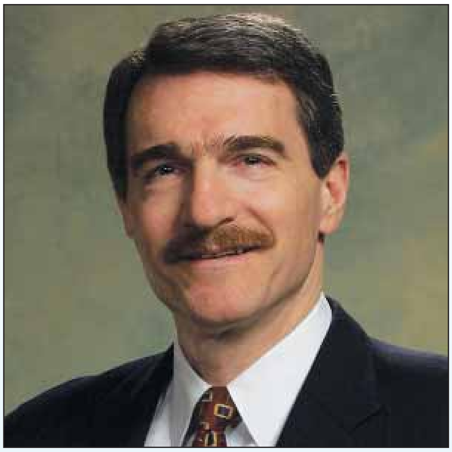
TOWERS PERRIN

Meeting the Global Workforce Challenge

An Interview with Mark V. Mactas, Chairman and Chief Executive Officer, Towers Perrin, Stamford, Connecticut



Mark V. Mactas

EDITORS' NOTE *Mark Mactas, who holds a B.A. in mathematics and economics from Lehigh University, joined Towers Perrin in 1980 and assumed his present posts 21 years later. A fellow of the Society of Actuaries and the Conference of Consulting Actuaries, he is also a member of both the American Academy of Actuaries and the International Actuarial Association.*

COMPANY BRIEF *Towers Perrin (www.towersperrin.com) is a global professional services firm that helps organizations improve their performance through effective people, risk, and financial management. The firm provides innovative solutions to client issues in three areas: Human Resource Services, which provides human resource consulting; Reinsurance, which provides reinsurance intermediary services; and Tillinghast, which provides management and actuarial consulting to the financial services industry. Together, these businesses have offices in 25 countries.*

What are the major challenges that will be facing organizations in the coming years?

The single biggest issue will be the workforce – making certain an organization has the right people, with the right experience and skills, doing the right jobs in the right places and fully engaged in helping the organization succeed. This may be something companies have been hearing for a few years now, but in the next several years, there will be a convergence of several forces that will result in nothing less than a sea change for business. And that's going to have enormous implications for the workforce.

The first factor will be the downstream effects of a massive worldwide shift in demographics. Aging populations in developed countries, and even in some less-developed countries such as China, will result in large numbers of retirements. Along with those retirements will come potential shortages in company leadership and a drain in knowledge and key skills. At the same time, we'll see continued growth in skilled workers in developing countries and, as a consequence, increasingly attractive workforces there.

Second, we'll see continued globalization of business and capital as we become more and more a global village. Even today, most large companies view the world as their marketplace, both from a sales and an employee recruiting perspective, which means that competition for these markets is also global. And we can see how capital is moving across borders as a result. Look at India. A company that "offshores" to India may pay 70 percent less in compensation than one that keeps those jobs in the United States or Europe. But the Indian employee is earning a wage that is generally higher than what he or she might have made otherwise and therefore has greater spending power.

Cell phone proliferation is a good example of how the sale of goods and services is changing. Telephones used to be scarce in the rural areas of underdeveloped countries because of the infrastructure required to install land lines. But cell phone infrastructures are much easier and less expensive to set up, and at the same time, some innovative companies have developed ways to sell usage very inexpensively by providing a cell phone to one person in a village, who then sells time to neighbors for pennies. In this way, the cell phone has revolutionized communication in many countries.

Taken together, the demographic changes and continued globalization will present a huge challenge for employers, but also great opportunity.

Will the populations of developing nations be able to play the roles of consumer and employee now played by those of industrialized nations?

That's a key question. On one hand, less-developed nations have cheaper cost structures. Their populations are hungry for work and for all kinds of goods – from consumer products to manufacturing machinery to basic infrastructure such as roads and electrification. But accessing these populations as consumers and employees presents lots of challenges, including managing cultural diversity, dealing with language barriers, overcoming educational obstacles, dealing with country regulations, and more. So right away we can see that there will be far more – and far different – demands on company leadership as they grapple with these issues.

But companies are still announcing layoffs. Why should they worry about the workforce of tomorrow?

It's true that layoffs are still very much with us. But I believe many of these major companies, even as they are laying people off today, recognize that they stand to lose a significant percentage of their workforce as their older workers start to retire. Of course, this isn't across the board. It will affect some industries and regions more than others. Still, in a few short years, there will be far fewer available job candidates than there are today, and there will be a great deal of competition for them.

Companies will be especially aggressive about recruiting and keeping top talent – that core group of people with the skills to deliver on the business strategy. In many companies, there are 200 or 300 people who play an instrumental and sustained role in delivering business results. Those are the people they can't afford to lose, and they're also the people who will be the most difficult to replace.

There's another factor to add to the

coming shortage of high-talent workers: namely, that competitive differentiation among companies and organizations relies more and more heavily on people and their ability to innovate and create. Any bit of competitive differentiation – in the form of a new product or service or its "upgrade" – lasts only a few months until competitors come out with something better or something comparable but cheaper, so we're in an endless race to gain that two- or three-month window of exclusive sales. Even a wildly popular product like Apple's iPod now has dozens of competitors, but Apple's ability to reinvent the iPod product, upgrade its capabilities, and market it in fresh and compelling ways has kept it front and center in buyers' eyes. That has depended heavily on highly talented engineers, IT people, market researchers, and advertising specialists.

In this coming environment – with such diversity of employees and competition for high-talent ones – how will companies build and maintain a successful, high-performance organization?

At Towers Perrin, we refer to the business response to these challenges as workforce effectiveness: a set of interrelated activities designed to help companies source, recruit, deploy, assess, develop, reward, and transition the talent necessary to execute business strategy.

Many organizations are quite successful at addressing parts of workforce effectiveness; for example, most large companies have a clear and well-researched compensation program, and many handle performance and career management exceptionally well. But very few have a coherent workforce effectiveness strategy – not because they are remiss, but because until now, it simply hasn't been an imperative.

To focus on a strategy, companies first need to understand where they're going to be in the coming years compared to where they are now. To start, leaders need to understand the people implications of their business strategy: What will you be doing in the future and in what locations? Where are your employees located today, and where are they likely to be located in the coming years? What job categories will the company need in the future, and what types of demographics will make up your employee population? Where will you find employees, and how? Is your cost structure competitive? In short, companies need to perform a workforce diagnostic and compare it to the business strategy to see where the gaps and surpluses are likely to be.

And once that's done, what's the next step?

Companies need to focus on employees. This means understanding what attracts, retains, and engages them and then building highly segmented reward strategies that take into account the many aspects of workforce diversity. This includes factors we normally think of – ethnic diversity, language diversity, gender, and so on, but it's broader than that. It also includes location, skill, function, whether the employee is an expatriate, and even whether he or she is transitioning from one skill to another while on the job.

This strategy is essential for a number of reasons. First, organizations will not be able to attract and retain employees simply by offering a higher salary. Cost structures are going to be a huge concern as organizations get further out into the global employment market. Second, our research has shown that salaries and benefits, while important, are not the make-or-break factors that keep employees with a given employer. Nor are they the factors that drive employees to perform at high levels.

What are the factors that drive high performance?

They differ by company, type of employee, and so on, which is why it's important for organizations to have a thorough knowledge of what motivates their employees. Ongoing employee research can help them understand the specifics and track shifts in attitudes.

Basically it comes down to two primary aspects of work: a sense that senior management cares about its employees and a sense on the part of employees that they have the wherewithal to do their work. So, is the employer helping them develop the requisite skills, and do they have some sense of control over their work? Obviously two-way communication from senior management is important, and if a company has far-flung operations, that's going to be a challenge.

Giving employees control over how they do their work is going to be a more local issue. The specifics will vary, but it's something that local managers and supervisors will be very involved in. I can give you an interesting example: We worked with a hospital system that faced such chronic nursing shortages that it spent tens of millions of dollars a year on temp and placement services. When the human resource function surveyed the nursing staff to ask what factors they'd most like to see changed, higher salary didn't even make the top five. Instead, the nurses wanted employer-paid professional training and a scheduling system that made it easier for them to manage their family life.

These results showed that the nursing staff was motivated to grow in the job, which demonstrates an important level of commitment, and it also showed that work/life balance was suffering – not necessarily because of the round-the-clock imperatives of the job, but because the nurses didn't have enough consistency in their work schedules and forewarning about scheduling changes.

These changes go far beyond the HR department.

Absolutely. They will be of concern at the highest levels of the organization. But HR will play a major role in making these changes. The HR function will help establish strategy and implement tactics such as employee research and establish needed benefits for diverse groups of employees. They will also help company leaders learn the new techniques they'll need to lead companies that will look and act very different from the companies of today. Which brings me to another important piece of the workforce effectiveness puzzle, which is succession planning.

What aspects of that strategy will change?

The strategy will change because the needed skills will change. Traditionally, succession planning has focused on the top executive positions. In the future, succession planning will include the core 200 to 300 people who really drive the results of the company. We're also talking about middle managers, who will have to drive performance on the ground, employee by employee, and who play the greatest role in making sure that employees are truly engaged and committed to doing what it takes to make the company successful.

What role will technology play?

A big one, as will outsourcing. As the HR function takes on these more complex roles, it's going to have to optimize how the transactional work gets done. Companies already outsource things like payroll, benefit management, and so on, but they will be looking to outsource other functions as well. And they'll continue to move to a self-service environment for employees and managers. Online benefit enrollment, compensation, and performance management are just the beginning. The great thing about these advancements is that they make the world smaller and make the organization more efficient. The accountant in Tokyo and the line manager in London are using the same systems and timeframes to make their benefit choices – even though those benefits may be quite different in the two locations – and in so doing they're reducing the error rate, reducing the time it takes to make these choices, and freeing HR to do other things.

There's been quite a bit of doom and gloom about workforce demographics lately, but you seem optimistic.

I've always believed that with great change there's great opportunity, especially for people and companies that think ahead and plan well. Forward-looking companies will benefit from our continued globalization and other macro-demographic forces. A number of today's less-developed countries will emerge as strong global competitors. At the same time, I believe many organizations in the developed world will look ahead, innovate, and use the changing global landscape to their advantage. ●