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# Rethinking Retention Strategies: Work-Life Versus Deferred Compensation in a Total Rewards Strategy

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## Executive Summary

## Rethinking Retention Strategies: Work-life Versus Deferred Compensation in a Total Rewards Strategy

In 2004, PricewaterhouseCoopers LLP faced a retention challenge with a key talent pool, accounting professionals. The firm thought that compensation was a primary lever that could be used to reduce turnover, and commissioned a deep analysis of careers and the drivers of turnover. The approach included gauging the value of human capital developed on the job by tracking employees who left to measure their subsequent career outcomes. The findings confirmed a number of the leaders' beliefs about how compensation should be structured over an employee’s career. But the findings also challenged the focus on compensation solutions, and suggested that the firm also needed to reevaluate its approach to work design and the role of work-life balance. This paper explains a rethinking of the meaning of total rewards that led to changes that produced lasting reductions in turnover and direct bottom-line benefits. It describes how the lessons learned at PricewaterhouseCoopers can be applied to other businesses.

# Rethinking Retention Strategies: Work-life Versus Deferred Compensation in a Total Rewards Strategy

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## INTRODUCTION

In 2004, PricewaterhouseCoopers LLP (PwC) faced a retention challenge with a key talent pool. Turnover among the firm's Senior Associates, accounting/tax professionals on the partner track with 3-5 years of tenure at the firm. was too high. The trends that led to that point had been developing for some time.

Most notably, a number of factors contributed to a tight market for accounting and tax professionals. Starting in the late 1990s, there was a significant decline in the number of accounting degrees granted in the U.S. The decline reversed slightly in the wake of the Enron failure and new accounting regulations under the Sarbanes-Oxley Act, but not enough to make up for the longer-term downward trend (See Figure 1). With the job market heating up in the mid-2000s as the economy expanded, it had become harder to attract and retain accounting professionals.

Adding to the labor market trends were changes in the nature of the work making the skills and expertise needed to work at PwC harder to develop. The steady rise in globalization dating back to the 1970s meant that PwC's clients had become progressively larger and more international in operations. Mastering international accounting and tax issues was increasingly important for success at the firm. At the same time, the expanded scale of client operations,

increased regulation in the U.S., and the development of new financial instruments all meant greater complexity of the work, and a rising demand for the skills needed to address it.

Together, these trends contributed to turnover rates that were historically high and creating problems for the firm. More than ever, the firm needed experienced Managers and Senior Managers to be successful in the marketplace. Yet, relatively high turnover among the firm's Senior Associates meant a diminishing supply of future Managers and Senior Managers (See Figure 2). It was still relatively easy to get new college graduates to start their careers in the accounting profession. But getting them to stay beyond the point where they gained their CPAs had become increasingly difficult. Experienced professionals are very marketable outside the firm and they know that a relatively small percentage will ever become Partners. Because these trends were industry-wide, attempting to hire experienced Managers and Senior Managers from the other large accounting firms was not a viable long-term solution.

So the firm was faced with a challenge: How to decrease early career turnover without changing the rate at which people were admitted to the partnership. One proposed solution was deferred compensation and specific incentives to stay longer. The notion was that increasing compensation paid before the partnership decision was made should increase the probability of someone staying, even if the chance of making Partner did not increase. If successful, this would have decreased turnover at the Senior Associate level, but likely increased it at the Senior Manager level.

Yet the firm had questions about the proposed solution. First, it madesense, but where was the proof? PwC has a very data-driven culture. Having the data to back up the logic was important for the leadership and its ability to build alignment for any proposed changes. Second, anecdotal evidence on careers after leaving the firm suggested that people who stayed until later

career stages did better in the external job market. For example, it appeared more likely that someone would eventually be a CFO if they left PwC as a Manager or Senior Manager than if they left as a Senior Associate. If true, then that questioned the wisdom of a deferred compensation program. If better information on the value of staying could be gathered, maybe the firm didn't need a new compensation program after all.

**THE STUDY**

To address these issues systematically, PwC decided to study attraction and retention factors for current employees and the career paths of former employees. The firm partnered with the University of Southern California Center for Effective Organizations (CEO) to analyze the value of human capital developed on the job, and the importance of that human capital as a driver of attraction and retention.

Surveys were conducted (Table 1) of both current staff and PwC alumni. The survey of current employees addressed the compensation and other factors that lead employees to leave the firm. The survey of former employees addressed what happened to their careers after leaving PwC. The two surveys enabled the firm to answer several questions:

1. How did compensation compare to other job attributes in turnover decisions?

2. What were the typical career paths for PwC employees who leave at various career stages?

3. How did current and former employees with similar experience compare in satisfaction, compensation, and career attainment?

CEO worked closely with the HR staff in three offices chosen to represent different regions and client mix. Offices were chosen that had a robust "alumni" (former employee)

network since surveying a large number of former employees was key to answering many of the questions at the heart of the study.

| TABLE 1 Details of the Two Surveys | | | |
|---|---|---|---|
| | Surveys administered | Returned | Response rate |
| Current employee survey | 2,777 Web-based surveys | 1,662 web responses | 60% |
| Former employee survey | 9,238 paper-based surveys | 1,785 mailed responses | 19% |

To accurately compare careers of current and former employees, groups were matched on the basis of career stage: former employees were compared to the cohort of current employees with whom they started, assuming that their job level at the firm would have been the same as their fellow cohort members had they remained at PwC. This type of matching was possible because of the nature of the recruiting and promotion system in accounting firms. First, the majority of new employees are hired together out of universities and start training together which creates distinct cohorts in the firm. Second, specific performance and promotion criteria influence how many years it typically takes to progress between levels for Associates through Senior Managers. It takes on average three years to progress from Associate to Senior Associate, three more years to get to Manager, and three years beyond that to get to Senior Manager. The transition from Senior Manager to Partner, in contrast, takes a more variable length of time.

| TABLE 2 Matching Current and Former Employees Based on the Former Employees' Year Left and Position When Left PwC | | | | | |
|---|---|---|---|---|---|
| Position and year when left the firm | Left in 2001 as Associate | Left in 2001 as Senior Associate | Left in 1998 as Associate | Left in 1995 as Associate | Left in 2001 as Manager |
| Position the former employees would have had in 2004 had they stayed | Senior Associate | Manager | Manager | Senior Manager | Senior Manager |
| Group of current employees the former employees | Current Senior Associates | Current Managers in 2004 | Current Managers in 2004 | Current Senior Managers in | Current Senior Managers |

| were matched to for the analysis | in 2004 | | | 2004 | in 2004 |
|---|---|---|---|---|---|

To illustrate the matching of current and former employees (Table 2), consider a group of former employees who were Senior Associates when they left PwC and who had been gone for five years. They were matched with current employees at the Manager level, which is where they would have been if they had stayed at PwC and met the performance and promotion criteria. The table shows other examples of employees who left at various career stages and the current employees with whom they were matched.

| **TABLE 3 Matching Former Employees Who Left at Different Career Stages Based on entry Cohort When Started Working at PwC** | | | | |
|---|---|---|---|---|
| Example No. 1: Grouping together everyone who joined PwC in 1990 as one entry cohort | | | | |
| Year and position when left the firm | Left in 1992 as Associate | Left in 1995 as Senior Associate | Left in 1998 as Manager | Left in 2001 as Senior Manager |
| Entry cohort classification for the analysis (year when started at PwC) | 1990 entry cohort | 1990 entry cohort | 1990 entry cohort | 1990 entry cohort |
| Example No. 2: Grouping together everyone who joined PwC in 1987 as one entry cohort | | | | |
| Year and position when left the firm | Left in 1989 as Associate | Left in 1992 as Senior Associate | Left in 1995 as Manager | Left in 1998 as Senior Manager |
| Entry cohort classification for the analysis (year when started at PwC) | 1987 entry cohort | 1987 entry cohort | 1987 entry cohort | 1987 entry cohort |

A second set of comparison analyses was conducted using former employees only (Table 3). These analyses looked at people who started at PwC at the same time, but who left at different career stages. For example, the cohort of people who started at PwC in 1990 and left before their first likely promotion in 1993 were classified as “1990 cohort Associates.” Those who left before 1996 were classified as “1990 cohort Senior Associates,” etc. Comparing career outcomes within a cohort of people who started at PwC at the same time but who left at different career stages ensured that when they were surveyed in 2004 they all had comparable

opportunities to develop their careers and advance to high level jobs. Table 3 provides two examples of how these cohorts were constructed.

A number of survey measures were used to assess retention and career outcomes at PwC:

- Intention to turnover was modeled for current employees to identify the factors most likely to cause someone to leave the firm.
- Job and career satisfaction was compared for current and former employees who left PwC at various career stages.
- Current compensation and job level. Cohorts of former employees who left at different career stages were compared to see if those who stayed at PwC longer fared better in the long run in compensation and attaining high level jobs (e.g. ,VP or higher in a firm with at least $500 million in sales or assets under management).

**RESULTS**

The first major finding from the study was that the firm's hypothesis about the trajectory that people's careers take after leaving was correct (See Table 4). PwC employees who advanced to the managerial ranks before leaving reported higher pay and job attainment than those with the same total years of work experience who left PwC earlier. Those who left as Managers, compared to those who left as Senior Associates, on average had 28 percent greater current compensation, and were 14 percent more likely to be in a top-level job. Those who left as Senior Managers fared even better compared to those who left as Senior Associates: 49 percent reported greater current compensation, and 37 percent were more likely to be in a top-level job. This showed that achieving greater compensation and career advancement are key benefits of staying with the firm longer before leaving. PwC now had strong objective data that staying with the

firm longer paid large dividends for those with a career goal of attaining a high-level corporate job.

Additional analysis was needed to show there were other key factors in reducing turnover than just communicating the career and compensation benefits realized by staying longer before leaving PwC. A critical issue for PwC was the way employees at risk of departure viewed the importance of those potential future benefits. Retention models were estimated that measured the importance of compensation relative to other factors and controlling for various career goals. The results are summarized in Table 5 and reported in terms of impact on employees' stated intention to leave versus stay with the firm. Each row represents one factor included in the model designed to measure the importance of job and motivational factors. This type of regression modeling enables the direct comparison of the importance of potential retention factors relative to each other.

**TABLE 4 Advantages of Leaving the Firm at Later Career Stages, Compared to Leaving at the Senior Associate Level**

| | Compensation | |
|---|---|---|
| Advantage of staying beyond Senior Associate and leaving as: | Manager | Senior Manager |
| | 28% greater current compensation | 49% greater current compensation |
| | Career advancement | |
| Advantage of staying beyond Senior Associate and leaving as: | Manager | Senior Manager |
| | 14% greater likelihood of having a top level job | 37% greater likelihood of having a top level job |

**The role of compensation in driving retention**

The top portion of Table 5 reports the importance of various measures of compensation in driving retention at the firm. Not surprisingly, pay satisfaction was a key driver of retention, as was perceived pay equity, which had a virtually identical impact on retention. Given the strong relationship between pay satisfaction/equity and retention, it would have been quite reasonable to

expect that current compensation was a key driver of retention. Yet the top portion of Table 5 shows that current compensation had essentially no impact on retention compared to other compensation-related factors, Instead, what mattered more for the employees' intention to stay with the firm was how quickly they anticipated their compensation would grow at PwC relative to other potential jobs, and how quickly it had grown in the past.

The second major finding from the study was that if the firm had chosen to implement the planned deferred compensation policy, there was a good chance it might have done little to improve retention. Because the employees put so much weight on compensation growth, a moderate increase in deferred compensation would have had relatively little impact on retention. For example, if the firm had done a one-time grant of deferred compensation payable in five years and equal to 10 percent of each employee's current compensation, it would have a much smaller impact than the cumulative effect of smaller pay raises each year. With an average raise of 5 percent per year, the cumulative raise over five years (accounting for compounding) is 27.6 percent, or almost three times larger than the 10 percent deferred compensation. If annual raises average 7 percent, the cumulative raise over five years after compounding is 40.2 percent, or four times larger than 10 percent deferred compensation. Thus, normal salary progression alone would have a much greater impact on future compensation than an additional 10 percent deferred compensation and, based on the figures in Table 4, would dwarf the impact on current retention. Although high for some industries, historical raises of 5 percent or 7 percent are consistent with typical salary progression from Associate to Senior Associate and then to Manager at PwC.

**The role of other factors in driving retention**

Most importantly, the survey findings demonstrated that compensation was only part of the story of retention at PwC (shown in the middle portion of Table 5). PwC had long suspected

that its best employees were being poached away by clients or other firms with offers of additional money. It turns out this was only partially true: employees reported that they were constantly recruited by other employers and executive search firms and a large number stated they had standing job offers from other firms, but these were not the triggers for turnover decisions. Perceived job alternatives were strongly related to retention, but other aspects of the employee's job and career were more important drivers of retention, beyond whatever influence compensation and job alternatives were having.

**TABLE 5 Employees' Intention to Stay at PwC: The Role of Compensation Versus Other Factors**

| Compensation factors | Retention impact |
|---|---|
| Pay equity / pay satisfaction | +3 |
| Current Compensation | 0 |
| Historical Compensation Growth | +1 |
| Anticipated Compensation Growth in 5 years if stay at PwC | +2 |
| Anticipated Compensation Growth in 5 years if leave PwC | –1 |
| General marketability | |
| Perceived job alternatives | –3 |
| General job factors | |
| Job satisfaction | +3 |
| Work-life balance | +3 |
| Professional skills and development related factors | |
| Fit with professional services | +3 |
| Skill utilization | +3 |
| Development support | +3 |
| Legend: +3 big positive impact<br>+2 positive impact<br>+1 small positive impact<br>0 no impact<br>–1 small negative impact<br>–2 negative impact<br>–3 big negative impact | |

The third major finding from the study indicated that turnover decisions were also strongly related to job satisfaction, opportunities to develop and use new skills on the job, and fit with professional services. This suggested that if the firm did a better job of providing junior employees with meaningful experiences that improved professional development and skill

utilization, this critical talent pool would be less likely to jump to alternative jobs outside the firm. It also meant that retention was driven in large part by aspects of the job that are independent of compensation. Rather than making decisions to leave PwC based on differences in current compensation, employees were more influenced by whether their work at PwC fit their interests, used their skills, and developed them professionally.

The fourth major finding from the study showed the importance of work-life balance on retention. This was not necessarily a surprise to the firm's leadership. During the busy season, everyone in the industry works long, hard hours. It had been assumed that top performers found effective ways to manage the work-life balance issues without jeopardizing their chances of staying with the firm. The study results revealed that that was not the case. Even top performers indicated that work-life balance issues had the potential to drive them to the brink of leaving.

These work-life balance issues were brought into sharp relief by two sets of analyses. The first analysis looked at the importance of flexibility of hours versus the total work load. The firm had a well-designed program that enabled employees to flex when they worked as a way of dealing with work-life balance challenges. While the program provided an important safety valve for some employees, the study found that flexibility alone was not a big driver of retention. The second analysis compared work-life balance of current versus former employees at similar career stages. The results indicated that former employees reported much better work-life balance across the board. This meant that work-life balance differences were enhancing the attractiveness of jobs outside of PwC, increasing the turnover danger for current employees at all job levels.

Given the nature of public accounting and relative difficulty of reaching the partnership, most PwC employees expect to leave at some point. Because most have good opportunities elsewhere,  many that offer at least comparable pay for less travel and more regular hours, the

decision often does not come down to money. Instead, PwC employees are driven to stay by opportunities for professional development and interesting work that is not too taxing. This provided the insight needed to develop an effective retention initiative.

**ACTIONS TAKEN**

The leadership of the firm decided to focus on the root causes of turnover that had been revealed by the USC Center for Effective Organizations (CEO) study instead of implementing a new deferred compensation plan. In the spring of 2004, firm leadership shared a full report of the study findings across the U.S. along with a message from the chairman expressing his commitment to address the concerns of the staff that had been identified in the study. A "cascading" process was put in place in which local office leaders held forums to discuss the study and the findings, engage in open dialogue about actions to address the causes of turnover, and help staff understand the value of the PwC professional experience.

Firm leadership then organized an action-planning process that identified national initiatives to address the findings, while also holding team and local office leaders accountable for action planning for their respective units of responsibility. A scorecard and performance measures were then designed to drive accountability and facilitate organizational learning through the identification of practices used by higher performing teams while also identifying underperforming teams that needed rapid, corrective actions. Based on the study, overall plans were developed to address:

- Connectivity. Leaders strengthened relationships between partners and staff through a "connectivity" initiative in which partners were matched with individual staff members to discuss their experience at the firm, their goals and career aspirations, and to offer coaching

and developmental support. These meetings were recurring over time, and were in addition to existing supervisory and performance coaching relationships.

- Coaching and development. Leaders established a significant focus on strengthening the quality and timeliness of developmental feedback provided to staff. In addition to performance management process and systems enhancements, major behavior change campaigns were launched via communications, training and alignment of measures and rewards to support candid, timely feedback. Partners and staff attended skill-building workshops to improve their competencies in delivering written and verbal performance feedback. A video series was developed by Human Resources, using actual partners and staff who acted out common issues and obstacles in providing direct, candid feedback. These videos were accompanied by team discussion guides to motivate change and support skill building by providing humorous and compelling examples of coaching that could be quickly applied within engagement teams. Partners and staff members also received increased feedback and appraisal on their own coaching skills through upward feedback. Coaching was also related to delegation and increasing the skills utilization of staff on engagements.
- Work-life and workload balance. Firm-wide communications were created to acknowledge the challenges of work-life balance and share how teams could support individual staff members' achievement of better balance through improved planning and coordination. At the same time, team leaders were encouraged to improve workload balance among the individuals on their teams. Tools were developed so leaders could monitor and manage workload balance. HR leaders introduced innovative approaches to support work-life and flexibility while also responding to the "peaks and valleys" of the business cycle that created variations in staff capacity. For example, in addition to a wide variety of flexible work

arrangements, such as compressed work weeks, reduced work schedules and telecommuting, sabbaticals are now offered to client service staff that enable them to pursue educational goals, work with nonprofits and community organizations, or address other personal interests for a period ranging from 4-16 weeks.

- Enhanced communication on compensation and the value of the PwC professional experience. HR leaders launched an initiative, "PwC Careers," to increase the understanding of career paths and options at the firm as well as technical and professional development opportunities, and to clearly define "high performance" expectations, and the rewards achieved by remaining with the firm, including increased external career options and personal "market value" based on the findings of the CEO study. In addition to firm communications, these findings were also incorporated into the annual total rewards discussions each staff member has with a partner of the firm.

The commitment to conducting rigorous, independent research, and then translating the findings into measureable actions, has produced significant benefits for PwC. For example:

- The April 2009 employee survey achieved the highest overall score since the inception of the survey in 2002, and demonstrated continued improvement in key categories related to retention.
- By 2009, voluntary turnover had fallen from 26 percent to less than 10 percent annually, including significant declines before the recession.

## IMPLICATIONS FOR OTHER ORGANIZATIONS

Before the project began, the firm was seriously considering a large investment in a deferred compensation policy based on a number of critical assumptions about its workforce.

With a survey and analysis of personnel records, PwC was able to test these assumptions and make better-informed decisions based on hard data. Like many firms, PwC has a culture that values data-based analysis. Auditors are also dedicated to rigorous methodology. Working with independent researchers and a rigorous process gave PwC partners and employees confidence in the results.

While there are several aspects of careers at public accounting firms and professional services firms in general that make them unique, these survey and analytic techniques are broadly applicable. First, PwC benefited from having a strong network of former employees to survey, but organizations can learn plenty from their present employees alone. Second, there is a tendency for firms to use money as a means to address turnover without an analysis of the root causes. Third, the research was coupled with a strategic organizational change effort that included a number of efforts to report the findings and inform changes to employee development and time-off policies. In PwC’s case, investing in a broad range of firm initiatives to educate staff on the value of the PwC professional experience as well as efforts to strengthen the experience itself through enhanced coaching and work-life balance was more effective than investments in deferred compensation. This represented a much richer view of total rewards than the traditional compensation and benefits package, which historically dominated the firms’ discussions of careers and retention.

For organizations considering replicating this approach in different work settings and with different employee populations, it is critical that the analyses be tailored to the environment and group(s) being studied. The problem with generic employee surveys, whether designed internally or purchased from a vendor, is that they tend to include most of the “usual suspects,” such attitudinal measures as job satisfaction, career and pay satisfaction, relationship with

supervisor and opportunities for development, without a direct link to the work design that enables deep understanding of the factors that drive motivation and productivity. What made the analysis in the PwC case so powerful was a work-design analysis that identified the potential factors to be included in the survey. The analysis eliminated actors that, in theory, might have been an issue but which could safely be assumed to be more marginal contributors based on deep knowledge of the work, culture and history of the organization.

## CONCLUSION

This deep examination of the careers and aspirations of the current and former employees of PricewaterhouseCooopers is an example of the power of independent, rigorous research to drive change in a large organization. The findings demonstrated the need for a much more integrated approach to retaining mid-level professionals. Whereas before many managers and partners had simplified the turnover problem to a compensation issue, the data allowed firm and HR leaders to make the case for making broader changes to address job assignments, careers and work-life balance in the firm. Partners saw the need to address work-life balance and career growth and committed themselves to serious changes in the culture and staffing practices at PwC.

The case also demonstrates the importance of taking a broad view of total rewards that includes aspects of the job beyond compensation and benefits. The nature of the work itself, and what that means for professional development, work-life balance and career success can exert equally strong, if not stronger, influences on motivation and retention of employees, including those with the highest productivity and potential. Carefully constructed and rigorously implemented analyses that measure the importance of competing factors – both compensation-

related and non-compensation-related – can reveal where the real ROI lies that supports lasting and effective change.

**AUTHORS**

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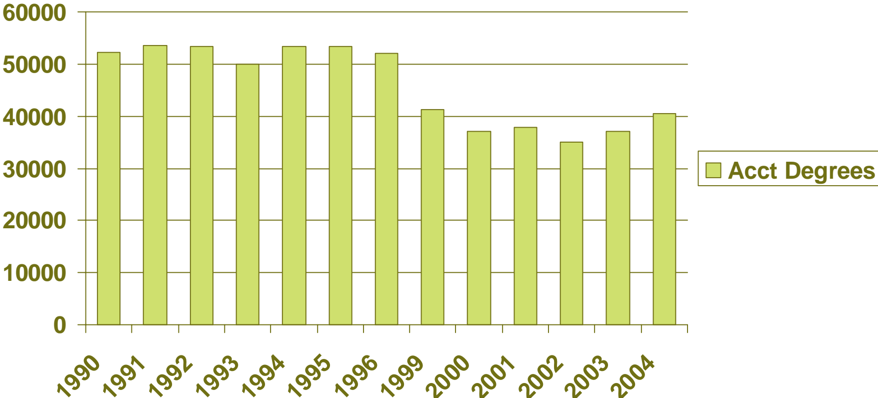
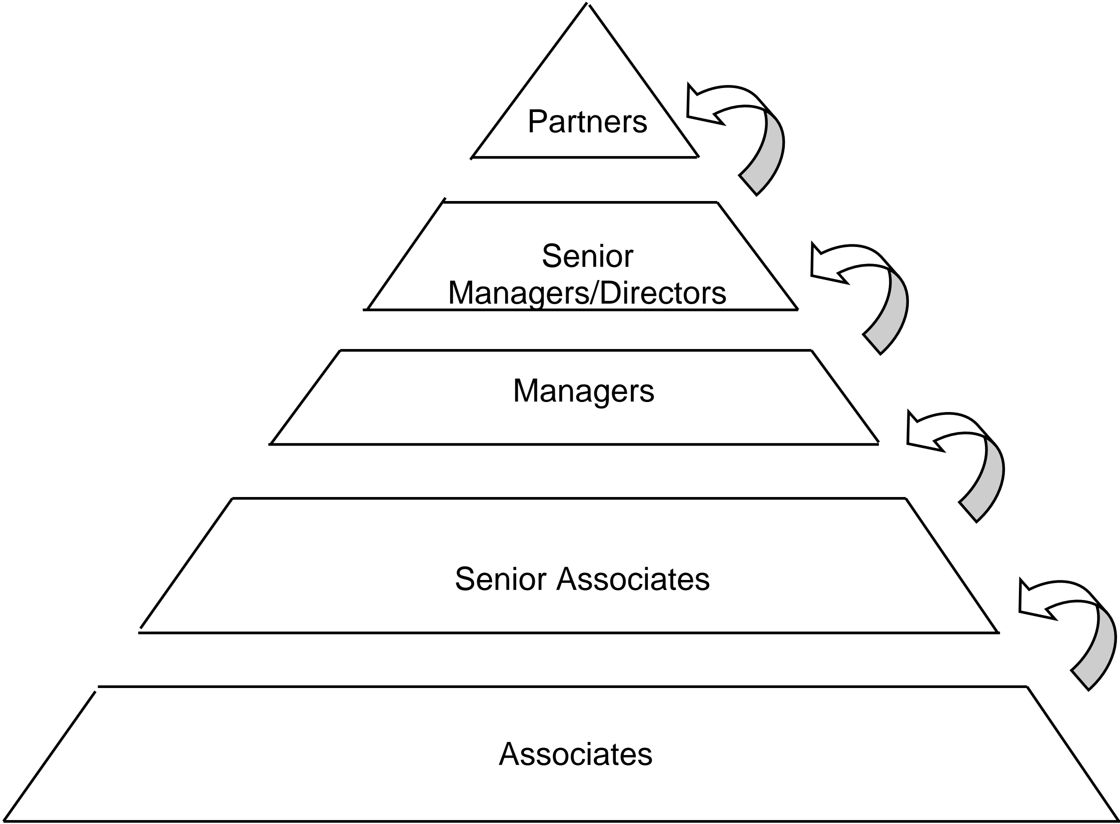
**FIGURE 1 Supply of Bachelor's Accounting Graduates**




Source: American Institute of Certified Public Accountants

**FIGURE 2 Career Progression at PricewaterhouseCoopers LLP**

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