

Better workforce, better business performance

More than half of executives worldwide agree that problems with talent and skills are affecting business performance—but a company's revenue growth may affect how they are dealing with those problems.

A better-prepared workforce delivers better results. That proposition makes sense on an intuitive level, and now a global survey of more than 2,700 executives conducted by Oxford Economics backs it up with data. Companies with above-average revenue growth are more likely than their peers to provide employees with advanced training and development programs, and to give their workers access to the information they need to do their jobs.

The inverse holds true as well. A majority of executives say that problems with talent and skills affect business performance—and companies with above-average revenue and profit margin growth deal with these problems differently than their peers with below-average numbers in those areas. High-revenue-growth companies are significantly more likely to be redefining or adapting business models in response to market pressures, while underperformers are more likely to be downsizing and restructuring operations.

Talent management is complex stuff, involving as it does everything from hiring to training, development, and retention strategies (not to mention the vagaries of human behavior). Thus it is unsurprising that there is some noise in the data, with underperforming companies surpassing their high-performing counterparts in certain ways (for example, less-robust performers lead in the use of data analytics). Overall, though, companies with inferior results must prioritize workforce development at a strategic level, create a culture of learning, and focus on leadership and development if they are to compete successfully in the future.

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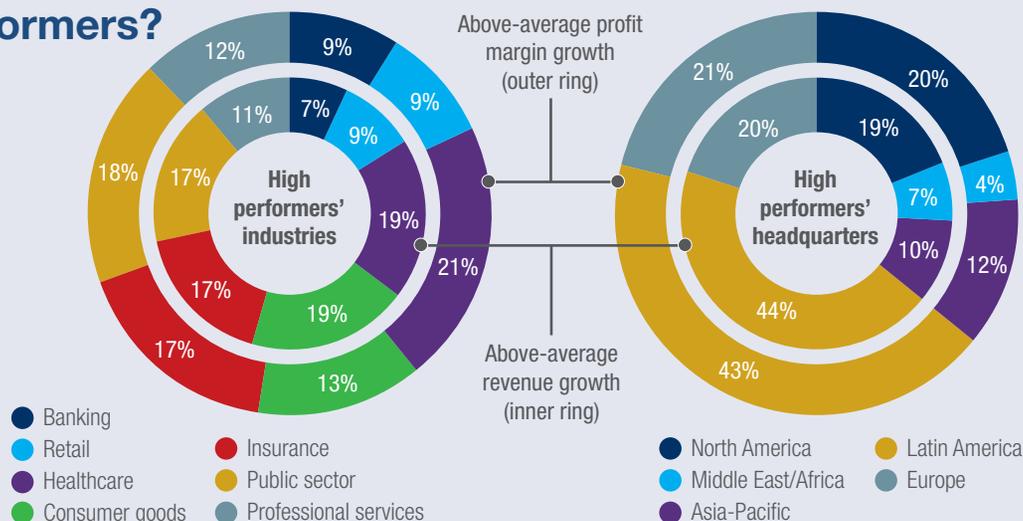
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Who are the high performers?

High-performing companies are those that reported either above-average revenue or profit margin growth over the past three years. Of the 2,718 executives surveyed for Workforce 2020, 15% reported above-average revenue growth and 32% reported below-average revenue growth.

14% reported above-average profit-margin growth, and 37% reported below-average profit-margin growth.



High performers are more prepared for the future

Our research shows that the workforce of the future will be increasingly flexible and diverse. An influx of Millennial employees and contingent workers will require novel workforce development and management programs at companies worldwide. Yet underperforming companies are not focused on catching up to these trends, nor are they making HR a strategic priority.

Executives at higher-growth companies tend to be more forward looking and better prepared to react to workforce trends (see the figure at right). They are paying attention to the major demographic changes that will shape tomorrow's workforce. High performers are more likely to say the top labor market shift affecting workforce strategy is Millennials entering the workforce, and to identify an aging workforce as another key shift affecting their strategy. High performers overall are more likely to rely on full-time employees than non-payroll workers, so they may be less affected by the dramatic rise of the contingent workforce.

The problems for low performers start early in the talent-management cycle. More than half of executives at below-average revenue growth companies say they have difficulty recruiting employees with base-level skills, as opposed to 36% of executives at high-performing companies. This difficulty could have a cascading effect, from further skills development to internal promotions and business performance.

Higher-growth companies seem to be better at attracting strong candidates in the first place. Only 46% of firms with below-average profit margin growth say they are satisfied with the quality of candidates they receive for most positions, while 55% of high performers say they are. Those companies with below-average profit margin growth in particular struggle with recruiting employees with base-level skills.

How does that play out down the line? More than half of underperformers say problems recruiting employees with base-level skills are having an impact on workforce strategy, and more than a third say recruiting employees with specialized skills is having an impact. Companies with low revenue growth seem to be aware that they have some catching up to do when it comes to recruiting talent: 44% say they are investing in technology to change their recruitment processes (vs. 32% of high performers).

Underperformers are more likely to be affected by recruitment woes

Top 3 labor market shifts affecting workforce strategy



Perhaps surprisingly, lower-growth companies actually report marginally better progress toward building a workforce to meet future business objectives. That may reflect a temporary advantage—since underperforming firms are more likely to be focused on downsizing, in the short term these companies can focus on the talent available now. Firms that are looking to expand must grapple with finding new talent and expanding into new markets, as well as building capable talent management into that growth. So it makes sense that looking ahead, more than half of high-growth firms say they will have made good or very significant progress toward building that workforce in five years, while less than 45% of underperformers make the same claim.

Why are higher-growth companies so confident? Because they are walking the walk and not just talking the talk. While underperformers are slightly more likely to say they have a strong vision for the workforce they want to build in three years, they lag high-performing companies in having a defined execution plan for achieving their vision, again reflecting the short-term advantages of downsizing.

Preparation for the future workforce means more than just reacting to changing trends—it requires that workforce issues be visible and actionable priorities in the C-suite. Here, high-performing companies vastly outstrip their counterparts. Executives at high-revenue-growth companies are significantly more likely to say that workforce issues drive strategy at the board level today (64% vs. 49%). Meanwhile, nearly a quarter of underperformers say workforce issues are an afterthought in business planning, both today and in three years.

Data issues threaten high performers' workforce strategies, but underperformers will face future challenges

Analytics and data are important levers that help companies meet their workforce goals, yet high performers can struggle in this area. Just 32% of high performers say they have ample data about their workforce, vs. 40% of companies with below-average growth in their profit margins, and underperformers are more likely to say they know how to extract meaningful insights from the data available to them (44%, vs. 35% of high performers). Furthermore, 43% of companies with below-average revenue growth say they use quantifiable metrics and benchmarking as part of their workforce development strategies, while only 33% of high performers agree.

And underperformers may have a sophisticated view of the benefits of data insight. Underperformers are more likely than high performers to say they use analytics to assess employee performance and that they have well-defined processes and tools for developing their talent. And despite their below-average revenue growth, underperformers are more likely than high performers to say they have an ample budget and resources toward developing their talent.

Although at a first glance this may be surprising, it is important to remember that underperformers are looking backward—at their established employees and what can be improved or cut—rather than facing the obstacles forward-looking growth entails. It makes sense, then, that high performers are less confident in their data analytics capabilities in the short term.

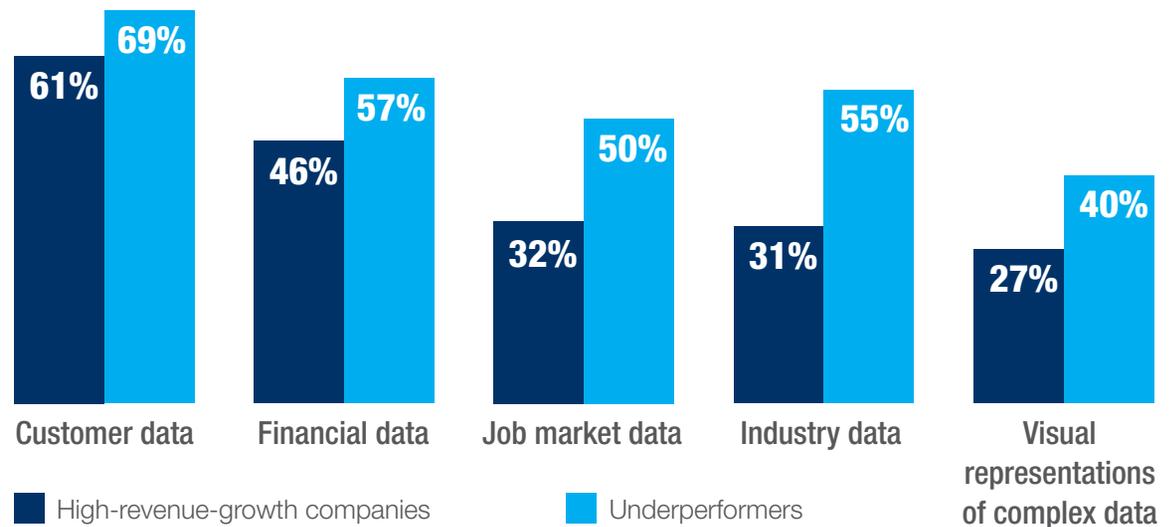
Again, high performers may have more exacting standards for some of these measures, such as what constitutes “ample” data. And the high-revenue-growth companies have their eye on the benefits of the next wave, Big Data. They are more likely to say that insight into the share of business goals aligned with employee performance would help them achieve their business objectives.

And the future looks brighter for the higher-growth cohort. When it comes to data facilitating employees' ability to do their jobs, below-average-revenue-growth companies are significantly more likely to expect difficulty in the years ahead (see the figure below). While both high performers and underperformers say a lack of data impedes employees' ability to work today, that balance changes in three years; underperforming companies are significantly more likely to say that a lack of financial data, industry data, job market data, and visual representations of complex data will impede employees' ability to do their jobs. Higher performers also are more likely to help their employees help themselves—companies with higher profit margin growth are significantly more likely to offer their employees supplemental training programs as a benefit, and they are more likely to have a formal mentoring program in place.

Fully a quarter of underperformers say workforce issues are an afterthought in business planning, both today and in three years.

Underperforming companies' employees will be hurt by a lack of data in the future

To what extent does a lack of the following types of data impede employees' ability to do their jobs in three years? Agree and strongly agree responses



High performers can learn from underperformers' leadership development—and vice versa

While they struggle to keep up with workforce trends, recruit employees, and establish HR as a strategic priority, underperformers do show some strength in terms of leadership—or at least their own assessment of leadership performance and development.

Executives at underperforming companies are more confident in this area than their higher-flying colleagues (see the figure at right). More than half of executives at underperforming companies say their management team is prepared to lead a global workforce, while only 40% of high performers agree. Underperforming companies are also more likely to agree that their leaders have the skills to manage talent (52% vs. 46% high performers) and that talent in leadership positions is sufficient to drive global growth (38% vs. 28%).

That is not to say that high performers are struggling with all aspects of leadership—on the contrary, high performers overall are significantly more likely to say their leaders can inspire employees. And high performers are more likely to give HR a voice in the C-suite. Perhaps with their forward-looking, growth-focused strategies, high performers are more acutely aware and critical of possible shortcomings with their leadership. But in giving workforce issues a place at the strategy table, high performers will be more prepared to react to future workforce needs as business and HR strategies align.

While underperforming companies struggle with recruiting base-level talent and employees with specialized skills, they have a better self-assessment when it comes to developing leadership internally. Underperforming companies are significantly more likely to say that long-term loyalty and retention is an important part of their talent strategy, and that strategy may be paying off: companies with below-average profit margin growth are also significantly more likely to say that when a senior person leaves they tend to fill the role from within the organization—48%, vs. 37% of high performers.

That last point could have a downside, though. High-performing companies are more likely to say that they are more merit driven than tenure driven. In other words, while underperformers may be more likely to focus on developing internal talent and engendering loyalty as they look toward downsizing (and may be outmaneuvering high performers in this area), they may be bypassing more qualified candidates to reward more tenured candidates when filling leadership roles.

Underperformers are less merit driven than their high performing counterparts—which may be detrimental toward developing a future workforce.

Underperformers are more confident about leadership ability

To what extent do you agree with the following statements about leadership in your organization?

Agree and strongly agree responses

● High-revenue-growth companies

● Underperformers



Underperformers may be looking toward employee benefits as a way to retain their employees. Below-average revenue growth companies are more likely to offer retirement plans (28% vs. 19% high performers); access to social media (27% vs. 16%); access to up-to-date technology (39% vs. 30%); and a flexible work location (38% vs. 29%). At the same time more than a quarter—27%—of companies with below-average revenue growth say the changing nature of employment lowers their ability to retain their workers, a significantly higher margin than high performers.

Some high performers may be adjusting their strategies to retain employees as well, particularly in the United States. Executives at high-revenue-growth companies in the United States are overwhelmingly more likely than underperformers to say they offer competitive compensation (86% vs. 38%); a flexible schedule (57% vs. 26%); and healthcare (79% vs. 38%). In highly mobile talent markets like the United States, added benefits may be the key to employee retention.

Conclusion

Our global study shows a strong correlation between workforce development and financial performance in key areas like revenue and profitability growth. Yet most companies still have ground to cover in preparing for the 2020 workforce.

To catch up to high performers, underperforming companies must focus on making HR a strategic priority, recruitment efforts, and reacting to changing workforce trends. Higher-octane firms, meanwhile, may be able to learn from underperformers when it comes to embracing and using existing talent in leadership positions and leveraging data.

Preparing for the future workforce is complex and will require ground-up changes in some companies' structure and strategy. By playing to their strengths and learning valuable lessons from their weaknesses, companies can take advantage of these seismic changes in workforce development—changes that put all companies, big and small, more profitable and less, in the driver's seat of future business growth and success.

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