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# HOURGLASS<sup>HR</sup>

Issue 15 – September 2009

Enhancing value through people

Remote conferencing  
Managing tomorrow's people  
The future of work



# Managing in a downturn – risk and opportunity.

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# Editor's Welcome

01

Thought leadership without the padding,  
Hourglass cuts through the clutter to reach the key issues.



According to recent research, we are more likely to cut back our spending during the recession on clothes, evenings out and books than we are on internet access costs or mobile phone subscriptions. It is an indication of how important technology, and communications technology in particular, has become to us.

But where are we heading? A decade ago video conferencing was only available to the privileged few. Today, with so many organisations cutting back on employee travel costs — for environmental reasons as well as economic — it has become part of our everyday working lives.

This is not always good news, as Sally O'Reilly

discusses on page 18, since remote communication requires a subtly different set of skills for which very few of us receive specific training.

And given the rapid pace of technological development over the past few years, where will we be in 20 years' time? On page 14, Lesley Meall looks at the latest developments in communications technology.

As we move through the second half of a difficult year, there are hopeful signs of an economic recovery. Even so, the effects of the sharpest recession for decades continue to be felt. On page 32, Mick James looks at the legacy of the downturn on pensions, while on page 29 Beth Holmes discusses the challenges HR faces in terms of corporate culture in the wake of the banking bailout. The credit crunch, it seems, has changed us forever.

**Douglas Broom**  
Chief Editor

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# What's your greatest asset – your employees, or your relationship with them?

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To find out more, contact Angela Mohtashemi on 0207 804 0952 or at [angela.mohtashemi@uk.pwc.com](mailto:angela.mohtashemi@uk.pwc.com)

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topic

author

Looking Forward

Michael Rendell

# Tending to green

It is the job of the HR function to look beyond the recession to prepare and galvanise its organisation's people for the eventual upturn.

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04



# shoots of growth

Finally, some good news stories. House prices in some regions are forecast to increase, while some cornerstones of the financial services sector — insurers for example — are predicting increased business volumes in the near future. Speculation of positive, rather than distressed, consolidation in the telecoms sector is also sending a positive signal and there are reports of thousands of new jobs being created in the utilities industry. Meanwhile, rates of insolvency in some sectors — pubs and some types of leisure organisations — are on the decline.

While it is too soon for clarity on whether reported “green shoots” will take root and we expect a long period of stagnation before recovery, the light of optimism is starting to glimmer in some industries and, as the global financial system stabilises, organisations must flex their people plans to fit the fundamentally different environment that is emerging.

While all the issues (the ageing workforce, skills shortages, the shift in global power towards the East and so on) that existed pre-recession still present huge challenges for HR, the business, capital and regulatory pressures that have evolved from the recession should be at the forefront of current people decisions.

If the “old world” was characterised by innovation, complexity and acceleration, the words already associated with the so-called “new order” include sustainability, governance and risk awareness. So, it stands to reason that the types of people businesses need to navigate through and beyond these changes will be different to those required by the old order. It is entirely conceivable that, alongside the innovators and the entrepreneurs, the business stars of the future will be those with compliance, risk and relationship management expertise. Firms need to know who those people are within their organisations, to ensure that the way they are rewarded is aligned with business needs and to prepare them for the spotlight.

In addition to adjusting our mindsets regarding what success looks like and what behaviours and skills to reward, we need to ensure our organisational and workforce models accommodate the new business climate. Some of these changes will naturally fall out during the shake-up and others will need to be carefully considered and forced.

For example, the high cost of capital and public mistrust of complexity is likely to result in more streamlined organisations and the need for more efficient, cost-effective delivery models. This simplification, combined with tighter regulation and the politicisation of many industries such as manufacturing and financial services, is further evidence that talent and skills needs are changing. And while recruitment freezes and redundancies have hit the headlines during the recession, companies are likely to have pockets

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**As businesses grow increasingly reliant on HR metrics to monitor and govern their operations, new measures on risk, compliance and behavioural factors are likely to evolve.**

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on their skills map that need filling in advance of the upturn. Recruitment to stimulate new ideas, kick start motivation in existing staff and fill skills gaps will be necessary — albeit on a small scale.

As the reality of businesses having to do more with less becomes increasingly apparent, the implications for HR will be numerous. Traditional measures of performance, efficiency and productivity will remain important. But, as businesses grow increasingly reliant on HR metrics to monitor and govern their operations, new measures on risk, compliance and behavioural factors are likely to evolve. Additionally, compensation systems and appraisal processes will need to change to recognise risk, regulatory and relationship competencies as core skills. Robust and clearly articulated governance will need to underpin all these things.

Rebuilding public and employee trust in governments and big businesses will be a slow-burning project. Changes to the way executive reward is structured, risk-adjusted and governed will play a big part in the public arena while visibly engaging and rewarding the right behaviours in staff at all levels will also drive growth of the right kind.

It is the job of economists to debate and forecast the length, depth and shape of the recession. Indeed, whether the crash and subsequent climb is U-shaped or W-shaped is critical for HR’s shorter-term scenario planning. However, it is the job of the HR function to look beyond the alphabet soup of the recession to prepare and galvanise its organisation’s people for the eventual upturn.



Michael Rendell is global head of HR Services at PricewaterhouseCoopers.

topic

Human Capital

author

Richard Donkin

# Working together

The nature of work has changed over the past few decades and this means a shift in the relationship between HR and employees.

06



# to retain talent

What's in a name? Finance, marketing, operations, advertising — all of these corporate functions command well-defined identities. But what of human resources?

I'm not sure that HR professionals have ever grown comfortable with an identity that bridges administration and management, that handles people as commodities or units of production as impersonal as the bricks, steel and glass of a modern office — and nor should they.

It doesn't take long for the HR graduate to understand that much of the role is about ensuring compliance with employment laws among fellow managers. Then there's the process — the application forms, the inductions, absence monitoring, health and safety, staff appraisals and the pay rounds. The late Peter Drucker called these “the necessary chores” of personnel administration.

Drucker was no fan of personnel management. In *The Practice of Management* he wrote: “The constant worry of all personnel administrators is their inability to prove that they are making a contribution to the enterprise. Their preoccupation is with the search for a ‘gimmick’ that will impress their management associates. Their persistent complaint is that they lack status.” Has anything changed in the 50 years since he made that remark?

My own career in HR research has bridged a transition in terminology from personnel management to the harder-edged jargon-swamped priorities of modern HR management. Today HR remains attracted to evolving ill-defined concepts such as talent management and engagement. Drucker wouldn't have been familiar with the term “engagement” when he wrote his classic text in 1955. The principles would have been familiar enough; only the packaging is different today.

He wouldn't have known talent management either, although he would have been familiar with management fast-tracking. Human capital, meanwhile, was nothing more than an economic theory in the 1950s, linking an investment in skills to organisational success.

One concept linking all of these terms is the idea of a business as a community, viewing employees as part of the organisational fabric of the enterprise. The practice was valid enough in a world where business leaders could assume some permanence in their business.

Today, however, fluctuating economic cycles are threatening any sense of equilibrium in business. As banks and motor manufacturers across the industrialised west face the threat of collapse without state support, it seems that something more fundamental is happening to the capitalist system

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 Attitudes are changing, not least the way we are approaching our relationship with work. Once we had jobs and careers. Today we have lifestyle options that do not always coincide with established assumptions in employment.”

than a simple restructuring of production and services; something beyond the physical transformation that comes from moving offices or equipping a building with new technology.

Attitudes are changing, not least the way we are approaching our relationship with work. Once we had jobs and careers. Today we have lifestyle options that do not always coincide with established assumptions in employment.

Not everyone, for example, has an expectation or desire to shift in to full-time retirement in their sixties. A need among some for extended working lives is demanding new approaches to age management so that retirement can be phased-in more gently during later life.

This need should not be interpreted as a one-way deal. As demographic trends reduce the number of young people entering the labour market, so employers will need to manage their older employees more imaginatively if they are to retain and make the best use of their valuable skills and experience.

To do so employers will need to relinquish a persistent assumption of ownership of employees; something that is implicit, rather than explicit, in the way that management control is exercised in the workplace. When visiting companies, nothing makes me cringe more than when a chief executive refers to the staff as “my people”. Companies don't own employees and company bosses are not monarchs.

People are lending their skills in return for money, security, development prospects and recognition. This social contract must deliver measurable financial results. As Karl Marx understood, the principle of capitalism

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determines that employers profit from the labours of those they employ. Without this profit the system fails.

Skills and talent have become so important to an enterprise that companies are doing their utmost to ensure they are retained. There was a sense of desperation about the request by British Airways in July for staff to take extra unpaid leave or to work for nothing. The move recognised that redundancy is both expensive to a company and damaging for morale, leaving a business weakened as economic conditions improve. The employment relationship demands mutual loyalty and trust, yet both disappeared from the social contract in the business process re-engineering of the early 1990s.

How did it happen? We might look at bonus systems that emphasise financial rewards, placing a bounty on performance. We might look to short-term perspectives in management and the shift of ownership to a system of gambling that emphasises the speculative punt and punishes the long-term loyal investor.

In such a dog-eat-dog world, human capital is becoming the only capital on which we can rely. So we must learn a new respect for honest endeavour and a willingness to learn and grow with an employer, however an employment contract is defined.

Full-time, part-time and temporary contracts deserve equal respect. Instead, part-time and temporary employees are treated cavalierly as disposable commodities — as are so many of the goods we consume in today's wasteful society. All this must change.

Young people understand this as they confront prospective employers and careers. They're asking the hard questions. What is your policy on the environment — green or greenwash? What about gap years, flexible working and home working? How about personal responsibilities, opportunities for development and travel? Work is no longer about money. It probably never was.

And yet so many employers neglect the need for employee freedom. They have imposed the trappings of ownership, turning their offices in to forbidden zones for outsiders. Wittingly or not, managers have created fortress institutions, gagging employees from speaking to the media, restricting entry to their premises and imposing a permission-seeking culture in the workplace.

Employee engagement is supposed to be prized and part of that engagement involves employees exercising discretion. But the reality of so much modern management is bound up in restrictive processes, leaving people little scope



to demonstrate individual initiative. The modern office is defined more by fear than freedom. People hesitate to speak out or question their manager because people fear for their jobs.

It's difficult to know where to lay the blame for this but some of it must be shouldered by those in the HR community who have neglected to take leadership in people management. HR professionals need to be active in age-management. They need to re-establish trust across their organisations, they need to establish that engagement is a two-way street, that employing people is a privilege, not a right. Only then will they cast off Drucker's legacy of reproach. HR must earn its spurs.

# Is your pension scheme a risk or a reward?

At PricewaterhouseCoopers we understand the need for business focussed results. In a recent survey<sup>1</sup>, 85% of CEOs considered the ability to anticipate and manage risk to be a critical skill, a key attribute for pensions professionals considering our pension survey showed 16% of companies had pensions liabilities that exceeded the value of their company. We can help you address the complex issues, providing innovative, pragmatic solutions that leave your business stronger.

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PRICEWATERHOUSECOOPERS 

# What colour best

The recession has encouraged a knee-jerk reaction that concentrates on short-term savings. HR is no exception to this but a new report encourages us to look at the workplace a decade from now, and to think about the implications for our decisions today.

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10



# suits your world?

Focused on survival, the reaction of many companies to the credit crisis and subsequent global recession has been to cut costs. For most companies, their largest business cost is people — up to 70% in some organisations — and people spend is usually the first area to be scrutinised in the effort to reduce expenditure. But while slashing the workforce may yield short-term savings, the potential long-term damage from reducing people investment can undermine the ability of a company to compete when the upturn arrives, endangering the long-term sustainability of the business.

Concentrating only on short-term survival also risks ignoring the important underlying trends, already underway before the crisis broke, which will shape the future of employment in the coming decade: an ageing workforce, chronic talent shortages in many parts of the world, increasing need for global worker mobility and the organisational and cultural issues arising from the shift in economic power towards emerging economies. In turn, the crisis has raised fundamental questions about the institutions and practices of modern business life. Confidence in the ethics of business has been shaken and a new generation of workers is reassessing the balance of risk versus reward offered by employers.

A new report by PricewaterhouseCoopers, *Managing Tomorrow's People — How the downturn will change the future of work* addresses these issues, using a scenario planning approach to analyse alternate views of the workplace a decade from now.

PwC envisages three different 'Worlds' or business models for 2020 which it believes will co-exist in the future. Each World is illustrated through a fictitious company. In the first scenario — the Green World — the demands for greater transparency and social responsibility in business prompted by the financial crisis is illustrated through G-Bank, and resonates with the desire for environmental responsibility already present in the green agenda.

In the Green World companies have a powerful social conscience intrinsic to the brand and a 'green' sense of responsibility, which is also enforced by governments and regulators. G-Bank employees engage with the company brand because it reflects their own values and the focus is on sustainable and ethical business and a strong drive to minimise and mitigate risky business practices.

But companies aspiring to this version of the future must be aware of the long-term impact of today's decisions on the sustainability of their business model: short-term action that may appear to conform to an ethical and green agenda could have long-term negative implications.

Some companies, for example, will look at making radical changes to their

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**The global economic downturn has forced many companies to make difficult choices about how they manage and motivate people and it is important for companies to consider both the immediate and long-term consequences of these choices to ensure their people strategy is fit for the future.**

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reward/bonus programmes and staff contracts because of the backlash against perceptions of excessive pay. But changes that are too rapid, or that are ill thought through, could result in a first-mover disadvantage if staff felt that there had been a significant reduction in key benefits compared with other organisations. This could seriously impact the company's ability to attract and retain talent over the long term.

Similarly, new 'zero tolerance/zero risk' tactics by companies could produce good short-term results by sending the market a signal that bad behaviour would be stamped out. However, the creation of a highly risk-averse culture within an organisation would seriously hamper creativity and innovation over the long term.

Companies in survival mode could also view the green agenda as not being business critical in the short term and this could result in projects being put on the backburner. Although financial pressures may render corporate responsibility and climate change issues as 'nice to haves', ignoring these issues could leave a company seriously exposed to negative portrayal of its brand and affect its long-term ability to engage with customers and staff.

Green motives are often used as the excuse for stripping back travel expenses to control costs as a result of the downturn. Many organisations that operate globally, however, rely on 'social capital' — the ability of the

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global network to work across borders to support the business and deliver products and services to customers. By limiting face-to-face contact, companies could risk undermining many years of investment in building social capital across their global operation.

Weighing up the long-term consequences of their reactions to the crisis is equally important for companies in PwC's second scenario — the Blue World. Companies in the Blue World, illustrated by Yao, a Chinese-owned pharmaceutical company, embody big-company capitalism and individual preferences override belief in collective social responsibility.

This scenario imagines the performance and efficiency culture necessary for dealing with global companies larger than many individual countries, against the backdrop of the emerging economic superpowers of the developing world. Blue World companies have invested in size, technology, strong leadership and sophisticated metrics. They have highly engaged and committed workforces who are well trained, skilled and operate globally.

In the Blue World, long-term investment in the 'talent pipeline' is critical for businesses to remain competitive. Decisions on recruitment today can clearly have significant knock-on effects. For example, reducing graduate intake numbers for a couple of years could seriously affect the talent pipeline and limit the number of options for leadership succession planning in the long term. Training and development is also among the first areas to be cut when companies are in difficulty. As well as having a potential negative impact on customer service or product quality, cutting investment could mean the

company lacks the right skills to compete when the upturn comes, incurring the higher cost of hiring people in, rather than using home-grown talent.

The increased emphasis in this scenario on metrics to measure people performance and productivity is partly a sign of sophistication and the trend towards making HR a 'hard' discipline, but it also reflects the need for companies to deal with a long-term reality of having to do more with less. Having the right data, therefore, is critical. Few organisations tackle people metrics in a rigorous or structured way and many struggle with knowing what to measure and then how to interpret the data. The danger in a downturn is that companies make cuts to their people management akin to 'conducting surgery by candlelight'. A short-term cost saving on paper might lead to a significant problem further down the line.

Beyond avoiding short-term decisions that will have negative repercussions in the long-term, the companies that emerge best from the crisis will be those that take a proactive approach to securing their long-term vision. It is essential that companies have a clear long-term strategy, particularly in relation to people and talent, which will be a commodity in short supply.

These issues are tackled in PwC's third scenario, the Orange World, which is the most radical departure from current models of big-company capitalism. In the Orange World the pre-existing trends of outsourcing and globalisation of the workforce are taken to the logical conclusion permitted by technological advances. This scenario, illustrated by Data Honey, a fictitious market research and communications company, envisages a future of networked



	Green World	Blue World	Orange World
Workplace culture	Focus on socially and environmentally responsible business practices	Fast-paced, global operator, with high performance culture	Flexible and highly networked with a focus on the short-term
Employee profile	'Your corporate values match mine – I belong here.'	'Only the best work here – I am the best.'	'I will work with you because it suits me right now.'
People management style	Coaching and nurturing to promote the right behaviours	HR is a hard discipline, very metrics focused with rigorous recruitment processes	Emphasis on global talent sourcing, global guilds replace the HR function
Key themes	CS and transparency underpin everything to drive moderate but steady growth	Controlling talent is key, the line between home and work is blurred	Small means agile, innovative and able to adapt to change quickly
Corporate ethos	Sustainable business for a better society	Perform well all of the time and everybody wins	Networks make the world go round

small companies, where businesses are fragmented and nimble, relying on an extensive network of outsourced suppliers. They have multiple clients and contracts and manage a globally diverse 'workforce' on a supply and demand basis, using communication networks supported by continual technological advancement and innovation.

Apple's *iPhone* is an early illustration of a potential new way of working for technology professionals. In the first nine months after the launch of the *iPhone*, Apple sold a billion software applications for use on the mobile device. The vast majority were created by individuals, while Apple reviewed, tested and marketed the applications in exchange for a percentage of revenues. Based on this emerging trend, in the Orange World individuals providing professional services, such as programming expertise, will market themselves more like companies than freelancers.

But how do businesses prepare today for this radical vision of the future? Companies need to embrace the new currency of social networking sites and see them as a tool for developing contacts, new clients and promoting their services. The tech-savvy new generation of employees expects employers to embrace technology and the flexibility it offers to their working lives. Companies need to think through their strategy for attracting and keeping this 'millennial' talent.

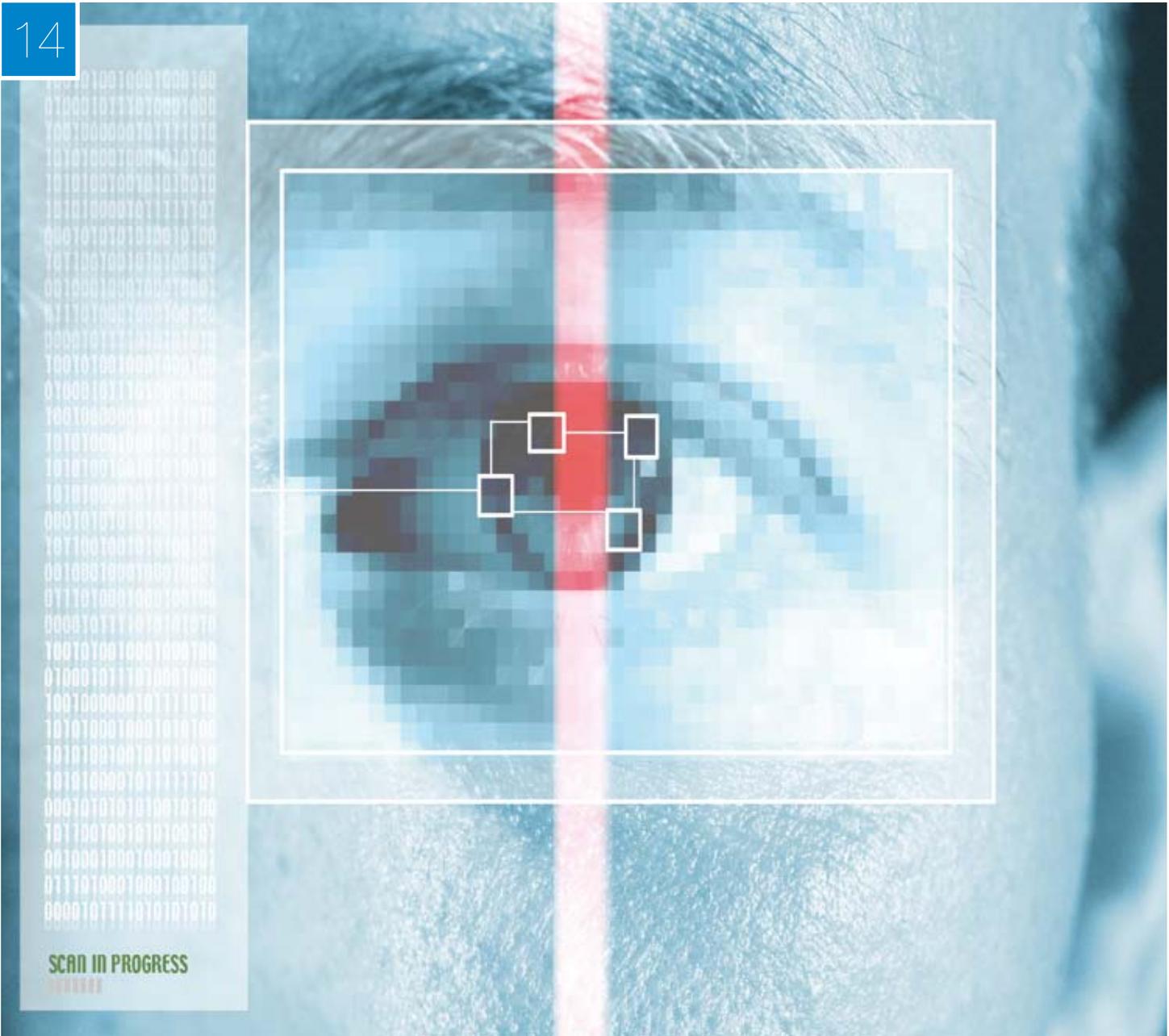
As in the other scenarios, cutting costs in response to the downturn can be a dual-edged sword. Cost cutting, for example, can lead to a reduction in the number of external contractors the company uses as different business functions are brought back in-house. This might seem like a good short-term strategy to save cost, but may not be the best model for the supply chain over the long term. Similarly, spend on technology enhancements can appear to be a luxury when there are more pressing issues, but companies need to have a competitive technology platform, which will support the business when the upturn comes.

For employees, the future is likely to be a world where many different ways of working are on offer. The opportunity to experience multiple cycles in either one or many organisations will exist. Employees will seek to align themselves with organisations that fit their priorities and ideals more than in the current world.

For employers the challenge will be much harder. The competition for talent will continue to be intensely fought. Employee expectations will be far greater and organisations will face these challenges against an even more competitive global market. One thing is certain, the decisions taken today are already creating a legacy for the future and are shaping how organisations will look ten years from now.

# The future is here

Technology is reshaping the world of corporate communication and creating a host of challenges and opportunities. But where are we heading?



Perspective is everything. When James Andrews flew into Memphis, Tennessee, to give a presentation on ‘social media’ to the communications team of one of his employers’ biggest clients, he thought he’d use Twitter to share his impressions of the city. His tweet read: ‘True confession but I’m in one of those towns where I scratch my head and say, ‘I would die if I had to live here.’” It’s a point of view, and he’s perfectly entitled to it; but maybe he should have thought twice before giving it wings and setting it free.

Twitter is all about sharing, and the tweets on Andrews’ microblog ‘@keyinfluencer’ were being followed by one of the client’s employees — who was, apparently, deeply unimpressed. So although most tweets are ephemera, this one acquired a longer life expectancy (as Google can quickly demonstrate). Within hours, the tweet prompted a lengthy email response from the client’s corporate communication team, who deemed it ‘disrespectful’ and ‘inappropriate’, the exchange was brought to the attention of the top executives of Andrews’ employers (Ketchum PR), their client (FedEx), and a round of corporate apologising ensued.

The ‘key influencer’ felt misunderstood, blamed his tweet on one ‘intolerant’ Memphis inhabitant, and lamented the lack of context imposed by Twitter’s 140-character limit. His employer made a statement dismissing the incident as a ‘lapse of judgement’ and emphasising the ‘value’ of its relationship with FedEx. Bloggers posted messages of support, derision and occasional insight. One suggested that this is what happens when the ‘light-hearted and

## A level playing field

1

During the relatively brief history of information technology the most significant developments and tools have traditionally started life as industrial or military applications and then filtered down from professional use to personal use. So the biggest organisations with the deepest pockets have tended to be the most powerful. The technologies that typify Web 2.0 have reversed these trends.

Web 2.0 is characterised by interactive, open, re-usable, user-created content, and service-based applications, and these have spawned blogs on-demand software and systems, social networking sites and wikis. But these spread up from the grass roots, where they gained popularity (and critical mass) as personal tools, before their professional uptake was sufficient to spawn the term Enterprise 2.0, which describes the use of Web 2.0 technologies for business.

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Not all of the interactive and collaborative social media that can impact on the world of corporate communication have been created equal, of course. But even Twitter, which can seem more of a burden than a boon, is emerging as a force for good.

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open’ world of Twitter meets the world of ‘impress the command-and-control bosses’; another wondered at Ketchum’s apparent failure to ‘spin’ the incident into a perfect illustration of the power of social media.

Whatever your personal or professional perspectives, we can all learn some valuable lessons from the debacle. Over the past few years, with the help of technology, the way we communicate with each other, as individuals and organisations, has gone through a period of evolution so rapid, it might be better termed a revolution. This has created a brave new world of corporate communication with an ever-increasing range of potential risks and rewards — and Twitter is just the most immediate and visible tip of a growing iceberg.

Corporate communication is still about disseminating information, building relationships, developing an image and managing perceptions, both inside and outside an organisation but the corporate communication function is no longer the primary (or occasionally the only) driver behind them. The external and internal faces of an organisation can now be influenced (at least) as much by the uncontrolled and informal outpourings of its many stakeholders, as by its more controlled and formal communications, while the lines between the personal and the professional have become perplexingly blurred.

People are essentially social creatures; we want to connect. Web-based communication technologies provide the platform and the tools for doing this. In the world of Web 2.0 (*see box 1*) everyone is an influencer. So personal blogs, microblogs, social networking profiles, virtual world identities and video postings now co-exist alongside corporate recruitment videos,



## The human resource

2

The democratisation of the Internet has put powerful, creative and collaborative communications technologies (potentially) at the disposal of everyone and anyone – and people are not afraid to use them.

But without guidance, many employees will see no further than the superficial informality of Web 2.0, and this can be dangerously misleading. Personal details casually revealed on social networking sites can be used to breach and compromise the security of corporate networks; personal opinions that seem harmless in the 'twitterverse' can damage carefully crafted corporate relationships.

Corporate policies need to reflect these emerging technologies, define the boundaries of acceptable and unacceptable behaviour and make employees (at all levels) aware of the potential implications of their actions.

In some scenarios, this can be achieved by making changes to the employee handbook, or modifying existing policies for areas such as corporate communication to Internet use; others may require a dedicated social media policy – and it may need to be accompanied by a formal corporate authorisation policy.

interactive annual reports, marketing blogs and professional podcasts. This creates challenges for those involved in corporate communication (*see box 2*), but it also creates some amazing opportunities.

Social networking sites have become an integral part of the recruitment process for many human resources departments. Technology giant AT&T has a MySpace page ([www.myspace.com/attjobs](http://www.myspace.com/attjobs)), shoe retailer Zappos uses Twitter as a recruitment tool, the US Army is recruiting in Second Life and video footage is now so much a part of corporate websites (from annual results to company 'show reels') that staff need special training if their performances are to be more 'President Obama' and less stilted automaton.

Organisations have rapidly changed Web 2.0 into Enterprise 2.0 and are now using social media — in a very positive way — to communicate and connect with an increasingly broad range of stakeholders. Aviva, Barclays Bank, Cadbury, Charity:Water, Marks & Spencer, Nature Conservancy, Vodafone and Volkswagen are just a few of the many organisations using blogs, online audio



and video, RSS feeds, wikis, and social media such as Flickr and Facebook for a range of activities including brand development, communicating with employees, community relations, engaging customers, fund raising, press relations, viral marketing — and more.

Aviva's use of collaboration technologies and social media is extensive, and includes a global group-wide social networking and intranet platform, plus a number of business process management (BPM) initiatives — and they are integral to Aviva's strategy for saving £500m by 2010. "The work we have done in this area is helping Aviva become more competitive," reports its chief information officer Toby Redshaw. It has, for example, used BPM software to fine-tune its employee joiners, movers and leavers processes. "We have a more joined up and efficient way of managing our people," adds Deirdre Galvin, business director to the chief executive at Aviva plc, "and it allows managers to spend more of their time on value-add activities."

Social media have also been used to provide a feedback mechanism for the quality of customer services via Aviva's UK insurance website, and a wiki has been used to create a self-build, self-service facility, comprising searchable and reusable 'problem-solving' tool for staff. "A good Web 2.0 platform bypasses the obstacles in a hierarchy," says Redshaw, and makes expertise "virally available", and when a group of Australian employees recently faced a complex technical challenge, thanks to social media, it was able to quickly and easily learn from the experiences of workers on the other side of the world, in the UK. "Smart interactions can happen horizontally," he adds.

## Past, present & perhaps

3

You've probably never heard of the phonotelephone or the téléphonescope, but these nineteenth century creations introduced the concept of the video telephone, and eventually resulted in today's video calling and videoconferencing services.

The first commercial videoconferencing applications were available as far back as pre-World War II Germany, courtesy of the German Reich Postzentramt (aka the 'post office'). But it was the late 20th century before videotelephony became widespread — and the systems were anything but cheap.

Over the past couple of years, the Internet has developed into a delivery platform for all sorts of services, including video calling and conferencing, and low-cost offerings such as iChat, Sightspeed, Skype, and ooVoo, are now available to any individual or business with Internet access. How they will evolve, remains to be seen.

Although most of us like the idea of seeing the people we remotely communicate with, we are less comfortable when they can see us. But if the popularity of role-playing games and virtual worlds is anything to go by, we can look forward to a future where we can make video calls while hiding behind our avatars.

Not all of the interactive and collaborative social media that can impact on the world of corporate communication have been created equal, of course. But even Twitter, which can seem more of a burden than a boon, is emerging as a force for good. British Telecom and Starbucks are among the growing number of organisations to successfully build it into their wider corporate communication programmes, Dell recently passed the \$2m mark in exclusively Twitter-generated sales through @DellOutlet, and when the Australian company uSocial recently launched a service 'selling' Twitter followers, those interested included two Fortune 500 companies.

"Traditional communication patterns are being broken down, and power is shifting," observes Al Loehnis, business development director with Investis, the online corporate communication specialist. "Web 2.0 ideas have already entered the fabric of mainstream internet use," he adds, and as they spread through the commercial world, "they will reshape the way we manage corporate communication." Perspective is everything.

topic

author

Remote conferencing

Sally O'Reilly

# Remote business

As cost-consciousness and environmental pressures force organisations to cut back on international travel, where does that leave a geographically dispersed workforce?

18



# is virtually a reality

When the press discovered that celebrity chef Jamie Oliver had spent more than £70,000 jetting to and fro across the Atlantic while filming in the US, he was criticised for the size of his carbon footprint — and for wasting money. BBC director general Mark Thompson also fell foul of public opinion when he claimed £2,200 for air tickets when a radio show phone-in scandal forced him to cut short an Italian holiday.

In the current economic climate, fiscal prudence is the watchword for organisations and individuals alike. While concerns about global warming have made air travel marginally less acceptable, it's the price of oil and the turbulent global economy which has really forced a change of heart.

But if international flights are under threat, where does this leave major organisations with a geographically dispersed workforce? Do they need to think of new ways of replicating face-to-face communication, or is a more fundamental rethink needed when it comes to fostering good communications between colleagues working in different parts of the world?

Angela Mohtashemi, director, HRS Communications at PricewaterhouseCoopers, says that while such cut-backs are a wake-up call for organisations, this may also be an opportunity to take communications on to a more sophisticated level.

"Picking up on facial expressions, body language and 'reading between the lines' enables communications to be made at a much deeper level," she comments. "On the other hand, these restrictions are forcing organisations to give more thought to communication, and to make sure that what is done is more effective."

There are a host of new technologies which — in theory at least — could enhance employee communication. These include online collaboration tools, webcasts, and Web 2.0, a collective term for social media such as Facebook, Twitter and YouTube (*see page 14*). In addition, 'old' technologies such as e-mail, video conferencing and phones can make long-distance working more effective.

The sheer variety and breadth of choice can be confusing, however, and this presents HR departments with a significant challenge. "HR has a lot to do to improve the effectiveness of communication," says Mohtashemi. "There are few HR departments with a co-ordinated and outcome-focused communication strategy. Often the links with corporate communications are not working well.

"There need to be clear accountabilities between HR and internal comms — with internal comms taking the responsibility for communication policy and working closely with HR on employee engagement," Mohtashemi adds.

An organisation in which staff do not communicate well when they are in the same room is not going to find it easy to promote good communications between members of a remote team. So getting the basics right is just as important as honing your understanding of the latest developments in IT.

For Alex Swarbrick, senior consultant at Roffey Park, there are no short cuts to good internal communications, and managers need to work hard to ensure that remote technologies are getting the right messages across to employees. "Phone, e-mail and text messaging all have their place," he says. "In fact, a quick text message saying 'thanks' or praising an employee's success can actually have as positive an impact as if the manager had been able to say 'Well done' in person."

Remote managers have to work harder at relationships with staff than their conventional counterparts if they are to foster a strong sense of team among geographically dispersed colleagues. "Our work has demonstrated that successful remote managers invest in relationships with their staff from the outset; they combine professional credibility with interpersonal skills and emotional intelligence," comments Swarbrick.

So what are the best practice approaches that senior managers can adopt? Matthew Partovi, consultant with PricewaterhouseCoopers, warns against seeing IT as a panacea. An organisation in which staff do not communicate well when they are in the same room is not going to find it easy to promote good communications between members of a remote team. So getting the basics right is just as important as honing your understanding of the latest developments in IT.

"The key is to establish an open, sharing culture," says Partovi. "Ideally, you



do need some face-to-face communication — such as eye contact and a handshake. But you can virtually replicate a lot of the trust and understanding that is built up between colleagues, using techniques such as document sharing, for instance. And even virtual technologies like Second Life can make a difference.”

Organisations which have benefited financially from a presence on Second Life include Langaguelife.com, Rivers Run Red and Electric Sheep, while a number of organisations — including NASA — use the site for education purposes.

There is currently some scepticism about the corporate usefulness of Second Life — but it can certainly showcase your business and help you share ideas. It will let you display Powerpoint and video, and you can collaboratively edit documents from your desktop in a virtual meeting room using ‘Qwaq’: a virtual world specialising in business meetings.

One company which is making full use of Second Life is virtual worlds’ consultancy Daden Limited, which works with a number of clients, including a dozen UK universities and Birmingham City Council.

Client director Soulla sees virtual meetings as a more than adequate substitute for the conventional variety. “We regularly hold meetings with our employees and our clients in-world in Second Life. The beauty of using virtual worlds is that you are only limited by your own imagination, so you can hold your meetings wherever — especially if it’s just a quick catch up and there is no need for slides.

“Only last week I was on the moon with our MD David Burden talking about Apollo 11 and getting an understanding about how far the astronauts walked in relation to a football pitch. Not something you can do for real — but it certainly made for an interesting and memorable meeting!”

However, it’s vital to be well-informed about new technologies before plunging in. Being ‘cutting edge’ for the sake of it can seriously backfire — look at Gordon Brown and his unfortunate YouTube experiment. His queasy smiles did nothing to enhance his message about the future probity of MPs.

“It’s important to appreciate the difference between collaboration software and social software,” says Niall Cooke, author of *Enterprise 2.0 — How Social Software Will Change the Future of Work*. “The former are the kinds of things we are probably getting used to, as they are pushed by IT departments as cost and time-saving tools. Video conferencing is a good example of this.

Social software, on the other hand, is the kind of thing that employees, particularly younger people, are using to organise their lives and connect with

friends. And they want to use these tools inside the firewall to connect with colleagues too.”

One example of bringing a social networking tool inside the firewall is Yammer, a corporate version of Twitter. “This is gathering some amazing success stories, demonstrating how getting staff to respond to a simple question ‘What are you working on?’ can result in an increase in connection and collaboration across departments and geographies.”

For Ghislaine Caulat, a business director with Ashridge Consulting, the key is to take a back to basics approach and decide what you really want to get out of communications IT, and what it can offer your employees.

“The first thing to do is reflect. What should you have available as an alternative? Don’t just transfer your communications into virtual space, and use the same techniques. You have to admit that this is a new way of working, and that you need help with this.”

Clarity is essential, as are specific ground rules. These should not only cover the organisation’s priorities in terms of communication, but also what staff want to get out of each virtual or remote meeting. With a plan in place, the emphasis should then be on spontaneity.

“Forget the old etiquette about telephone conferencing where you have to say your name before you speak, and wait for a gap in the conversation before you say anything,” Caulat urges.

“Create an atmosphere in which it is OK to interrupt. Equally, people need to accept that there can be a silence for a while. This is often the time when people are thinking. Thirty seconds of silence virtually feels like two minutes of silence face-to-face.”

Amanda Vickers, managing director of communications consultancy Speak First, has wide experience of training people across the private and public sector in presenting themselves effectively both virtually and face to face. She agrees that doing without visual information can help hone more sophisticated communications skills.

“We talk about the ‘three v’s’ — visual, vocal and verbal,” she says. “Face-to-face communication obviously uses all three, but other forms of communication do cut you down. Even in video conferencing, you can see the person speaking, but you can’t make eye contact. Which is one of the reasons that people get bored in video conferences, and tend to sit there checking their e-mail.”

But going onto auto-pilot during meetings of this kind is a mistake, warns

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Only last week I was on the moon with our MD talking about Apollo 11 and getting an understanding about how far the astronauts walked in relation to a football pitch. Not something you can do for real — but it certainly made for an interesting and memorable meeting!

Vickers. “People should understand that conferences like this are very important in terms of their visibility,” she says. “It is very important to make the right impression. If you are chairing a virtual meeting, take time to think about how it’s going, pause, stop, ask questions. Bring in people who have not said much. It’s always essential to think about the purpose of your virtual meeting.”

Speak First helps people assess the personal impact they have on colleagues — which is often a subject they prefer not to think about. But she points out that one of the unsung benefits of remote working and cuts in air travel may be that meetings themselves are improved.

“Using words in the right way is vital. You can make a great impression with your voice. It could be the emphasis you place on certain words. It could be the pitch and nuance of your tone. All the basics are important — breathing, enunciating properly, pauses. Barack Obama is brilliant at this. He gives the impression of being truthful and impassioned, but also speaks with great clarity and precision.”

“It’s vital to be relevant — and to the point,” says Vickers. “I have noticed that in virtual meetings, people’s patience with waffle and lack of focus is much reduced.”

So it looks like cutting down on flights and making better use of IT could foster another kind of cutback — an economy with words.

# Preparation is the

The economic downturn has presented particular challenges for low-margin businesses, such as the contract caterer Aramark. But as HR director Robbie Wheeler explains, it is all about supporting your staff.

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# key ingredient



Despite the recession, contract caterer and facilities management business Aramark is investing in its people, taking steps to support its frontline employees in meeting the challenges they face.

Aramark's employees work in many different environments. Their customers are many and varied, found in both private and public sectors. They may, for example, be investment bankers, offshore oil and gas workers, members of the armed forces, hospital staff, patients or students. The UK business has 12,500 employees working in 1500 client locations, generating revenues of £420m for the year to end September 2008. It is part of a much larger whole, the US-based Aramark Corporation, which now operates in over 22 countries with 260,000 employees, recording revenues of around \$13bn.

The organisation is highly acclaimed, frequently ranking as one of *Fortune's* most admired companies. However, this does not make it recession-proof and managing through the downturn is a key challenge for UK HR director Robbie Wheeler. "We have a very diverse portfolio," she says. "You can really see the depth of the recession because it has impacted on every part of that portfolio. It's affecting clients across the board." Even the public sector is not immune. "In order to protect the UK economy, the kind of spending we have seen in the public sector is not going to continue," Wheeler notes.

As client organisations respond to economic pressures, so must Aramark. "Some of our clients are making changes every week — their organisational structure is downsizing week on week," Wheeler says. "We have to be fleet-footed enough with our business models to be able to understand and anticipate those changes to ensure we are protecting our business." For many personnel, this is challenging. "A lot of our managers have never worked in this kind of economic climate," Wheeler explains. "We are finding they need quite a lot of support in understanding how you manage a low margin business in times of recession — what levers you can pull without affecting the service. From an HR perspective, one of the key activities for us has been retraining and re-educating managers to understand what is in their control."

For example, rather than thinking about labour management in terms of full-time equivalents — the traditional approach — managers are now trained to apply a "zero hours" methodology. They identify activities and services that need to be provided, then determine how many hours of Aramark staff time are required. "That's not something a lot of managers have been used to doing, so it's about completely changing their mindset in terms of how they manage labour," Wheeler notes.

Frontline staff are also being encouraged to think about how they can create a customer environment that helps people temporarily forget their work anxieties. "In the past we might have provided the usual customer service

training, which might have been about how one can sell more items when customers come through the till,” Wheeler says. Now the emphasis is more on creating a stress-free oasis. “It’s encouraging people to become more upfront with their customers,” she says. Chefs, for example, are increasingly encouraged to cook in the food-court or restaurant area, rather than being hidden away in a kitchen. “Your traditional chef isn’t used to that,” Wheeler says. “When they are out front they have to talk to customers, to tell them what they are doing and explain how they are doing it.”

To support chefs and other frontline staff in meeting such new and challenging requirements, the current training budget is being focused on their needs. Alongside in-house training, Aramark has also worked with vocational training providers to create tailored qualifications, for example, teaming up with City & Guilds to develop its barista training. Such activities can help to reassure staff during the difficult economic times, Wheeler believes. “It’s really important that people feel you haven’t turned off the tap in terms of investment in them,” she says.

The company has also tried to respond to staff needs in other ways. Last year frontline managers participated in focus group sessions, being encouraged to identify issues that made their lives difficult, and suggest ideas for addressing them. As a result, a number of technology-based solutions have been introduced to lessen administration burdens. These include tools for labour scheduling and centrally-driven electronic purchasing. Other innovations have been more behavioural, such as the introduction of a “power hour”. “Over the lunchtime period, no functional department makes any phone calls or sends any e-mails to a frontline manager,” Wheeler explains. “So no administration is completed over the lunchtime period, because that’s the time we want

the frontline managers to be talking to their customers. The impact has been phenomenal. Teams have stepped up a gear and, in the majority of our outlets, sales have increased.” The focus group findings also resulted in the introduction of a new voluntary benefits scheme, enabling all staff to tailor their benefits to suit their personal preferences.

Economic climate aside, a major challenge for Aramark relates to the liabilities that can be associated with public sector outsourcing contracts. “That’s a growing concern,” Wheeler says. These include public sector pension liabilities in general, and equal pay claims in local government and education.

Looking ahead, Wheeler is thinking about the potential opportunities that will arise as the economy emerges out of recession. “Do we have the right structure for the business to capitalise on that growth?” she asks. “Do we have the kind of people we need?” These will be questions that Wheeler will be contemplating over the next 12 months.

She will also be seeking to improve the “depth of succession that we have in the business”. She says: “We have tried to diversify not only with our products, but also with our people. And by that I mean we have tried to bring people into the sector from different backgrounds.” In particular, Aramark has been keen to attract people from retail food service organisations. “There are some that have been very successful and some that haven’t,” she says. “We are getting a profile and a template of those that have. It’s a market that we want to continue to tap into for the future.” Otherwise, fishing in the same contract catering recruitment pond could limit the company’s ability to innovate and drive the business forward, she believes.

## Robbie Wheeler

Robbie joined Aramark UK in 2005 as HR Director. She was previously Group HR Director for Land Securities plc and a main board director at Land Securities Trillium.

She holds MAs in Industrial Relations and Employment Law, and has also completed a second degree in European Law.



## About Aramark

- The privately-owned Aramark Corp has annual sales of over \$13 billion
- The worldwide corporation has more than 260,000 employees in 19 countries.
- Clients include over 80% of the *Fortune* 500.
- The group is consistently ranked as one of *Fortune's* most admired companies, being placed among the top three in its industry every year since 1998.
- Since 1968 in Mexico City, Aramark has served at 14 Olympic Games, including Athens in 2004 and Beijing in 2008.
- Aramark UK has over 12,500 employees operating over 1000 client locations throughout the UK and offshore. Services include employee restaurants, business dining, coffee bars, cleaning and ground maintenance.



Now responsible for management development across all Aramark's European businesses, Wheeler is excited about a new European leadership programme which was launched last year. The four countries with Aramark's biggest European operations — the UK, Germany, Ireland and Spain — each designed a module for the programme aligned to their key competencies, in collaboration with a local university or business school.

"Participants went to each country to complete the module and worked on a business project," Wheeler says. "In Germany, for example, the key competency is managing stadiums. We don't have any of that business in the UK, so for our executives to be able to spend a week running the food service business in Frankfurt football stadium was incredible. It was a real challenge for them." The UK's module was based around retail service, involving participants in running the varied services provided in a naval base in Portsmouth, including convenience stores and coffee shops. Ireland's module focused on convention centres and Spain's on hospitals.

The programme has proved a great success, creating a pool of individuals willing and able to work on projects that cross national boundaries. "All of

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A lot of our managers have never worked in this kind of economic climate. We are finding they need quite a lot of support in understanding how you manage a low margin business in times of recession — what levers you can pull without affecting the service.

the individuals from last year's programme have either taken up a position in another country or they are working on an activity that is cross-country," Wheeler says. One is now based in Azerbaijan.

Wheeler is now looking at other ways in which European business operations can be more closely aligned. For example, she is keen to achieve greater consistency in compensation and benefits. "Because we have had success with the training and development, it has opened the door for us to look at other areas," she says.

Creating greater consistency across Europe will echo actions taken in the UK itself after 2005. That year Wheeler left her role as group HR director of then FTSE 100 company Land Securities plc to join Aramark as part of a new management team brought in by the US parent to improve performance.

"At the time it [Aramark UK] was an organisation run by fiefdoms," she recalls. The business was divided into silos, all duplicating effort and seeing the centre as unsupportive. "The first thing we had to do was get rid of the silos," Wheeler says, a task which took 12 months of "quite painful" activity.

Efforts were also made to improve communication and speed up decision-making. Wheeler notes: "Even now, every week on a Thursday morning the management committee is in the board room and at 10 o'clock there is a call with every single line of business head to talk through the business. Woe betide you if you want to duck out of that. It is a non-negotiable. That's how we know what's going on in the business."

# Difficult times and

A recession changes our behaviour, both as consumers and as employees. What are the danger signs that HR should be looking out for? And what can it do about it?

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# different people

The recession has been an enormous challenge for HR professionals everywhere, as they juggle the cost demands of their employers against the need to protect the long-term quality of the workforce. But a recession is a complicated beast and a deep, prolonged or sharp one can have an unexpected impact on the behaviour of employees – some good, and some downright dangerous.

“Recession is a double-edged sword,” says Ian Kessler, university reader in employment relations at the Said Business School. “There are stresses on people that can lead to negative behaviour — but also, when people’s jobs are at stake, it can act as an extra discipline that has a positive impact.”

Indeed it can — ask the management at British Airways, where thousands of staff have agreed voluntary pay cuts as part of a bid to bridge massive losses. Pay cuts were also agreed last year at manufacturers JCB, to prevent the loss of jobs.

“Employees who can identify how their work impacts the company’s bottom line are more empowered, and more focused,” says Jennifer Stacey, chief people officer at Ceridian, a business services company. “Regular and timely updates will go a long way to reassuring colleagues and helping maintain workforce engagement.”

According to research from Ceridian, nearly half (49%) of UK employees had either taken a pay cut or pay freeze, while one in four would be prepared to forego their pension contributions in order to keep their job, and almost half would give up their private healthcare and bonuses.

“If the option is less beneficial terms of employment for a time compared to losing a job, then many people will think carefully about taking the detrimental change,” says Nick Squire of lawyers Freshfields. “But you need to be very careful about altering terms and conditions; cutting or changing a pension scheme is the sort of change many companies are looking to do on a permanent basis, and people will be very quick to see through cynical opportunism.”

It’s not just the long-term conditions that are up for grabs; more than half of UK employees are working unpaid overtime, and one in five are putting in an additional 25 unpaid hours a week, the equivalent of an extra three days a week.

But the extra workload is taking its toll, increasing stress levels to a level that can have a negative impact on staff. Health and Safety Executive statistics show that accidents at work rise during a downturn; either worries about the future mean safety is no longer at the forefront of people’s thinking, or the extra hours increase tiredness and so increase the likelihood of mistakes.

People fearful for their jobs may turn inwards, focusing on number one; one

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**We are seeing a rise in the number of people signing themselves off long-term sick with stress as a delaying tactic when a company has brought in performance management. It’s very, very difficult to do anything or to challenge — you just have to sit it out to avoid an unfair dismissal claim.**

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in five admitted to being more ruthless, one in three to being more self-promoting in order to prove their value at work — and one in ten were willing to stab colleagues in the back in order to stay employed. In such a dog-eat-dog world, there is often a rise in nasty behaviours such as bullying; the Workplace Bullying Institute, a US advocacy group, has called the recession a “blank cheque” for office bullies.

“The absolute control of an employer is more apparent in a recession,” says Gary Namie, director of the Institute. “People are more stressed because there’s no escape; previously, employees could jump to another job when the verbal abuse, humiliation, career sabotage or intimidation got to be too much, but a new job is harder to find during a recession.”

Unless the bully is quickly spotted and dealt with by HR, it can lead to bigger problems: low productivity or absenteeism, neither of which helps a company survive a downturn. One survey from Norwich Union Healthcare found that half of workers believe they are suffering from stress, and a further one in five from depression.

“We are seeing a rise in the number of people signing themselves off long-term sick with stress as a delaying tactic when a company has brought in performance management,” says Caroline Carter, head of employment at Ashurst, the law firm. “It’s very, very difficult to do anything or to challenge — you just have to sit it out to avoid an unfair dismissal claim.”

Recessions do lead to an unfortunate increase in legislative activity, according to Squire. “With more people being let go, less generous severance packages, and employees finding it more difficult to walk into another job, there is less concern about taking action against a former employer,” he says. “The employee thinks, what have I got to lose?”

“We are starting to see people trying to ‘add on’ claims to leverage unfair dismissal claims; if you can claim discrimination such as gender or age as the reason why you were unfairly dismissed, the compensation is unlimited.”

In such a climate, it is critical to make sure your dismissal procedures are absolutely watertight — not just when making staff redundant due to downsizing, but also when dismissing for poor behaviour. Says Carter: “Where it goes wrong is if an employer is really, really cross, hauls an employee in and bawls them out; then finds evidence of wrongdoing and dismisses them. You have to have the evidence first.”

Other behaviours can be even more damaging. The Association of Certified Fraud Examiners found that a typical US organisation loses 7% of its annual revenues to fraudulent activity, and 55% of its members performed more fraud-related investigations in 2008 than 2007. In about half of the cases the perpetrators had been under financial pressure.

Recession can prompt behaviour that could potentially jeopardise the company’s existence. According to an Ernst & Young survey, half of employees across Europe thought unethical business behaviour was acceptable, with behaviours ranging from giving a cash bribe to win work to distorting the company’s financial performance to mask disappointing results.

Research carried out in the 1980s and 1990s found that 60% to 75% of employees have stolen from employers at least once. And before you dismiss that as the negligible loss of a Biro and some paper clips, consider the fact that over 30% of business failures have been attributed to employee theft.

Theft can often come down to the culture of an organisation, and is a measure of how committed staff feel towards the company. Engagement with and commitment to the company is particularly key in a recession, yet it is often the very time that managers fail to maintain the kind of people support and talent management that are widespread in the good times.

“In a recession everyone is very focused on hitting targets and can lose sight of the people,” says Ann Parkinson, fellow at Henley Business School. “But you have to have good people, even more so in a recession. The companies that are doing well at the moment are focused on keeping the right people with the right skills. If you engage people in what’s going on, they will feel more in control, and more committed to your organisation.”

## A weak ethical culture leads to greater misconduct by employees, and less commitment to the company.

The difference in productivity can be startling; Ceridian quotes Bureau of Labour statistics that show a high of 60% productivity for employees that are engaged, working in a stable environment and not concerned about their future. But this drops to a mere 15% when change is announced — and the biggest factor in that change is an increase in social interaction and gossip. Keeping staff fully in the loop prevents them from wasting time round the water cooler.

Moreover, says Kessler, treating people fairly and explaining what is happening goes deeper than simply good ethics. “If you treat people fairly, they will accept negative outcomes much more readily. The procedures used to handle a decision will affect the outcome of that decision on your employees’ attitudes.”

Put simply, if you engage and communicate well with staff, they are less likely to nick the Post-Its. The transparency, honesty and integrity of management are even more critical in a recession than in the good times — a weak ethical culture leads to greater misconduct by employees, and less commitment to the company.

“In the early 1990s, people who felt that what was happening was out of their control were significantly more wary about working for a similar organisation again,” says Parkinson. “They tend to focus on their own skills — MBA numbers always go up in a recession — and they will move to another company if they can’t see the career path that will develop those skills.”

Time spent reminding your best people how their skills and career can develop in your company could be a very valuable investment — far better than the quick and dirty motivator of an extra bonus (even supposing your company is in a position to provide that). In a recession, understanding that different people are motivated by different things is important.

“We are seeing more innovation around how to motivate and reward,” says Stacey. “People are the key to surviving in this climate, and recognising the extra effort colleagues are investing is more important than ever.”

# It's us and them

Is there a fundamental difference between the culture of a public and private organisation? If so, what does that mean for companies that have received a government bailout?



What happens when private companies become public? Last year the US government became the largest shareholder in its national banks – Citigroup, JP Morgan Chase and Bank of America, to name but a few – injecting \$250 billion at last count to prop up its financial system. Likewise in the UK, where the government owns around 60% of the Royal Bank of Scotland, making up a substantial portion of the £37 billion it invested in its beleaguered finance giants. But as well as being an ironic byproduct of the credit crunch – where part-nationalisation meets free market capitalism – these interventions also represent a collision of corporate culture.

An organisation's culture is its lifeblood, how it lives and breathes and is experienced by every single worker. If there is a difference in the fundamental psychology of a public sector organisation and that of a private sector one, how does that, and the cultures that drive them, affect the employees of companies where one becomes the other? And how should the HR team deal with it?

Organisational culture is generally defined as a variation of 'the way we see and do things around here'. Others are more specific. The business writer Edgar Schein, for instance, argues that culture is conscious and is based on what has worked well for an organisation in the past, and that is why it is so difficult to change.

An organisation's culture, argues Dr Rob Yeung, leadership consultant and director at business psychology consultancy Talentspace, isn't necessarily ethically right or morally attractive. The newspaper column *Cityboy* famously depicted finance houses in the City of London fuelled by a culture dominated by gambling and bonuses and underlined with prostitution, cocaine and fraud. Few would agree these are positive qualities yet they were accepted as the norm by everyone working there.

The fundamental difference between the cultures of public and private organisations is well documented. It is, says entrepreneur Guy Kingston, a "huge chasm; a gap of understanding that is getting wider". There are "marked differences on trust, loyalty and motivation," adds Mike Emmott, employee relations adviser at the CIPD. "Public sector psychology and culture is more negative; there is a more bureaucratic climate."

"For me the primary difference is accountability," says Phyl Johnson, a chartered psychologist and psychotherapist who runs her own consultancy, Strategy Explorers, and is a visiting academic at the CASS business school. "Accountability comes hand-in-hand with bureaucracy," she adds, "so there are many more rules and regulations. The culture in public organisations feels quite slow, complicated and unwieldy."



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If you blindfolded someone and led them into the middle of an office and they had to guess whether it was a private or public organisation, they would be able to.

This is due in part, she says, to the fact that people enter some sections of the public sector “for the common good and with a sense of social responsibility. They feel strongly about what is right and wrong. But when that passes down it becomes yet another action plan and some people at the bottom can become disillusioned. This differs from the private sector where, on the face of it, it’s all about maximising shareholder value. Everyone can line up behind that goal.”

Yeung is quick to point out that there are always exceptions to the accepted generalisations about the different workplace psychologies within the public and private sectors. “Some organisations in the private sector are very political and have no clear metrics while some public sector organisations are completely transparent,” he says.

Even so, the difference in culture between a private and public entity is not difficult to spot. “If you blindfolded someone and led them into the middle of an office and they had to guess whether it was private or public, they would be able to,” says Adam Sampson, chief executive of the UK charity Shelter. “There are tangible and intangible reasons.”

Sampson differentiates between the voluntary sector and the public sector but admits that as the voluntary sector grows it is “beginning to mimic some of the problems” within the public sector. “My experience of public sector is that it is much more rigid and hierarchical,” he says, but, conversely, “you have a great sense of mission, central purpose and moral values. You get greater value. People work damn hard for much less money.”

Johnson points out that good intentions higher up the public sector can contribute to the general feeling of discontent in the sector: “In the public sector, because it’s so bureaucratic, it’s easy to hide poor performance and



people lower down can get very cynical.” This juxtaposes hugely with the private sector where, says Susan Heathfield, a US Human Resources expert and the founder of Heathfield Consulting Associates, “more attention is paid to employee morale, employee development, goal setting and feedback, employee retention, and non-performing employees will more quickly lose their jobs.”

The enormous challenges faced in terms of addressing clashing corporate cultures when two organisations merge has been well documented but the issue of government bailouts, in the finance sector and elsewhere, and the long-term impact that may have on organisational culture is a new concept for everyone. Some very complex questions are being raised, most notably in the US where nationalisation (or anything close to it) goes against the fundamental tenet of the American Dream.

For the banks themselves the process has been painful, particularly since changes to their accepted practice and culture have been forced on them by government and public pressure. The pressure on AIG executives to pay back bonuses awarded after the US insurer received \$175 billion from the US government was intense and a good proportion subsequently bowed to it. AIG chairman Edward Liddy conceded that the bonus payments were “distasteful” but warned that if the insurer lost staff because they were not paid competitively, the result could be “uncontrolled collapse of the company”.

It is clear that the vast majority of the banks that have received government money want to pay it off as soon as possible in order to avoid what they see as government interference in the way they run their business. Whether the process will have any long-term impact on the organisational culture remains to be seen. “I wouldn’t expect to see change in the short term,” says Emmott of the bailout of RBS. “Only over time might you expect banks to become more bureaucratic and less dynamic.” The pressure on the entire

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If the culture changes, employees will feel alienated if it is not the ticket they signed up for. They may not like the new culture or find it supportive of the accomplishment of their goals.

banking industry to revert to a more conservative and risk-averse approach to business, though, must inevitably result in a shake-up of its employee base, whether voluntary or not. If there is a mismatch between an employee’s working style and the organisational culture, says Yeung, the result is “angry and downhearted employees who will eventually get pushed out”.

“If the culture changes,” adds Heathfield, “employees will feel alienated if it is not the ticket they signed up for. They may not comfortably fit in the new culture. They may not like the new culture or find it supportive of the accomplishment of their goals.”

It is clear that the HR function of many financial institutions will have their work cut out in the coming months, both in monitoring organisational culture and maintaining employee engagement. “HR has to raise its game in finance,” believes Emmott. “[It must] be more assertive. HR has to surface these issues about culture and engagement and getting employees to do the best job they can. HR has to make sure that the top management team is aware of the risks. It must address the need for engagement and go about restoring corporate reputation.”

“The single most important item is that managers, key employees, and thought leaders have to walk the talk and model the culture in their actions and expectations,” adds Heathfield.

The greatest risk, though, is the political and social pressure that could result in a very different long-term plan for the banking sector. “If government wants the banks to serve a social purpose rather than just make money, that introduces a second, parallel objective and may remove clarity and single-mindedness of purpose,” warns Sampson. “That’s the danger.”

# Retirement: not a

The debate over final salary schemes and defined benefit pensions tends to ignore the fact that the vast majority of people act emotionally, and not in an economically rational way.

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# time to relax

Pensions in the UK were, until recently, such a success story that Eurosceptics feared an EU ‘pension grab’ as our partners realised their largely state-funded schemes were unsustainable. Indeed, despite having one of the lowest state pensions among the OECD countries the living standards of UK pensioners were comparable to their foreign counterparts.

All this was down, not to personal thrift but well-funded final salary schemes. As Brian Peters, director, Human Resource Services at Pricewaterhouse Coopers puts it: “Twenty years ago the only retirement planning you needed to do was to sign a form and collect a clock when you left.” Now the picture in the UK is changing, with most companies closing defined benefit final salary schemes in favour of defined contribution schemes, in which the risk of poor investment performance is transferred entirely to the employee. Although employer schemes in other countries, such as Germany, face huge deficits this is not so much an issue as in the UK, as elsewhere private pensions are largely seen as a top-up to more generous state benefits.

While it’s not surprising that employers are keen to exit from the costs and liabilities associated with defined benefit schemes, what is surprising is how workers have reacted to this trend. “Employers have realised that their employees don’t realise the value of this until they are actually in retirement and not working for you,” says Peters. “Most people are now not in defined benefit schemes and so don’t have any idea what their income will be when they retire – people won’t realise what they have lost for another 15 or 20 years.”

The accepted view is that pensions are considered a key employment benefit by employees but this appears to be a myth, according to Stephen Taylor, senior lecture in human resources management at Manchester Metropolitan Business School and one of the few academics to research this area. “The big argument for retaining final salary schemes is that if you lose them you lose your ability to recruit and retain,” he says. “But for the finance director a final salary scheme is a huge and unpredictable risk, so they get rid of it. You’d have expected industrial action and protests over their replacement with much less satisfactory schemes, but it hasn’t happened.”

Taylor says he finds it “very irritating” that the cost of pensions is always discussed by economists on the assumption that people act in an economically rational way, when often their reaction is more emotional. He cites the case of a major supermarket some years ago that was trying and failing to sign staff up to a generous final salary scheme: “They couldn’t get people interested at all,” he says “But when they extended the staff discount scheme to pensioners they found all the staff wanted to join — even though it was worth a tiny percentage compared to the pension itself.”

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People have become confused between retirement planning and pension schemes — there’s so much focus on the way plans are delivered but whether it’s defined benefit or defined contribution is not as important as whether people have enough money when they retire.

Taylor’s 1998 research project interviewed a wide range of people about their reasons for joining or leaving a company, and found that apart from people who were very near retirement and a small number of financial professionals, pensions simply weren’t an issue. “People in good final salary schemes but in a job they don’t like will leave that job; it’s not enough to stop them,” he says.

Even when pensions do act as a retention tool, it is not always perceived as a positive thing by people in their early 60s who “hate every day” of their working lives. “They can’t stand being there and are desperate to retire but the prospect of a pension keeps them there,” he says. Overall, however, he concludes — with some sadness — that pensions have very little impact on the employment market: “Whether or not there is a pension has some effect, but the type very little,” he says. “Whether it’s an extremely generous final salary scheme or a very basic defined contribution one didn’t seem to have any effect on whether you stay with an employer, leave an employer or which job you take.”

Although many HR directors and pension managers would like to retain defined benefits, this is hard in the face of employee indifference. According to Professor David Blake, director of the Pensions Institute, this could take a generation to resolve. “In the ’50s, ’60s and ’70s your mum would say make sure your job has a good pension, because of family experiences of parents experiencing poverty in old age,” he says. “It’s the children of the current people who aren’t currently saving who will tell their children to make sure the job has a good pension.”



However, there is some evidence that people are coming to understand and value that pensions may be changing, according to research shortly to be published by the Chartered Institute of Personnel and Development in *The Business Case for Private Sector Pensions*: “For people in defined benefit schemes a third said it was the key most significant factor in deciding to stay with their current employer compared to only one in ten in a defined contribution scheme,” says Charles Cotton, adviser on reward and employment conditions at the CIPD.

“Our research suggests that most employees would quite like to be in a defined benefit scheme where they don’t have to make any decisions rather than in a defined contribution scheme where they are responsible for their own investment decisions,” he says. “As a result a lot of organisations are not just moving to a defined contribution scheme but looking at the whole area of financial education and awareness.”

Final salary schemes of course survive in the public sector, and recent research by PwC suggests that this is, in fact, not compensated for by salaries and that a private sector “hare” will eventually be outpaced, not just in pension but overall wealth, by a public sector “tortoise” (*The Tortoise and the Hare: A Modern Fable* by PwC’s macroeconomics team).

However, these sorts of discrepancies are also beginning to emerge in the private sector, according to Graham Mannion, managing director of pensions data company PensionDCisions, which analyses the results and behaviours of members in defined contribution schemes: “The missing link is how the options in the schemes are used by their members,” he says. “If you look at the returns, there are huge variations in the results achieved by members.”

Even where employees don’t make any decision at all the default options under schemes can be very different. “This is not about investment performance, it’s about asset allocation,” says Mannion. “There’s a vast array of different opinions about what a good default option is and employees aren’t aware of what is happening to their money.”

Some, for instance, default to all cash, others for equities — both of which are alarming: “Some employers are saying if our employees haven’t thought about risk then we don’t want to do it for them,” he says. “Other employers invest the default asset 100% in equities — so as an employee I may not have thought about where to put my money and my employer has put it into the riskiest assets. At one level you might be indifferent but if as an employer you’re spending money on this, is it reasonable not to calibrate these issues more carefully?”

If employers are going to delegate risk to employees, they should give them

## Case study: All aboard

Although there has been a mass exodus from final salary schemes, that doesn't necessarily mean that organisations have to head straight for the uncertainty of defined contributions.

FirstGroup plc had to bring together a number of final salary schemes in its Bus Group, and chose to replace them with a scheme that still offered a defined benefit but based on a career average rather than final salary:

"We wanted to give people the choice but at a sustainable cost," says John Chilman, group pensions and reward director at FirstGroup. "We also wanted to enhance their appreciation of pensions and not to think we were the same as everybody else, which we're not, we're the market leader in our sector."

While Chilman says he doesn't believe the scheme has much effect on motivation and recruitment incentive it is a great retention tool for older drivers, which, as an Age Positive employer FirstGroup is keen to attract. The company was also able to achieve a mass migration into the scheme, which was able to offer a higher accrual rate than the schemes it replaced.

"In the bus industry most people who start as a bus driver finish as a bus driver," says Chilman. "So for them it's very much like a final salary

scheme. Once they realised that the people who won out of the old scheme were the managers they could see that career average made it a lot fairer."

The other thing that workers valued was the guaranteed nature of the benefit: "If you're one of the lucky people who earn enough to have wealth management then an element of risk is fine," says Chilman. "If you're a bus driver you tend to live week to week — you have a greater need for certainty of outcome."

The risk is balanced between the company and the employees — paid-up benefits are locked in but changing conditions might mean a change in accrual rates: currently 1/60th accrual costs 7%. "That may seem high but people would rather pay 7% and have a guaranteed benefit than 4% and no idea — all the risk has been taken away," says Chilman. "If you want to do it on the cheap you can't do defined benefit."

Members are offered a range of contribution and accrual options under the scheme, and a powerful web site which models the different options available, the benefits and affordability. With bus driver incomes ranging from £15,000 to £18,000 the combination of state benefits and 40/60ths of salary would give them 100% of salary.

"If people have worked for the First Group for 40 years we want them to be able to afford to retire," says Chilman. "We don't want to see someone destitute."

information about the consequences of their behaviour, he argues. "They may not achieve the best results but at least it will make the market function," he says. The main obstacle is that people at the moment have no ready shorthand for recognising what "good" is in these types of financial products: "This is a totally different point from financial education," he says. "You don't need to get people to be financial experts or even semi-experts, you just need them to understand if their money is being managed well. It's just like a television — you don't know how it works but if you get a bad one you send it back and get another one."

Employers need to keep the message simple and focus on high-level outcomes to show people how they are doing. "It could be presented on the web, or you could offer other metrics such as traffic lights so that people can see how well they have been rewarded for the risk they have taken," he says,

"There's a great potential for HR to get involved here — they can tend to feel a bit disempowered as to what they can do in this complex area and would rather deal with other benefits."

From 2012, employers in the UK will be legally obliged to offer pension schemes to their employees, and this could mark the end of pensions as a differentiator if companies simply default to the government mandated minimum. But PwC's Brian Peters believes the current upheavals give HR an opportunity to redesign the whole architecture of their incentive schemes, including offering a whole range of short, medium and long-term savings vehicles. "People have become confused between retirement planning and pension schemes — there's so much focus on the way plans are delivered but whether it's defined benefit or defined contribution is not as important as whether people have enough money when they retire."

# Short-term pain

In the first of a series of articles highlighting HR issues around the world, William Schofield explains how the financial downturn has impacted the employment market in Russia.



It wasn't that long ago, just 12 months or so, that HR directors in Western Europe were eyeing requests for double digit salary increases in their Russian businesses with some suspicion. In fact, it wasn't unusual to see members of the head office HR team dispatched to Moscow to eyeball their Russian counterparts to ensure that these requests were market driven (as they were) and not just wishful thinking. Average base salary increases in 2007/2008 reached up to 33% for some positions, based on survey data collated by the HR consulting practice of PricewaterhouseCoopers' Moscow office. The job market was hot and getting hotter. Finding the right person, with the right experience and potential, was like finding a needle in a haystack and certainly came at a price. Salaries inflated quickly, driving expectations of employees into a self-fulfilling virtual loop. Something was needed to break this cycle — and it came with a bang.

As with the rest of the world, the financial downturn has hit Russia hard and the HR implications of this are extensive. Unemployment has increased quickly, although there is a sense that the real impact on the economy and earnings is being masked somewhat by shortened working weeks, real pay cuts, forced leave and 'down time', all of which are hard to measure. Having grappled with the HR dynamics of boom times, businesses now have to work through the myriad of issues created through cost-cutting measures. Leaving

aside the 'easy' targets for cut backs (such as learning & development, staff entertaining, corporate travel and other non-essentials), how have businesses responded to the need to cut back on direct staff costs?

With the need to advise the authorities months in advance of any formal redundancy programme and the knock-on effect that such a programme has on the subsequent ability to recruit new employees, many businesses look for an alternative solution to managing staff headcount. The most common approach is a mutually concluded agreement between employee and employer that the employment should terminate.

A survey undertaken in February 2009 by the PwC Moscow team indicated that as many as 93% of companies looking to reduce headcount would use mutual agreements. However, these agreements can be time-consuming to conclude, are subject to individual discussions and can, as a result, be inconsistent (aka inequitable) between people. Conversely, terminating staff in such a way provides the employer with far greater flexibility than a formal redundancy programme and the employee benefits from retaining an untarnished employment record. It would often be the case that through the mutual agreement process the employer would agree to provide a valid reference and, in some instances, retain the employee on their books (albeit on unpaid leave), while they seek alternative work.

So what may come next? With many companies having reduced their staff numbers and imposed recruitment freezes, how will they be positioned when Russia comes out of the current economic troubles? Will they have enough workers to lift their corporate performance and make the best of the recovery? A year ago businesses were fighting for scarce resources and senior management was looking with concern at Russia's demographics — in particular the falling number of graduates coming onto the market. In a very short space of time this has all changed. Forecasts do predict that the recovery will come, however, and those businesses that overreacted may find themselves seriously short of capacity to make the most of any new opportunities. They will be forced to recruit and retrain in double-quick time, with all the costs associated with that, as they try to maintain market share and be competitive.

Only time will tell, but perhaps the cautious, considered approach to staffing will provide businesses with the best long-term results, albeit with some serious short-term pain. The balance of this year and 2010 will certainly be interesting times.

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## References and further reading

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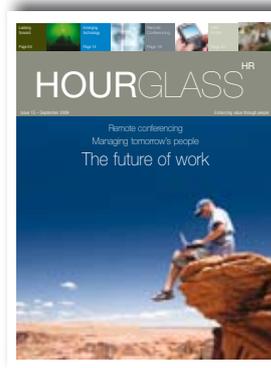
The PwC report *Managing Tomorrow's People: How the downturn will change the future of work* — Can be found at [www.pwc.co.uk](http://www.pwc.co.uk)

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Niall Cooke's book *Enterprise 2.0 — How Social Software Will Change the Future of Work* is published by Gower.

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The PwC report *The Tortoise and the Hare: A Modern Fable* can be found at [www.pwc.co.uk](http://www.pwc.co.uk)



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