

# Talent Management is the Top Challenge Facing Services Organizations

February , 2015 by [Jeanne Urich](#)

Source: [Spiresearch.com](#)

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In 2015, talent takes center stage as both the top challenge and the top improvement priority in the world of technology professional services. Global economic recovery, changing workforce dynamics and the pervasive use of technology in our professional and private lives have transformed the world of work.

For example, today's consulting workforce is increasingly virtual with almost as many consulting hours delivered off-site as on the client's site. According to the [2015 PS Maturity benchmark](#), based on input from 220 professional services organizations representing more than 63,000 consultants, 25 percent of consultants primarily work from home with another 15 percent described as contingent workers either onshore or off.

The new world of work depends on a multilingual, global, technically-skilled, project-based workforce. Professional services leaders must squarely confront the realities of attracting and retaining a younger workforce against the backdrop of a technical labor shortage.

Globalization has significantly affected workforce strategies with many service providers providing hybrid on- and offsite resources via regional and global competency centers. Based on technology advances, consulting emphasis is shifting toward business process and vertical expertise. However, demand for horizontal application and technical skills remains high.

## **Human Capital Alignment**

Service Performance Insight's "Human Capital Alignment" pillar encompasses all elements of the professional services workforce strategy. Human Capital Alignment focuses on the people processes and systems required to recruit, attract, retain and motivate a high quality consulting workforce.

The bottom line in the Human Capital Alignment pillar is that known best practices of providing clear roles and job descriptions, timely performance reviews, fair compensation, career planning and skill building pay huge dividends in employee

satisfaction, billable utilization and on-time project completion. Executing an effective Human Capital Alignment strategy produces a long-lasting payback and should make the short list for any maturity improvement plans.

Table 1 shows how PSOs mature across the Human Capital Alignment pillar.

**Table 1. Human Capital Alignment Maturity Model**

	Phase 1 Initiated	Phase 2 Piloted	Phase 3 Deployed	Phase 4 Institutionalized	Phase 5 Optimized
Human Capital Alignment	Hire as needed. Generalist skills. Chameleons, Jack of all trades. Individual heroics. May perform presales as well as consulting delivery.	Begin forecasting workload. Start developing job and skill descriptions and compensation plans. Rudimentary career paths. Start measuring employee satisfaction.	Resource, skill and career management. Employee engagement surveys. Training plans. Goals and measurements aligned with compensation. Attrition less than 15 percent.	Business process and vertical skills in addition to technical and project skills. Career ladder and mentoring programs. Training investments to support career. Low attrition, high employee engagement.	Continually staff and train to meet future needs. Highly skilled, motivated workforce. Outsource commodity skills or peak demand. Sophisticated variable on and off-shore workforce model.

Source: Service Performance Insight, February 2015

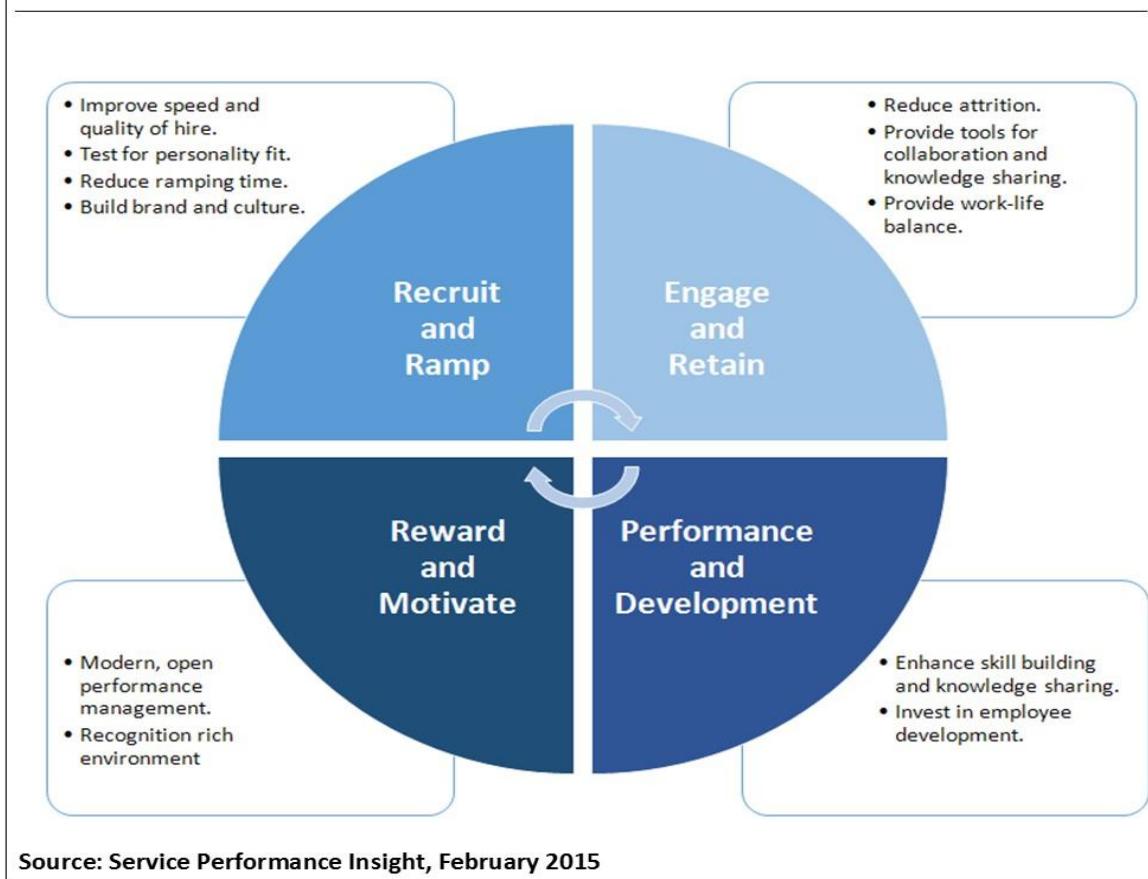
One of the most important challenges for today’s B2B professional services leaders is competing for top talent in a level, global, web-enabled playing field of digital natives who value collaboration and cool new technologies more than security and remuneration.

**Today’s Human Capital Alignment challenges include:**

- **Attracting, retaining and motivating top talent.**
- **Managing through a technical labor shortage.**
- **Managing a global, multilingual, multicultural, multigenerational workforce.**
- **Managing a variable, contingent workforce or both.**

By definition, professional services organizations are judged by the quality of the people within the firm. The essential elements of the PS workforce plan are shown in Figure 1.

**Figure 1. Essential Elements of the PS Workforce Plan**



Interesting trends have emerged from SPI Research’s eight years of benchmarking more than 2,000 professional services organizations, which are outlined in the following sections.

### Big changes

- According to the [2015 PS Maturity benchmark](#), PS attrition is rising at an alarming rate. In 2015, worldwide PS attrition rose to 9.3 percent from 8.1 percent in 2014. On a global basis, attrition is highest in Asia Pacific at 10 percent, closely followed by North America at 9.4 percent with EMEA lowest at 6.7 percent.

- A key finding in TriNet’s 2014 employment report states: “Technology and professional services were the hottest growing sectors for the year, with annual net job growth of 49 percent and 26 percent, respectively. For the technology sector, this is nearly twice the growth rate when compared to 25 percent in 2013. Professional services witnessed the greatest year-over-year increase as 2013’s annual growth rate was only 8 percent.”

- Fewer and fewer consultants work from a central headquarters location mandating the use of technology to support communication, collaboration and knowledge sharing.

- Every year a higher percentage of PS employees are billable (75 percent), which means leaner management and lower administrative overhead.
- Ratings for confidence in leadership, ease of getting things done and innovation have declined each year indicating PS employee engagement and trust are waning.
- Average time to recruit and ramp a new consultant has increased to 126 business days, indicating the war for top talent has accelerated.
- Bill rates for the top PS organizations average 25 percent higher than average rates indicating clients are willing to pay a premium for superior skills and knowledge.

### **Unchanged**

- Year-over-year headcount growth is consistently lower than year-over-year revenue growth which means the PS industry is constantly ratcheting up productivity.
- Project staff size and duration continue to decline, mandating effective resource management strategies to rapidly reassign and redeploy consultants.
- The percentage of work provided by subcontractors and offshore resources has remained constant at 12 percent, which provides insight to the best mix of full-time to contingent labor.

### **Happy employees and delighted clients equal higher profit**

Effective recruiting and ramping make a big difference. Location is no longer as important as finding self-starting employees with good communication and organizational skills. The best firms are developing core service offerings with defined roles, skills and project templates.

This effort helps shorten recruiting and ramping time and provides a sound framework for new hires to rapidly become productive. The best firms offer their employees more than a week of job-related training including soft skills focus on consulting, communication and negotiating skills.

One of the most interesting aspects of Service Performance Insight's research is the importance of an integrated human capital strategy. Finding, hiring, motivating and retaining key employees is just the beginning.

SPI Research found Human Capital Alignment metrics contain the highest number of performance indicators with extremely strong correlation to success — meaning, employees, and how they perform once onboard dictate ultimate success or failure. Table 2 shows the correlation between attrition and revenue growth and profit. This table demonstrates the negative consequences of high attrition rates. As attrition rises, all other aspects of performance suffer. The probability of on-time project delivery decreases while average project overruns increase.

Remaining employees have to pick up the pieces from exiting workers and must quickly get up to speed and reestablish client relationships. Clients are forced to back-track to reaffirm previous decisions and vendor commitments.

**Table 2: Impact of Annual Employee Attrition**

Annual Employee Attrition	Survey Percentage	Revenue Growth in Percentage	On-time Delivery in Percentage	EBITDA in Percentage
None	9.8	14.2	85.5	19.3
1 to 5 percent	29.8	8.0	78.8	15.7
5 to 10 percent	23.9	10.8	78.9	12.8
10 to 15 percent	18.5	11.4	76.5	10.3
15 to 25 percent	15.1	7.7	76.0	10.5
More than 25 percent	2.9	0.4	61.0	5.2
<b>Total/Average</b>	<b>100</b>	<b>9.7</b>	<b>78.1</b>	<b>13.3</b>

Source: Service Performance Insight, February 2015

The costs of attrition permeate all aspects of the firm. Lower employee engagement influences the firm’s ability to recruit top talent based on employee referrals. The very real cost to replace exiting employees shows up in 125 work days on average to find, recruit, hire and ramp new consultants.

This lost time is just the tip of the iceberg as it does not measure lost productivity time for recruiters and managers nor the impact on the remaining workforce to take over work after a valuable employee has left. SPI Research believes the real cost to replace a valuable consultant is in excess of \$150k making a big negative impact on bottom-line profit.

**Talent priorities for 2015**

Based on SPI’s research and discussions with top-performing PS organizations, four areas must be addressed to develop best consulting talent practices.

**1. Confidence in leadership.** Like everything else, it starts with effective leadership. These leaders are clear about the future direction of the firm, understand and take advantage of changing market dynamics and communicate the direction of the company and the role employees play in shaping it.

PS is a logical, knowledge-driven business, so leaders must focus on clarity and a few but impactful improvement priorities. All of the best firms provide open, honest and transparent communication based on a foundation of open books and systems.

**2. Great place to work.** Top performing firms find innovative ways to help overworked consultants maintain life-work balance. From a facility point of view, firms focus on two priorities: creating open, team-centric workspaces where project teams can meet and collaborate as well as virtual work-from-anywhere environments with state-of-the-art collaboration and remote access tools.

Despite the fact that most work is delivered virtually or at the client’s site, top firms ensure there are opportunities throughout the year for consultants to meet in person to enhance their knowledge and skills while celebrating achievements. An ethical, open and recognition rich environment provides the cornerstone of great work places.

**Table 3: 2015 Talent Priorities**

Job Fit	Growth Opportunities	Culture	Great Place to Work	Confidence in Leadership
Clear job roles and descriptions	On-boarding Training	Agile, performance-oriented	Virtual Flexible Remote work	Mission and purpose
Well-defined skills	Mentoring Coaching	Collaborative Communicative	Recognition-rich	Invest in people
Personality fit	Access to knowledge	Hire the best	Ethical Open	Trust Transparency

**Source: Service Performance Insight, February 2015**

**3. Culture.** In today’s fast-paced consulting environment, the concept of culture is more important than ever. Meet with any top performing firm and you will instantly recognize what sets it apart. It may be a focus on only hiring the best and brightest from certain universities, building a collegial, knowledge-intense environment. It may be building a community-based culture with a premium placed on local hiring, community relationships and driving business on a local level.

Or it may be a culture based on pushing the technology envelope — always seeking the next big thing and willing to invest in innovation. Firms must deliberately focus on what sets them apart to be able to build a brand that models the behaviors and type of employees who will best fit.

**4. Growth opportunities.** The best firms provide rich environments for continuous learning. They offer opportunities for formal and informal growth: mentoring, coaching, lunch and learns, best practices sharing, knowledge repositories, collaboration environments and centers of excellence. In the current turbulent talent market offering career, skill and knowledge growth are an imperative.

Regardless of an organization's size and maturity level, the firm's people comprise the essence of the organization. They determine financial viability, brand quality and customer satisfaction. They define the effectiveness of service delivery, sales and marketing. From inception, all PSOs must place a premium on attracting, retaining and motivating high quality consultants.

**Source: Spiresearch.com**