

## 2010 High Performance Workforce Findings: Research Survey Report Brief

Clearly the drivers and the economics of business have changed over the last few business cycles, however the constant factor has always been that the daily performance of a company's workforce has driven profitability. To compete in this economic cycle corporations have shifted to tactics which include reengineering processes, outsourcing functions, and acquiring complementary capabilities and business. Moreover, corporations have moved their workforces towards more variable cost structures, tied incentive compensation to financial outcomes, realigned compensation with business objectives, and retooled and retrained as needed to be competitive.

*Since 2005, we have been researching the attributes and practices that contribute to high performance.*

*How top performing companies connect and align programs to strategy is a critical element of success.*

While executives routinely acknowledge that their businesses need to be more productive there still exists a substantial gap (and opportunity!). In fact, small businesses lag far behind their larger counterparts regarding the adoption of High Performance Workforce practices; research shows that less than half have implemented High Performance Workforce (hereinafter referred to as HPW) attributes and programs.

Of the businesses that have adopted High Performance Workforce attributes: they indicate the top reasons included were:

1. **Need for Labor Productivity and Talent Management to Maintain Competitive.** Graying workforces, shortage of highly skilled talent, and also the fact that history has taught that younger workforces are less productive than older workforces makes today's business climate more challenging for small business owners. When indicating where their companies will find the talent they need, executives most often cite new talent entering labor markets (40 percent), talent due to delayed retirement (25 percent), talent from 3<sup>rd</sup> party providers (15 percent), and foreign markets (15 percent).

- II. **Resource Management Requirements** caused by rising costs of doing business – from labor<sup>1</sup> and health & welfare healthcare costs to the rising cost of skilled talent. The pace of business, the competitive pressures, and ever emerging threats requires executives and leaders to be better planners, innovators, and to maximize execution efficiencies. Essentially all firms need to be able to answer the question: *How do we effectively deploy, utilize and maximize our resources?*
- III. **Role Clarity<sup>2</sup> and Alignment** is a top challenge reported by more than 40% of small business executives. Given today's pace of business firms that have talented workforces that can adapt, respond, and perform given changing requirements and roles is paramount.
- IV. **People Effectiveness**
- Ineffective functions such as IT and HR (nearly 40% of firms cite that these functions are not leading to financial success) must be optimized and supportive of corporate objectives.
  - While recognized as "Mission Critical" functions, Marketing, Sales and Distribution, are not producing the necessary outcomes, productivity and ROI.

*Today's marginal performing companies have a high probability of being tomorrow's bankruptcies.*

As the competition for talent increases and businesses become increasingly cost focused; **being able to respond to change** more often is the difference between underperforming and market leaders.

There is tremendous differences in value creation between "engaged employees on a career path" and those "at their day job collecting a paycheck in between online browsing and other work avoidance tactics."

Employers that opt to invest in their "Employer Value Proposition" gain a competitive advantage as top talent will opt for companies with practices and programs to motivate and retain key performances. Without a well articulated people strategy management cannot build scale, nor be consistently effective.

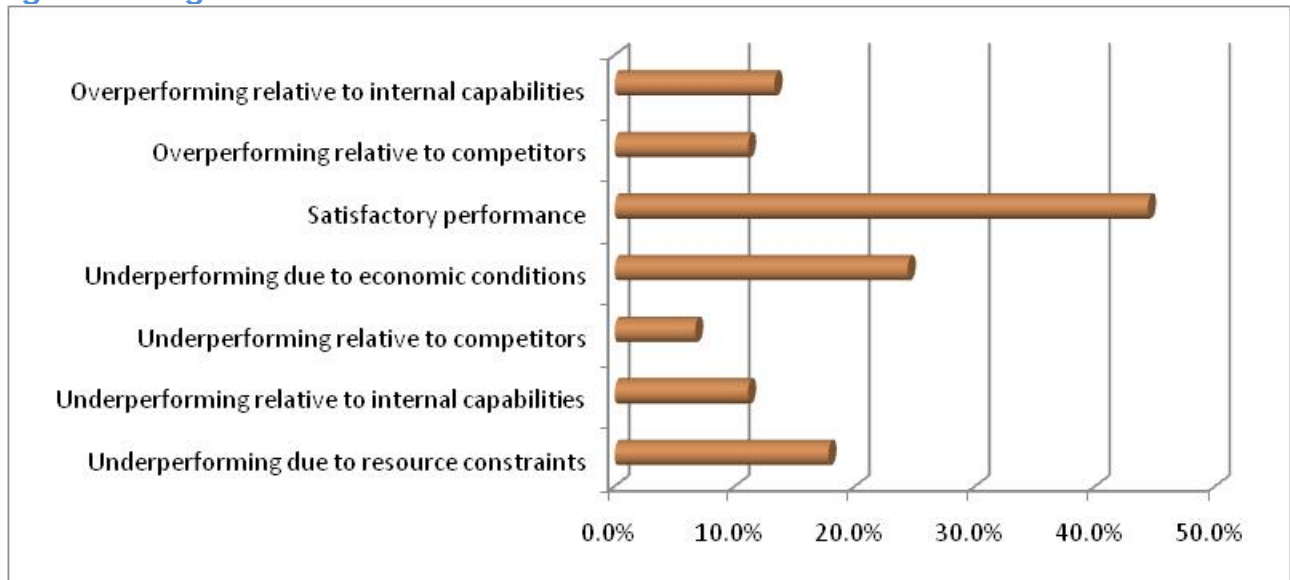
All great companies have defined how they best deploy and utilize their greatest assets. The following findings detail the adoption, benefit thereof, and utilization of High Performance Workforce (HPW) practices.

<sup>1</sup> The Labor Supply Imbalance for small businesses is due to the demographic changes of the population; i.e. "the baby boomers."

<sup>2</sup> Role Clarity is achieved when an employee understands how their activities, behaviors and results impact their team or function and overall corporate objectives and also the employee is doing the right job in the right amount at the right time.

## Business Performance Year-to-Date against Corporate Goals

Q: How would you best describe your business performance year-to-date against its goals?



This spring (May 2010) 45% of survey respondents cited *Satisfactory Performance* YTD with 1 in 5 citing *Overperforming* and the remainder *Underperforming* (i.e. one in three US small businesses is failing to perform up to expectations).

Last fall (August 2009) only 15% were *Overperforming* and approximately 20% cited *Satisfactory Performance* meaning that more than 2/3 cited *Underperforming* with the primary reasons being *Economic & Competitive Pressures*.

*Why the decrease from 2/3 to 1/3 of Underperforming companies?* Certainly there must exist a multitude of correlating reasons, but of notable significance is the fact that over the past two years bankruptcy rates have increased 400%, and consolidations have increased as well. It's not a stretch to hypothesize that today's marginally performing companies have a high probability of being tomorrow's bankruptcies and acquired companies.

## The Differences Between Overperforming and Underperforming

The *Overperforming* companies reported utilizing a combination of the following High Performance Workforce practices:

### Key Driver of Success

- ☑ 91% cite Organizational Culture & Work Environment and 50% cite Strategic HR techniques and initiatives as a key driver of financial success.
- ☑ 9 out of 10 cited New Product Development and Product Management as a key driver of success.
- ☑ 3 out of 4 cite IT as a key driver of financial success.

### Top Workforce Priorities

- ☑ 3 out of 4 report that Sales Effectiveness is a top priority.
- ☑ 54% reported the Alignment of People and Strategy.

### Notable HPW Programs and Attributes

- ☑ 100% report that *Employees Are Actively Involved in Decision Making*.
- ☑ 9 out of 10 outsource at least two functions with the majority outsourcing IT, payroll, and website development and maintenance
- ☑ 3 out of 4 utilize Incentive Variable Compensation
- ☑ 3 out of 4 use Flextime and Flexible Scheduling

The *Underperforming* do not utilize regular reporting and monitoring including, measurement and metrics:

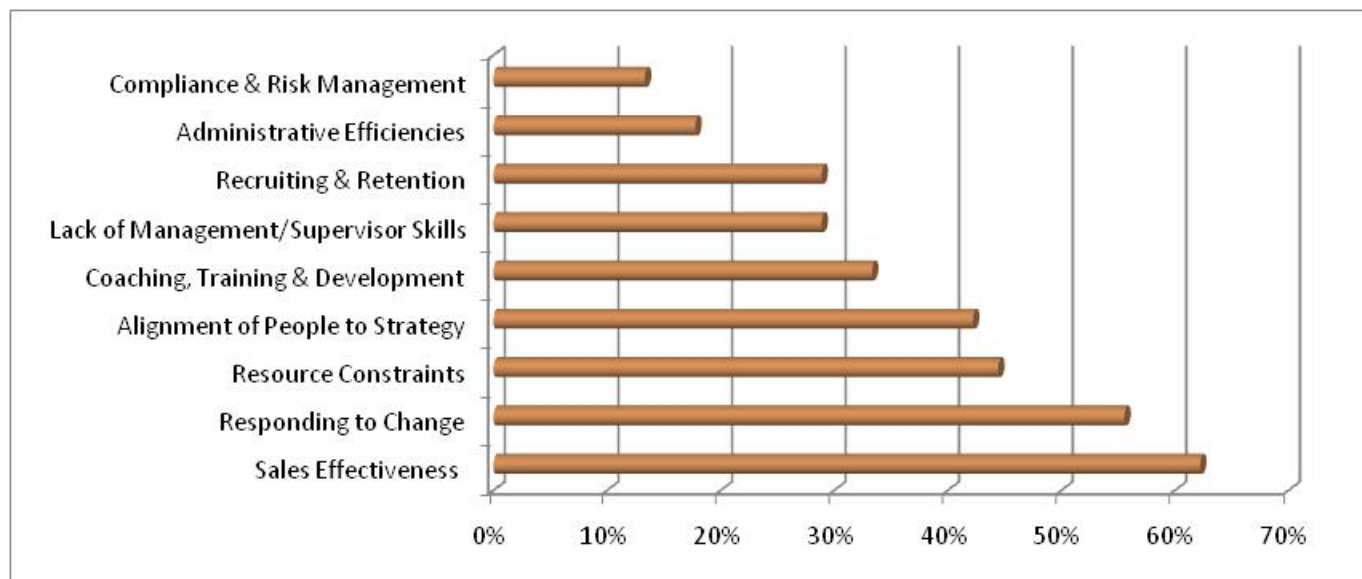
Q: Which of the following does your company use?

Usage	Do Not Use or Needs Improvement
Reporting & Dashboards that guide employees' daily activities	50%
Outside Board of Advisors (Board or Customer/Partner Advisory Panel)	70%
Strategic Workforce Planning (Staffing & Organizational Development Plan)	58%
Consultants	58%
Company-wide Corporate Meetings	45%
Strategic Initiatives	51%

- X Only 1 in 4 have small businesses reported having established regular reporting rhythms (i.e. accountability management programs).
  - X Only 40% utilize either industry or competitive benchmarking.
  - X Less than half track simple Human Capital metrics like turnover rates, onboarding success, and training hours/dollars.
- Contrary to popular belief; creating a high performance workforce starts with process excellence.

## Top Workforce Challenges

Q: What are the Top Priorities for the remainder of 2010?



People challenges play a critical role according to the responding executives as each item in the table above is deemed a "TOP PRIORITY" by the owner for driving their business.

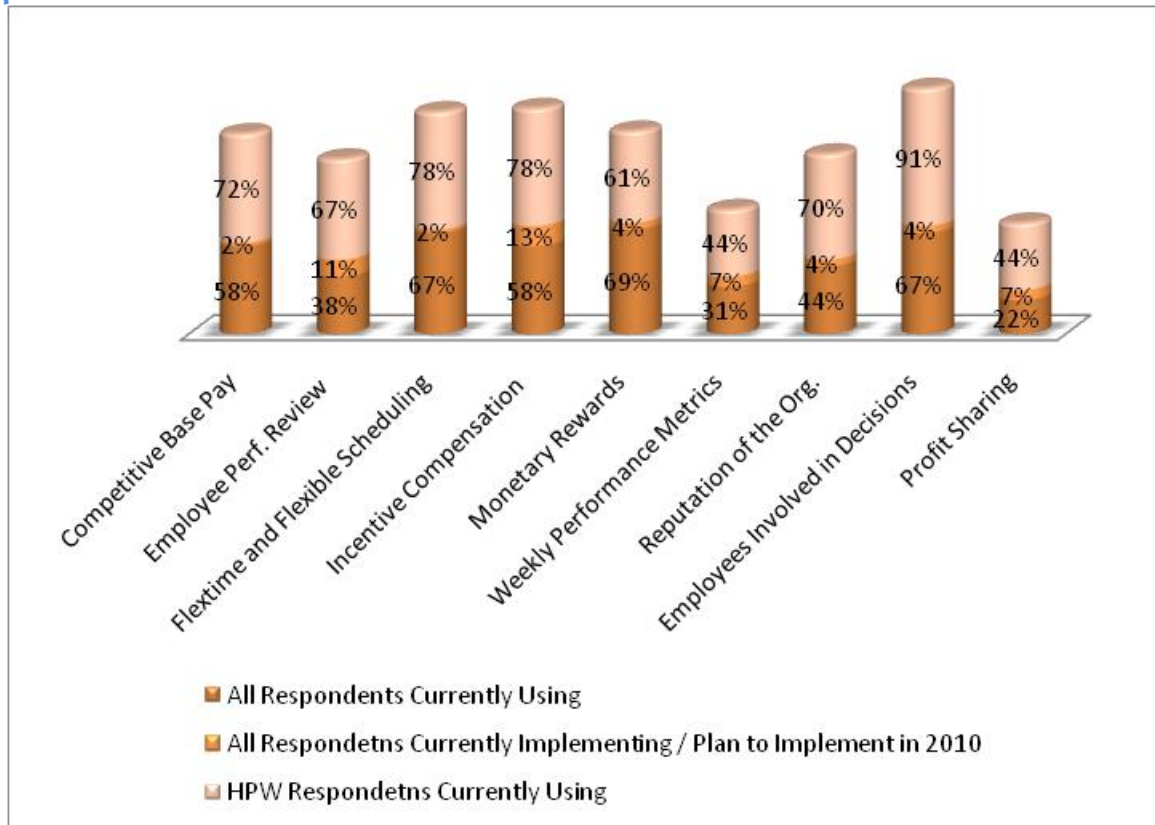
### Key findings:

- > The majority of respondents indicate that they struggle with mission critical tasks such as *Sales Effectiveness*, and the *Alignment of the Workforce to the Business Strategy*.
- > The challenge of "*Responding to Change*" increased from 45% to 55% between August 2009 and May 2010
- > The top two challenges from 2008 were 1) *Finding and Attracting Talent* (41%), and 2) *Maximizing Employee Performance* (38%).
- > *Training, Coaching and Development* was reported a "TOP PRIORITY" by 28% in 2008 versus 44% in 2009 versus 33% above.

The shift in priorities from fall 2009 to spring 2010 highlights the diverse and complex challenges small businesses face in this new economy.

## Current Usage of High Performance Programs

Q: Which of the following tools does your company use to improve performance?



Between 2009 and 2010:

- Incentive Compensation (Variable Pay for Performance) increased from 38% to 58%.
- Monetary Rewards were up from 38% to 69%.
- Employees Involved in Decision Making up from 20% to 67%.
- Flexible Scheduling and Flexitime up from 38% to 67%.

## Outsourcing Adoption

Q: Which of the following functions does your company outsource?

Outsourcing Adoption	2009	2010	Change
Bookkeeping	25%	35%	10%
CFO Activities	25%	16%	-9%
Executive Placement	17%	8%	-9%
Financial Reporting	17%	13%	-4%
Human Resources	21%	16%	-5%
IT (Information Technology)	33%	48%	16%
Marketing	29%	16%	-13%
Operational Reporting & Analytics	21%	3%	-18%
Payroll	38%	43%	5%
Public Relations	21%	18%	-2%
Risk Management	4%	3%	-1%
Safety	4%	1%	-4%
Staffing	17%	8%	-9%
Telemarketing / Telesales	25%	14%	-12%
Training / Coaching	8%	5%	-3%
Website Development & Maintenance	50%	35%	-15%
Workforce Compliance	8%	6%	-3%

The majority of companies outsource at least two functions of their business.

## Strategic Initiatives

Q: Which of the following strategies is your firm actively pursuing in the near-term?

Company Initiative	2010
New Sales and Marketing Strategies	78%
Product/Service Expansion	66%
Strategic Partnerships and/or Technology Partnerships	51%
Profitability &/or Operational Improvements	49%
Optimize New Market Expansion including customer acquisition and service model	42%
Joint Ventures and Alliances	37%
Implement Company-wide Reporting and Dashboards	37%
Improve your Culture (for example adopt "Service Excellence")	32%
Alternative Distribution of Products/Services	32%
Financial Capital Raise / Strategic Investor	12%

## Conclusion

For most companies, people represent the largest single expense. No company would invest in software systems or open a new location without a financial model and plan to generate meaningful ROI, yet the vast majority of all companies fail to initiate and focus on programs related to their human capital assets.

All too often executives and managers are willing to tolerate lackluster performance, convoluted reporting structures, irresponsible behaviors, ambiguous career paths and ad-hoc decision making to the detriment of company performance. On the other hand, high performer organizations enjoy fast and effective decision making frameworks and processes that a) set clear priorities, b) ensure the “Qualities of Right” (aka the right people are doing the right job in the right amount at the right time), c) adhere to formal decision rules with focused creativity and innovation on specific initiatives, and d) have defined business processes that are continuously refined coupled with a service excellence culture and behaviors that are synergistic to the business objectives.

Regardless of the Stock Market or large company performance, success is not going to come easy for to small businesses; especially with respect to the cost of capital<sup>3</sup> and labor<sup>4</sup>. For any business leader, the most important question to ask is:

***What strategy components have changed for my business and what resulting actions am I now required to make to engage employees and create a high performance workforce?***

Outside of the business model success depends largely on employee innovation, drive, skill, motivation, and dedication. Employee engagement does not require mid-management nor micro-management; high performance workforces require a) effective management systems, b) effective executive leadership, and c) engaged, incented, and empowered employees.

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<sup>3</sup> Funding growth from internal cash is the most reliable and resource flexibility will certainly dictate growth.

<sup>4</sup> Engaged employees, studies show, provide tangible advantages to the organization like greater customer satisfaction and improved profitability. In contrast, the Gallup Organization has discovered that disengaged workers cost U.S. business between \$250 billion and \$350 billion each year.

## Research Survey Methodology

This twice-yearly survey is conducted every spring and fall. The results detailed in the following brief are based on one hundred (100) surveys completed during May 2010 by small business owners.

Respondents were C-level executives from small and mid-market, for-profit, private employers in the USA with greater than \$1M in annual revenues. The respondents ranged in size with approximately 3% having more than 1,000 employees, 7% between 100 and 999 employees and the remainder from enterprises with less than 100 employees. 1/3 of respondents were under \$2M in annual revenues, 1/3 were between \$2M and \$10M in annual revenues, and 2 percent had more than \$150M in annual revenues.

Industries represented include: Accounting and FAO (Financial and Accounting Outsourcing), Advertising and Marketing Services Providers, BPO (Business Process Outsourcing), Consulting and Professional Services, Distribution, Human Resources and HRO (Human Resources Outsourcing), Financial, Hospitality, Healthcare, Healthcare Insurance & Benefit Providers, IT Service Providers, Logistics, Software and Technology (including SaaS providers).