

## **What Do Employees Really Want? The Perception vs. The Reality**

*What Do Employees Really Want? The Perception vs. The Reality* was developed by David Finegold and Susan Mohrman of the Center for Effective Organizations in cooperation with Korn/Ferry international, a Strategic Partner with the World Economic Forum (WEF). The report was presented at the WEF's January 2001 Annual Meeting in Davos, Switzerland. The initial results of this project, produced as part of an ongoing research partnership with the WEF, focused on effective knowledge management and were presented at the WEF's 2000 Annual Meeting as part of the *Strategies for the Knowledge Economy: From Rhetoric to Reality* report.

### **About the Center for Effective Organizations**

The Center for Effective Organizations (CEO) is based at the University of Southern California's Marshall School of Business. For over 20 years, the CEO has conducted action research in partnership with its more than 50 global sponsor companies. The CEO's research covers a wide range of topics related to organizational effectiveness, from the design of firms to their knowledge management and human resource practices.

### **About Korn/Ferry International**

Korn/Ferry international (NYSE: KFY) , the world's leading recruitment company; works closely with clients to provide human capital solutions to their recruitment needs throughout North America, Europe, Asia/Pacific and Latin America. The firm focuses on senior-level executive search, identifying CEOs, board members and other top executives; on middle-management recruitment through Futurestep, which combines the power of the internet with our proprietary assessment tools and search expertise; on college recruitment through U.S.-based JobDirect, the leading online company to fill the demand for college graduates and entry-level

professionals; and on evaluating senior management teams through our Management Assessment business. For more information, visit the Korn/Ferry international Web site at [www.kornferry.com](http://www.kornferry.com), the Futurestep Web site at [www.Futurestep.com](http://www.Futurestep.com) and the JobDirect Web site at [www.JobDirect.com](http://www.JobDirect.com).

## **Executive Strategy**

Talented individuals are arguably the most valuable resource in today's global economy. Yet just when the success of companies increasingly depends on the knowledge they produce, finding and keeping the right talent is increasingly difficult. Companies face a shortage of people capable of generating new technological innovations, of turning these ideas into viable business enterprises and then effectively leading and staffing these businesses once they are established.

How can large organizations compete successfully for talent in today's fast-moving, highly competitive global labor markets? What strategies can they use to attract, develop, motivate and retain key executives who have the option of moving to e-business or starting their own firms? What new approaches are needed to manage talent when an increasingly mobile workforce is well networked internally and externally, and views "the world," not the company, as its career playing-field?

This new study provides answers to these questions and many others through an in-depth analysis of more than 4,500 knowledge workers and managers. These individuals work in an array of technology-intensive businesses operating across a variety of sectors in North America, Europe, Asia and Israel.

In today's global economy, the workforce cannot be treated as a homogeneous group. In order to understand how better to retain and manage talent, we examine the factors that are important to the employment relationship for various subgroups within these global firms. We break the sample into three age groups, corresponding roughly to three career stages: early career (ages 30 and below), mid-career (ages 31-50) and late career (ages 51 and over). We also contrast males with females, non-managers with managers and the factors important to employees in various geographies.

The results of our analysis indicate some fundamental differences among these various segments of the workforce. The findings also show that there is a major gap between what individuals *say* is important - and the factors that *actually* do relate to retention and employee commitment.

The study suggests that to attract and retain talent and gain commitment to the organization, companies must develop a deeper understanding of what current and future employees really want, taking into account that:

- Some key features of the employment relationship appeal to all segments of the employees we studied;
- Other aspects of the employment relationship have a significantly different impact on various subgroups--for example, the factors that motivate or retain mid-career female workers differ substantially from those that are attractive to young male employees--and
- The human resources policies and organizational features that are the most important for generating employee commitment are often not the same as those that actually help retain talent.

## Challenging Conventional Wisdom: The Good and Bad News

<b>Good News</b>	Organizations are doing more to encourage individuals to manage their own careers.
<b>Bad News</b>	Many individuals are managing themselves out of these companies
<b>Good News</b>	Companies are tying pay and rewards more closely to individual performance.
<b>Bad News</b>	Pay-for-individual performance does not enhance commitment to the company- and actually discourages knowledge-sharing.
<b>Good News</b>	The Internet offers the potential for companies to improve their understanding of employee needs and tailor the employment relationship to better motivate and retain individuals.
<b>Bad News</b>	Most companies are failing to mine their employee data-using the Intranet instead to standardize, rather than customize, their human resources policies.
<b>Good News</b>	Companies are making a major investment in developing selected high-potential employees.
<b>Bad News</b>	High potentials are much more likely to turn over than the rest of the population.
<b>Good News</b>	Organizations are doing more to help employees balance their work and personal lives.
<b>Bad News</b>	Enhanced satisfaction with work/life balance does not improve retention for any employee group.

Based on the results of the research and the practices from companies that have built some of the world's leading employment brands, we have developed a 10-step approach to creating a successful talent strategy:

1. Create a clear and compelling strategy and vision for the company.

2. Identify the core capabilities needed to excel at this strategy and to continuously improve performance-distinguishing between those skills available externally from those that must be developed in-house.
3. Seek out the best sources of these skills wherever they are available globally-and offer these individuals opportunities to advance and contribute, regardless of nationality.
4. Understand the factors that are most important in attracting and retaining individuals with these key capabilities and in gaining their commitment to the enterprise.
5. Recognize that different groups of employees want different things from work and that their priorities are likely to shift as they progress through the various stages of their lives and careers.
6. Create multiple career paths {e.g., technical ladders, rotational assignments, opportunities to join new internal ventures) to replace the declining number of managerial promotion slots in today's flatter organizations.
7. Craft individual development opportunities so employees can build the capabilities that create maximum value for themselves and the company.
8. Hold both employees and management accountable for meeting development objectives and sharing the knowledge they gain with the organization.
9. Tie rewards and recognition to organizational and team performance and enhancement of skills, rather than placing too strong an emphasis on pay-for-individual performance.
10. Seek opportunities to rapidly enhance the company's talent through strategic acquisitions, recognizing that these acquisitions need to be managed differently than traditional mergers.

## **The Talent Shortage Challenge**

Today, financial capital is readily available throughout the developed world, and the price of most raw materials has fallen in real terms over the past two decades. Against this backdrop, the value of companies increasingly resides in the knowledge they produce, just at a time when talent is in increasingly short supply. As one successful American venture capitalist put it, "There is an over-supply of money to invest, and no shortage of ideas to fund. What is in short supply are people capable of delivering on these ideas."

And the challenge may be even greater for the leaders of large global organizations. Despite the recent collapse of the first wave of dot.coms, multinationals are finding it more and more difficult to attract and retain the best knowledge workers in competition with new, more agile start-up enterprises.

### **What the Statistics Tell Us**

The competition is particularly fierce for top technical talent. In the United States, the Bureau of Labor Statistics has projected a shortage of more than 300,000 people to fill the 1.3 million new information technology (IT) jobs likely to be created between 1996 and 2006. And, with the spread of the Internet and other related new digital technologies, these estimates have continued to be revised upward--even though the United States has twice raised the annual immigration quotas for individuals with these skills. The latest projections for Europe are even more dire, indicating that there will be a surge in demand for IT and e-business jobs from 14.5 million in 2000 to 22 million in 2003. A projected shortfall of 3.8 million individuals to fill these positions could reduce European economic growth by as much as three percent during this period.

While a slowdown in the global economy would certainly ease key skill shortages in the short term, the longer term demographic trends suggest that competition for employees will remain fierce for the next two decades. In the United States, there are roughly 44 million members of Generation X to replace the over 76 million Baby Boomers who are beginning to reach retirement age. Thanks to recent economic expansion that has helped welfare reform to succeed and created new, more attractive career opportunities for women and minorities, the rate of labor force participation is already at 67 percent, an all-time high. This suggests that it will be difficult to make up for the drop in population by encouraging even more people to work.

The longer term picture for other leading industrialized economies, such as Japan, Italy and much of Northern Europe, is for even more severe employment shortages. With very low birth rates and much more limited immigration than the United States, these countries are facing an absolute decline in the size of the workforce, not just a slowing of the labor force growth rate expected in the United States.

### **Focusing on a More Diversified Workforce**

In order to fill their key technical positions and develop the next generation of business and technical leaders, large companies will need to make themselves more attractive to groups that are currently under-represented in today's technical workforce:

- *Women.* While women make up a majority of college graduates in most industrialized countries, they have been under-represented in technical fields and leadership positions because of work environments and career paths designed around the needs of their male colleagues.
- *Over-55s.* Over the past two decades, the easiest way for large organizations to downsize has been to layoff or offer voluntary retirement packages to their most senior experts and

managers. It is not uncommon for these individuals to then reappear a short while later as outside consultants-as the organization belatedly recognizes that these are the only people with a key set of skills or the company-specific knowledge that they need. The over-55s will be the most rapidly growing segment of the population in Europe, the United States and Japan- and companies will have to create new types of employment relationships and roles (e.g., as full-time coaches and mentors) for the most talented of this group if they want to retain their valuable expertise.

- *The Internet generation.* In the next few years, organizations will begin recruiting the first generation of workers who have grown up using the Internet. But many of the characteristics associated with traditional large corporations-slow bureaucracies, age-driven advancement, centralized control of information, absence of entrepreneurialism-are the opposite of what motivates these young people.
- *The global workforce.* As globalization escalates, managers face the challenge of how to meet the needs of a global workforce that is increasingly diverse and integrated. Today, with the costs of rapid and reliable digital communication falling to nearly zero, companies can relocate almost any activity where they can find the best talent at the right price. They are also using the new digital technology to more closely integrate the work of employees in different companies, starting to work in a global team. We are also seeing greater movement of people--for example, Chinese and India-born engineers have founded or now run one-quarter of all the high technology businesses in Silicon Valley.

### **Knowing What Employees Want**

Successive waves of downsizing, restructuring, outsourcing and mergers and acquisitions have undermined job security and trust-and the basis for employee attachment to a company.

Employees, particularly technical talent, have learned to manage their own careers, maximizing the value of their human capital by selling it to the highest bidder.

Our study suggests that, if managers wish to retain talent and rebuild the basis for employee commitment, they must develop a deeper understanding of what their current and future employees *really* want, recognizing that:

- What employees *say* is important, in many cases, is very different from what *actually* drives commitment or retention,
- Some key features of the employment relationship appeal to all segments of the employees we studied,
- Other aspects of the employment relationship have a significantly different impact on different subgroups- for example, the factors that motivate or retain mid-career female workers differ substantially from those that are attractive to young male employees- and
- The human resources policies and organizational features that are most important in generating employee commitment are often not the same as those that help retain individuals.

## What Do We Mean by Retention and Commitment?

Throughout the study, we use the terms "retention" and "commitment to the company." Here is how we have defined these two key factors that are at the heart of the employee/ employer relationship.

- *Retention.* To understand how successful companies have been in retaining employees surveyed for this study, we measure the desire of the workers to remain with the company and their willingness to change jobs. Employees' intent to turn over is a good predictor of retention rates, although not all those who are considering moving actually do so.
- *Commitment.* Does the employee have an emotional commitment to the company and its success? We measure this concept by asking such questions as whether employees agree that "this organization really inspires the very best in me in the way of job performance" and "I am proud to tell others that I am part of this organization." Commitment is a strong driver of performance in areas where the employee can have an impact.

Technology-intensive enterprises must find ways to attract and retain knowledge workers *and* gain their commitment to the organization if they are to succeed. Traditional managerial control mechanisms, like direct supervision of workers, are unlikely to produce the desired results when companies rely on knowledge workers who may be working anywhere, at any hour. These companies require workers not just to do their jobs, but also to share their expertise with others in the organization. Thus, leaders need to understand what will motivate their employees to help make the organization successful and what will encourage them to remain with the company.

## **What Employees Say is Important**

The most striking finding is that when asked to assess the importance of different aspects of the employment relationship, every subgroup in our sample-whether men or women, young or old-rates *work/life balance* as the most important. In fact, overall, 86 percent consider work/life balance to be either "very important" or "extremely important" in their careers.

Overall, employees rate satisfaction with job security (74 percent) and financial rewards (71 percent) as the next two most important items to them. These extrinsic factors are generally considered more important than the intrinsic elements of the work itself, such as professional career satisfaction (51 percent) or the degree of influence they have over their work (57 percent). Opportunities for career advancement and international assignments, with one or two exceptions, are rated as the least important factors by the different groups-47 percent and 32 percent, respectively.

## **What the Different Age Groups Say**

In many respects, priorities are quite similar no matter what the age: All age groups rate work/life balance as the most important factor, followed by job security and financial rewards- with the over- 50 group, not surprisingly, placing somewhat more importance on job security and a bit less importance on financial rewards than those aged 50 and below.

However, clear differences among the age groups are apparent in the areas of career advancement and professional development. More than twice as many employees under the age of 31 say they consider career advancement to be very important, as compared to their most senior colleagues- with those aged 31 to 50 falling in between. The study shows a similar pattern when employees are asked about the importance of a professional career environment.

## **Male and Female Preferences**

In general, women place more importance on work/life balance, job security, the ability to influence the organization and professional development, while men rate international opportunities higher. But the differences between sexes are more striking when we break them down by age groups. At the earliest stage of their careers, women place far more importance on job security and less emphasis on financial rewards than their male counterparts. When they enter their 30s and 40s, they attach less importance to career advancement or international opportunities than their male colleagues, instead placing greater weight on work/life balance and control over their work. While we have a very small sample of women over 50, reflecting the limited number of women in senior positions in the organizations studied, it is in this final stage of their careers that women place greater importance on career advancement and professional development than men, perhaps reflecting their desire to make up for being sidetracked by family responsibilities earlier in their careers.

### **Preferences by Region**

There are a few clear differences in what employees from different countries say is important that appear to reflect the wider culture and context in which they operate. The starkest contrast is in the priority placed on international opportunities, which more than 80 percent of Asians and nearly three-quarters of Europeans consider important, compared to just 23 percent of American respondents.<sup>1</sup> This may reflect not just the greater global orientation of European and Asian workers, but also the fact that since most of the companies in our survey are headquartered in the United States, those in foreign units may be equating international assignments with opportunities for career advancement.

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<sup>1</sup> It is important to note that our Asian sample is relatively small and, thus, may not be representative of the wider region. Because of the small sample, we do not include Asians in the subsequent analysis.

Americans attach significantly less importance to career advancement and professional career satisfaction than their Asian and European counterparts. In contrast, European and Asian employees place less importance on job security and work/life balance, perhaps because of the greater protection in these areas provided by their national labor laws. Asian employees also attach somewhat less importance to financial rewards than their European or American counterparts.

## **What *Actually* Drives Commitment and Retention**

When we turn from what employees *say* is important to analyzing what factors *actually* influence their attitudes and behaviors, the study reveals a surprising gap between popular perceptions (what employees rate as important) and reality (what does indeed drive retention and commitment).

### **Common to All, No Matter the Age or Gender**

There are a small set of factors that have a similar impact on commitment and retention:

- *Satisfaction with work/life balance.* Surprisingly---despite the importance that all groups give to work/life balance, the reality is that this does not have a positive effect on retention for any subgroup.
- *Strategic clarity.* According to our study, employees surveyed-no matter what age or gender- identify more closely with the company if they believe it has a viable and well-communicated strategy for success. On the other hand, a clear strategy does not result in improved retention- again, across the board.
- *Financial rewards.* Pay-for-organizational performance has a positive impact on commitment for all groups except Europeans. Rewards such as stock options or profit-sharing, which give employees a personal financial stake in how well the company performs, do increase how much individuals identify with the company. In contrast, pay-for-individual performance does not affect the commitment of any employee group, except for men under 30.

## **Differences by Subgroup**

The study also reveals very interesting differences in what drives the attitudes and behaviors of different subgroups.

### *By Career Stages*

As employees age, they go through different life and career stages, valuing and responding to different aspects of the employment relationship. These life-stage differences, which have always been present in the workforce, may now be accentuated by generational differences - as new entrants to the workforce, who grew up on personal computers in an increasingly global economy, have undergone a very different set of formative experiences than their predecessors.

#### *Early Career: Ages 30 and Under*

Employees aged 30 and under have entered the workforce after the collapse of the relatively stable, long-term employment contract. Job security does not have a positive effect on either retention or commitment for this group; in fact, job security may actually be considered a drawback, as it probably means the company has kept a more senior workforce and thus new hires have fewer opportunities for challenging work and rapid advancement.

The under-30s are out to establish and prove themselves-and to increase their personal value. Not surprisingly; career advancement is indeed very significant to the retention of this group. Providing them with good opportunities for skill development also helps gain their commitment, no doubt because part of the challenge for new employees is to learn enough to make themselves more valuable. But it does not reduce their willingness to move, since it also serves to make them more marketable. Their ability to influence the organization and their satisfaction with their professional work environment also help build their commitment to the

company. Being part of an innovative organization is important both to retention and commitment. These young employees are also heavily influenced by financial rewards-both pay-for-individual performance and pay-for-organizational performance have a positive effect on their retention.

#### *Mid-career: Ages 31 to 50*

Employees in the 31 to 50 age group are busy establishing themselves in leadership roles. They are less concerned than their younger colleagues with developing their personal value---neither adequate development opportunities nor pay-for-individual performance have a large impact on their retention or commitment. Commitment to the company does increase, however, if they are able to manage their own careers-and professional satisfaction results in greater retention for this age group than for either their younger or older colleagues.

#### *Late Career: Ages Over 50*

Many in this age group are in the final stages of their careers, beginning to think about retirement- although their skills and experience are still valuable assets. This group stands out because for them, professional satisfaction relates to neither retention nor commitment. Additionally, this is the only group for whom job security drives retention.

<b>Differences by Age</b>		
In Descending Order of Importance (italics indicate differences among all three groups)		
<b>WHAT THEY SAY IS IMPORTANT</b>		
<b>Under 30</b> <ul style="list-style-type: none"> <li>• Work/life balance</li> <li>• Financial rewards</li> <li>• Job security</li> <li>• Professional satisfaction</li> <li>• <i>Career advancement</i></li> </ul>	<b>Age 31-50</b> <ul style="list-style-type: none"> <li>• Work/life balance</li> <li>• Job security</li> <li>• Financial rewards</li> <li>• Influence/autonomy</li> <li>• Professional satisfaction</li> </ul>	<b>Age 51 and Older</b> <ul style="list-style-type: none"> <li>• Work/life balance</li> <li>• Job security</li> <li>• Financial rewards</li> <li>• Influence/autonomy</li> <li>• Professional satisfaction</li> </ul>
<b>ACTUAL DRIVERS OF RETENTION</b>		
<b>Under 30</b> <ul style="list-style-type: none"> <li>• Career advancement</li> <li>• Pay-for-organizational performance</li> <li>• <i>Pay-for-individual performance</i></li> <li>• Innovation and risk</li> </ul>	<b>Age 31-50</b> <ul style="list-style-type: none"> <li>• Career advancement</li> <li>• Pay-for organizational performance</li> <li>• Innovation and risk</li> <li>• <i>Professional satisfaction</i></li> </ul>	<b>Age 51 and Older</b> <ul style="list-style-type: none"> <li>• Pay-for-organizational performance</li> <li>• <i>Job security</i></li> <li>• Career advancement</li> <li>• Innovation and risk</li> </ul>
<b>ACTUAL DRIVERS OF COMMITMENT</b>		
<b>Under 30</b> <ul style="list-style-type: none"> <li>• Pay-for-organizational performance</li> <li>• Strategic clarity</li> <li>• Adequate development opportunities</li> <li>• Innovation and risk</li> <li>• Influence/autonomy</li> <li>• Professional satisfaction</li> </ul>	<b>Age 31-50</b> <ul style="list-style-type: none"> <li>• Pay-for-organizational performance</li> <li>• Strategic clarity</li> <li>• Influence/autonomy</li> <li>• Professional satisfaction</li> <li>• Innovation and risk</li> <li>• Opportunity for career self-management</li> </ul>	<b>Age 51 and Older</b> <ul style="list-style-type: none"> <li>• Pay-for-organizational performance</li> <li>• Innovation and risk</li> <li>• Influence/ autonomy</li> <li>• Adequate development opportunities</li> <li>• Strategic clarity</li> <li>• Opportunity for career self-management</li> </ul>

Like their younger colleagues, their commitment relates to how well they perceive that the organization is developing their skills, no doubt reflecting the fact that this group is the most

at risk in the dynamic economy. Pay-for-individual performance is not important to this group. They are more likely to stay committed if they are able to influence the kinds of job assignments they receive.

*By Gender*

The priorities of the men and women in our sample differ in a number of ways. For example, higher levels of professional satisfaction produce higher levels of commitment for both men and women, but it helps retain only women. In contrast, an innovative climate is important for the retention of men but not women-and only men display higher levels of commitment when they are given greater influence over their work and the tools to manage their own careers.

## Differences by Gender

In Descending Order of Importance (italics indicate differences among groups)

### WHAT THEY SAY IS IMPORTANT

#### Men

- Work/life balance
- Job security
- Financial rewards
- Influence/autonomy
- Professional satisfaction

#### Women

- Work/life balance
- Job security
- Financial rewards
- Influence/autonomy
- Professional satisfaction

### ACTUAL DRIVERS OF RETENTION

#### Men

- Career advancement
- Pay-for-organizational performance
- *Innovation and risk*

#### Women

- *Professional satisfaction*
- Pay-for-organizational performance
- Career advancement

### ACTUAL DRIVERS OF COMMITMENT

#### Men

- Pay-for-organizational performance
- *Influence/autonomy*
- Strategic clarity
- Innovation and risk
- Professional satisfaction
- *Opportunity for career self-management*
- Adequate development opportunities

#### Women

- Pay-for-organizational performance
- Adequate development opportunities
- Innovation and risk
- Strategic clarity
- Professional satisfaction

The differences between men and women in the mid-career stage are particularly striking. (Unfortunately, there aren't enough early or late-career women in the sample to allow for analysis of these two groups. )

Men aged 31 to 50 are strongly focused on optimizing their careers, their professional satisfaction and their income. Companies are more likely to retain them if they offer opportunities for career advancement, rewards tied to both individual and organizational performance and an environment for innovation. An innovative climate is also a good way to gain the commitment of mid-career males, along with offering influence, support for career self-management and professional satisfaction. Interestingly, job security also helps drive commitment for this group.

## Differences by Gender: Mid-Career Employees (Age 31-50)

In Descending Order of Importance (italics indicate differences among groups)

### WHAT THEY SAY IS IMPORTANT

#### Men

- Work/life balance
- Job security
- Financial rewards
- Influence/autonomy
- *Career advancement*

#### Women

- Work/life balance
- Job security
- Financial rewards
- Influence/ autonomy
- *Professional satisfaction*

### ACTUAL DRIVERS OF RETENTION

#### Men

- *Career advancement*
- *Pay-for-organizational performance*
- *Pay-for-individual performance*
- *Innovation and risk*

#### Women

- No significant drivers

### ACTUAL DRIVERS OF COMMITMENT

#### Men

- Pay-for-organizational performance
- *Influence/autonomy*
- *Strategic clarity*
- Innovation and risk
- *Professional satisfaction*
- *Satisfaction with job security*
- Opportunity for career self-management

#### Women

- Pay-for-organizational performance
- Innovation and risk
- *Adequate development opportunities*
- Strategic clarity
- Opportunity for career self-management
- *Work/life balance*

Mid-career women provide a very different picture. There is no clear profile of factors that impact retention for this group, which indicates that mid-career female employees are a much more heterogeneous population than mid-career men. Since women are more likely to experience tension between work and personal life, commitment occurs more frequently when companies support work/life balance, provide the ability to manage their own careers and help them update their skills-although none of these factors actually help retain them.

For the women surveyed, neither career advancement nor professional satisfaction are significant drivers of either retention or commitment. Like the men, they tend to be more committed to the company if they are paid for organizational performance and if they believe the company has a clear strategy and a climate that fosters innovation.

### **Managers vs. Non-Managers**

Whether or not an individual is a manager does not appear to have a major impact on what is important to them. When asked to rate the different elements of the employment relationship, managers attach slightly more importance to career advancement, influence and international opportunities, while non-managers attach more importance to job security and their professional career development. In looking at what *actually* drives behavior, the study confirms that professional career satisfaction is indeed related to the retention and commitment of non-managers, but not managers. The study also suggests that non-managers display more commitment to the organization when they perceive good support in helping them manage their own careers.

*By Nationality: Europeans vs. Americans*

Satisfaction with career advancement opportunities improves retention on both sides of the Atlantic, and professional satisfaction, support for skills development and strategic clarity enhance commitment for both groups.

However, in the United States, a climate of innovation and the extent to which pay is based on organizational performance help drive both employee retention and commitment. In contrast, in Europe, pay-for-individual performance helps reduce turnover, but pay-for-organizational performance has no impact on retention or commitment.

In Europe, those who feel they have more influence in the organization are actually more likely to turn over. This may reflect that, in these countries where the vast majority of employees are not inclined to be mobile, manager-level employees are the ones most likely to leave for opportunities at other companies. This fits with the finding that, in Europe, job security is related to commitment.

In the United States, influence and career self-management are both related to commitment, perhaps reflecting the trend in the States of having employees control their own career destiny, rather than having the company make decisions for them.

## Differences by Region: United States and Europe

In Descending Order of Importance (italics indicate differences among groups)

### WHAT THEY SAY IS IMPORTANT

#### United States

- Work/life balance
- Job security
- Financial rewards
- Influence/autonomy
- Professional satisfaction

#### Europe

- Work/life balance
- *International opportunities*
- Financial rewards
- Professional satisfaction
- *Job security and influence/autonomy*

### ACTUAL DRIVERS OF RETENTION

#### United States

- *Pay-for-organizational performance*
- Satisfaction with career advancement
- *Innovation and risk*

#### Europe

- *Adequate development opportunities*
- *Pay-for-individual performance*
- Career advancement
- *(Influence/autonomy\*)*

### ACTUAL DRIVERS OF COMMITMENT

#### United States

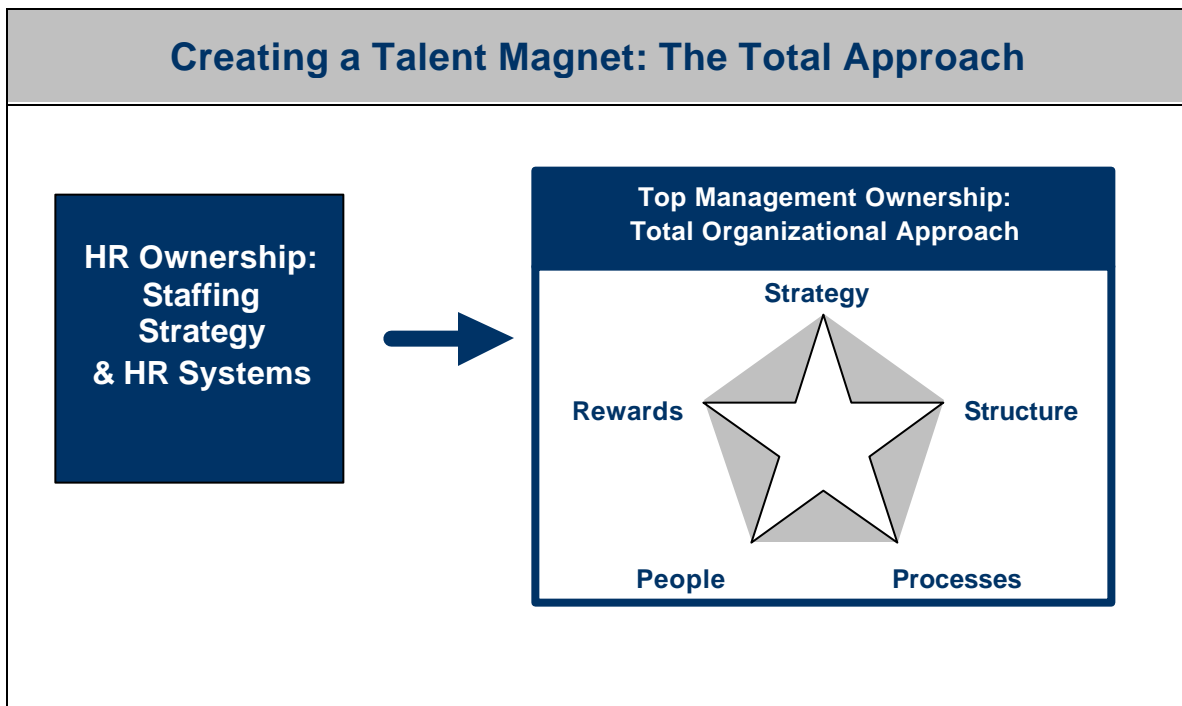
- *Pay-for-organizational performance*
- *Innovation and risk*
- Strategic clarity
- *Influence/autonomy*
- Adequate development opportunities
- *Opportunity for career self-management*
- Professional satisfaction

#### Europe

- Professional satisfaction
- Adequate development opportunities
- Strategic clarity
- *Satisfaction with job security*

## Building a Talent Magnet

When individuals with the capabilities that companies required were in plentiful supply and large corporations were considered the employers of choice, top executives often delegated personnel issues to the human resources department. Business leaders would set the company strategy, and then human resources professionals would find or develop the skills needed to execute it. But with human capital ever more essential to sustaining growth and creating shareholder value, executives have to play as active a role in creating an employment brand that attracts the best talent as they do in creating a consumer brand that builds customer loyalty. This is particularly true for today's large global corporations, which often are no longer viewed as the employers of choice by top graduates.



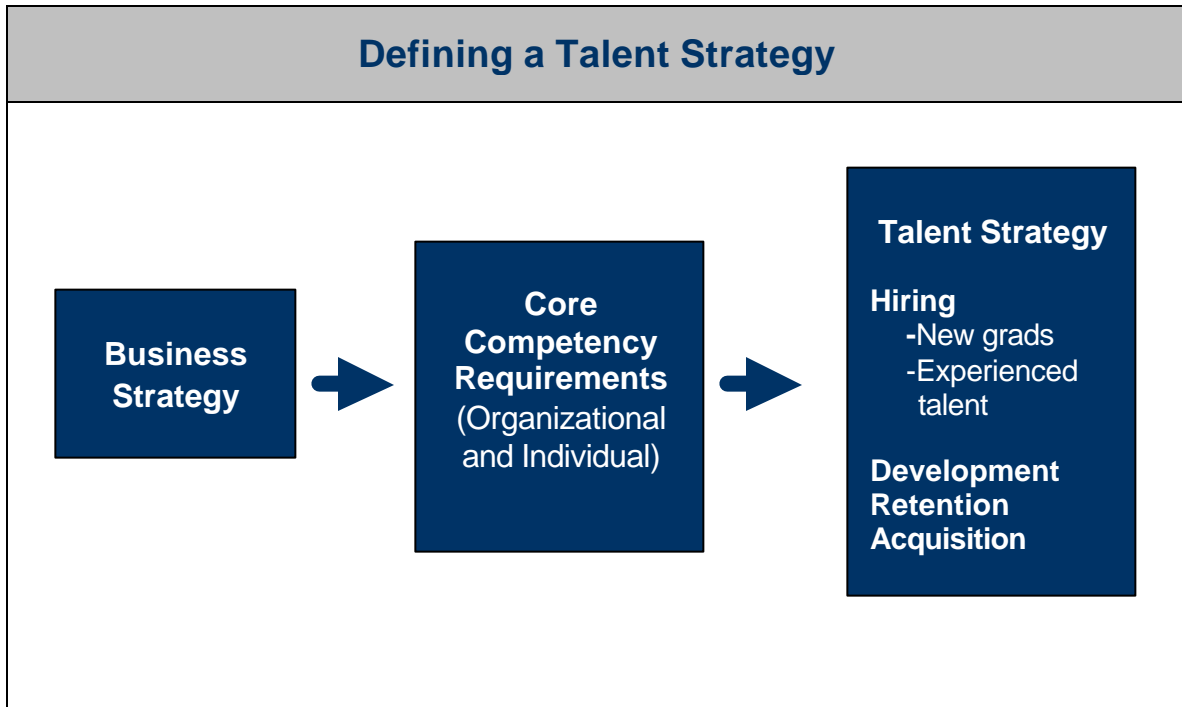
Leaders of these multinational firms must find ways to attract this new generation of workers, while maintaining the commitment and retaining the key talent in their existing workforce. Our study indicates that this entails far more than simply offering a competitive pay package or stock options. The challenge is to design an entire organization that meets the needs of different segments of the workforce and becomes a magnet for attracting and retaining talent.

### **Setting Talent Priorities**

The process of building a successful talent magnet must begin with the company's current and future strategy-in order to single out the key activities where the company truly is or needs to be world-class.

Once these core organizational capabilities have been defined, the next step is to translate them into the truly vital leadership and technical skills that create the company's distinctive competitive advantage. This list of competencies is the blueprint for the talent strategy. This blueprint, which must be redrawn to keep pace with changes in the business strategy, can serve multiple functions- guiding hiring, development and succession planning decisions and answering such key questions as:

- What skills can we hire for on the open market?
- Which skills do we need to develop internally?
- Which new capabilities should we seek by acquiring other companies and their talent?
- Which types of jobs/work does it make most sense to outsource or to access by forming partnerships with other suppliers of talent (e.g., temporary staffing firms, contractors)?



### **Attraction and Retention**

Our findings suggest that the current approach many companies are taking to employee retention has some serious deficiencies. For example, one company in our study had high levels of turnover for employees with certain "hot" skills. The human resources department responded by identifying the top remaining performers with these skills and providing each with a restricted stock grant that would vest if they remained with the firm for another five years. But as one human resources manager observed, "I'm not sure what we achieved. We probably rewarded those who would have stayed anyway."

A potentially more effective approach would be to:

- Proactively identify the company's top talent before individuals begin looking elsewhere,
- Analyze the *real* causes behind why employees are leaving and
- Create individual development plans, rewards and recognition and other elements of the employment relationship tailored to what this core talent actually values, rather than

providing just financial rewards-to be realized far in the future-that are relatively easy for competitors to match.

The good news for leaders seeking to build a company that can attract, retain and build the commitment of its best talent is that there appears to be a set of common organizational features that appeals to most segments of this workforce. These are clear win-wins that enhance both the organization's effectiveness and employee satisfaction and motivation:

- A clear and compelling strategy,
- An innovative environment that is low in bureaucracy,
- Challenging work assignments that enable employees to grow their capabilities and
- Rewards based, in part, on how well the organization performs.

Beyond these common features, our findings suggest it is crucial for employers to recognize the differences among various segments of the population and to tailor the employment relationship accordingly. Thus, when trying to appeal to males under the age of 30, it may be beneficial to provide pay that is more closely tied to their individual performance and clear opportunities for career advancement. Mid-career women are likely to respond more positively (and are thus more effective on the job) when they have the opportunity to manage their own careers and to balance work and home responsibilities, through policies like teleworking, job-sharing and flexible hours.

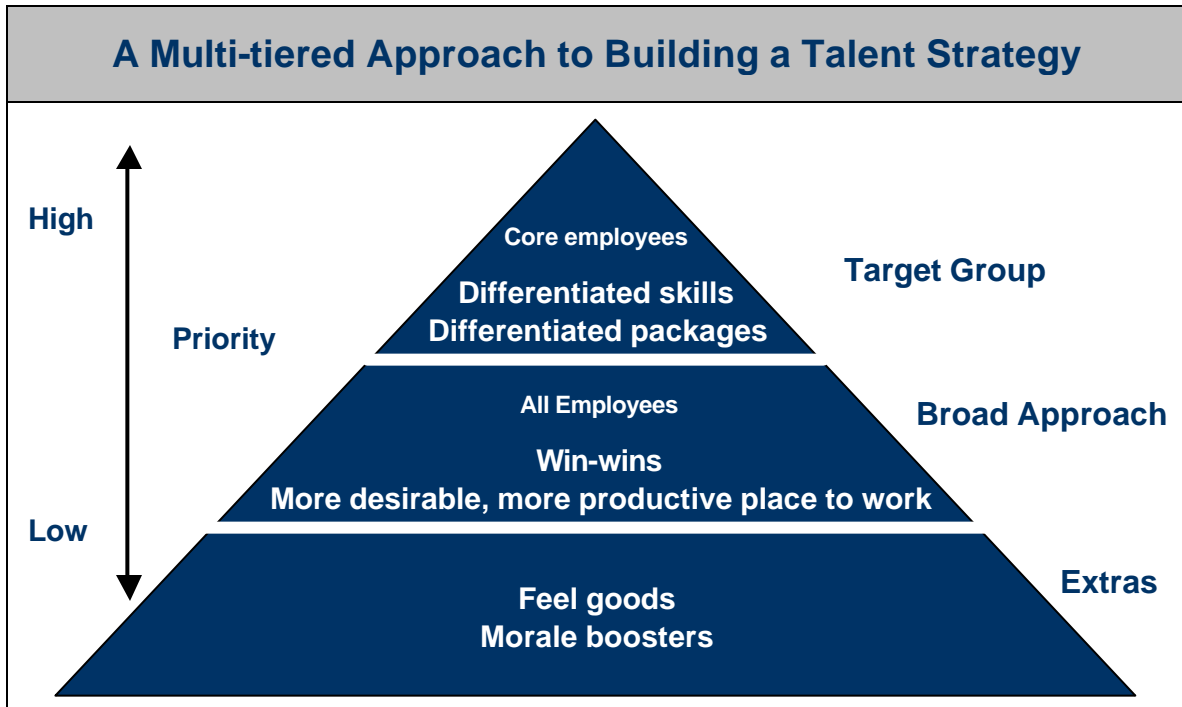
As companies look for ways to more effectively meet the diverse needs of their employees, the Intranet becomes a potentially very powerful tool. Just as the leading business-to-consumer and business-to-business companies are continuously mining the data they collect from the Internet and building personalized portals to allow them to build much closer

relationships with individual customers, companies too can harness their own Intranet's capacity to develop a much more sophisticated understanding of their business-to-employee relationships.

For example, analysis of Intranet data can help leaders answer questions such as: Which benefits do employees make the most use of? Which human resources policies or practices receive the most complaints from employees? Which managers produce the highest turnover rates and who are the most successful in developing individuals to progress in other parts of the firm? And once companies have gained enhanced knowledge of what drives employee behavior, they can also use the Intranet to manage the complexity that comes with customizing the employment relationship to more closely match individual preferences. Individuals could each be given a wider menu of rewards, benefits and other options from which they could choose the package that best meets their needs.

Unfortunately, most companies are failing to take advantage of the potential of the Intranet to enhance the business-to-employee relationship. There are several reasons for this failure:

- Many human resources departments view the Intranet as a way to reduce costs and automate the delivery of employee transactions, rather than a chance to build richer relationships with individual employees,
- Most human resources departments lack the staff and data mining skills needed to analyze the data effectively and
- Too often, the focus is on standardizing human resources policies, rather than creating options that allow for customizing to individual needs.

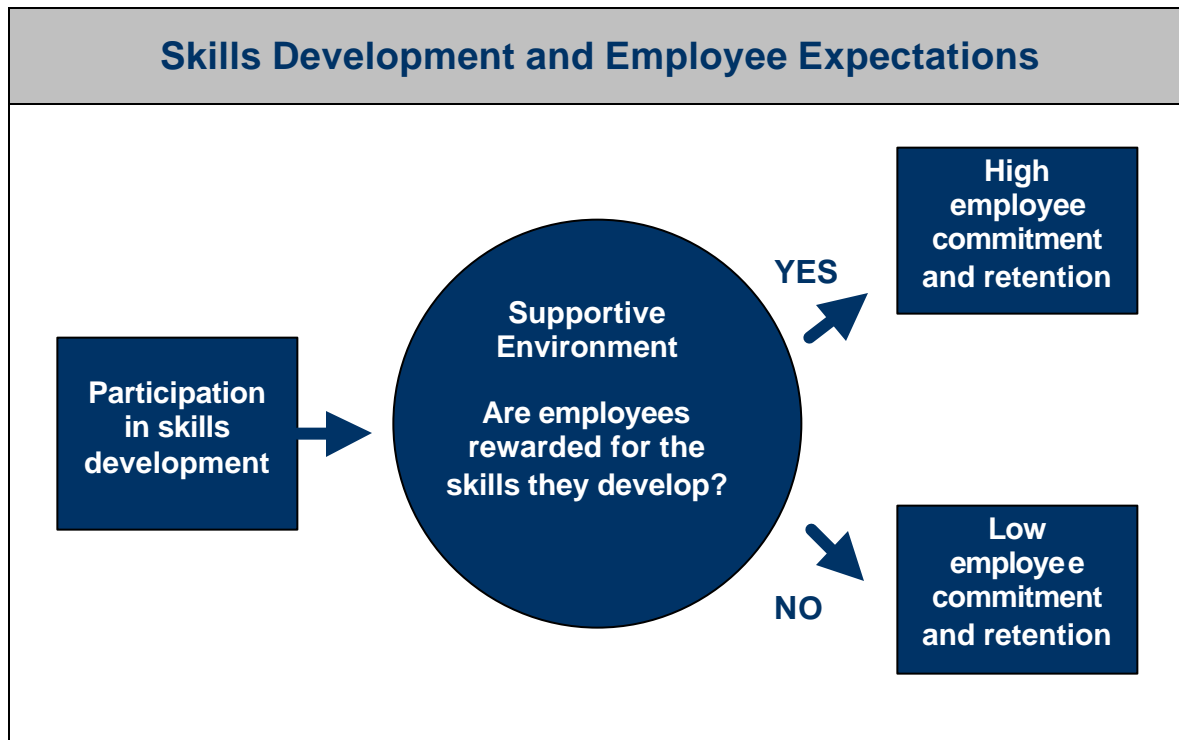


As leaders seek to build an employment "brand"-the combination of employment features that create an image that the company is a desirable place to work-they may want to consider other perks. But although allowing pets at work or wrapping employees' holiday gifts may generate positive publicity and help get people in the door, it is the core features of the employment contract that are important-such as providing exciting work in an innovative environment, creating ongoing opportunities for skills development and giving employees a financial stake in the company through broadly based stock options.

### **Skills Development**

Skills development plays two vital roles in a company's talent strategy. First, it is the way for employees to build skills that are not readily available on the labor market-and, thus, those most likely to create a distinctive competitive advantage. And, second, skills development has become the most plausible basis for a company to rebuild the psychological contract with

workers. In a "learning contract," both employee and employer commit to an ongoing investment in building individual capabilities-recognizing that if the company is no longer able to offer that person a job, these transferable skills will make it easier for the employee to find another position.



Our research indicates that building a successful learning contract requires a much broader view of development than the traditional focus on classroom training. According to our study, the number of days spent in formal courses has no positive impact on retention, commitment or company performance. On the other hand, creating a corporate environment that supports continuous learning-through strong mentoring relationships, challenging work assignments and managers who provide the time and encouragement for individuals to develop their skills-is a strong predictor of employee commitment and business effectiveness.

Recognizing this, many leading firms are pursuing innovative approaches to developing employee skills:

- *e-Learning.* A large new industry has been created in the past three years to provide companies with online learning. A number of issues-lack of broadband infrastructure and costs of creative course development-have so far prevented e-learning from delivering to its full potential. However, it offers the opportunity to provide just-in-time content when individuals require it for their work, rather than the typical classroom training that occurs several months before or after a person needs a certain skill set.
- *Simulations.* Pratt & Whitney, for example, is creating computer simulations of the core business decisions involved in developing new aircraft engines. The simulation provides hands-on instruction in some new business tools-and allows employees from all the different functions involved in this complex process to appreciate the wider business context, to see the issues from many different perspectives (including the customer's) and to better understand where their role fits into this system.
- *Project-based learning.* Ford Motor Company has designed a unique leadership program for its high-potential middle managers from around the globe. They deliver all the traditional course material online, with participants using new electronic tools to fundamentally reinvent the way they work. The most innovative aspect of the program is that the projects are intended not only to enhance business results, but also to allow individuals to find more time for themselves.
- *Corporate universities.* In order to emphasize their commitment to learning, hundreds of companies have now created corporate universities. Often formed in partnership with higher education institutions, the best of these corporate universities offer the chance to

customize content to the needs of the business, with participants receiving course credits for the more general knowledge they acquire. Many corporate universities are now investing heavily in moving their content online and increasing the experiential learning component of their face-to-face courses.

## **Career Advancement**

As organizations cut out levels of bureaucracy and move to flatter, more flexible project- and team-based structures, there are fewer traditional promotional opportunities available within companies. Yet our research clearly shows that most employees are more likely to leave a company if they are not satisfied with their career advancement opportunities. How then can companies both retain their talent and benefit from these new, leaner organizational structures?

Solving this puzzle has become more difficult in an era where careers are no longer defined within a company, but rather consist of a series of jobs that span firms and entail ongoing changes in individual skill sets. Workers of the future will worry about their employability and will move where there are interesting opportunities that afford growth and the development of new capabilities. So companies must invest in the capabilities of their people--and create an environment where these investments do not walk out the door. To do this, they need to develop a more varied set of career paths and a broader view of advancement than the traditional movement through hierarchical levels and broader spans of control.

Large corporations are starting to take advantage of their size and new information technologies to provide a more fluid and open internal marketplace for jobs. Recognizing that the career advancement needs of their employees can't be addressed within one business unit, they are making it easier for employees to move within the corporation to secure the kinds of jobs that fit their interests and aspirations. Companies such as Hewlett Packard and Lockheed Martin have

committed to corporate-wide job posting systems-and are encouraging their managers to help place their employees in other parts of the corporation. Others, like AT &T, are going further, creating detailed databases that allow them to match individuals with the requirements of each new job opening or project.

## One Company's Experience with the "Employability" Contract

After repeated rounds of restructuring, a leading technology firm began to advocate "employability" policies that promised workers opportunities to keep their skills current and learn new skills to ensure they could find jobs elsewhere in the event of a layoff. The cornerstone of these policies is an ambitious tuition-reimbursement program that pays for school and gives time off to employees to pursue degrees or professional development programs, regardless of their current job or business need. Employees receive a significant one-time bonus when they complete a degree.

Our study finds that:

- This generous educational support has helped the company actively recruit top talent who see development opportunities as a significant draw for joining the company.
- Development programs are very popular with the workforce. From 1996 to 2000, over one-third of the salaried workforce participated in the tuition-reimbursement program and nearly 10 percent of employees earned a degree through the program.
- Those who receive a degree have higher performance ratings, earn greater merit pay increases and advance more rapidly than other employees.
- The tuition reimbursement program is also a significant retention tool while individuals are undertaking their studies. The turnover rate for those participating in the program was only eight percent, compared to 13 percent for those not involved. Since a part-time degree course typically takes at least four years to complete, this can be a significant benefit in retaining high-potential workers who are most attracted to these development opportunities and are willing to invest their own time to pursue them.

Through this heavy investment in individual development, the company has increased the general skill level of employees. At the same time, it has also increased the external marketability of the highly ambitious and mobile employees attracted by the program.

The study finds that decisions to stay or leave the company depend heavily on whether employees feel the new skills they have developed are used and rewarded. Of those who have completed a degree sponsored by the company, fewer than four percent who subsequently received a promotion and/or a significant pay increase left the firm, compared to over 20 percent of those who did not.

These companies recognize that individuals now have a choice of hundreds of Internet recruiting sites that enable them to price their skills and find jobs that match their capabilities. Ironically, it is often easier for employees to find a new position in their own company on one of these external sites rather than through their current internal job-posting system. To help control turnover, companies must make it as least as easy for their employees to identify and move into new opportunities within the company as they can now do externally.

### **Managing High Potentials: The Double-edged Sword**

Given the importance of career advancement in retaining early and mid-career employees and the limited promotion opportunities in today's flatter organizations, many companies have chosen to focus their development and career management efforts on a select group of high-potential employees.

This strategy is in many respects a double-edged sword-particularly for the young, high-potential group characterized by lower commitment and higher willingness to turn over. Even those who are achieving career success, as measured by moving rapidly through organizational levels and grades, are more likely to leave. In one company, we found that "high potentials" are four times more likely to quit than others, despite receiving more "fast track" promotions. This is a group that orients its behavior to what will allow advancement-and will move wherever required to achieve career advancement.

These high potentials consistently receive the highest ratings for their individual performance. In essence, companies are wooing them, giving them large amounts of attention and opportunities and then living with the high rates of attrition in order to ensure that they have their share of the best talent to fill key leadership positions. And this focus on the high potentials can, in some cases, cause other problems--such as under-development, underutilization and demotivation of the rest of the workforce.

## Acquiring Talent

Mergers and acquisitions have typically been the surest ways to lose talented employees. This can be particularly costly when the primary source of value in the acquired company is the knowledge and personal relationships of its managers and employees. Many factors can cause key individuals to leave a company that is acquired, including:

- Perceived unfair competition for leadership positions,
- A clash of company cultures,
- Loss of the acquired company's distinctive identity and
- Perceived failure to deliver on the promises at the time of the merger.

A few companies, however, have found ways not only to avoid many of the pitfalls associated with acquisitions, but have actually turned the process of acquiring firms into a major source of competitive advantage in the competition for talent. Firms like Cisco Systems, Texas Instruments and General Electric have all made acquisitions a central part of their strategies for obtaining the talent and innovations needed to deliver consistent growth.

These leading companies are willing to pay a substantial premium over the market valuation of the acquired company because they recognize that speed to market is often critical in order to capture the majority of the value when introducing a new technology. Acquiring a company--one that already has a viable product or service and the intact team of talent that developed it--is often a more rapid and certain way to get to the marketplace than attempting to grow it internally. In fact, as companies increase in size, it becomes increasingly difficult for them to generate sufficient top- line growth through internal new business creation--and they are thus actually forced to turn outside.

## The Do's and Don'ts of Acquiring Talent

Undertaking acquisitions as an explicit part of a talent strategy entails a new approach. We have synthesized the best practices from a number of leading firms and the lessons from the many acquisitions completed by companies in our study to identify a set of key success factors, along with a list of potential pitfalls to avoid when purchasing and integrating firms into their organizations.

### Do's

- *Acquire early-stage firms.* As DaimlerChrysler and others have learned the hard way, it is far more difficult to integrate two large organizations.
- *Check for cultural fit.* Due diligence is critical, not just on the financials and market potential, but on whether the cultures of the two organizations are compatible
- *Create a dedicated M&A team responsible for continuously improving the acquisition process.* Even the leaders in acquisitions report learning from early mistakes
- *Leverage the company's capabilities to create early successes.* Show the members of the acquired firm the benefits to offset the independence and identity they've given up.

### Don'ts

- *Promise nothing will change.* That's a promise that will later be broken, creating mistrust and an accompanying loss of talent and commitment.
- *Let the quiet period last too long.* Failure to communicate sufficiently often gives rise to uncertainty and rumors that can undermine morale and fuel turnover.
- *Lose sight of the deal's strategic purpose.* The only way to justify the premium paid in acquiring new ventures is to maintain the focus on retaining talent after the deal is done.
- *Neglect your long-time employee base.* Too much special treatment for new acquisitions risks alienating loyal, key talent within the existing workforce.

## **Ten Steps to a Successful Talent Strategy**

Based on the results of the research and our study of the practices of companies that have built some of the world's leading employment brands, we have developed a 10-step approach to creating a successful talent strategy:

1. Create a clear and compelling strategy and vision for the company.
2. Identify the core capabilities needed to excel at this strategy and to continuously improve performance-distinguishing between those skills available externally from those that must be developed in-house.
3. Seek out the best sources of these skills wherever they are available globally-and offer these individuals opportunities to advance and contribute, regardless of nationality.
4. Understand the factors that are most important in attracting and retaining individuals with these key capabilities and in gaining their commitment to the enterprise.
5. Recognize that different groups of employees want different things from work and that their priorities are likely to shift as they progress through the various stages of their lives and careers.
6. Create multiple career paths (e.g., technical ladders, rotational assignments, opportunities to join new internal ventures) to replace the declining number of managerial promotion slots in today's flatter organizations.
7. Craft individual development opportunities so employees can build the capabilities that create maximum value for themselves and the company.

8. Hold both employees and management accountable for meeting development objectives and sharing the knowledge they gain with the organization.
9. Tie rewards and recognition to organizational and team performance and enhancement of skills, rather than placing too strong an emphasis on pay-for-individual performance.
10. Seek opportunities to rapidly enhance the company's talent through strategic acquisitions, recognizing that these acquisitions need to be managed differently than traditional mergers.

## **Appendix: Study Method**

This report is based on a major research project that includes three waves of data collection from 10 large, technology-intensive corporations. The study presents the results of the first two phases of the project. Included in the data we gathered are:

- An extensive individual survey of more than 4,500 knowledge workers and managers,
- Interviews and focus groups with more than 500 business and technology leaders and individual contributors in these ten organizations,
- Written documentation of knowledge management and human resource practices and
- Objective performance indicators.

In order to get as representative a picture as possible, we recruited companies from a wide array of sectors and geographic locations. Among the different industries represented are:

- Aerospace,
- Software,
- Energy,
- Chemicals and pharmaceuticals and
- Transportation equipment.

These companies had significant operations in the three largest geographic regions of the world economy. Among the specific countries included in the study are:

- North America (United States and Canada)
- Europe (Germany, Italy, Great Britain, France and Luxembourg),
- Asia (Thailand and Indonesia) and
- Israel.

The statistical findings in this report are based on a common survey administered to the companies' knowledge workers. Identifying what factors are most likely to retain and gain the commitment of employees can be done in two ways. The most straightforward approach is to ask people to rate how important different elements of the employment relationship, such as work/life balance or job security, are to them. This has the advantage of simplicity, but the disadvantage that what employees rate as important may not be the same as what drives the attitudes and behaviors companies care about. To find these key factors, we conducted a more sophisticated regression analysis. This allows us to look simultaneously at many different elements of the employment relationship to determine for each subgroup of employees (for example, males under 30) the factors that are the strongest predictors of commitment and retention.

For each demographically defined subgroup (e.g., male or female), two-step multiple regression analyses were used to determine the factors that are the most important contributors to employee commitment and turnover intent. The first step controlled for all other demographic characteristics (e.g., nationality, company, age group, status as manager or individual

contributor, educational level), so that the regressions reveal patterns for the demographic group in question while controlling for other demographic memberships that might be unevenly distributed in the groups in question. In the second step, twelve independent variables were entered that represent aspects of employment that we hypothesized to be predictive of retention and commitment. Throughout the body of the report, wherever we refer to a significant relationship, this is based on a statistical analysis at the .05 level of significance. This means that there is less than five percent probability that the relationship has occurred by chance. The vast majority of relationships reported have a significance level of .001, which means that there is less than a one in a thousand chance that the relationship has occurred by chance.