than laggards (51 percent versus 43 percent) to be balancing cost control and growth strategies instead of focusing only on cost. Leaders were also more likely to have retained a more robust workforce planning capability (42 percent versus 36 percent) and employee development programs (47 percent versus 33 percent).

If more organizations are to become leaders in the areas of talent and organization performance and support better execution of a growth strategy, we believe they need to focus especially on the following areas.

Workforce planning in the context of a human capital strategy

One of the critical dimensions of strategy execution today is taking a more holistic and proactive approach to workforce planning—that is, planning for the types of skills, where and in what numbers,

an organization needs to ramp up to a new level of performance.

Whether they call it HR, talent management, workforce planning or something else, industry leaders have always had some means of putting in place the people and skills needed to run the business effectively. Indeed, by 42 percent to 36 percent, leading companies in our workforce study were more likely than laggards to have increased their use of workforce planning over the past year. This finding supports the belief that business effectiveness depends significantly on better planning about the workforce capabilities needed to execute strategy.

For several reasons, however, economic challenges and the speed of marketplace change have outstripped the ability of traditional workforce planning to meet today's business needs. As a result, although executives may feel they already have a workforce plan in place, it is frequently nowhere near robust or comprehensive enough. It may address traditional matters such as sourcing, hiring, training and rewards. But these touch only some of the critical dimensions of *human capital*—a term that captures the idea of executives treating employees as an asset that the company can invest in and, based on how that capital is nurtured and treated, see a return on that investment.

Executives must now pursue a more comprehensive human capital strategy across four interrelated dimensions—talent, leadership, culture and organization structures. A human capital strategy helps put in place the right leaders to source, develop and direct the right workforce talent, supported by the right culture, organization and operating model.

As with a business strategy, an effective human capital strategy informs many of the company's most important decisions about where

and how to compete, and supports the enterprise as it balances short-term decisions with longer-term imperatives. In this way, it can meet today's business needs and still be agile enough to reposition itself to support an enterprise's ongoing market competitiveness and growth.

Several examples of the multi-dimensional aspects of a human capital strategy highlight its importance to a company's growth strategy. National Grid, one of the largest utilities in the world, faced a pressing need to rapidly develop new leaders throughout a business unit facing unprecedented competitive pressures. The company created a leadership development program, tied to a transformational business strategy, that connected managers' personal leadership experiences to real business problems.

According to John Pettigrew, the company's former executive vice president for US electricity distribution and generation and current COO of the company's UK Gas Distribution and Metering business, National Grid needed to extend its leadership development focus more broadly. "There had to be a new mindset about who our leaders are," he notes. "We had to develop an extended leadership team that would become more accountable for our business results."

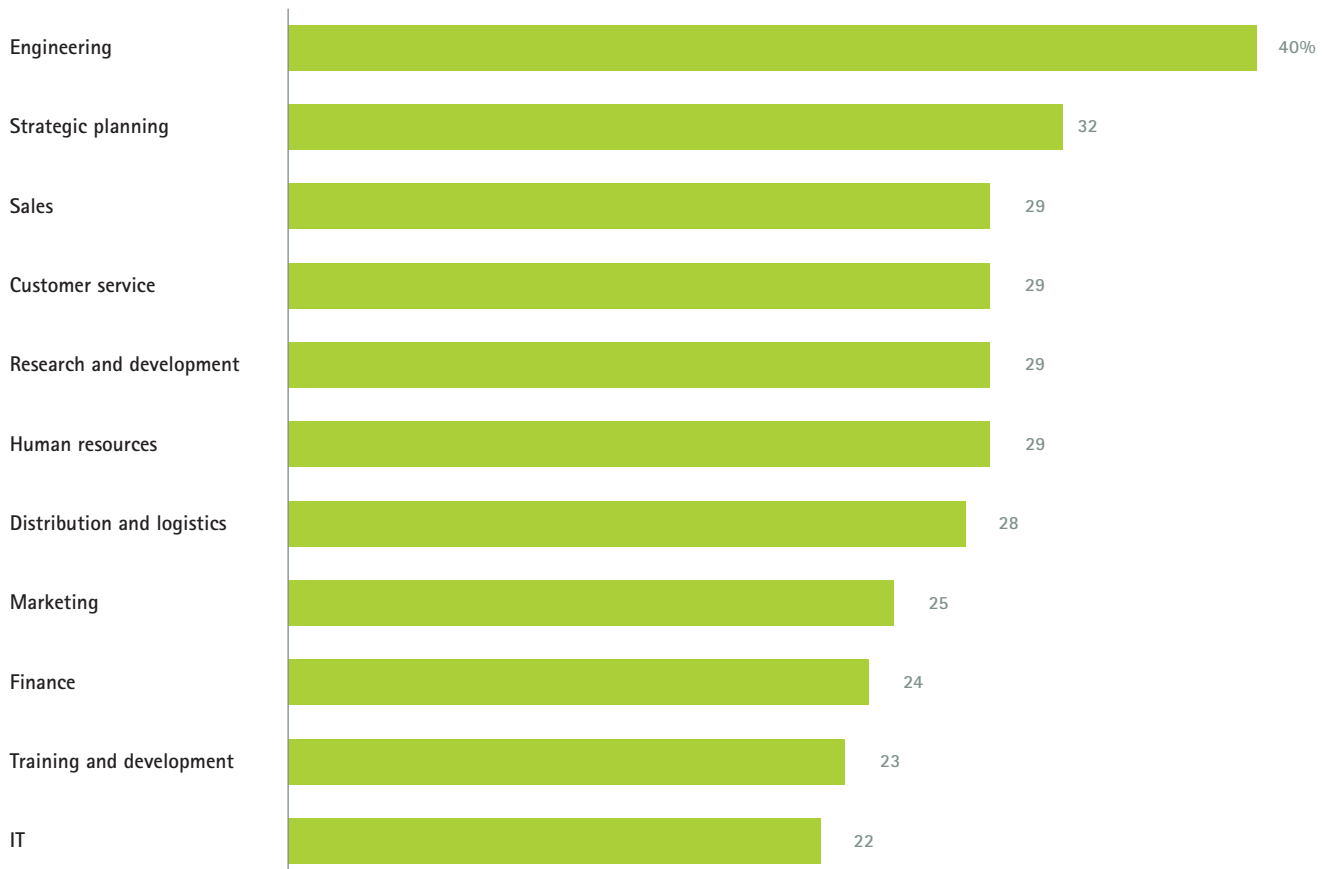
The new program combines individual coaching with a series of learning forums supported by action learning teams—groups banding together to work toward common goals and share leadership lessons from that work.

The company's transformation program, enabled by the development of new leaders, has produced numerous business benefits. For example, the number of "lost time" injuries has been halved over the past two years. National Grid's reliability

Serious skill shortcomings

Workforces critical to the success of companies may not have the skills needed to drive growth. Among executives identifying the following workforces as critical, significant percentages of respondents noted serious skill shortcomings.

Workforce lacks needed skills



Source: Accenture analysis

metrics are also markedly better, resulting in a dramatic reduction in regulatory penalties for failing to comply with acceptable standards of electricity supply.

An interesting example of aligning culture and growth strategies comes from work that one large Asian manufacturer undertook following a European acquisition. The executive team defined the beliefs and values that were to guide the refashioned European unit and aligned these to a new global operating model. A mix of executive interviews, proprietary surveys and workshops drove clarity and alignment. The executives

identified existing beliefs they felt would work in the new company, and the merger integration project team dug into details to make sure that mindsets about stretch targets and accountability were understood the same way in both companies.

The team explored areas of disagreement, working these out and achieving consensus for moving forward. The top team attended daylong workshops each month (in addition to work between meetings) in different countries in which the company operated. One important result of this work was a strongly aligned leadership team with deeper rela-

tionships across silos and shared experiences of working together effectively. Three years later, the European business unit continues to grow in a challenging market and to expand into global markets for increased profitability.

Growing skills

Even if they're aware of the skill challenges they're facing across most corporate functions and industries, many companies will find it difficult to get back on the path to growth in an improved economy. This is especially true for organizations that practically shut down the talent pipeline during the recession and likely won't be hiring in the near future.

An "academy" approach to learning is one highly effective way to get extended workforces up to speed faster, and to ensure a more consistent skill level across a particular functional workforce, while providing the flexibility to accommodate the needs of other workforces and individuals. An academy's curriculum generally is developed with the help of outside experts—leaders in the various fields covered by the academy's courses—and is designed to build competencies critical to the effectiveness and productivity of specific employees and their jobs.

International beverage and food company PepsiCo has used an academy approach to build consistent skills within its finance workforce in a more global operating environment. PepsiCo has been expanding into developing nations, including Russia, Brazil, China, Indonesia, Eastern Europe and the Middle East. Yet, as Richard Goodman—former chief financial officer, now executive vice president of global operations—looked across PepsiCo's finance organization, he saw a need to provide advanced learning opportunities to his finance professionals—both to meet growing functional demands globally and to respond to accelerat-

ing business growth in the company's developing markets.

Goodman and his senior finance leadership team developed a comprehensive roadmap to address this need. The result was PepsiCo Finance University—a way to reinvent how the company's finance talent around the world was trained, build a broader set of skills in its finance workforce and distribute those skills globally. In turn, this approach could improve retention and increase the impact of the finance function on business results.

Using an academy-based learning model was important for several reasons. Historically, enterprise learning for the finance function had emphasized division-specific, on-the-job experience and individualized coaching. Only about 10 percent of learning occurred as part of a common, formal curriculum. Now, however, the finance organization needed to get consistent training and information to all finance associates.

PepsiCo Finance University packages scalable, online offerings based on carefully defined curriculums and organized into "colleges" representing specific subject components of the overall finance curriculum. The university uses a blended learning model, employing innovative e-learning, self-paced courses and virtual learning experiences. The courses are enriched with PepsiCo business content, which is drawn from subject matter experts and thought leaders throughout the organization.

One of the most distinguishing features of the university is its focus on applying course learning to real business issues. Groups come together, in person or virtually, to talk about problems facing the business and they work to solve local business challenges. Hands-on practice and virtual learning labs

For further reading

"A team you can count on," *Outlook* 2011, No. 1

"The change-capable organization," *Outlook*, October 2010

"A workforce of one," *Outlook*, June 2010

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augment e-learning to reinforce knowledge and desired behaviors.

PepsiCo Finance University has had both quantitative and qualitative effects on the performance of Pepsi-Co's finance organization and the business as a whole. For example, in light of global economic conditions, the company recently increased its focus on overall cash flow across the company. So the university created a new course to disseminate more effective cash management practices throughout the company. Three months after completing the course, an analysis of skills development found that 60 percent of participants reported improved performance in cash flow management; 51 percent of participants' managers reported seeing this change in behavior as well; and nearly 50 percent of participants reported improving cash flow accuracy.

Creating a more strategic HR organization

One of the biggest disparities between leaders and laggards in our study was in the effectiveness of their HR organizations. Leaders' HR and training organizations are much more prepared to adapt to and manage change through periods of economic uncertainty. Eighty-seven percent of leaders, versus just 28 percent of laggards, rated their HR and training organizations as either well prepared or extremely so.

New success factors for HR have arisen in recent years. Managing talent across national borders is especially important, given the global nature of most large compa-

nies today; this includes enabling the businesses to operate consistently around the world, while also satisfying the legal requirements of individual nations. It's also essential to have better metrics, which now means more than simply monitoring administrative costs. To be industry leaders, HR executives now must understand and measure the value of human capital itself—the total costs and investments in people.

For example, one aerospace and defense company set out to design and staff a new business unit and wanted to ensure it could source the right kind of talent. Companies in this industry continue to struggle with finding adequate engineering talent, since the demand for engineering skills is growing even as the supply dwindles.

The company adopted a multi-phase approach called "smart sourcing." Workforce planning took place to create a competency framework—the 20 to 30 key skills that would be needed within the business unit's workforce. Research was then used to map where the supply of talent was likely to be within the country. Finally, a sourcing strategy and recruitment campaign was designed to meet both short- and long-term talent demands.

Through this work, the company was able to identify geographic pockets of talent and then drive targeted sourcing recommendations on a regional and national level. With a recruitment strategy closely tied to the talent sources, the company can increase its chances of drawing the skills it needs from the available talent pool.

The common theme crossing all dimensions of our research findings into high-performance workforces is the need to think more strategically about the related dimensions of workforce, leadership, culture, organization, training and HR. In some areas of the world, a great deal of attention is being paid to whether we will be mired in a "jobless" recovery. But few executives actually think that way. Those companies that plan to grow know that to execute that strategy, their workforces will need to grow as well. The questions are: When, and at what pace?

Among the most important characteristics of tomorrow's high-performance businesses will be their ability to optimize the value of their human capital, in part by eliminating workforce strategies and efforts that are not aligned with business value. They will achieve better productivity and better retention of top performers, as well as improved business results that include faster product innovation, higher sales and better customer service leading to increased market share.

However, as they also find untapped value with less redundancy and waste in workforce performance—and in managing that performance—organizations will be able to redirect those savings into new resources and capabilities focused explicitly on new business needs. That ability to reinvest will be one of the key ways that high performers will find the talent to grow.

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