ABM and Mercer

Making the Case for Scaled Management of Human Capital: Valuing Workforce Strategies in Building

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Abstract

ABM, a leading provider of facility solutions, sought an answer to a critical question: whether it could manage its workforce more consistently across its divisions to drive value for its clients and improve profitability. To assess the potential of such changes, ABM teamed with human capital experts at Mercer on an analysis to assess optimal workforce practices across a sample of its US-based operational units. The analysis, which linked unit profitability to workforce management, pointed to efficiencies in scaling managerial authority, improving workforce flexibility, and greater consistency in management of employees across its divisions—supporting no less than wholesale changes in the business's structure and its go-to-market proposition to clients.

The detailed study tracks ABM's analytics journey, from problem statement to analysis framework and from results to implications for the business.

Organization Background

ABM is a major consolidated provider of facilities services and solutions in the United States, with an increasingly global position. The company has more than 100,000 specialized employees, across numerous self-performed services, including janitorial, security, parking, facilities engineering, HVAC, electrical, landscaping, and energy solutions. It offers state-of-the-art experience and expertise and cost-effective provision of quality services. ABM has a substantial base of long-term client relationships.

2013 revenues of approximately $4.8 billion were earned serving thousands of commercial, industrial, institutional, and retail facilities in hundreds of cities. The company emphasizes the following:

- **A needs-based approach** Clients come to ABM for lasting and reliable facility management solutions. They depend on ABM's knowledge of their everyday demands.
- **Strong company values** Relationships with clients are built on respect, integrity, and collaboration to solve problems. Every employee at ABM is expected to demonstrate these values at every job site.
- **Innovation** ABM makes every effort not only to lead, but also transform the industry through its domain expertise and collaborative technology platform.
- **Respecting employees** ABM meets and exceeds legal, union, and staff demands for safe working conditions and career mobility. A human capital company, ABM is intensely focused on the quality, effectiveness, and motivation of its employees. ABM believes that when employees are happy and engaged, they will do their best for clients.

ABM's focus on meeting its clients' needs and realizing the full potential of its workforce, in the midst of ever-increasing cost pressure, drove its desire to deploy sophisticated human capital analytics to inform its evolving business model and make the case to potential clients of the value of relying on its services. The focus was intended to improve the effectiveness of service delivery, ABM's representation of the value it could bring to a specific client, and, ultimately, the organization's profitability.

Business Opportunity

The fundamental business proposition of ABM is that customers can benefit when they outsource their blue-collar workforces to the specialist management of ABM, taking advantage of economies of scale and scope that the company affords as well as the special expertise and know-how that it delivers. Such outsourcing is also a way to offload specific risks associated with this part of the workforce (e.g., workers' compensation) and which companies are often ill-equipped to manage.

Securing and managing a blue-collar workforce focused on building services is not the core competency of ABM's customer base. Not only are ABM clients less efficient in managing this part of their workforce, they frequently do not know the true costs of this labor—which go beyond payroll to include turnover, absence, health-related expenditures, inefficiencies in staffing, and shortfalls in productivity.

Part of ABM's business challenge is to determine and credibly demonstrate the efficiency gains available from taking over the blue-collar workforces of their customers. Workforce analytics helped to meet this challenge. By measuring and understanding how human capital factors influence the efficiency of its own operations, ABM is in a position to quantify the real gains available to customers who turn to ABM for services; the work, then, is for the benefit of ABM's clients, ABM itself, and its blue-collar employees, as it moves to professionalize the industry.

ABM also operates in a highly competitive sector where price is part of the competitive equation. The company can never be complacent as low-cost, low-quality providers are always present, putting pressure on the company's margins. In its drive to better service its clients, ABM continuously seeks out ways to increase efficiency while maintaining and improving service quality standards that define the company brand. For its investors, ABM strives to ensure that it is servicing customers where it can generate the greatest value. Both purposes are served by two major initiatives the company has undertaken.

The first, its Integrated Facility Solutions offering, is intended to provide clients with across-the-board building services under a single contract. ABM is uniquely positioned to offer such holistic support to customers. It is a strong point of competitive advantage. As it moved forward with such an initiative, the organization wanted greater perspective on how the Integrated Facility Solutions offering could operate most effectively and potential barriers to its success.

The second, known as "unified workforce," is a technology-driven platform intended to allow the organization to manage its workforce across locations, and, ultimately, across its businesses, in a more fungible way—efficiently matching the skills, experience levels, and capabilities of its workforce to the particular needs of its customers in a timely manner. Again, differences in workforce requirements across the business needed to be assessed. Furthermore, understanding of the value of the scale of a production site, and how many such sites and employees can be effectively covered by a single manager, would provide insight on the potential for such unification.

To support these initiatives, the organization undertook the "human capital analytics" project to assess the management of its people across its clients and to understand how it can most effectively deploy its workforce. The analysis validated the business significance of the two priority efforts and the importance of executing them effectively. It also identified the human capital and environmental factors—including client industry, geography, form of contract, and unionization status—that affect the potential for scaling and, ultimately, the company's profitability.

The project also provided the empirical foundation for an evidence-based method to identify specific clients that would most benefit from the provision of services by ABM, helping the organization to target its selling efforts most effectively. The analysis was leveraged to help build a tool to support ABM's sales staff in prioritizing clients and pricing work.

Analytics Approach

To undertake its workforce analysis, ABM adopted Mercer's Business Impact Modeling methodology. The approach draws heavily on the core construct in economics of the production function, which is a mathematical expression of the relationship between the outputs of a production process and the capital and labor inputs utilized. In traditional formulations of the production function, labor is represented by head count, FTEs, or total compensation expense. In Mercer's formulation, labor is a composite, meant to capture multiple dimensions of the human capital input that affect productivity—for example, staffing ratios, workforce demographics, and experience, the level and structure of pay, etc. Capital is traditionally thought of as "plant and equipment," but, in this context, it can be thought of as representing all nonlabor aspects of a company's investments.

Business Impact Modeling is a statistical process applied to actually estimate the parameters of the production function. Where measurable outcomes of a production process can be associated directly with labor and nonlabor inputs, over time and across units, the approach can be effectively undertaken, drawing on data from the HRIS and financial/operational systems. From such an effort, organizations can investigate how labor can be managed most effectively to improve productivity. The methodology is described in more detail in the book, *Play to Your Strengths* (2004).

In order to help ABM optimize its operations and identify potential client situations where it could drive the greatest value, Mercer worked with the company to compile relevant data from its HRIS and business systems. The data acquired tracked workforce characteristics and financial profitability on a monthly basis, all at the level of ABM's narrowest managerial unit—the "project."

A production-function framework as described above was then used to specify causal, statistical models linking management of human capital to project profitability, separately for each of ABM's on-site businesses—janitorial, facilities engineering, parking, and security. Of course, each model was also specified to account for nonlabor inputs into the production process as well as potential productivity constraints, including information on the facility (e.g., location, union status), the industry (e.g., health care, manufacturing), and relevant contract provisions (e.g., fixed-fee service, fees per square foot). Armed with the results of these models, ABM can now prioritize specific workforce strategies and, furthermore, identify those "prospects" where it can provide the greatest value.

In essence, the approach adopted takes advantage of the many natural experiments in workforce management routinely taking place across ABM's operations. As is true in almost all organizations, even when operations follow a specified blueprint of workforce management, there is always substantial variance in the way "projects" actually unfold. For example, some projects are large, some are small; some have highly tenured staff, some less so; some rely more on part-time or temporary employees; some have local management, some do not; and so forth. This natural variance is what supports the statistical modeling process. It affords an opportunity to uncover systematic relationships between workforce management practices and business performance. In effect, by systematically analyzing the running record of its own performance across projects, ABM was able to identify its own "best practice" from a workforce perspective. It can determine what works best under what conditions. And herein lay a critical component of the business proposition: if ABM can identify and quantify the gains from deploying its ***own*** best practice, it would be in a position to credibly make the business case to customers concerning the value it can deliver by taking responsibility for specified services; if the firm specializing in delivery of these services were to deploy its own best practices in managing a new project, it is highly likely they would outperform anything the client could reasonably do on its own.

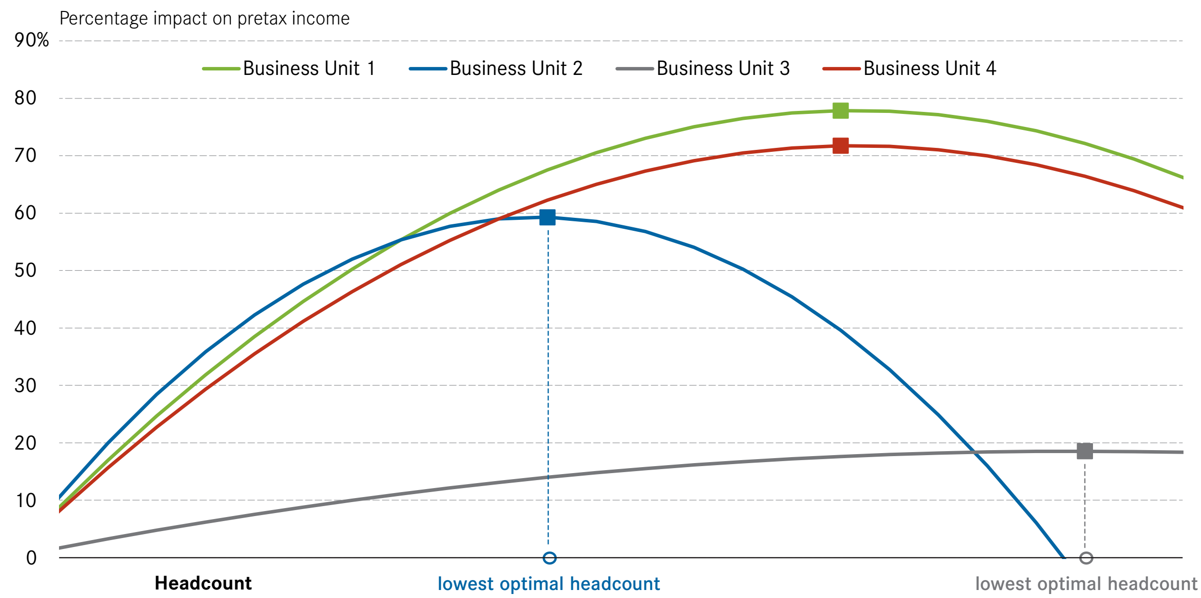
Actions Taken

In reviewing results from the statistical models for ABM, the following implications were clear:

1. **Large projects are associated with higher levels of profit, supporting the organization's promotion of a "unified workforce" approach.** As shown in Figure 17, the analysis identified optimal project sizes for each of the different business units. The impact of varying head count size on pretax net income differs across businesses, as reflected by the different shapes and steepness of the optimization schedules. For example, increasing head count in Business Unit 2, early on, has a greater impact on pretax net income than does increasing head count in Business Unit 3. Furthermore, projects that are too large in Business Unit 2 (e.g., with head count beyond the optimal level) reduced profit potential.

Figure 17

Impact of Headcount on Pretax income



Source: ABM

The models clearly showed, within each business, that projects with larger head count are more profitable, up to the optimal level. Of course, this is not to suggest that ABM would increase profitability by adding staff to existing projects. Rather, to the extent that ABM can manage projects together, mimicking the conditions that make larger projects profitable, there is significant potential to improve profitability across the array of smaller projects undertaken. In other words, the analysis clearly showed economies of scale in their contracting arrangements: ABM is more naturally aligned to support larger clients than small; it can "unify" its management of distinct sites.

2 Strong similarities across ABM's separate businesses (e.g., on the link between operation scale and profitability) were supportive of efforts to manage operations more holistically, providing broader facilities services to clients. However, there were some differences across units that made clear where the approach needed to be softened. For example, length of service and retention were more critical in parts of the business where the work is more complex and knowledge of ABM-specific approaches to service delivery and operations is of highest value, like facilities engineering—arguing for some segmentation of divisional rewards, career, and staffing strategies. This result served as a caveat to blind application of the Integrated Facility Solutions offering.

3 Staffing flexibility was clearly associated with profitability. Balancing full-time and part-time employees as well as reliance on temporary employees and utilization of overtime were all linked to profitability. Managers at ABM need to be nimble to deliver to the specifications of a contract—and those that look beyond full-time, location-specific employment strategies are particularly effective. Again, these results point to the value of the "unified workforce" effort for ABM.

Outcomes of Actions Taken

Three critical outcomes are on the horizon for ABM, all supported by the analysis undertaken:

1 **Execution of Integrated Facility Solutions** The workforce analytics approach showed consistency in how the different businesses could manage their workforces optimally, but also some important areas of difference. Parts of the business that were more aligned provide for a better starting point for consistency in management. Specific professions—particularly some of the facilities engineers—need to be managed separately on an ongoing basis.

2 **Commitment to the "unified workforce" model** Extending from the previous result, the analysis clearly showed that larger managerial units were more efficient—up to an optimum level in excess of current operational norms. Flexibility in staffing is also a critical element of ABM's proposition. The analysis showed that those units that were willing to rely on temporary employees and overtime were advantaged. Running separate units holistically and with centralized staff will provide managers with the flexibility required to realize significant benefits—provided the consolidated units are not too large.

3 **Development of specific tools to help the sales force** The analysis was utilized to build a decision tool whereby an ABM sales representative can input characteristics of a potential site (including the industry of the site, the expected workforce requirement, and current turnover rates) to get an immediate read of the value that "outsourcing" can provide. The tool will help ABM in effectively targeting and pricing its services.

Lessons Learned

Workforce analytics can address specific questions—like the optimal level of turnover, how to accelerate the talent pipeline, and, in the ABM case, how to optimize "project size." It can also be utilized to set strategy—to identify the exact human capital imperatives that should be pursued to deliver on business objectives. In the case of ABM, it pointed not only to optimal project size, but also to changes in the fundamental business model: to both unified staffing strategies and changes in the organization's design. The business has moved from a model in which the divisions were separately run to one in which each is run together, within a given geography; such changes in management approach will better support Integrated Facility Solutions.

A human capital business must get its hands around human capital management to be able to succeed in this competitive world. To put it clearly, ABM didn't engage in this work to support HR. It engaged in this work to support the business. The ultimate results have informed the business's design, its sales process, and its operational management.

Even the most knowledgeable, experienced professionals can learn from the results of workforce analytics akin to what ABM has undertaken. There are always discoveries when you apply rigorous measurement and modeling techniques to the running record of performance.

Hunches can be turned into quantified truths (e.g., that projects can be too large as business developers get seduced into “giving away the store” to secure the business); corporate myths can be dispelled (e.g., that turnover is always costly—not so in one of ABM’s divisions); and, optimal practices can be identified (e.g., tenure is optimized in one of the divisions only after several years of service).

We will offer one caveat, which itself argues for more organizations undertaking similar work. Having run hundreds of such analyses over the last two decades, we have yet to find a best-practice approach to human capital management. What is a best practice in one environment may not be a best practice in another, even within an industry. In a firm like ABM, optimal workforce management differs depending on the business line. The old idea that there is one best way, defined by leading companies, simply doesn’t hold water. Optimal human capital practices are about “best fit” to the circumstances. Workforce analytics is, in our opinion, the most effective way to evaluate and ultimately determine such best-fit practices.

About the Authors

Tracy K. Price, EVP, ABM

Tracy K. Price is executive vice president of ABM Industries and president of the Building & Energy Solutions Group. He has been a driving force in revolutionizing the change-resistant building services industry through the integration of technology and process standards that have resulted in growth and success at every company he has led. Prior to its being acquired by ABM, Tracy was CEO of the Linc Group, a company that earned Microsoft's highest honor, the Overall Achievement Award, in 2009, as well as the Pinnacle Award in 2007. His team's efforts were also recognized when he received the prestigious Ernst & Young Entrepreneur of the Year award in the business services category in 2008.

Tracy graduated from the University of California-Los Angeles with a BA in economics and holds C-10 and C-20 mechanical and electrical contracting licenses.

Haig Nalbantian, Senior Partner, Mercer

Haig Nalbantian is cofounder/coleader of Mercer's Workforce Sciences Institute. A labor/organizational economist, he has been instrumental in developing Mercer's unique capability to measure the economic impact of human capital practices. He is an internationally recognized expert in incentives, human capital measurement and management, and their links to workforce productivity and organizational performance. Haig is also widely published in major economic, business, and human resources journals. He coauthored the prizewinning book on human capital measurement and management, *Play to Your Strengths* (McGraw Hill, 2004). Most recently, he coauthored a study sponsored by the World Economic Forum and Mercer, titled, *Talent Mobility Good Practices: Collaboration at the Heart of Economic Growth* (2012).

Haig earned his BA in English and economics at New York University and his graduate degree in economics from Columbia University.

RESOURCE

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Brian Levine, PhD, Partner, Mercer

Brian Levine is the North American leader of Mercer's Workforce Analytics & Planning practice. He has more than 15 years of consulting experience in human capital measurement–working with company data to identify the drivers of rewards and turnover as well as significant links between human capital practices and business performance. Brian also has extensive experience leading analytic assessments of diversity and pay equity, and he led the team that developed Mercer's proprietary pay equity software. Brian frequently publishes in the professional press and is a popular speaker.

Brian received a BS in industrial and labor relations and MS and PhD degrees in economics, all from Cornell University.

Linda Chen, Senior Associate, Mercer

Linda Chen is a member of the Workforce Analytics & Planning team at Mercer. She has worked with organizations across various sectors and geographies on a wide array of client engagements, assessing internal labor dynamics, identifying drivers of key workforce outcomes, and examining linkages between human capital management and business results. Linda has been involved in deploying workforce analytics in M&A deals to evaluate potential talent risks and misalignments during due diligence and integration. She has also contributed to research initiatives focused around diversity in the workplace.

Linda graduated from Wellesley College with a BA in economics and architecture.

We asked the ABM-Mercer team to comment further on their case study and offer advice to others moving forward. Here is what they had to say.

You mention in the case study that a human capital business must get its hands around human capital management to be able to succeed in the competitive world. How does an organization do this?

First and foremost, it takes developing and inculcating the mind-set that the commonly articulated mantra "people are our greatest asset" is not just a slogan, but a meaningful statement about an approach to the people side of business. In fact, modern workforce management is a new and complex form of asset management. It requires the same disciplined approach that has routinely been applied to the management of financial and physical assets. Of course, people are far different from other assets, and no one would suggest there is anything mechanical about measuring and understanding human behavior. But there are regularities in workforce behavior that can be detected with appropriate statistical techniques and used to improve outcomes. There is a track record of success in this domain that clearly demonstrates that while human capital management is perhaps the most complex form of asset management, mastering its complexities is well worthwhile and can generate significant comparative advantages, especially for large organizations that undertake massive investments in their workforce and seldom know which parts of that investment pay off and which parts do not. How does an organization get their business partners to buy-in to a project (and use the outcomes) like this?

We are living in the age of "big data," where evidence-based approaches to decision making are flourishing across virtually all business-related disciplines, from marketing, to finance, to logistics and supply chain, among others. We are also living in an age where more and more business leaders recognize that how well they secure and manage their workforce is a major determinant of business success.

Put the two together and, frankly, it is not so difficult any more to get business leaders to buy into the notion that decisions about the workforce can be improved significantly by careful analysis of workforce and business performance data. The key is to demonstrate that you have a solid methodology that can uncover the story in the mass of data that the organization is sitting on and translate that story into practical action steps. For more skeptical business leaders, proof of concept is imperative. Start with a focused pilot, addressing a critical problem that is cause for concern and has not been readily solved. Draw your business partners into the diagnostic process from the beginning, eliciting from them clear, testable hypotheses about the source of the problem and its likely "cure." Then develop a research design that permits disciplined testing of these and other plausible hypotheses and use the right kind of statistical modeling to conduct such tests. Review that research design with business partners and validate preliminary results with them. If you just "dump results" on your business partners, without first involving them in the diagnostic process, it is less likely you will get their buy-in to your research design and its outcomes.

What one piece of advice would you give an organization just beginning to build its human capital analytics practice?

It is tempting to see workforce analytics as primarily about data and the technology that gives ready access to those data. Of course data are important. But what makes the difference between ordinary and game-changing analytics is the particular lens you use to examine the data. It is the lens that helps you determine what data to seek, how to structure the statistical analyses you undertake, how to interpret the findings, and how to uncover and tell the story from so much data. Without a solid, well-formulated lens, you are left with blind data mining, which is unlikely to generate significant insight. And the numbers alone, without the clear story, will not compel action. The Mercer team uses the particular lens of production functions and internal labor markets. There are certainly other approaches that can deliver high value. Our only admonition is for organizations to first establish a coherent framework that can be well understood by your analytics team and your leadership, and then use it consistently as the foundation of your approach to workforce analytics.