

Workforce Agility: The New Frontier for Competitive Advantage

For most global companies, the last decade has been defined by the search for continuing and sustainable increases in productivity, profitability and competitive edge—the key to which resides with the workforce.

The enclosed white paper, *Workforce Agility: The New Frontier for Competitive Advantage* commissioned by Convergys identifies both best practices and areas for improvement for companies in managing and deploying their global workforce as an asset. The findings are based on research conducted by Saratoga/PricewaterhouseCoopers LLP and Dr. Richard W. Beatty, professor of Human Resource Management in the University of Michigan's Executive Education Center.

Methodology

To establish a benchmark on how well companies in both the U.S. and Europe manage and deploy their workforce in the quest for competitive advantage, Convergys embarked on a Workforce Agility Study and, after setting the overall research goals, commissioned Saratoga/Pricewaterhouse Coopers LLP and Dr. Beatty to conduct a two-part survey that included:

- In-person interviews with C-level and top HR executives at 13 companies that use best practices in the area of workforce management.
- Follow-up telephone interviews with top finance, HR and operations executives at some 300 large global companies.

The key findings, which are detailed in the enclosed white paper, include:

- Misalignment of business and workforce strategies is cited as a major obstacle to revenue improvement.
- Even best practice companies estimate they are overspending by 10% and under performing by 10% as a result of not having a fully utilized workforce.
- Only 16% rate their company as being agile enough to reallocate human resources based on strategic need.
- U.S. firms are not proficient at training and developing their top talent according to over half of all U.S. study participants.
- Only 27% of companies in the U.S. say they have a human resources controller.
- 67% of executives think workforce data to identify skilled individuals across the enterprise is important.
- 63% of companies' HR technology does not provide centralized data for decision making.

Despite these frustrations, however, the study indicates that most respondents are:

- Committed to working to align workforce strategy and business strategy.
- Showing increasing interest in attracting, developing and retaining their most valuable and strategic workers.
- Confident that HR has the skills and business understanding to deliver on corporate strategy.
- Outsourcing their administrative HR functions and directing their HR professionals to focus on more strategic tasks. In fact, the study shows that high growth companies consistently outsource HR functions that are administrative in nature.

Gaining a Competitive Edge

To overcome challenges identified by the study, companies need to take a number of steps toward better, more informed and more agile workforce management. These include:

- Managing the workforce as a portfolio.
- Thinking in terms of the “three A’s”: alignment, accountability and agility.
- Using business intelligence as a decision support tool.
- Thinking in terms of the workforce life cycle.
- Filling positions as roles, not jobs.
- Focusing on learning—throughout the life cycle.
- Depending on outsourcers for focus and economies of scale.

Best practice companies understand the relationship between competitive advantage and effective workforce portfolio management. They also indicated that they realize that the revenue implications of not taking these sorts of actions are too enormous to ignore.

In most respects, executives at the companies interviewed for the study echoed the concerns and the goals expressed by the best practice companies.

For both groups, possessing actionable business intelligence in the areas identified by the study would provide a sustainable competitive edge.

COMMISSIONED BY:

CONVERGYS
Outthinking Outdoing

Workforce Agility: The New Frontier for Competitive Advantage

CONDUCTED BY:

*Saratoga*TM

Michigan Business School

Dr. Richard W. Beatty

Professor of Human Resource Management,
Executive Education Center, University of Michigan

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Executive Summary

Consider the following findings:

- Best practice companies now estimate that workforce management problems are causing them to under perform by as much as 10% and overspend by as much as 10%.
- 84% of large global companies say they are not using their workforce to its full potential.
- 63% of these companies believe that their HR technology does not provide centralized data for decision making.
- Some 50% of HR executives in the U.S. say their HR data is not in a form that is usable for decision making.
- Only 16% of top executives believe their companies are flexible enough to reallocate workers based on strategic need.
- 66% of executives say their companies are not proficient at allowing employees to focus on multiple roles, skills and competencies.

On the surface these data, drawn from a survey commissioned by Convergys, would seem to pose a set of difficult, if not unmanageable challenges for some of the world's largest corporations at a point when global competition has become more heated than ever before.

But then, there are these findings, drawn from the same survey:

- Most executives at best practice companies interviewed for the survey indicated a growing commitment to and progress in aligning workforce strategy with business strategy.
- More than three-quarters of companies are showing a large interest (if not yet an equal proficiency) in attracting, developing and retaining their most valuable and strategic workers—and finding ways to move out those in their workforce who are not performing or whose tasks are deemed non-strategic to the company.
- Most respondents said that while HR may be missing critical tools and resources, they are confident that HR has the skills and business understanding to deliver on corporate strategy.

- Best practice companies report that they are increasingly moving their HR professionals into strategic positions and charging them with developing workforce capabilities rather than administrative tasks.
- A majority of high-growth companies in the U.S. say they are already outsourcing their administrative HR functions—and executives from best practice companies say that's just the beginning.

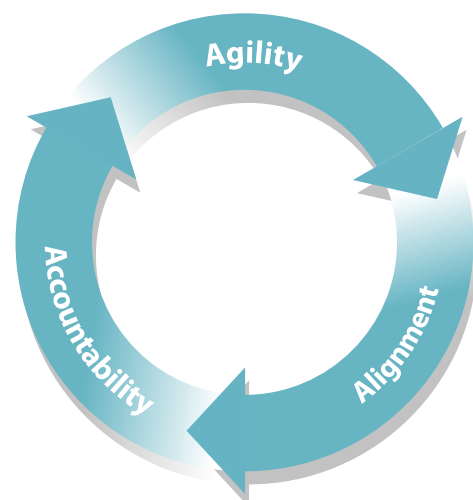
Rather than indicating a problem, the data from this survey appear instead to reflect an opportunity—a chance for companies to move into a new frontier of competitive advantage. By *aligning* their workforce strategies and corporate strategies; by ensuring *accountability* for this alignment (and the results it will bring); and by creating an *agile* corporate environment where skills are valued over jobs, where cross-sector collaboration is encouraged, where not all functions and processes need to be “owned,” and where data becomes business intelligence that can drive decision making, companies can follow best practice organizations and meet the challenges of the new global economy (see Exhibit 1).

The question, of course, is how to bring this new way of thinking about the workforce—an orientation that could be called “portfolio management”—into companies that are traditionally rigid, out of alignment and less than accountable. The survey results, detailed below, offer some clear guidelines.

Exhibit 1

THE THREE “A’S” OF WORKFORCE MANAGEMENT

The integration of alignment, accountability and agility provide for continuous reinforcement of each attribute.



Methodology

With a growing understanding that the role—and potential—of the workforce in achieving the goals set by business strategists is changing in corporations around the world and in order to develop a more comprehensive view of the extent and implications of that change, Convergys embarked on a Workforce Agility Study in early 2004. To help develop the study, conduct the interviews and analyze the data, Convergys joined forces with a team of experts who have vast experience in both the theory and practice of workforce management as well as with survey research. This team included:

- Saratoga/Pricewaterhouse Coopers LLP, a world leader in the field of HR metrics and analysis, which operates under the premise that intelligent measurement is fundamental to performance improvement. Saratoga has focused, in particular, on the strategic application of human capital information.
- Richard W. Beatty, professor of Human Resource Management at Rutgers University and a Core Faculty member at the University of Michigan's Executive Education Center. Dr. Beatty, whose work on such topics as performance appraisal, selection and HR planning has appeared in a wide-range of HR management, business and organizational psychology journals, is the co-author of *The Workforce Scorecard: Managing Human Capital to Execute Strategy*.

The study was developed to assess the degree to which companies are currently developing strategies that will allow them to achieve competitive advantage by:

- becoming agile with regard to their workforces—that is, gaining the ability to flex, leverage and quickly apply the diverse and far-flung strategic capabilities their current workforce possesses;
- aligning their workforce strategies to their broader global business objectives;
- developing and assigning accountability for the investment they've made in and business impact that results from the deployment of their workforces;
- integrating the resultant *alignment, accountability* and *agility* in a way that provides for continuous renewal of each attribute.

A two-step research process, begun in early 2004, included:

- in-person interviews with C-level and top human resource executives at 13 companies in the United States and Europe to determine best practices in workforce agility and alignment;
- a broad-based telephone survey of large, global companies in the United States and Europe to determine the degree to which other companies had adopted best practices.

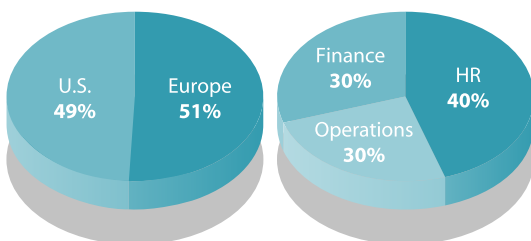
Best practice companies were identified through an assessment of their reputation for attention to and use of human capital as well as their overall financial performance. Each of the 30 prospective best practice companies initially selected are industry leaders in terms of such critical financial measures as pre-tax margins, return on equity, valuation, 36-month income, earnings per share and revenue growth. To get a broad cross section of viewpoints, the team surveyed a wide range of industries, including aerospace, consumer products, entertainment/media, financial services, high-tech, pharmaceuticals and retail. Ninety percent of the companies interviewed are among the *Fortune* Global Most Admired for 2004.

The telephone interviews were conducted with executives at some 300 companies, each of which has in excess of \$1 billion in annual revenue and most of which have more than 13,000 employees worldwide. Each of the executives questioned has responsibility for setting or executing workforce strategy, most frequently at the VP level or higher, and covering HR (40% of the total), operations (30%) and finance (30%) (see Exhibit 2).

Exhibit 2

RESPONDENTS: WHO AND WHERE THEY WERE

Telephone interviews were conducted with HR, finance and operations executives at some 300 companies around the world.



The Impact: Why You Should Care and What You Could Gain

Changes in the structure of corporations, in the use of technology and in global market demands have increasingly led companies to suspect that a better, more knowledgeable, more data-driven and more flexible approach to workforce management might hold the key to productivity, savings, growth and competitive advantage. The findings of Convergys' Workforce Agility Study not only confirm those suspicions but also:

- put a value to the savings as well as the performance and productivity improvements that a new approach to workforce management can bring;
- detail the ways in which companies—following the lead of best practice organizations—can adopt this new approach;
- indicate the barriers that companies have faced in achieving greater agility in workforce management—and the steps that companies are starting to take to break down those barriers.

A look at the impact of these findings provides insight that is critical not only to corporate success but to corporate survival. The short-term effect of implementing changes in how the workforce is both viewed and managed can clearly be powerful; the long-term effect appears to be transformational.

An Opportunity for Savings—and Growth

Best practice companies that participated in the study, in particular, say they realize the price they have been paying for rigidity, strategic misalignment and a lack of true accountability in their approach to workforce management. Fully three-quarters of those executives interviewed agreed that they were:

Overspending—for example: rigid organizational structures are saddling them with too many employees; their stratified compensation structures are forcing them to underpay some employees while overpaying others; excessive layers of management are keeping an outdated organizational structure in place; given changing demands, too many of their employees are currently performing wrong or inappropriate tasks.

Under performing—for example: inappropriate or unchallenging assignments are not engaging employees who are then less productive than they might be; without a well-defined set of corporate values, managers are using their own judgment to make decisions; a rigid structure is keeping

the organization from finding ways to address new business opportunities.

How does that tendency to overspend and under perform affect profitability? Executives at best practice companies estimated that, on average, a fully utilized, aligned workforce could allow them to reduce their workforce costs by at least 10% and improve workforce performance by at least another 10%. For, say, a company with \$10 billion in annual revenue, the impact of that improvement in both cost and revenue is enormous—roughly \$1.25 billion a year. But even smaller companies could clearly benefit dramatically.

While it's true that companies have long suggested that their inability to manage their workforces in enough of an agile fashion has forced them to waste resources and leave profits on the proverbial table, what's striking in this research is a readiness among respondents—especially at the best practice companies—to take the action that will reverse that situation. "We're trying to get leaders and the workforce on board to deliver the strategy," noted one executive. However, another added, "The pace of change isn't as rapid as one might think."

Portfolio Management: A New Way to View the Workforce

How do respondents see themselves evolving toward better and more agile workforce management? Most of their answers suggest a view of the workforce as an asset to be optimized, in much the same way any asset—money, real estate, intellectual property—is optimized, through an approach analogous to portfolio management.

Exhibit 3

ALIGNING SPENDING AND PERFORMANCE

Best practice companies consistently agreed that their companies were both overspending and under performing through their approach to workforce management.

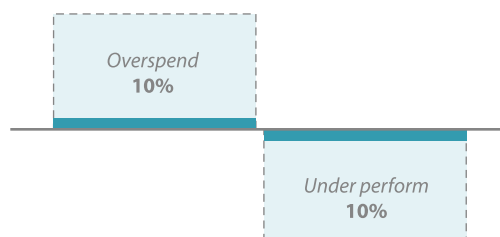
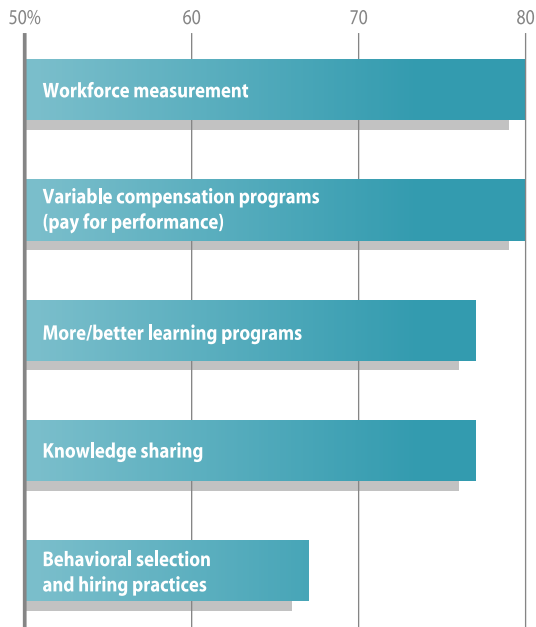


Exhibit 4

FOCUS ON THE INDIVIDUAL

Demonstrating a traditional broad view of workforce management, respondents said they had used the following tools—each focused chiefly on individuals—to help drive revenue improvement.



This type of approach is certainly not untested in other parts of the corporation. Treasury departments, for example, recognize that overall, long-term returns improve when asset allocation strategies are added to picking the best individual investments. Purchasing departments recognize that a broader view of supplier relationships will deliver stronger results for the company than simply driving the lowest price on every deal. Years ago, sales and marketing departments began to analyze customer profitability models rather than driving the revenue volume of an individual sale.

Our research shows that historically, most corporations have not taken—and are not yet actually taking—this broad view of the workforce. Improvements in workforce management have been focused chiefly on individuals (see Exhibit 4)—adjusting compensation, developing better hiring strategies, improving the development of competency through training and moving resources from high labor cost markets to low labor cost markets. However, without a clear commitment to ensuring that the workforce delivers on the corporate business strategy—a strategy that is constantly being reshaped by forces outside corporations’ control (see Exhibit 5)—most companies retain a heavy emphasis on what investment advisors might call “stock picking,” rather than a focus on portfolio management.

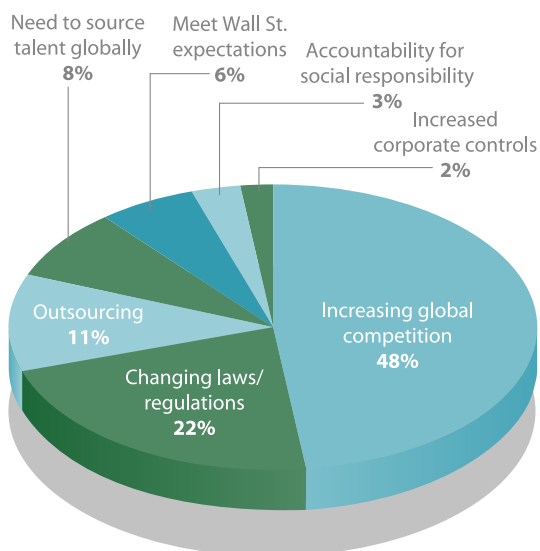
Managing the workforce as a portfolio would require:

- maintaining a workforce that is agile enough to adapt to new opportunities—and a company that is agile enough to allow those employees to adapt to new opportunities;
- developing a corporate structure in which workforce strategy matches and fulfills corporate strategy;
- applying workforce resources across the enterprise rather than building up reserves;
- making sure the right people are assigned to the right projects, regardless of title, compensation or reporting structure;
- recognizing that the workforce must be sustainable for tomorrow, next year and even the next decade.

Exhibit 5

DRIVING A CHANGE IN STRATEGY

Respondents saw the following opportunities or threats—outside of their control—as being most likely to cause them to reshape their business strategy.



Barriers: Forces Within Your Control

Despite what appears to be a growing realization among HR, operations and finance executives that optimizing human capital is increasingly critical, it remains an unexplored frontier. Though executives who responded to the telephone survey said they felt they are making many of the right moves in this direction through the employee-oriented programs they have been instituting as well as a raft of performance metrics they have used, the truth is that there are as yet no established standards for what to measure, for how to measure or for how to define what is measured. Though data exists, it is for the most part contained in several different types of non-integrated systems, including HRMS, payroll and financial/GL. And, in fact, within a given company, there are likely to be multiple versions of each system. It is also true that most HR practitioners have little experience or education in accounting or analytics and do not receive this training as a standard part of their continuing education.

In looking at what is keeping them from moving more directly into the new frontier that workforce portfolio management represents, executives generally identified a number of key impediments. These include:

- a workforce that is structured around jobs and tasks, not skills and competencies;
- the unavailability of centralized workforce data;
- an HR department that is lacking the necessary data and tools;
- an increasing need to keep up with constantly changing laws and regulations.

On the other hand, few respondents appeared to see these barriers as impenetrable. With the vast majority of respondents indicating that they understand that it is critical to tie the workforce to business outcomes, that they need to diversify their talent base and plan adequately for succession, and that their approach to workforce agility, or for utilizing an “on-demand” workforce, affects their ability to deliver their business strategy, it is clear that they have accepted a mandate for change and are striving—with various degrees of success and at various speeds—in that direction. Given that few respondents (less than 20%) felt their corporate culture was standing firmly in the path of change (see Exhibit 7), it appears that they are primed to manage their workforce as a portfolio. All they need in order to explore this new frontier is a more detailed and readable road map.

Exhibit 6

DELIVERING BUSINESS STRATEGY

Executives cited the following as key ways to ensure that workforce and business strategies are aligned:

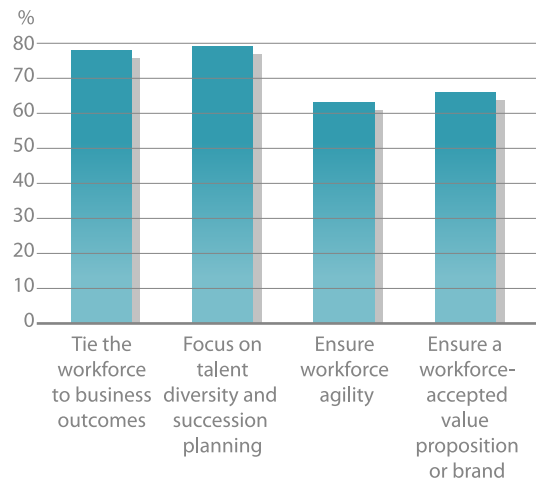
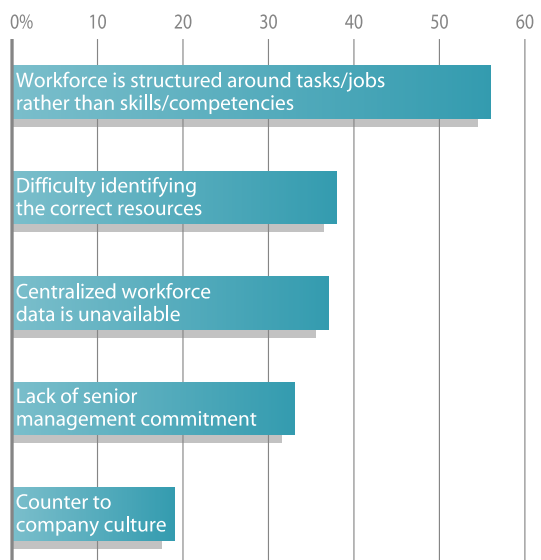


Exhibit 7

CULTURE WAS NOT A BARRIER

Corporate culture was a minor impediment, compared to other barriers that respondents said were keeping them from differentiating and optimizing their strategic “A” talent.



Best Practice Companies: What Leaders Know

As we've seen, executives at best practice companies have cogently identified the ways in which better, more agile, more aligned and more accountable workforce management could help them stop overspending and under performing. What's also clear in their responses is that they believe that their organizations have not been nearly proficient enough, as yet, in their efforts to improve the ways in which they manage their workforces. While the executives who responded to the more broad-based telephone survey seemed generally satisfied with the progress they've made in aligning their workforces to corporate strategy and devising systems to ensure accountability, respondents at best practice companies indicated that they felt they still had a long way to go—and that they weren't moving fast enough.

Breaking Down Rigidity in the Organization: Moving Toward Agility

An organization with too much structure can, by definition, restrict the flow of resources. On the other hand, an organization without enough structure often creates too many places in which unproductive resources can hide. What best practice companies say they are looking for is something in between, or as one executive put it, "synergy." They are already, as another added, "employing cross-sector collaboration in order to complete projects." And, most importantly, perhaps, they are looking for data that will provide them with accurate, comprehensive, meaningful business intelligence with which to make informed business decisions; they are looking for aligned strategies to make sure the business decisions they make are in the best interests of the overall organization; and they are looking for the sort of agility that will allow them to respond quickly to changing global business conditions.

That is not to say that all of the best practice companies have achieved the level of agility they seem to be striving for. As one executive put it, summing up a complaint several others expressed, "We have too many people and are not developing the right talent. Our silos make us very inefficient in our workforce allocation." But others did feel they were making progress. "We used to be focused on relationships, not results," noted one executive. "But now we're doing a much better job of assessing both work and workforce for better fits. Our stretch assignment efforts are paying off. And we're really working on creating individual accountability."

Getting Aligned

The best practice companies we spoke to said they believe that alignment is largely an issue of leadership and common values. Most of these companies said they focus many of their internal communications efforts on the top executives within the company in order to ensure that a common belief process and decision-making process is being followed. As one executive described it, "In order to execute our strategy, we have many people involved in the strategy process. We are developing better leaders and we are getting better at each of the strategic capabilities. As a result, we are able to identify the talent we need in each area in order to differentiate our business."

In addition, understanding that financial controls alone won't ensure alignment, best practice executives responded that an additional focus on values and decision making is needed to supplement traditional controls. And this spills over into accountability. Several executives echoed the comment of one respondent who explained, "We have a new performance management system to build greater accountability."

If different parts of the company are using different standards to make decisions, these respondents realized, it's likely that they will be working at cross purposes. By ensuring that companies are making decisions in a common fashion and according to a common set of standards, they said they believe they can achieve alignment not just now but also in the future.

Alignment needs to extend from customers to the workforce, some best practice respondents noted. Whether it is a pharmaceutical company developing a culture of innovation so that the right drugs are in the pipeline, a restaurant chain driving employee satisfaction to improve customer satisfaction or an aerospace company dissolving the limits of traditional structural units so that aircraft engineers work directly with aircraft carrier engineers, it is clear, in our research, that best practice companies are taking workforce issues into account as part of their overall business strategy.

Focusing on "A" Work—and "A" Players

A model that leverages work which was created by the University of Michigan School of Business categorizes the type of work that companies do into three groups, "A," or strategic, work; "B," or tactical, work; and "C," or non-strategic, work. Exhibit 8 shows the relative return that these job categories provide for the typical corporation. The unit value of "C" work is low, while "B" and "A" work provide progressively more value. At a certain point, however, as jobs move from strategic to theoretical, the value of these jobs to the company begins to diminish.

Best practice companies indicated that the quest for competitive advantage is driving them to take a hard line in regard to both optimizing their most strategic or “A” talent and deciding what work should be performed in-house. Their assessment was clearly not necessarily correlated to pay or seniority, but rather to corporate strategy, core competency and added value. When asked what they are currently doing to ensure workforce optimization, executives at these companies said they are:

- moving supply chain management back to the business units;
- building explicit competency growth models for strategic talent;
- reviewing succession and strategic capability needs annually;
- outsourcing or exiting “C” work and “C” players.

When it comes to “C” work, companies could find that the cost of the work tends to outweigh the value provided. In some “B” work, value exceeds its cost. “A” work, however, though it is generally more expensive on a per unit basis than “B” or “C” work, provides the most value for the company. As work moves from strategic to theoretical, the value again does not exceed costs. By continuously conducting this analysis, companies are able to ensure that they have the right resources to meet strategic requirements.

Achieving Objectives

Executives at best practice companies responded that they believe more agile workforce management will allow them to:

- achieve outcomes through innovation—creating the products and services necessary for success in the marketplace, all the while adapting to changing market and global conditions;
- enhance strategic capabilities—by bringing the right skills to bear on a project-by-project basis and by attracting, developing, retaining and deploying employees with these skills, regardless of location;
- reduce structural workforce expenses—on both a fixed and contingent basis, for both permanent and contract workers, thereby enabling an agile application of resources to projects.

Exhibit 8

RETURN ON HUMAN INVESTMENT

While the unit value of “C” work is low, “B” and “A” work provide progressively more value—up to a point.

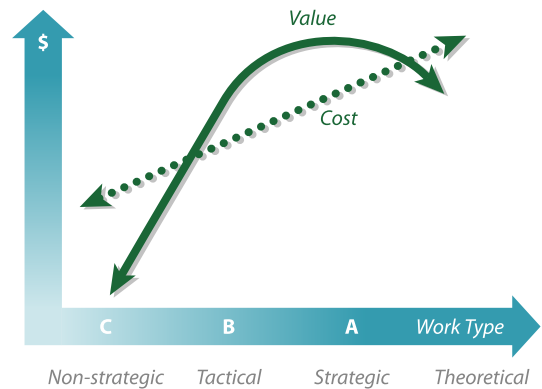


Exhibit 9

BEST PRACTICES

Respondents at best practice companies said their organizations:

- Need to do more and move faster to align workforces with business strategy and to ensure accountability.
- Are looking for meaningful business intelligence with which to make informed business decisions.
- Are finding better fits between work and workforces.
- Are communicating with top executives to ensure that a common decision-making process is being followed.
- Are establishing new performance management systems to build accountability.
- Are optimizing their most strategic or “A” talent.
- Are determining what work needs to be done in-house and what work is not tied to corporate strategy, core competency or added value.

Exhibit 10

IMPROVING STRATEGIC ALIGNMENT

Nearly two-thirds of respondents said their workforce is more closely aligned with business strategy than it was three years ago.

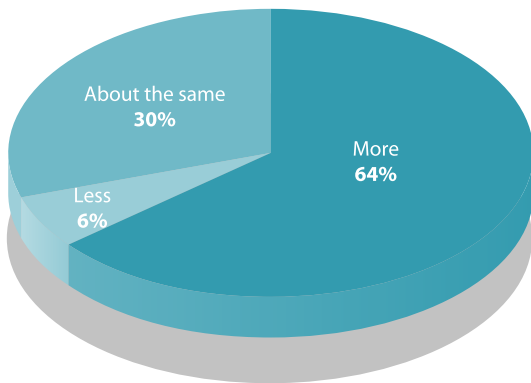
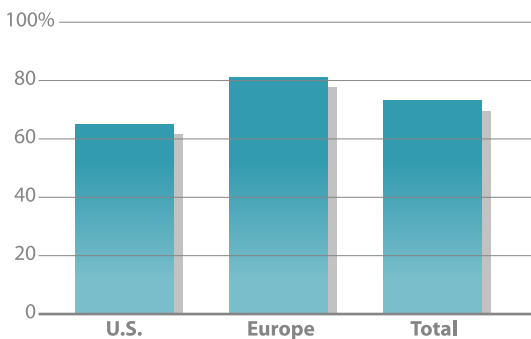


Exhibit 11

THE IMPORTANCE OF A STRONG INTERNAL BRAND

Percentage of executives who said having a strong internal brand is important or very important.



What Top Executives Know They Need to Do

Although executives surveyed by telephone—both in the U.S. and in Europe—appear generally more sanguine about the current state of strategic alignment in their organizations than do their counterparts at the best practice companies, they were very clear about just how important that alignment is; in fact, 78% agreed that tying the workforce to business outcomes has an impact on how well the company is able to deliver on strategy. Moreover, nearly two-thirds indicated that they believe their companies have improved their performance in this area over the last three years (see Exhibit 10). At the same time, however, a high percentage of respondents at these companies said they still view their companies as relatively rigid in terms of their overall approach to workforce management: while 45% of executives said they'd rate their companies as rigid, only 16% said their companies are flexible.

Identifying—and Adhering to—a Common Brand

The ability to instill a common set of values and a workforce-accepted value proposition or brand is critical if a company is to align its internal culture to the external brand that the company's customers see—and buy. But this ability also has a direct relationship to the overall alignment and thereby the agility of an organization. This is especially important in an era in which the extent to which companies are relying on transient employees is growing, since "free agent" type workers are less likely than long-term employees who have moved up through the ranks to absorb a corporate brand—and the decisions that are consistent with that brand—through osmosis. It is increasingly clear that a company that prioritizes its response in a similar fashion across the organization will also make consistent decisions across the organization. And consistent decision making will reduce the chance that the organization will work against itself.

Executives responding to the telephone survey were tremendously supportive of efforts to develop, improve and enforce a common brand. Nearly three-quarters of all telephone survey respondents (and 81% of European respondents), said that having a strong internal brand is important or very important for their company (see Exhibit 11). Similarly, when asked to rank the importance of improving a corporate brand on a scale of 1 to 5, with 1 being not important and 5 being very important, the average response was above 3.9. This response was even higher in Europe, where it topped 4.

Executives in our best practices group echoed their colleagues' commitment to a unified brand. But, as was the case in most areas, they are taking that commitment a step further by adopting a leadership-focused effort—rather than a broad-based effort—to drive the internal brand. Many of these companies reported that they have established initiatives focused on improving brand understanding and adherence with their companies' top 50 to 200 managers, especially as it relates to the specific culture of the company. These executives said they believe that, if they are to engage the workforce, leadership needs to be properly in place, propagating and practicing corporate values. It is clear from their responses that much as companies long ago found the need to invest in the external brand, they are now finding it necessary to invest in the internal brand.

Developing Workforce Decision Support Tools

Despite their evident commitment to alignment and their understanding of the opportunities a more agile approach to workforce management might unleash, executives at responding companies said they believe that, in many cases, they don't have the tools that will allow them to be successful in this endeavor. While companies have data, and lots of it, they do not feel that they can turn this data into information that will help them when it comes to making decisions. It's clear that they see this as a tremendous handicap.

On the other hand, respondents on both continents have been quick to take advantage—annually, in fact—of nearly every workforce measurement and metric available (see Exhibit 12). More than 80% of companies say they assess workforce expense, separations, productivity and development at least annually. More than 60% annually assess leadership, bench strength, engagement and overall talent.

But having the data isn't the same thing as being able to act upon it. Companies say they are struggling with data that isn't credible, consistent or integrated—and admit that their companies haven't yet developed enough proficiency with using the data they have effectively (see Exhibit 13). For example, when telephone respondents were asked to rank how proficient they are at obtaining and using HR technology that provides centralized data for decision making on a scale of 1 to 5, with 1 being not proficient and 5 being very proficient, the average response was a middling 3. More critically, 63%—nearly two-thirds—of responding companies said that their HR technology simply does not provide them with the centralized data they need—a striking statistic given the billions of dollars that companies have, to date, poured into developing, evolving and running HRIS systems.

Exhibit 12

ISSUES ASSESSED ANNUALLY THROUGH PERFORMANCE METRICS

Most respondents said they were already taking advantage of a host of performance metrics annually.

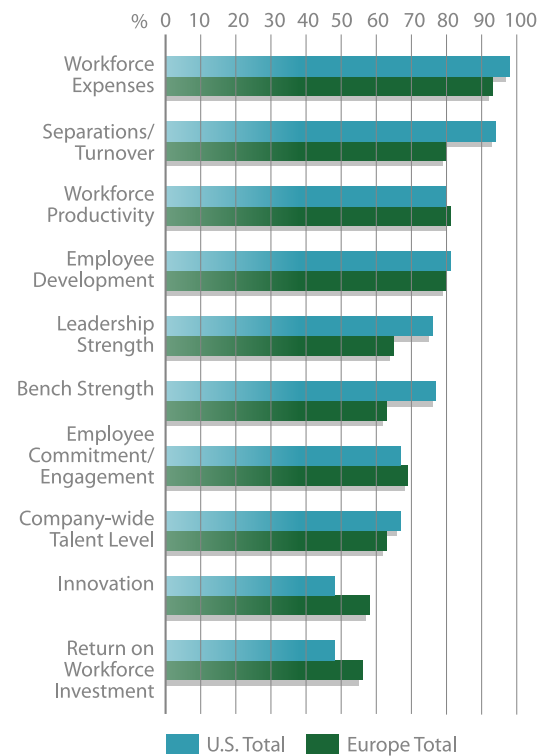


Exhibit 13

CENTRALIZED DATA: THE GAP BETWEEN IMPORTANCE AND PROFICIENCY

While respondents said that centralized data was critical in decision making, few felt that their companies were proficient in providing this data.

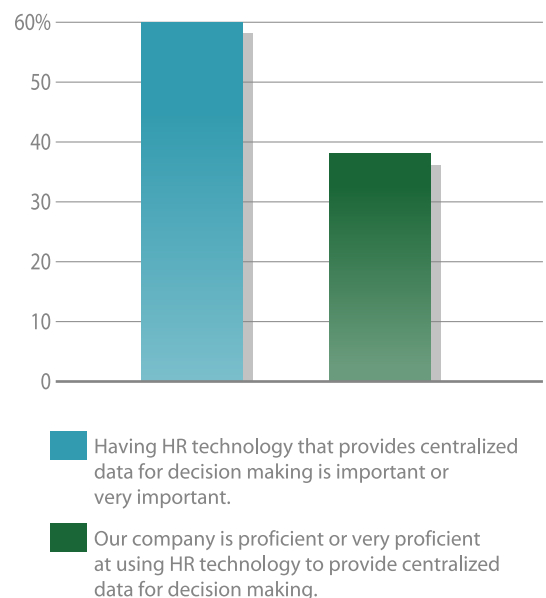
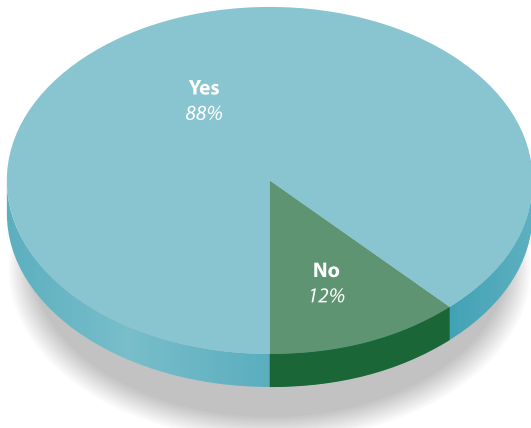


Exhibit 14

CAN YOU CLEARLY IDENTIFY YOUR COMPANY'S "A" PLAYERS?

Most respondents said they know where their "A" players are.



The impact of not having actionable data, of course, cuts into a company's efforts to be agile as well as its ability to keep strategies in alignment. In order for information to be consolidated and compared, companies need common workforce data. And in order to make coherent, well-informed decisions about the workforce, companies clearly need an analytics platform, the cornerstone of which is an integrated data architecture.

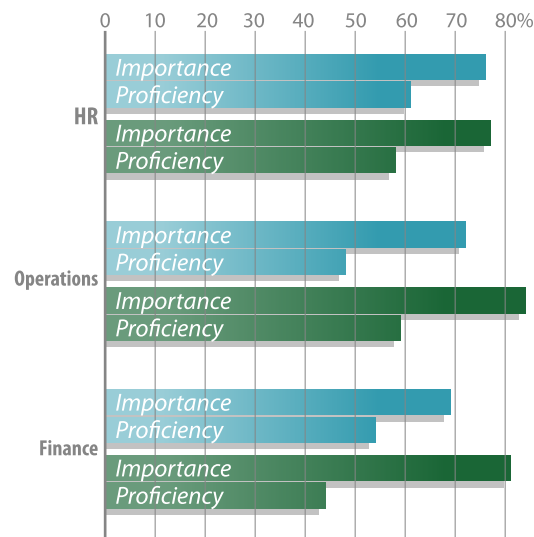
Finding—and Nurturing—the "A" Players

While our findings suggest that companies have no problem identifying the highest performing employees in the organization (see Exhibit 14), their struggle is with figuring out what to do once they've identified these "A" players. Respondents at best practice companies complain that they can't use the information they have to differentiate their relationships with top performers. They have difficulty differentiating pay, development, assignments and retention for their best employees and they admit that the rigidity of their organizations is, in part, responsible. This difficulty using data translates into difficulty with what is arguably the most important reason for identifying "A" players: retaining them. In that effort, executives contacted through the telephone survey—regardless of whether they work in HR, operations or finance—express a tremendous gap between aspirations and reality, saying that while retaining and training top players is critical to corporate success, their companies are not nearly as proficient as they might be at making sure that happens (see Exhibit 15).

Exhibit 15

"A" PLAYERS: THE GAP BETWEEN IMPORTANCE AND PROFICIENCY AT RETENTION AND TRAINING

While most respondents said they place great value on training and retaining "A" players, their performance in that regard lags far behind.



- Increased focus on retention for "A" players.
- Providing increased training and development for "A" players.

Thinking About Roles, Not Jobs—and the Search For the "On-Demand" Worker

Allied with the lack of proficiency surveyed executives said they have in acquiring and then using data specific to their most skilled employees—the "A" workers—and key to the inability these respondents noted with loosening the rigid structure of the companies in which they work is the tendency to think in terms of jobs or tasks rather than skills and competencies. For example, when asked why they can't optimize their "A" players, the issue that immediately drew consensus among telephone survey respondents—regardless of continent and regardless of departmental affiliation—was that the "workforce is structured around tasks/jobs rather than skills/competencies."

Similarly, in their quest for agility in their organizations, more than half of the executives questioned by telephone said they believe that having an "on-demand" workforce can have a major impact on how well the company can deliver its unique business strategy. As projects evolve and new

skills are required, they say, they would like to deploy people in the same flexible manner in which they are able to deploy process inputs or financial resources.

The problem, however, is that most corporations have built their workforce constructs around the job. If the “job” is viewed as a rigid brick, with a defined set of responsibilities, tasks, spending authority, ownership/reporting, compensation and growth, the structure appears easy to manage, control and compensate. On the other hand, it is not very agile. The impact of this rigidity is easy to see in the staffing process—where a company hires through the zenith of its business cycle and lays off through the nadir. Imagine the difference if they could instead simply redeploy the resources they have throughout the company on an as-needed basis.

This rigidity is also on display as projects are staffed—and respondents were quick to point out that rigidity. In fact, 84% of executives said that when it came to reallocating people to projects across teams or lines of business, their companies demonstrate average or higher levels of rigidity, and only 16% said their companies are flexible (see Exhibit 16). In the typical organization, such as those represented by the surveyed executives, roles are staffed solely from within a single unit, rather than spanning multiple business units. The communication, information and compensation infrastructure is simply unable to support these types of teams. Clearly this limits both project scope and performance.

Thinking About What the HR Department Does

While executives at best practice companies said they are concerned that the existing HR department might not be able to meet the demands required to deliver such a workforce, executives responding to the telephone survey had a different perspective. They said they believe HR has the skills and business understanding to deliver, but is missing the necessary tools and resources to be successful.

Both groups, however, indicated that they recognize the need for HR to be refocused on more strategic issues and have taken steps to enable that refocusing. Some companies, for example, said they have begun to build a “decision support” group that is responsible for tracking and optimizing human capital performance as part of their HR practice. Key to one best practice company’s attempt at moving toward greater workforce agility is a new performance accountability system which, the executive explained, HR has been put in charge of designing and implementing. At another company, the responding executive noted, “Our HR employees are referred to as ‘capability builders,’ which means they have to focus specifically on workforce capability issues. They are not allowed to process employee transactions.”

Exhibit 16

THE AGILE WORKFORCE

Describe the ability of your company to reallocate people to projects in different lines of business or across business teams (scale of 5 with 1 being very flexible and 5 being very rigid).

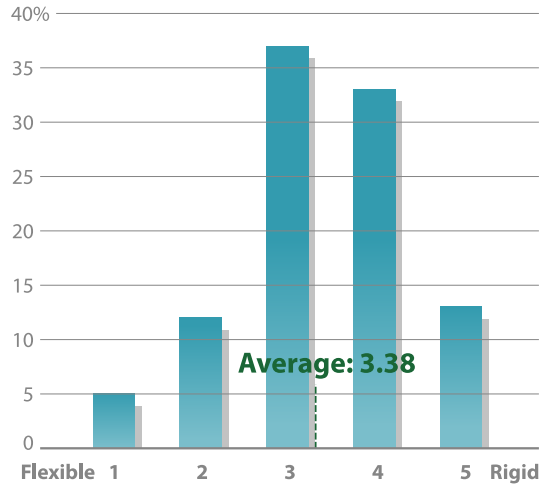
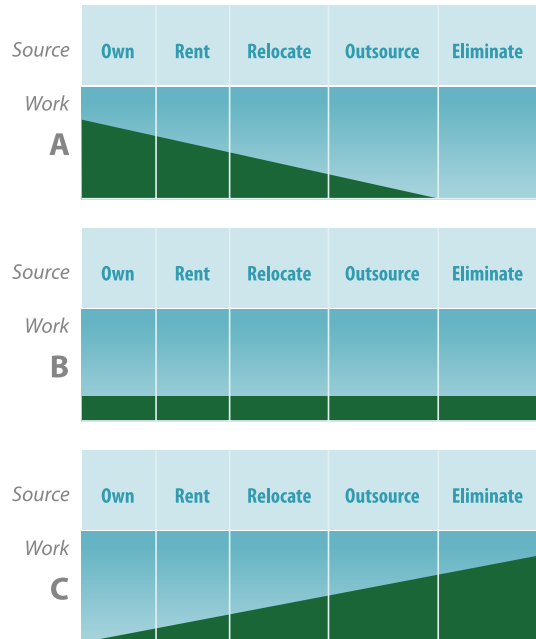


Exhibit 17

WHERE THE WORK IS HOUSED

As companies meet the demands of agility, they will more carefully determine what types of work they need to “own.”



Thinking About Outsourcing

The desire to refocus the HR function is echoed in the amount of outsourcing that companies describe, with more than 40% of telephone survey respondents saying they already outsource benefits administration, learning, payroll and relocation. Almost as many outsource recruiting and hiring; this percentage is even higher among companies that consider themselves “high growth.” Clearly companies are demonstrating the need to shed a number of the largely tactical tasks traditionally owned by the HR department. This is particularly true of best practice companies, where executives report, as one put it, “We’re increasing our use of outsourcing and looking for much more flexible work arrangements throughout the organization.” The reason? As another executive explained, “The only things we really need to own are our brands and our tremendous consumer insight capability.”

How to Manage the Workforce Portfolio: Capitalizing on the New Agility

While workforce agility may be the new frontier for companies to conquer in their quest for competitive advantage, there are clearly—based on the findings of the Workforce Agility survey—many companies ready, willing and even able to advance quickly into this new territory. For those who are—or would like to be—the study points to several key action plans such companies could adopt—or at least consider. Among them:

Coordinate the Three “A’s”

The linchpins of better, more coordinated, data-driven, portfolio-management-based workforce management are alignment, accountability and agility. According to this study’s findings:

- *Alignment* requires that the work being performed fully supports the business strategy. This means that there is a common understanding of corporate strategy throughout the organization and that the right types of activities are being performed by individuals who possess the right mix of skills and capabilities.
- *Accountability* requires that someone be responsible for the output and business impact of the workforce. This means that the workforce must be measured, that opportunities for improvement must be defined by more than just standard

financial expectations and that someone makes sure the workforce hits its goals—which are, of course, based on the overall corporate strategy.

- *Agility* requires the ability to make sure the right people are working on the right projects. When individuals are not encumbered by the organizational structure as projects are sourced, the organization will be able to develop a relationship with them that is commensurate with the value that the individual provides.

All three A’s reinforce and even build upon each other, and each of them is a critical component of the portfolio management approach to optimizing the workforce as a critical—if not *the* critical—corporate asset. However, while a workforce can be aligned and someone can be accountable for workforce results without the workforce—and the company—actually being agile, a workforce cannot be agile unless it is aligned with the business strategy and unless there is someone accountable for the workers’ performance.

Evaluate Work and the Workers Who Do It

As they seek to balance alignment, accountability and agility, companies also need to continue the process of defining which work needs to be done by the company itself and which work can be done better, cheaper and faster somewhere else. Ultimately, companies have five different choices for sourcing tasks. It can own the talent as full-time or part-time employees. It can rent the talent by hiring contractors, contingent and temporary labor, or consultants. It can relocate tasks so that they are conducted in a more cost-effective location, though they are still technically owned or rented by the company itself. It can outsource the process to another firm, thereby contracting for results, rather than hours. Or finally, it can eliminate the task altogether.

Given constant changes in technology and global shifts in talent pools, the need to reevaluate how work gets done and how it is sourced is becoming increasingly critical for companies looking to compete—and even to survive.

Based on the concerns that survey respondents voiced about focusing their efforts on both “A” work and “A” workers and given their increased proclivity to not only redeploy workers within the existing workforce but to outsource work viewed as non-strategic and even tactical, it appears increasingly likely that the agile company of the future will find itself moving in the direction indicated by Exhibit 17:

- *“A” Work:* Most “A” work will be owned by the company or, if the skills are too hard to maintain, leverage or sustain, rented. Smaller portions of “A”

work may be relocated or outsourced as part of larger outsourcing deals. By definition “A” work won’t be eliminated.

- “B” Work will be spread more evenly across all of these options, and some of it will be eliminated.
- “C” Work will largely move outside of the organization. By owning too much “C” work, companies stockpile resources that do not help meet corporate goals. This “bloating” of the enterprise reduces agility.

Consider Appointing a CWO

Most of the companies responding to the Workforce Agility Study indicated substantial and increasing faith in their HR organizations. They feel the HR departments have the right set of skills and the right understanding of corporate strategy to move their companies in the direction of workforce agility. What they are lacking are the data and the tools.

Further demonstrating their interest in making the HR department accountable for ensuring that the increasingly agile workforce is working in a manner that is aligned with corporate strategy, many respondents indicated that they have already taken steps to give their HR professionals time to focus on higher-level, strategic endeavors. Among these steps is the outsourcing of processes that, from an HR perspective, could be considered “C” and even “B” level work.

Given the extent to which HR professionals are becoming “A” players, and given the accountability with which they are increasingly being entrusted by the CEO, the board and even the shareholders, it may be time to consider an addition to the C-suite: the Chief Workforce Officer. By taking the current role of the CPO or the senior HR person into a more top-level and strategic dimension, the CWO would be charged with:

- identifying the strategic capabilities of the workforce;
- providing measurement systems not only to assess the workforce in terms of traditional metrics but also in terms of an understanding of strategies and progress made;
- understanding and measuring the competencies of the workforce;
- providing the metrics to assess HR’s deliverables in terms of the workforce;
- focusing on data for decision making.

MEASURE YOUR COMPANY’S AGILITY

How agile is your company? Based on the results of this study—and the general sense of rigidity most executives reported in their own organizations—10 questions emerged that provide some guidance:

1. Are you satisfied with the percentage of revenue-producing projects staffed by people from different business units?
2. When you look across the enterprise, do you find that the right people are assigned to the right projects?
3. Do you have the right tools to staff projects optimally?
4. Do you value an individual’s contribution by his or her job or by his or her capabilities?
5. Is your compensation program based on competency or job?
6. Do you define jobs as “strategic,” “tactical” and “non-strategic” (or “A,” “B” and “C”)? Do you know the percentage of “C” jobs in your company—and are you working toward moving them out of the company while focusing on more strategic endeavors?
7. Will the ratio of what could be called “owned” vs. “rented” vs. outsourced talent in your organization allow you to be productive in both up and down business cycles?
8. Can you resource personnel from anywhere in the world that your organization has operations?
9. Can you support virtual project teams?
10. Do you have a strong internal brand that has been communicated across the workforce that helps govern decision making?

Any company answering “no” to more than four of these questions may be displaying a level of rigidity that undercuts profit, reduces performance, adds costs and dramatically limits the company’s productive reaction time.

In most companies, these charters are in vastly different stages of development. The traditional human resources component is fairly mature. It has been consolidated into a single function and is now being reallocated between owned, rented and purchased resources. The talent group exists in many organizations but is generally not consolidated into a single discipline; instead it is distributed among a variety of groups. Decision support does not exist in most organizations and is limited to reporting.

The Risks of Inaction

Best practice companies are poised to make some dramatic changes in their approach to workforce management—and not a moment too soon. “We’re not as talent-rich as we need to be,” explained one executive, describing his best practice company’s efforts to meet competition from a host of new players. As a result, he continued, “the workforce is becoming a major issue for leadership—which is treating it less as a commodity.”

Based on the findings of the Workforce Agility Study, it is clear that as best practice companies continue to improve their alignment, accountability and agility, as they come to truly manage their workforces as the portfolios they are, they will have a spiraling impact throughout their industries, driving down costs, raising shareholder value, and setting prices for goods and services. If they want to compete, other companies will have to follow suit.

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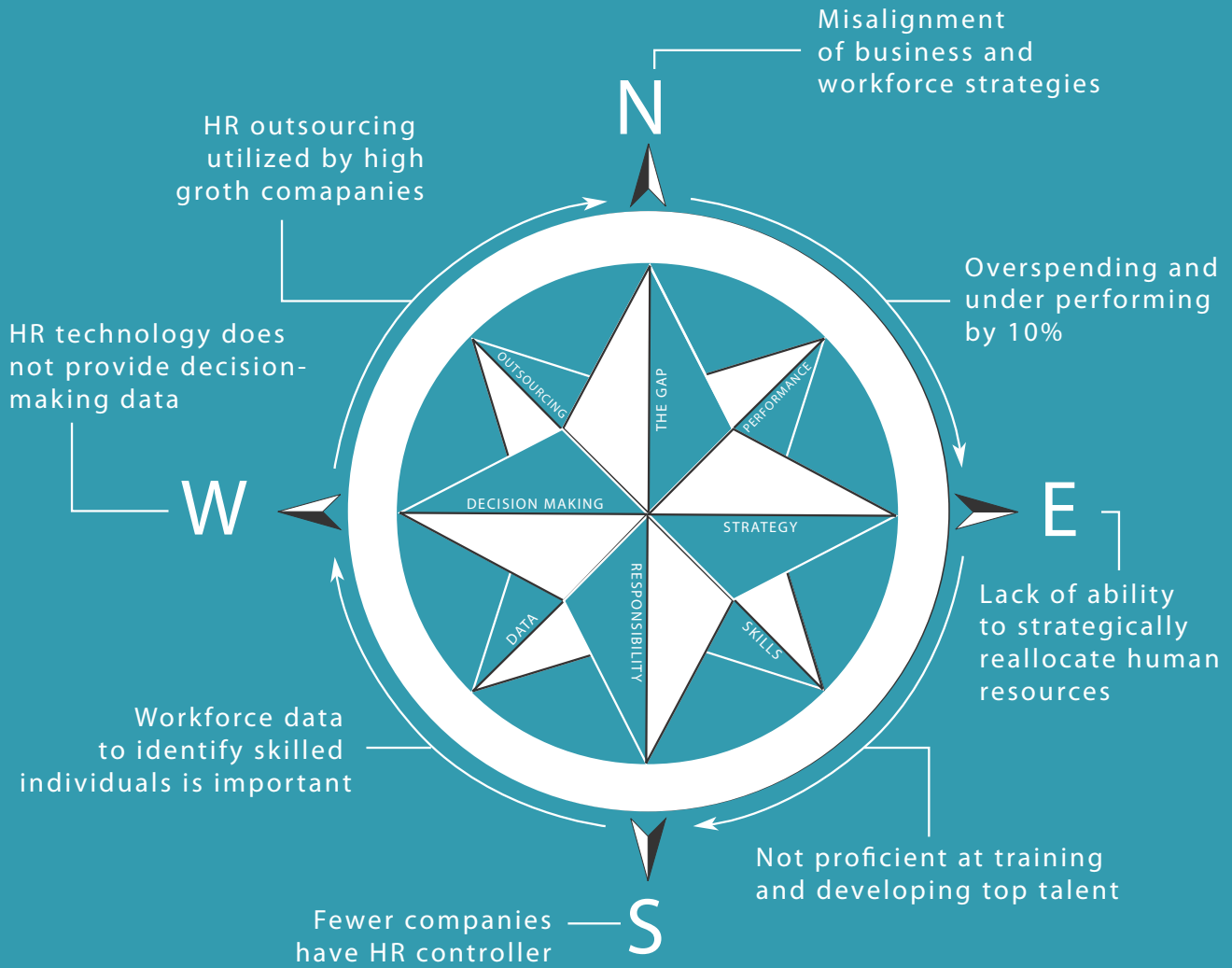
Dr. Richard Beatty is Professor of Human Resource Management at Rutgers University. He received his B.A. from Hanover College, his M.B.A. from Emory University and his Ph.D. in Human Resources and Organizational Behavior from Washington University.

Dr. Richard Beatty teaches in the areas of applied behavioral science in human resource management and the role of the human resource function in organizations in applying behavioral science to human resource management. He is also active in executive and professional education and is a Core Faculty member at the University of Michigan’s Executive Education Center and teaches in executive education programs at Cornell, Pittsburgh and the University of Pennsylvania’s Wharton School.

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Fax: 513.421.8624

REGIONAL HEADQUARTERS

EUROPE, MIDDLE EAST & AFRICA

Cambourne Business Park, Cambourne
Cambridge CB3 6DN, UK
Tel: 44.1223.705000
Fax: 44.1223.705001

LATIN AMERICA

CENU – Av.das Nacoes Unidas, 12.901-34
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