The War for Talent
What it means for the bottom line
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As we continue in the grip of a recession, the potential competitive advantage of getting the people investment right is too big to miss. In our event we looked at the impact of The War for Talent on the bottom line in the context of three questions: what is the impact of an ageing workforce, does it matter if your employees are engaged, and are you maximising the return on your investment in your people?

From our discussions at the event itself and more generally it is clear FDs recognise that people are one of their most valuable assets, and that the effective management of and investment in people is fundamental to achieving an organisation’s growth aspirations. Whilst FDs used to leave the ‘people stuff’ to HR, the savvy FD now works closely with their colleagues in the people space to drive competitive advantage.

Why is this shift happening now? Organisations face an onslaught of rapid change, not only in the UK but internationally too. These include the rise of the globalised economy and changes in demographics, the accelerating importance of technology, the difficulties of the recession and the need to think about environmental and sustainability considerations.

Evidence shows that how an organisation manages talent in this environment can make all the difference to the bottom line. For example, organisations with engaged employees will be 16% more profitable than those with poorly engaged employees. But engaging employees and maximising your returns generally, are not simply a question of spending more. In fact, this will often have the opposite effect. Instead, it is critical that organisations plan for and invest in the skills needed to drive growth as the landscape continues to evolve.

In this report, we have looked at some of the practical ways in which organisations are addressing the issues, and share some of the actions you can take to stay ahead of the game in The War for Talent.

Justin Rix
Employer Solutions Partner
Grant Thornton UK LLP
‘As we grow older we must discipline ourselves to keep expanding, broadening, learning, keeping our minds active and open.’

Clint Eastwood, Actor

Why is it an issue now?

One of the major issues facing organisations over the coming years will be how to cope with an ageing workforce. This is the consequence of two changes: an ageing population in many developed countries and the fact that people are staying economically active for longer.

It’s no secret that as a nation, the UK is getting older. In 2010, for the first time on record, the number of people of retirement age and over exceeded the number of 16 year olds and under. More than one in three of us is now over 50.

Inevitably, an ageing population means a greater dependency on a declining number of people of traditional working age. In 2011, the UK had a dependency ratio (the number of retired and unemployed as a proportion of the number of people at normal working age) of 25%. This is forecast to increase to 38% by 2050.

Currently, the median age of the UK population shown in the table below, (ie the age at which there are the same number of older and younger people) is just under 40 years old. This will continue to rise and is expected to reach just over 42 years old by 2035. Over the next 10 years, 13.5 million new jobs are forecast to be created in the UK, but in the same period there will only be seven million school and college leavers. For the first time, businesses in the UK will need to plan for the rising number of older employees.
An ageing world

The UK is not unique in facing the challenge of an ageing population, as the table below shows. The same is true in most northern European and developed countries, such as Japan and the US. It presents these countries with a growing issue that will have to be tackled, principally through innovation in business practices, combined with a change in attitude as to how business talent is managed.

China and India population distribution (by age group, in years)

China 1960 and 2010

India 1960 and 2010


China and India

With many organisations competing with the emerging powerhouses of India and China, let’s explore the demographics of these countries over the same period. The age distribution of India’s population follows expectations in terms of an emerging major economy: a relatively neat pyramid shape with a comparatively low median age. China, on the other hand, doesn’t. Its median age is only just below that of the US and UK and is increasing sharply, largely due to the one child policy introduced by the authorities in 1979. Given the importance of China to the world economy, there are real concerns about how a shrinking workforce, coupled with the heavy burden of elderly care, will impact China’s economic growth.
A longer working life

A longer working life is already becoming a reality for many employees, meaning employers will face both challenges and opportunities as their workforce ages.

The legal and regulatory environment has changed, age discrimination is illegal and the Default Retirement Age has been removed. According to reports, 54% of those aged 55 and over intend to work past the current state retirement age. This group can be roughly divided into two camps: those who need to work longer because of financial pressures and those who want to work longer. How will organisations motivate these different groups?

**I’m working because I have to**
Insufficient savings for retirement and the economic downturn, combined with major shifts in the regulatory landscape and working culture, means that many people are already being forced to work beyond their intended retirement age. According to the Office for National Statistics (ONS), the average pension savings of people retiring between the ages of 50 and 64 last year was £91,900, a figure that would provide an income of just £3,500 to £4,000 a year. Almost half of the UK working population is not saving enough for retirement and one person in five is not saving at all.

**I’m working because I want to**
People now have a choice. The scrapping of the default pension age in October 2011, and tougher legislation on age discrimination, means that employees have far more control over when they decide to retire.

**The opportunity for business**

How can you best leverage the knowledge, experience and reputation of your ageing workforce? Our discussions with organisations have highlighted a number of common themes, including:

- Creating cultural change – dealing with myths about older workers
- How to maximise this resource to help drive growth
- How to meet future resource needs and use succession planning effectively
Create a culture that embraces older workers
Creating a culture that is positive about the changing demographic is an important step. Myths about older workers abound and should be addressed upfront by organisations.

**Myth one:** All older workers are alike. For example, they are just counting down the days, they are less motivated, less likely to take risks and can’t deal with change.

In fact, although people’s priorities may change, their fundamental motivation and attitude to work changes remarkably little throughout their working life.

**Myth two:** Older workers are unwilling to learn or engage in training and development. In other words, you can’t teach an old dog new tricks.

This assumes that all older workers are the same. In reality, levels of engagement have far more to do with individual differences and motivations rather than age.

**Myth three:** Older workers will take more sick leave days than other employees.

Although older workers who are sick tend to be sick for a longer period, older workers actually take fewer sick leave days than younger workers.

**Use your resources effectively**
The consensus among organisations we talk to is that making changes in both work environment and role are key to maximising the contribution of their older employees.

- **Environment** One size doesn’t fit all. What needs to be in place for different people to work effectively? Some of the changes organisations have begun to put in place include: adaptable working arrangements, more tailored training, and development programmes, remuneration and benefit structures that reflect changing priorities at different stages in people’s lives.

- **Role** Are you tailoring roles to make best use of people’s skills and experience? Examples that we have spoken to include former senior employees moving to ambassadorial roles for the organisation, running key initiatives and change programmes and becoming more involved in training and development. Clearly, there are issues that may arise with a change in role, not least that it may require a realignment of the reward structure and working hours to reflect the contribution and value of the role to the organisation.

Solutions and actions
If, as an FD, you have an ageing workforce, the first step you will need to take is to get to know the likely future shape of your employee demographic. Everyone in an organisation, can contribute to the bottom line. Different groups may have different motivations and understanding these enables a focus on how to maximise that contribution.

Almost half of the UK working population is not saving enough for retirement and one person in five is not saving at all.
The importance of succession planning

Good succession planning can make a big difference in retaining knowledge and expertise within an organisation. The next generation of leaders needs to be developed, and sustainable growth happens when older employees are seen as contributors rather than blockers of young talent. The experience and knowledge of an older workforce can be used as an integral part of their development through effective mentoring and coaching programmes.

One of the issues many organisations we talk to face is how to deal with succession planning within the leadership team. Here, there is a clear divide between the challenges faced by large businesses and those of private companies and partnerships. In many private companies, senior roles are held by the owners of a business. This type of business may face the challenge of separating out the suitability of a particular person for their role, even if they retain ownership. Larger organisations, where ownership is separated from role, generally have more rigorous performance management processes in place for all employees. These processes, although by no means perfect, do potentially identify when somebody is no longer in the right role as their priorities change.

For the FD another choice is the support for retirement planning. The government is pushing the agenda of making people plan for their retirement, for example the auto enrolment arrangements are being introduced in late 2012. Supporting people to plan for retirement so you don’t have people working beyond normal retirement age because they have to rather than they want to is a sound investment.

Expert comment

Justin Rix, Employer Solutions Partner, Grant Thornton: “The impact of an ageing population for many organisations will be an increasing reliance on an older workforce. Ensuring that the culture is right and that there is flexibility in both working practices and role will be key to attracting, retaining and maximising the contribution of this group of employees.”
‘The essence of competitiveness is liberated when we make people believe what they think and do is important – and then get out of their way while they do it.’

Jack Welch, former CEO of General Electric

**What is employee engagement?**

When employees understand the goals and ambitions of a business and how they fit in; when they feel they want to be part of the success and when they give their extra discretionary effort to take the business forward, then you’ve got it.

**Why is it an issue now?**

As far back as 2009 The MacLeod Review of Employee Engagement, commissioned by the Government, demonstrated the direct link between business performance and employee engagement. Engaged employees are more motivated, they are more willing to stay with a company and to make extra discretionary effort at work because they feel good about what they do. This discretionary effort may make all the difference in distinguishing one company from its competitors, or indeed one team from another. It’s compelling reading: organisations in the top quartile for employee engagement showed 18% better productivity, a 12% improvement in customer ratings and a massive 37% reduction in absenteeism, as well as being 16% more profitable than others.
And it’s backed up by our own experience. Our internal employee engagement surveys clearly demonstrate that the strongest performing business units have the highest levels of employee engagement.

In this competitive global business environment it could be argued that no organisation can afford not to have engaged employees. And yet the Chartered Institute for Personnel Development report for winter 2011/12 found that 64% of employees were not engaged. The consequences of low engagement? Organisations with employee engagement ranked in the bottom quartile by MacLeod experienced 51% higher staff turnover, 62% higher incidents of accidents and 51% more inventory shrinkage.

It’s a no brainer. Getting employee engagement right can make all the difference to organisations in a buoyant economic climate, but is arguably even more important in a downturn, where discretionary effort is a low-cost boost to growth.

What affects employee engagement?

Many might think it’s all about the money. And of course, it is an important element. According to the What’s Working survey by Mercer in 2012, 36% of staff stayed with an employer because of the benefits package, while 61% said they were motivated by incentives and bonus pay. But it’s not the full story.

Creating high levels of employee engagement is more complicated than just increasing pay. In his excellent book - Drive - The surprising truth about what motivates us - author Daniel Pink explains that you need to pay people enough to take the issue of money off the table so that they can concentrate on their work. All the research shows that, except for purely mechanical tasks, once ‘enough’ money has been put on the table, purely financial incentives can actually impair performance.

Organisations cannot oblige their employees to be engaged. If organisations want to hang on to their best talent they will need to create an environment where it happens voluntarily.

How organisations can promote employee engagement

The introduction of relatively straightforward and inexpensive initiatives by organisations can positively impact employee engagement, generating substantial tangible financial benefits. Three well-recognised drivers of high levels of employee engagement are:

- **autonomy:** the ability to self-direct your work
- **mastery:** the opportunity to be really great at what you do
- **purpose:** being able to see where the organisation is going and how you (the employee) fit in.
We have found 10 common themes among organisations addressing these in practical ways.

- Establish current levels of employee engagement
- Focus on recruiting, developing and retaining the very best people possible
- Have a leadership team that sets a clear vision that is authentic, inspiring and more than just motivated by profit
- Encourage a two-way relationship between employer and employee based on mutual respect and fairness
- Provide opportunities for employees to challenge themselves and develop broader skills
- Give employees a voice and be seen to respond
- Encourage a culture that enables employees to self-direct their work, and so actively contribute to the organisation
- Underpin this with an effective performance management programme
- Make sure line managers empower and coach people rather than micro manage
- Put in place a culture of praise where the contribution and success of employees is recognised

‘If I am the smartest person in the room I know I’ve got a problem.’

CEO, McDonald’s

‘There isn’t a separate department for managing talent, it is everyone’s responsibility.’

Lorraine Heggessey, former controller of BBC One

CASE STUDY

An Australian IT company introduced an initiative of giving each employee one day every quarter to spend solely on coming up with ideas for improving the organisation’s processes and products, and developing new business ideas. The only condition was that they had to present them back to the company. The results were spectacular, not only in terms of the scale and speed of the positive impact to the financial performance of the business, but also for the impact on the level of employee engagement.
The War for Talent

Grant Thornton and employee engagement

At Grant Thornton, we ask our employees to ask themselves the question: “Can I make a difference at Grant Thornton?” Our practical initiatives include:

- **Developing skills:** We involve people in projects and initiatives outside their usual role, using short-term secondments or rotation programmes between divisions and functions. These help to develop a broader skills and knowledge base, as well as providing new opportunities for people.

- **Coaching culture:** We hire smart people; our role is to create an environment where they can do their best thinking. We’ve invested in a programme of growing our own coaches (over 70 of our partners have completed a foundation coaching qualification) and embedded these skills in all our learning and development programmes.

- **Recruitment:** We’ve involved our people in bringing others into the firm – from our award winning Spilling the Beans site run by our trainees to share what it’s really like to begin your career with the firm through to our recruitment incentives to reward employees who introduce talented individuals to our firm.

- **A recognition culture:** Recognise people when they do great work and they are likely to do more of it. We introduced a recognition scheme where anyone in the firm can thank others for doing something well and in line with our values – this can be a simple thank you card through to gift awards. We share stories of success to inspire others.

- **Engaging our employees:** We recognise that effective communication is just as much about listening as talking. We have an elected forum of over 50 employees who meet regularly with our National Leadership Board and provide input into our business – from how we communicate to key decisions affecting them.

- **Innovation space:** We create the time and space for employees to think about how we can unlock the potential – for themselves, our business and our clients. We use social media collaboration sites to share and stimulate ideas. It’s really exciting seeing the passion and energy our people have to make a real difference in everything they do.

FACT

The Sunday Times ‘100 best companies to work for’ list shows that “being listened to” is the single most important factor in measuring how much employees value their organisations.
The return on investment in people

‘People are now becoming the most expensive component of the production process and technology is becoming the cheapest.’

Michael Dunkerley, Author

Why is it an issue now?

Global, technological, economic and environment changes are occurring at a rate that is arguably greater than ever before. It’s not enough to invest in the skills that made businesses successful today. Are you investing in skills to drive success in tomorrow’s world?

The phenomena of automation and the meteoric rise of the Chinese and Asian economies has had a seismic impact on UK organisations. In both manufacturing and service industries many routine, process-driven tasks are either migrating to those cheaper labour markets or have disappeared entirely.

This of course has a significant impact on the people within an organisation in terms of the skills they need to develop.

As Daniel Pink challenged in his book – A Whole New Mind – Does your job pass the three-part test? – can someone overseas do it cheaper, can a computer do it faster and am I offering something that satisfies the non-material desires of an abundant age?

And people costs are one of the biggest overheads for most businesses. A study of FTSE listed companies in 2011 showed employee costs as a percentage of the cost of sales was 21.8%. ONS data for unit labour cost, i.e. the amount needed to pay staff to make one unit of output paints a striking picture: in the final quarter of 2011 for the whole UK economy this was £239.57, compared to £173.87 in the first quarter of 2002, or an increase of just under 38%. Ten years ago, in the first quarter of 1992, it was £136.20, an increase of more than 75% over the past 20 years.

Managing these costs is critical to meeting budgets. People are a dynamic, appreciating asset; making the right investment decisions in respect of this asset is fundamental to achieving current and future goals.

Are you getting the best return on your spend?

In 2009/10, a study commissioned by the Institute of Employment surveyed 173 UK organisations employing more than two million people between them. It included representatives from the private, public and ‘not for profit’ sectors. More than 70% of the organisations surveyed believed that employee reward was either ‘very important’ or ‘critical’ to their success.

Around 68% of the organisations had made material changes to their remuneration arrangements over a two-year period. These changes were mainly to reward strategy, bonus/incentive plans and employee benefits and allowances. More than half of these changes were due to either cost or financial pressures, to better reflect market practice or to address specific weaknesses or ineffectiveness.

When asked how effective they believed their arrangements were against three criteria; alignment
with business strategy, external competitiveness for recruitment and retention, and level of pay versus performance and contribution only 2% felt that their arrangements were highly effective, while 71% responded that they were only reasonably effective or worse.

However, this doesn’t seem to have spurred the organisations to have reviewed the effectiveness of their employee reward arrangements. Less than half (46%) had carried out a comprehensive review and 36% a partial review, while 18% had not carried out any kind of review at all.

How are organisations maximising the return on their investment in people?

Our experience shows that employee reward is a key issue for the vast majority of the organisations we work with. These are some of the strategies they are putting in place to ensure that their investment in people is effective, efficient and generates the best return possible:

- **Find out what’s working in your current arrangements**
  Evaluate the various elements of current programmes in terms of fit with the organisation’s objectives, cost effectiveness of delivery and value generated.

- **Review employee benefit plans**
  When you factor in employee pension arrangements, benefit plans can represent a significant level of expense. Yet it is not uncommon for employee benefit plans to evolve over time rather than being part of an overall strategy. Organisations can save significant costs, as well as improve the value of their employee benefit plans, by taking the time to look at what employees actually value, reviewing and renegotiating arrangements with suppliers and restructuring how benefits are delivered.

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CASE STUDY

We recently reviewed our own arrangements for the provision of employee private medical benefit. We know from our employee surveys that this benefit is valued by our employees. Through the use of a medical benefit trust we were able reduce the cost of our private medical insurance by several hundred thousand pounds without having any impact on the level of cover or quality of service. We can now use the savings generated to reduce the level of employee contribution.

Grant Thornton
Audit Partner, Grant Thornton: It’s important to treat employees as an investment. An organisation’s people represent one of, if not the most valuable of its assets. Like any other asset it requires proper investment and management to maximise its value to the organisation. Making sure the organisation has the right people with the right skills, coupled with an effective and efficient employee reward programme will be crucial to enabling it to adapt and evolve to meet its growth aspirations.

- **Review the effectiveness of bonus and incentive arrangements**
  How effective are your arrangements in influencing employees and creating behaviour in line with organisational goals? An overly complex or poorly executed incentive plan can, at best, be a waste of money. At worst, it can reward behaviours which are ultimately detrimental to the organisation.

- **Broaden employee ownership in the organisation**
  Providing employees with a direct stake in the business can be a powerful driver for sustained future growth. The ‘John Lewis’ model shows that what people own, they also value. Research shows a personal, financial stake encourages employees to take more responsibility and ownership. This, in turn, improves productivity, profitability and employee engagement also, with the inherent benefits this brings for an organisation.

- **Reviewing the effectiveness of learning and development programmes**
  From what we have seen, even a relatively high-level review of learning and development programmes will often result in material improvements along with cost savings. These savings can be invested back into further development programmes. An effective learning programme ensures that the right people are doing the right job and at the same time they are developing skills for the future of the organisation. Learning programmes that aren’t backed up by on the job experience rarely deliver the promised improvements in business performance.

- **Evaluate the quality of the employee communication processes**
  One of the key elements in the success or otherwise of a reward programme is how well it is communicated. If employees don’t understand the programme, they won’t be motivated by it. Organisations can use employee surveys to identify any elements of the programmes that are not valued by employees, and either adjust or remove them, or improve how they are communicated.
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Multiple research sources have been used to compile this report, such as the MacLeod Report and the Office for National Statistics. A full list is available on request.