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Title: The impact of strategic transformation on employee productivity

Overview

Digital technologies have and will continue to transform the ways in which firms manage their business and employees. The effects of digital disruptive have created a highly uncertain and transformative environment where existing and often successful HR management strategies and practices are scrutinized for their efficacy.

This paper provides a strategic commentary on the interconnected areas of corporate strategy and human resource performance by illustrating how two organizations adapted and transformed their businesses to the demands of an increasingly digital operating environment. The findings reveal that both firm's corporate objectives and strategies were focused on ambitious levels of growth and the opportunities provided by an increasingly digital environment. However, both firms had transformed themselves in different ways with distinct employee productivity performance outcomes.

Strategic transformation and employee productivity

This paper illustrates how media firms, Sky Plc and Pearson Plc, adapted, reconfigured and transformed their businesses to meet the demands of an operating environment characterized by inexorable changes in digital technologies.

Over the past 20 years, both firms have set ambitious corporate growth objectives and strategies that focussed taking advantage of the market opportunities provided by digitalisation and new media. However, they have executed these strategies in different ways, with different outcomes in terms of employee productivity. For example, Sky has undertaken three strategic transformations over this period that has moved it from being a *'UK based single product TV firm'* into a *'European multi-platform, multi-product media firm'*. The results have been impressive (see Diagram 1). In contrast, Pearson has engaged in five strategic transformations over the same period, which has repositioned the firm from being a *'holding company'* for a disparate range of businesses into their current form as a *'global, single product learning company'*. The result of this transformative process has been a consistent decline in corporate revenues and low levels of employee productivity.

Benchmarking employee productivity

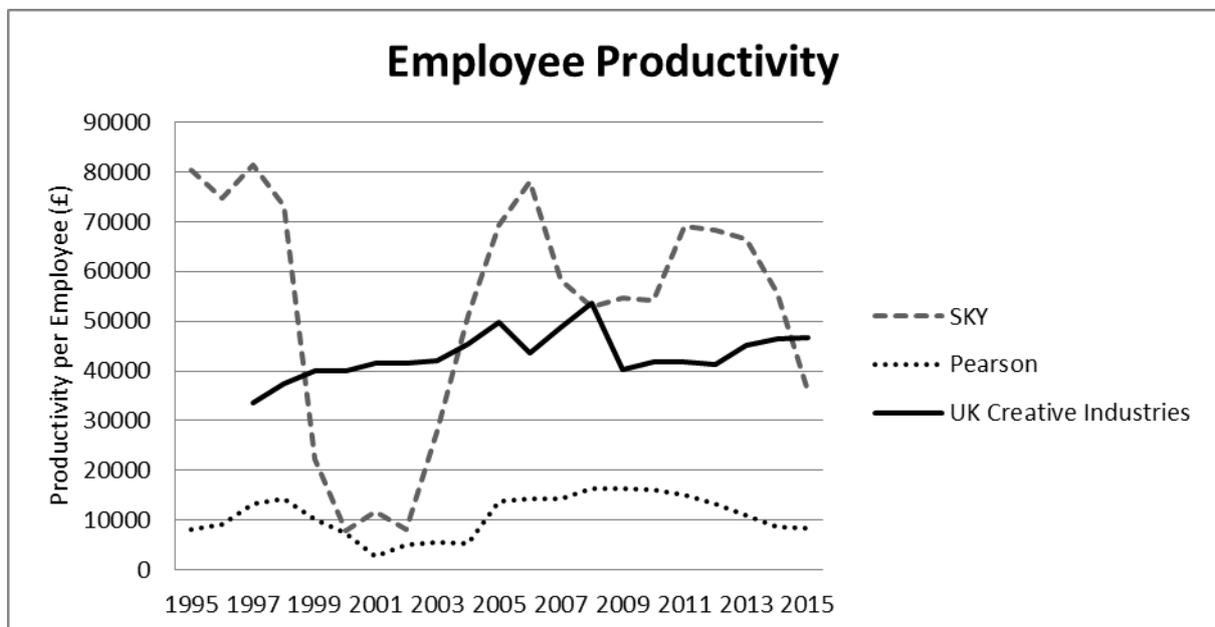
This paper draws on previous work (Oliver, 2016) presented in this journal by benchmarking Sky's and Pearson's workforce productivity against the UK's Creative Industries in which they compete. When viewed over the long-term, we are able to assess the impact of the changes in corporate strategy, the resulting strategic transformations and employee productivity.

The method used to assess productivity was a calculation of 'Operating Income (£)' divided by the 'Number of Employees' which resulted in 'Operating Income per Employee (£)' for each firm. These figures were then benchmarked against productivity data in the form of Gross Added Value (£) per employee for the UK Creative Industries. Gross Value Added

(GVA) represents the amount that individual businesses, industries or sectors contribute to the economy, and as such, is the closest comparative measure to a firm's operating income. As such, this analysis provides an assessment of whether or not each firm had managed their 'human resources' in a way that had created value and delivered superior and sustained performance over the long-term.

Sky's 'Operating Income per Employee' indicates an impressive and superior ability to generate income from their employees. The average Operating Income per Employee between 1995 and 2015 was £52,433 - which is significantly higher than Pearson (£10,877) and the UK Creative Industries (£43,214). Sky's employee productivity performance has been influenced by the significant capital investments, joint ventures and corporate acquisitions during 1999-2002 and the resultant step change in the number of employees which increased from 4,634 (1998) to 10,730 (2000). They also felt the effects of an advertising recession following the Global Financial Crisis (2008) and from the additional strategic transformation costs associated with the corporate acquisitions of Sky Italia and Sky Germany in 2014 which also increased their employee numbers from 20,841 (2014) to 27,060 (2015).

Pearson's employee productivity performance, on the other hand, has remained well below that of both Sky and the wider competitive setting of the UK Creative Industries. Whilst they have adopted a consistent corporate objective of "investing in high growth markets with high profit", their numerous strategic transformations have had very little impact on the productivity of their workforce. Indeed, their performance has remained relatively flat for two decades.



Sources: Thomson Reuters Datastream; Department of Culture Media & Sport, Creative Industries Economic Estimates (1997-2016).

Conclusions

Both firm's corporate objectives and strategies have focussed on ambitious levels of growth and taking advantage of the opportunities provided by the digital environment. Both firms have undergone a series of strategic transformations, however, the route to these transformations has differed. As case studies of 'strategic transformation', both firms are in stark contrast to their form, nature and appearance now than they were 20 years ago.

Sky's approach to strategic transformation was to make bold and innovative resource commitments in an uncertain market driven by technological change. They have made these investments knowing that they would have to endure a short term impact on their revenues, profitability and employee productivity. However, these transformative investments have produced a long term gain.

However, what is surprising is that in adapting their firm to the digital operating environment, through numerous strategic transformations, Pearson has failed to deliver a step change in the productivity performance of their employees. The reasons for this are not obvious, but when a series of ambitious corporate strategies drive structural change in a firm, with no obvious payback in terms of employee productivity, then one has to consider that the corporate culture of the firm could be holding back genuine strategic transformation.

References

Oliver, J.J. (2016). Benchmarking workforce productivity in the creative industries, *Strategic HR Review*, Vol. 15, No. 1, pp. 36-38.