

WHITE PAPER

RE-DEFINING TALENT PARTNERSHIPS THROUGH VALUE PYRAMID ANALYSIS

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DECEMBER 2012

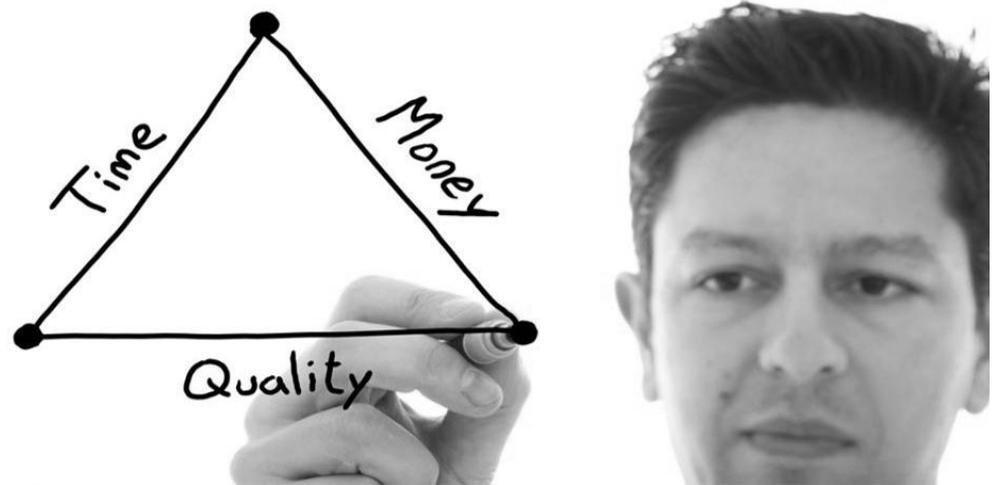


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Contents

Introduction	4
Back-drop to a changing staffing environment.....	4
The merging of flexi-working and flexible workforce	5
How the World of Talent Works Today	6
A Short-term Fix: Project-based Organizational Designs.....	7
The Employer Perspective: Long-term Talent Flexibility	8
The Employee Perspective: Flexible Working	8
New Strategic Outcomes	10
What Value Pyramid Analysis Reveals for Workforce Enablement	11
Contact information	13
About the Authors.....	13
The Workspend Institute	13



Value Pyramid Analysis is a simple cause and effect analysis approach that helps strategic planners to interpret the hierarchy of strategic priorities that exists for any particular sphere of business activity.

It focuses down on the macro issues that stakeholders care about and articulates those attributes of process and capability that remain the domain of service providers.

In short, it helps an industry eco-system to scope out ‘the outcomes that really matter’.

Introduction

Back-drop to a changing staffing environment

Like any eco-system, organizations operate within a context of their environment – their market-place, their locality, the people that serve them, suppliers that provide raw materials and services, customers that buy from them. These external factors shape the way organizations behave. Since the turn of the century the business environment has transformed to a point of being unrecognizable to 20th century organizations.

The 20th century was about industry and *mechanization*. The vision of most business leaders was to achieve economies through a blend of productivity enablement and mechanization, to become lean and mean; to be excellent at those internal processes that would drive production, market share and ultimately shareholder value. And most of these organizations, if not all, operated a command and control management structure that meant the educated few directed the uneducated masses. Humans in this picture of a perfect organization were little more than drones that were to be owned, told what to do and then paid a salary for their labors.

The 21st century is about agility. Improved telecommunications, travel methods, computing and the Internet have all contributed to the globalization of markets. Seemingly every product or service is within reach ‘at the speed of light’ as Bill Gates, founder of Microsoft® put it. The state of competition has changed with some regions of the world enjoying advantages in lower cost labor supply, while others benefit from Western World brand leadership. The balance of power rests on adaptability and the recognition that markets are changing their shape and structure. The Darwinist mantra of ‘survival of the fittest’ has morphed into ‘survival of the most *adaptable*; the *fastest to market*; the organization *most able to respond quickly* to new and emerging customer wants. Traditional Michael Porter-esque marketing strategy concepts of ‘winning market share’ in static markets have been corrupted by a paucity of examples where markets have converged, deformed, transformed – to be forever changed by new competitors able to leverage their *privileged assets* and *operational capabilities*, emerging from different industries; seemingly appearing from nowhere. Mechanization has run its course: Most organizations are by now reasonably efficient at managing their internal processes; generally using the same tools and similar methods to achieve their outcomes. Competitive advantage is more about adapting to market opportunities and change FASTER than competitors than it is about sharpening pencils and cutting resources that support processes down to the bone.

To survive and secure growth in this harsh trading environment, organizations require *adaptive resources* – ‘rubber-walled’ buildings that can scale as a business grows, equipped with ‘rubber-walled’ facilities and IT, and populated by a ‘rubber-walled’ talent pool.

The merging of flexi-working and flexible workforce

This new climate places a different emphasis on the nature of employment that can be summarized in one word – flexibility.

- Employers seek ‘rubber-walled talent’ to be available to their organizations in the right quantity and quality – supplied on-demand
- Employees seek employment opportunities that balance with their lifestyle choices – no longer seeking a job for life but instead looking to pursue their chosen careers ‘one project or one placement at a time’.

Whilst these two characteristics of the labor market seem to be complementary and in harmony with one another, the reality of how talent markets work today - and should work tomorrow - is far less transparent.

This paradigm shift in the nature of workforce relationship introduces new challenges and priorities for employers - and the vendors that serve them - which we consider in this document.

How the World of Talent Works Today

The way organizations source flexibility in their talent pool is largely through third party vendor relationships though precisely how they procure talent differs according to regional variances in demand, supply and market structures.

- In the United States for example the majority of large organizations source up to a quarter of their flexible talent pools through what is described as ‘contingent staffing’ where third party vendors manage the contracting of flexi-labor on-demand. Third party vendors contract the talent employing the individual on behalf of the end-client. Vendors are typically contracted via a Vendor Management System (VMS) and this system itself may be managed by a third party (a so-called Managed Service Provider or ‘MSP’ that is meant in principle to be vendor-agnostic although many MSPs are also staffing providers themselves). Employers manage their supply-chain of talent by employing HR procurement professionals and the HR department tends to focus its attention more to the growth and well-being of permanent staff. United States Employment law permits organizations to adopt an ‘Employment at Will’ contract clause that loosely means employers can choose not to employ individuals at a moment’s notice when it no longer suits them to do so.
- In Europe, organizations are more likely to engage staff on direct temporary employment contracts through their HR department; where the HR Department manages the fulfilment of talent needs on behalf of the organization. Fewer organizations employ HR specialists in their procurement team (though this is gradually changing due to the influence of the U.S. on market behaviors). EU Law demands that within 12-weeks of commencing employment as a flexi-worker, individuals should enjoy a parity of rights to employees on full-time contracts including access to systems, fringe benefits and opportunities for career advancement. Penalties exist for those organizations that fail to comply. Furthermore, employment law insists that individuals should not be made redundant without a legitimate reason and therefore ‘Employment at Will’ is not a legally valid concept.

Examples of EU Employment Law:

Directive 2008/104/EC, 11: “Temporary agency work meets not only [employer] needs for flexibility but also the need of employees to reconcile their working and private lives. It thus contributes to job creation and to participation and integration in the labour market.”

Directive 2008/104/EC, 14: “The basic working and employment conditions applicable to temporary agency workers should be at least those which would apply to such workers if they were recruited by the user undertaking to occupy the same job.”

Directive 2008/104/EC, Article 6,1: “Temporary agency workers shall be informed of any vacant posts in the user undertaking to give them the same opportunity as other workers in that undertaking to find permanent employment. Such information may be provided by a

general announcement in a suitable place in the undertaking for which, and under whose supervision, temporary agency workers are engaged.”

Directive 2008/104/EC, Article 6,1: “Without prejudice to Article 5(1), temporary agency workers shall be given access to the amenities or collective facilities in the user undertaking, in particular any canteen, child-care facilities and transport services, under the same conditions as workers employed directly by the undertaking, unless the difference in treatment is justified by objective reasons.”

While variances exist in supply-chain behaviors between regions as outlined above, most employers today still see a thick dividing line between contracted and permanent staff.

A Short-term Fix: The Projectization of Work Allocation

For many organizations, a short-term fix to engineer talent agility into their businesses has been to adopt project-based organizational designs and to source talent through third parties against Statement of Work (SoW) contracts. The ability of third party vendors to source flexible talent has been made more possible by the Projectization of work allocation and project-based organizational structures that means a flexible workforce can be contracted on a time-and-materials basis to meet changing capability requirements.

Organizations have become more project-centric in the way they are organized for a number of reasons including:

- It's generally easier to measure outcomes and productivity by firstly scoping a project outcome and resourcing it, than simply paying people on a day-rate
- Business has become more community centric. More and more projects now cut across departments or involve third parties than ever before. It therefore makes sense to ring-fence resources and costs to a project definition so that roles, responsibilities and budgets can be assigned to contributors.
- Organizations are changing more rapidly and therefore need organizational designs better able to cope with fast-changing demands for resources. Project-based structures work better in this regard because resources can be established for a project as and when needed, and then dispersed on the completion of the project.

Whilst project-based delivery approaches and contingent workforce systems are meeting a necessary market need, they are far from being a sustainable long-term solution. As the need for agility grows and becomes the norm, a more robust, thoughtful and sustainable solution to agile workforce management is needed that overcomes the challenges of:

- **Compliance adherence** – Many organizations struggle to achieve the same level of workforce performance from contingent workforce due to challenges in on-boarding and the development of job specific skills that may be peculiar to the employer. In sector like healthcare, where staff are prescribing medicines, the risk of contingent staff not adhering to process protocols can be truly life threatening for someone.

- **Productivity** – The ability to optimize the productivity of workers across an enterprise remains a fundamental challenge to most organizations in the 21st century. Faced with competitors enjoying lower labor costs, western world corporations have an urgent need to achieve more value from workers in less time. The Australian Government is just one example of the many administrations around the world that now see productivity as their number one economic lever and battleground for competitive advantage. But achieving productivity levels from hired employees isn't easy when clear divides exist between workforce communities forged by the way they are contracted and reimbursed. With potentially 1 in 4 employees being 'hired' in this way, strategies to achieve higher levels of productivity, already seen as difficult to implement, become almost impossible to engineer within the current framework of fragmented interpersonal relationships.
- **Attitudinal governance** – Few organizations are able to have their flexible workforce adopt the same brand values and attitudinal standards that permanent staff do. It's hard to install brand values and behaviors in people that are only going to be around for a few weeks or months!
- **Securing talent capacity** – Organizations need to be absolutely confident they can satisfy best-fit talent requirements as they need them.

The Employer Perspective: Long-term Talent Flexibility

Ultimately, even when equipped with project-based organizational designs and with third party vendors working hard to fill capacity challenges, organizations know this level of flexibility simply isn't enough of a guarantee that best-fit talent can be found and embedded into their organizations as they need it.

To be competitive, organizations know they need the *right blend* of talent *when they need it* at *all levels* of their operations including management and knowledge-based roles but they continue to be constrained by their access to talent and limitations of supply. There are many employers competing in a global market for a reducing 'skilled workforce' and this is driving up competition and costs.

Securing talent on full-time contracts was at one time seen as the best way to guarantee supply of the right quality of talent. But when faced with a combination of more inflexible employment regulations and a faster pace of market change, organizations know it makes little sense to secure talent 'full-time' when it might not be needed a year on.

The alternative option is to source talent on flexible contracts or through third parties but in such a way that the short-comings of current methods are overcome.

The Employee Perspective: Flexible Working

It's not only employers that want increased flexibility in the talent market: employees are no longer expecting a job for life – they know it's not realistic – so instead they seek to grow their CV one project or placement at a time. Individuals in high demand for their skills know they can find work on their own terms and achieve higher pay rewards. Flexible working is no longer the sole domain of unskilled workers seeking casual work, doctors, IT professionals, workplace designers, project managers, software developers, product marketers and teachers

are all finding their skills can be translated into a better lifestyle and better pay when they work via a flexible contract relationship.

It raises the question: Are the worlds of flexi-worker and flexible-workforce beginning to meld?

Certainly the growing community of contracted knowledge workers and highly skilled individuals that would have at one time settled for a more flexible working relationship with one employer are finding their way onto the job market through more specialist agencies.

A report, carried out by Kingston University on behalf of the Professional Contractors Group (PCG), showed that the number of UK contract workers has increased by 12% this year as more and more UK businesses seek the talent they need to carry out specialist work. A third of the businesses surveyed said that they use contractors on a weekly basis and 41 per cent plan to expand their use of flexible workers in the near future.

Temporary placement service provider Adecco predicts that the rate of growth in contingent workers will be three to four times the growth rate among traditional workforces, and that they eventually will make up about 25% of the global workforce.

Experienced business professionals benefit from working through an agent because:

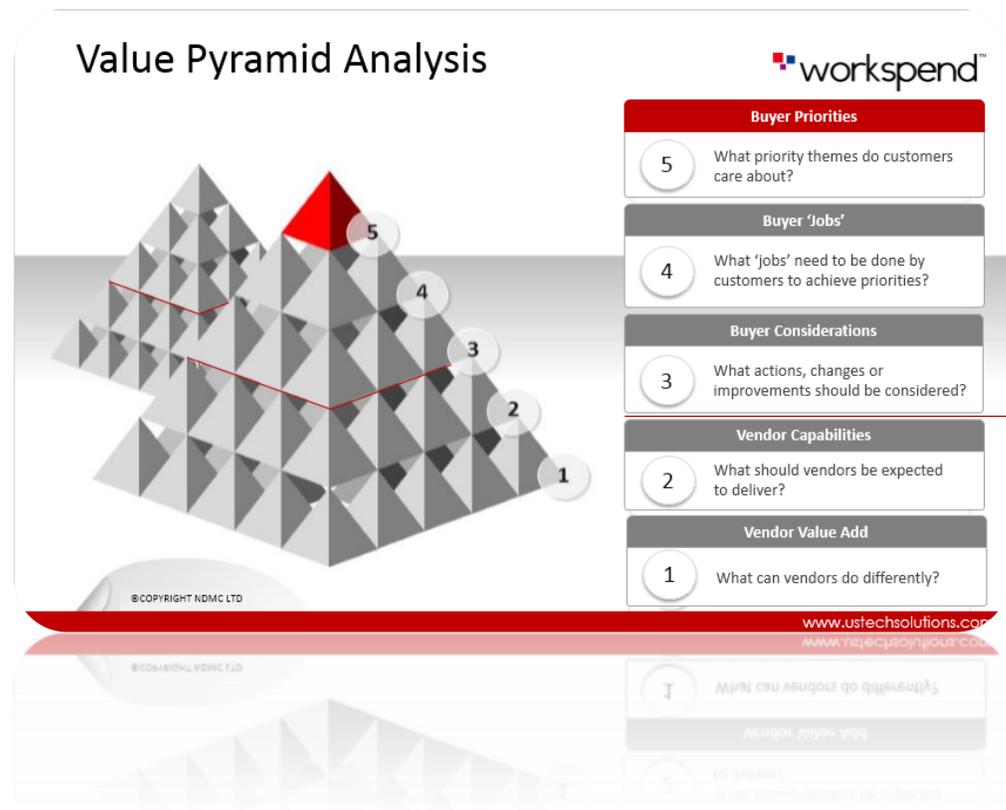
- Time between projects is reduced.
- Individuals need to spend less time on non-chargeable activities such as finding new projects that fit their skills.
- Many business professionals don't have the interpersonal skills to 'sell themselves' while they may be excellent and discharging a professional role.
- The fee of the agent is normally picked up by the client through the monthly billing rate and so the individual incurs no overhead for the benefit of having a full-time agent.

This transformation in workforce behaviors and characteristics is re-setting the talent industry's understanding of flexi workers that at one time was solely focused around the supply of an unskilled workforce to meet the needs of agriculture, logistics and retail. Now a contingent workforce is as likely to include white collar business professionals, scientists and doctors who choose to work through an agency.

New Strategic Outcomes

In the knowledge that the talent industry is challenged to find a *third way* of sourcing talent on-demand - that blends the best of permanent employment with the best of agency delivered flexible workforce – both large corporate employers and their talent supply-chain vendors are revisiting where the value exists within the value chain.

A useful method of qualifying the cause and effect relationships that link vendors to client value is an analysis method called Value Pyramid Analysis developed by stretch strategy management consultants NDMC Consulting.



Value Pyramid Analysis qualifies the cause and effect relationship that starts by qualifying (2) what 'jobs' client customers seek to achieve with their agile workforce strategy, and then the outcomes (1) that clients most care about. Next it considers (3) what actions, changes or improvements should be considered in order to get the job done better. Finally, the below the line vendor – contributor - perspective is considered in terms of (2) what should vendors expect to deliver to their clients and (1) what can vendors do differently to bring differentiating value.

A cause-and-effect profiling model of key strategic issues emerges that helps both consuming organizations and providers to establish a richer appreciation of *what can be done differently* and how can the top-line priorities be achieved.

What Value Pyramid Analysis Reveals for Workforce Enablement

Method:

The Workspend Institute captured feedback from its client base in the United States and Europe (that includes 50 Fortune 500 companies) on their perspectives on emerging talent management issues and further qualified its findings by engaging with its industry partners (supplemented by secondary research) to profile a series of key issue topics. From this *issues short-list* a series of Value Pyramids were formed and these were employed as *straw-men* to validate the opinions and perspectives of the interviewed group.

When we approach our clients and apply Value Pyramid Analysis methods to better understand the changing dynamics of the workforce market-place (in the USA and Europe), a series of six key priorities reveal themselves.

Findings:

Six key priorities were identified. Presented here are the *first three levels* of the Pyramid for each priority.

1. Increased pace of change in markets and therefore the rate of change in business models is leading to...

↳ More rapid changes in talent requirements that is driving ...

↳ A need to repeatedly iterate the alignment of talent supply to business needs.

2. Increased levels of competition in markets is leading to...

↳ More output demanded from investments in labor that is driving...

↳ A need to minimize labor related costs in areas of (a) Supply, (b) Productivity and (c) Transition.

↳ A need to maximize creative innovation.

3. A global market demand for talent and shortage in the supply of skilled staff is leading to...

↳ More challenges for employers to source affordable high-calibre talent on demand that is driving ...

↳ A need to find alternative sourcing approaches.

4. Increased demands by workers for flexible working is leading to...

↳ More challenges for employers to manage remote and flexi working that is driving...

↳ A need to find alternative sourcing approaches where vendors can embed

policies that relate to permanent staff (such as on-boarding, team collaboration, attitude, adherence to compliance etc.) to the extended workforce.

5. The projectization of work allocation is leading to...

↳ More Statement of Works (SoW) based activities that is driving...

↳ A need to find 'plug-in-able' sources of best-fit on-demand labor supply.

6. A risk-averse business climate produces an increasingly complex compliance framework. This is leading to...

↳ More challenges for employers to outsource contracts to protect from litigation that is driving...

↳ A need to find alternative sourcing approaches that minimize non-compliance threats.

Summary Conclusions:

Value Pyramid Analysis is a useful way of qualifying priorities and strategic outcomes.

- For large employers it suggests more can be done in consort with partners to engineer a talent management environment that better serves organizational needs.
- For vendors, it's clear that no all vendors will be best-placed to service every aspect of talent management. Therefore more specialization towards key areas of strengths appears to be a more solid 'go forward' approach.

When applied to the workforce market-place out findings suggest:

1. To sustain growth in hyper-competitive markets, businesses need to build a new form of organizational design: An agile 'rubber-walled' organization that can grow and shrink according to need without incurring high frictional costs with...
 - Rubber-walled 'facilities'
 - Rubber-walled 'IT'
 - Rubber-walled 'workforce'
2. Today third party vendors in the staffing industry are catering for the *symptoms* of the fundamental challenges facing employers but doing very little to engineer a third way of talent sourcing that addresses the priority issues employers identify as being mission-critical to their future success.
3. Organizations should consider securing partnerships with 3rd party facilities, talent and technology vendors with the means to not only supply best-fit talent but embed and perpetuate adopted ideology, policies and methods.

Contact information

About the Authors

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The Workspend Institute

The world of work is changing both for employers and employees. The Workspend Institute invests in acquiring and sharing insights on how flexible workforce strategies are evolving to assist its community of Fortune 500 partner organizations. For further information please visit www.workspend.com.

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