

New Research on Human Capital Effectiveness: Perspectives, Considerations and Challenges

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In two recent reports on human capital effectiveness, released by PricewaterhouseCoopers (*Results from PwC Saratoga's 2012/2013 US Human Capital Effectiveness Report* and *Key trends in human capital 2012: A global perspective*) they highlight issues facing organizations as the economy improves in North America, including a rise in turnover and declining employee productivity. Based on the report, we highlight 5 key findings and provide our thoughts and perspectives on the opportunities and risks that HR leaders need to consider.

1. Hiring is back on

As the economy is slowly recovering, recruitment efforts have ramped up again, with an increase in external hiring of 17% from 2010 to 2011.

Opportunities exist for organizations to source top talent and shift the internal culture by bringing in younger employees that offer creativity and innovation. The risks are that as more opportunities become available, employees will be increasingly selective about where they work and the type of work environment they desire. In particular, Gen Ys will expect a highly engaging work environment that is based on challenging work, flexibility and fun. HR leaders must also examine how they can fill positions internally (to motivate and engage existing employees) before sourcing external hires. Building an internal pipeline will become critical as the need for specific skills increases.

2. Fewer employees are eligible for retirement

The data shows that there are fewer employees overall in 2011 who are eligible for retirement, down 3.6% from in 2009, with the greatest drop for executives at 5.1%.

This decline is likely due to more Baby Boomers

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retiring or being laid off during the recession, thus lowering the average eligibility for many workforces. The opportunity for HR leaders is to focus on engaging 'expert' employees in the organization so that they can deliver the highest value, as well as create opportunities for them to pass on their knowledge and expertise before exiting the organization. The risk with having fewer tenured employees is that there may be gaps in knowledge in the organization if subject matter experts have already left or are about to leave. Since Baby Boomers are departing the workforce continuously, there are on-going risks of gaps in leadership and expertise. Thus, it may be beneficial to bring back seasoned employees for special projects and/or as coaches to help bridge those gaps in the short-term.

3. Demographic shift in the workplace

With the exit of many Baby Boomers, Gen Xers now make up 53.3% of the workforce, resulting in few Gen Ys being hired and a higher average length of tenure by employees in North America and Western Europe.

The opportunity for organizations that have a more experienced workforce is the leadership bench strength that guides them during difficult economic times and the knowledge of how to drive operational efficiencies. The risks are that Gen Xers won't naturally fill the same roles Baby Boomers held and will expect different relationships with their employers. While loyalty among Gen Xers is strong if they are learning and growing, this cohort is one that places their loyalty at the manager level, not with the organization. This generation expects a more balanced work style and places more emphasis on flexibility than previous leaders, which will result in an organizational culture shift. In addition, as opportunities improve, the ability to retain high performing employees will be critical. 55% of CEOs in western economies rate the recruitment and retention of 'high potential middle management' as a key challenge (PwC's Global CEO Survey, 2012).

4. Succession planning is being leveraged

In response to the demographic shifts, organizations have been more diligent in utilizing their internal people assets to fill key positions, with a 43.3% increase in pipeline utilization since 2010 and a 23.8% increase in organizations that have one or more 'ready now' candidates within their talent pool to fill key roles.

This commitment to succession planning is a competitive strength. The opportunities exist to

move Gen Xers more quickly into leadership positions and to openly communicate career opportunities, thus improving engagement, retention and communication with high performing employees. If HR leaders can be transparent about the roles that will need to be filled in the short to medium term, managers can have more targeted career development conversations with top talent. The risks are that if high potential employees are not aware that they are being considered for succession planning, they may leave the organization prior to the opportunities coming to fruition. It may also be difficult to retain enough 'ready now' employees to ensure there is one or more employees available for all key roles.

5. Voluntary turnover is on the rise

As the economy improves, employees are quicker to leave organizations that haven't created a win-win relationship with them, as evidenced by an overall turnover rate of 8.0% and an increase of 19% for high performing employees.

The opportunity for HR is to examine how leaders engage their employees and invest in the necessary learning and development to ensure all people leaders are demonstrating a collaborative, win-win focused management style. To retain high performers, creating a mentoring program that provides access to senior leaders and is focused on their learning needs is critical. There is also an opportunity to recruit younger employees (generally lower salary costs) and develop them from within in order to fill vacant positions. This ensures an injection of fresh ideas into the workforce and provides new entrants to the workforce with a clearer career path, resulting in an increase in engagement and retention.

The risks with higher turnover are obviously the cost to replace and reduced organizational performance. The challenge will be finding qualified candidates in a more competitive marketplace, especially for employers that don't offer an attractive total rewards program. In addition, organizations should consider how to enhance their existing orientation programs to ensure speed to competency for new hires can be improved with the objective of achieving higher levels of performance and productivity faster.