ANALYZE THIS: WORKFORCE PRODUCTIVITY

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Report Highlights

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Companies note that they will only be capable of delivering 67% of the leaders that they will need in the coming three to five years.

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61% of companies noted that revenue per FTE declined in the last year.

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71% of Best-in-Class companies are focusing on aligning HCM goals and procedures with management goals.

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38% of companies prioritize fostering an innovative culture to achieve management goals.

HCM has bottomed out in the race to quantify labor costs and is shifting to a race to the top in labor optimization — but how do we balance the two in terms of productivity?

ABERDEEN GROUP

From 2010 to 2015, companies were, on average, 27% more likely to invest in HCM to reduce operating costs than to drive greater workforce productivity. In 2015, only two-thirds of new hires qualified as leaders after 1–3 years of employment.

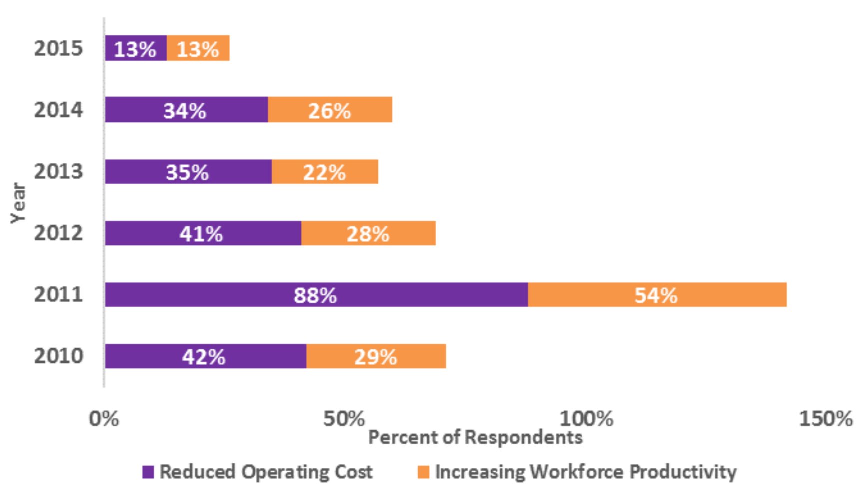
The Race to… Where?

There are several pressures driving companies to invest in human capital management solutions. Over the last decade, the business case driving the expansion of HCM solution deployments has become bifurcated between two opposite ends of the productivity spectrum:

Reduced Labor Cost	Higher Quality Output

At one end of the spectrum is the drive to reduce labor costs through a combination of improved workforce management, increased size of the contingent workforce, reduced innovation risks, reduced benefits offerings, and improved scheduling. At the other end is higher quality output that involves improving employee retention, increasing rewards-driven output, and driving greater work dependence in the work–life balance.

Figure 1: Cost vs. Output as a Reason for Investing in HCM



Source: Aberdeen Group

As depicted in Figure 1 above, from 2010 to 2015, Aberdeen found that companies invested in HCM solutions primarily to reduce operating costs with a secondary focus on increasing workforce productivity. In this time, Aberdeen found that the number of companies noting a skills gap grew to 79%, and the number of companies dissatisfied with the quality of new hires after the first three years of employment rose above 60%. In fact, in 2015, Aberdeen surveyed HCM end-users and found that companies felt that they would only be capable of delivering 67% of the leaders, either sourced or internally developed, that they would need in the coming three to five years.

The predictive figure carries both an internal and external message. At the organizational level, it indicates that employers already have a cache of underperforming talent that is expected to grow as Best-in-Class practices shift to favor the development of a talent pipeline over reactive hiring. Talent expectations are set in regards to employers' definitions of high-potential candidates. This is relative to an organization's ability to measure incoming talent on those scales. While HCM vendors offer various routes to evaluate 'high potential,' employers are still noting a disconnect between their definitions and their abilities to fulfill management goals and expectations.

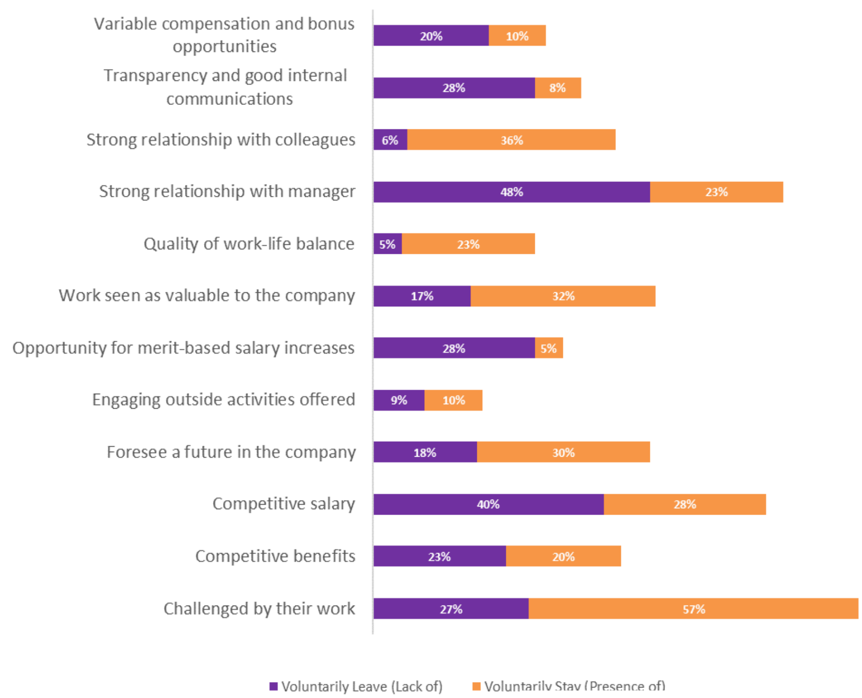
Companies are still motivated by quantitative measures and remain unresponsive to employees who are demanding more freedom to innovate and communicate new ideas.

Putting these together, focusing on the top-down initiative of driving down labor costs has contributed to a general race to the bottom in terms of quality of output, regardless of how qualified employees are for the positions they fill. As organizations have shifted to a lean labor cost strategy, they have adopted this top-down approach to labor management. Consequently, task management has taken priority over engagement. This, in turn, enabled technology to routinize processes that would otherwise open up avenues for innovation, growth, and bottom-up communications channels.

The Engagement Conundrum

The lean workforce strategy is fundamentally at odds with driving better top-of-the-line labor quality. To attract and retain top quality labor, employers have to assume more risk in terms of pay, career growth, and overall labor investment. This will ultimately result in a net higher quality employee.

Figure 2: Criteria Employees Stay or Leave an Organization



Source: Aberdeen Group, June 2016

In 2016, Aberdeen found that for Best-in-Class companies, the top three reasons employees voluntarily leave are:

- A weak relationship with their manager
- Lack of a competitive salary
- An inherent lack of internal transparency and decent internal communications around key management decisions.

In the same survey, Aberdeen found that for Best-in-Class companies the top reasons employees stay are:

- Being challenged by their work
- Their work is seen as valuable to the company
- They can actively see and chart a career within the organization

Right from the data, employees are directly demanding strong communications with a heightened sense of relevance within the organization that feeds a desire to grow and expand beyond their initial role. Integrating these employment criteria into the strategies for investment in HCM solutions shows that companies are still motivated by quantitative measures and are remaining unresponsive to employees who are demanding more freedom to innovate and communicate new ideas.

So how does engagement connect back to productivity? First, productivity has to be defined. Productivity has historically been measured in terms of return on investment (ROI) and general net profitability. But what if there is more to it?

In the quest to drive higher employee ROI by reducing overall labor costs, organizations have foregone engagement as a means to drive higher quality output per full-time equivalent (FTE). Under the historical ROI paradigm, revenue per FTE has actually declined — heralding a decline in overall productivity. In 2016, Aberdeen found that of the organizations surveyed, 22% noted that their revenue per FTE remained the same over the last year, while 61% of companies noted that revenue per FTE declined in the last year.

Linking Engagement to Productivity

Driving productivity involves more than cost analysis. While successful HR organizations know and embrace this, the best practices around what is needed to bridge cost management and human capital management are less well known, especially when it comes to the necessary, murky waters of engagement.

Strategic Actions to Achieve Management Goals	Best-in-Class	All Responses
Automate HR, WFM, and Payroll	29%	25%
Build Social Learning	32%	18%
Align HCM with Management Goals	71%	64%
Create Innovation Culture	36%	38%
Recognize Key Areas of the Skills Gap	46%	46%
Improve External Sourcing and Outreach	21%	13%
Integrate Critical HR, Payroll, and WFM	4%	13%
Focus on Developing Leadership Skills	36%	47%
Improve Visibility into Workforce Data	21%	24%
Solicit External Research in Future Planning	0%	5%

n= 182

Source: Aberdeen Group, January 2016

Aberdeen surveyed 182 end-users in HR, benefits management, and payroll to understand how they are currently managing their roadmaps for goals set by management. Sixty-four percent of all companies and 71% of the Best-in-Class are focusing on aligning HCM goals and procedures with management goals. While the literal alignment of HCM practices to top-level targets and initiatives is an intuitive strategy in the context of HCM, it extends beyond the literal alignment to include more effective parlance of those goals.

Strategies to increase this effectiveness include:

- Real-time communications between managers and employees in both directions
- Contextual time management
- Real-time reporting and analytics that enable faster decision-making
- Effective translation of goals and tasks into language that is familiar to the local department or corporate division, especially in the case of payroll and benefits management.

Recognizing key areas of the skills gap with respect to the future planning for the workforce is taking center stage.

While top performers from the survey noted that they are strategically working to align these two goal sets, Figure 2 points to the fact that the communication of goals continues to be a stumbling block for building strong employee retention. This ultimately impacts the ability to execute in other important action areas, such as building an innovative culture or developing strong leadership skills in the employment base.

Beyond goals alignment and improving communications, the need to recognize key areas of the skills gap was rated evenly between Best-in-Class companies and the overall sample set of respondents, with 46% of both groups making it a priority. With productivity in decline, as reinforced by the decline in revenue per FTE, recognizing key areas of the skills gap with respect to planning for the future of the workforce is taking center stage. The change fits with the emerging HR strategy of using a talent pipeline model for sourcing and hiring that is more capable of nimbly filling vacancies in less time and with higher quality talent.

The skills gap is where companies primarily predict falling short of meeting c-suite and customer demand, as noted earlier. This

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is further proof that hiring, onboarding, and learning are as far out of sync with management goals as any other HCM functionality. Leading into this, 21% of Best-in-Class companies are prioritizing the improvement of external sourcing and outreach, 36% of Best-in-Class companies are prioritizing developing leadership skills, and 32% of Best-in-Class companies are prioritizing building social learning. While these initiatives are admirable, the disconnect is a call to action that developing these areas has to be combined with improving communications around corporate goals in order to reduce the skills gap to realize any significant workforce improvements.

In other words, improving strategic engagement with candidates and employees is vital to the success of employee retention and growth strategies. However, the corporate message and top-level goals have to be woven into the engagement strategy, so that employees are not charting their own courses to the point that they become isolated islands of unrelated development within the organization.

Companies have recognized the reasons employees stay and why they voluntarily leave their organizations. They have also prioritized several areas of improvement to contribute to the successful execution of corporate goals. Keeping these realizations separate does little to facilitate the productive execution of corporate goals meaning that management has to be strategic about combining them. In other words, companies have to strategically develop functional means of executing corporate goals while meshing them together with the personal development of individual employees. Corporate leadership has to weave the mission and vision for the enterprise into the conversation amongst employees and managers as they carry out their respective and independently driven career development.

Coming Full Circle to Technology

So far, the findings discussed suggest that corporate investment in HCM should be aimed at technological elements that manage learning, development, end-user buy-in to payroll and benefits management, rewards, and workforce data generation. These do have to be deep and analytical, but they also have to facilitate end-user processes and goals beyond just accomplishing or replacing the tasks for them. Put simply, the technological strategy has to align with the employment strategy, so that employees are not being managed by or through technology but by management enhanced by technology.

To foster innovation and risk-taking that delivers on an investment in high-potential talent, and therefore productivity, employees have to be able to openly engage with management on the development of new ideas. Management must also have the confidence to take risks on investing in new developments, ideas, or employees. To facilitate this, managers need technological resources that infuse corporate goals and messaging into the conversation backed by internal and external performance and market data. They also need to have enough real-time information to be able to make an investment decision without an onslaught of data to shift the uncertainty of the investment back onto the backs of the employees.

To this end, while Best-in-Class companies and the general sample set did not call out soliciting external research in future planning, they should reconsider the application of this information and the vendors who call on their databases to aggregate best qualities and practices within their markets. Internal sourcing criteria and internal-facing assessments have promised returns in terms of high-potential candidates for years, but without contextual, external market understanding, high quality only exists in the context of the status quo. In *Is Proactive Hiring More Than a Mindset?* (August 2016), Aberdeen found that using cumulative, internal assessments to develop the persona of the ideal candidate failed to account for external catalysts that could change the business culture or direction for the better. The assessments establish a maximum quality potential based on the existing work environment that zeroes out any potential for high-level change that could lead to the development of new products, markets, or business models. Companies are therefore preventing any chance of employees or managers from taking equitable risks needed to foster that innovative culture that 38% of companies prioritize as necessary to achieving management goals.

In the end, productivity is not simply a quantifiable end result of technological implementations that manage employees from the top down. Driving productivity is about more than just measuring the workforce. It involves strategic management that improves the communications of corporate goals throughout the employee lifecycle while fostering a willingness among employees and managers to embrace risk-taking in the development of new goals, ideas, products, or markets.

As a strategy, companies should be seeking out HCM solutions that link functionality together, while keeping the analytics behind the scenes and pushing communications and real human engagement forward. If employees are consistently managed by technology or if they receive all their management communications through technology, they will increasingly be disconnected from the organization. They'll be less likely to deliver the next big idea, or to allow management to capitalize on the original promise of high-quality talent. In other words, employees need to be engaging one another directly in order to stimulate productivity and drive top-line quality output measured against bottom-line cost optimization in order to drive greater productivity.

For more information on this or other research topics, please visit www.aberdeen.com.

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Talent Acquisition Trends 2016: Candidates Take Command; June 2016	Turn Your High Potentials into Your Next Leaders Tomorrow!; August 2015
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Need to Find High Potentials to Lead the Charge? Look Internally First; December 2015	Field Service Leaders: Are Heroes Born or Trained?; July 2016
Best Practice: Identify High Potentials Before You Lose Them!; August 2015	

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