

Hudson

Engaged Employees:

Going the Extra Mile

Today's workers do not expect or want life-long employment at a single company. By the early 1990s, it was evident that the contract between employers and employees had changed.

As Daniel Pink wrote in his 2001 book, *Free Agent Nation*, "For good or ill, the loyalty-for-security bargain that nearly defined the American workforce for several generations is gone."

A confluence of survey, economic and demographic data confirms that many workers are ready to leave their current jobs, and have a better chance of finding new ones than at any time in the recent past. It is true that employees may feel insecure about entering the job market. However, the knowledge workers who are the most innovative and willing to take risks – your most valued employees in this highly competitive global environment – likely will be ready to take the leap.

Now is the right time to take the steps necessary to improve retention of top talent and simultaneously increase discretionary effort – the inclination for employees to go the extra mile for the company.

"If employees aren't fully engaged, you don't get maximum return for your investment from those employees – they're not taking care of clients, innovation goes by the wayside, creativity starts to wane. And uncommitted employees are more vulnerable to other offers," said Robert Morgan, Hudson's Chief Operating Officer of Talent Management in North America.

“It would be hard for me to think of something that is more important than talent management over the long term,” noted Scott Pitasky, General Manager of Talent Acquisition and Engagement at Microsoft. “Being able to innovate for customers is one of the primary outcomes of great talent management,” he added.

MOVING ON

A 2005 Hudson study of 10,000 U.S. workers found that only 25 percent are unwilling to leave their current employer. Seventy-three percent are receptive to a new job: 41 percent who are not actively looking but are willing to listen to a new opportunity, 14 percent who are actively looking and 18 percent who have updated their resume and are ready to consider other prospects (2 percent were not sure). The study also found that half of the workforce expects to change companies within the next five years.

The trend is similar in Europe, according to Marc Timmerman, Practice Leader of Hudson Talent Management in Europe. “Studies done by Gallup in Europe show that an increasing number of workers are willing to change jobs. In countries like Germany, where that number is traditionally low, 70 to 75 percent now say they are open to leaving,” he said.

Buttressing the necessity for companies to take action is the actual turnover rate. Since 2003, annual overall job turnover for non-government workers in the United States has increased from 41.6 percent to 45.8 percent, according to the U.S. Department of Labor, Bureau of Labor Statistics (BLS).

Even more telling is the increase in the percent of the total number of unemployed who were “job leavers” (defined as unemployed persons who left their jobs voluntarily and immediately began looking for work). In the first quarter of 2006, this figure was 11.7 percent, compared to 9.4, 9.9 and 11.2 in the first quarter of 2003, 2004 and 2005, respectively.

Forty percent of respondents to the Hudson retention survey said that their company keeps the best and brightest on board, but an equal percentage reported that key talent typically leaves for better opportunities. While employers should not expect workers to devote their careers to one company – any more than employees can count on job security – extending employees’ tenure by even one additional year can dramatically reduce turnover costs. Typically the cost to replace an employee is 150 percent of the person’s salary, according to the Saratoga Institute, a research organization that studies human capital issues.

Nevertheless, many companies do not have a plan to retain employees. A 2003 study by the Saratoga Institute cautioned that 57 percent of companies do not have a retention

strategy, and only 35 percent have specific retention or turnover goals. A fall 2005 survey by Ernst & Young LLP found that 85 percent of large employers had no formal programs designed to retain key employees.

DEMOGRAPHIC CHALLENGES

There is likely to be a shortage of skilled workers in the next two decades. Labor force growth is slowing, as the baby boomer generation, born between 1946 and 1964, is beginning to retire. Baby boomers make up 46 percent of the workforce, and their retirement is expected to result in 24 million people exiting the labor pool by 2010. While the labor force grew 2.6 percent annually in the 1970s, it is expected to increase only .2 percent each year from 2015 to 2025.

Most jobs in the future will be knowledge-based. However, the percentage of college graduates in the labor force will not keep pace. In the next decade, about 70 percent of workers will not be college graduates, the Employment Policy Foundation estimates. The shortage of workers with two-year college degrees also is increasing.

The implications for employers are significant. They must understand what motivates people to change jobs, and institute a plan to retain their best knowledge workers.

The results of the Hudson 2005 retention study of 10,000 U.S. employees suggest that while salary and benefits are clearly important to employees, dissatisfaction with other factors was more critical in driving employees to actively seek a new job.

The study looked at how important six crucial retention factors are to employees and how well their company performs on those factors. The factors studied were salary, benefits, relationship with manager, work-life balance, opportunity for advancement and training. Of these, lack of opportunity for advancement was the one most likely to prompt dissatisfied employees to look for new jobs.

Among individuals who rated opportunity for advancement as very important, but said their organization was doing a poor job, 41 percent were actively looking for other work. (In contrast, among those who rated salary as very important, but said their company did a poor job, 34 percent were actively looking for a new job.)

Nearly half of all respondents said their company does only a fair or poor job providing the opportunity for advancement, a factor that was important to 87 percent of employees.

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“This tells employers that they need to make sure that leaders have the skills to help employees satisfy their career development needs,” according to Hudson’s Morgan. “Companies need to provide opportunities for employees to grow with the business,” he added.

While work-life balance deservedly gets a lot of attention because of its importance to employees (93 percent of respondents said it is very important or somewhat important to them), it ranks fifth out of six as a factor that pushes dissatisfied workers to actively look for a new job.

The manager-employee relationship also has a direct impact on whether employees choose to stay, according to the Hudson report. Of survey respondents who rated their relationship with their manager as very important but their current situation as poor, 37 percent were actively looking for another job. Respondents gave their companies the highest rating on this factor; 80 percent rated their relationship with their manager good or excellent.

Recognizing the importance of a good relationship between managers and employees, commercial real estate company Jones Lang LaSalle conducts an online management effectiveness and employee engagement survey each year. The survey, which includes every employee, has had a profound effect, according to Nazneen Razi, Global Chief Human Resources Officer. “People can give anonymous feedback and action will come of it,” she said.

Managers at Jones Lang LaSalle get a report on what employees think of their leadership and communication style. They are then held accountable for improvements. “This is something that no other company has done in quite this way,” Razi noted. Turnover rates at the company are much lower than the industry norm, she said. The company was named one of the “Top 25 Best Places to Work” by *Chicago* magazine in 2004.

Unite, a U.K. company that provides student accommodations and hospitality services, has introduced a comprehensive set of retention initiatives that have reduced staff turnover from an all-time high of 34 percent to less than 20 percent in the past three years. At the same time, employee satisfaction rose from 51 percent to 77 percent.

According to Unite HR Director Andrew Lee, setting out a long-term vision of success for the business and a clear set of values was critical. “When [turnover] was at its highest, we were operating a cost cutting model rather than caring about the value that was being taken out with cost cutting. That made everybody feel more vulnerable and less stable, and therefore much easier to being picked off by other employers,” Lee explained.

Among the most effective interventions at Unite is a year-long development program for aspiring and junior managers, Lee said. Other initiatives include a leadership program for senior managers; financial support for academic study; celebration of continued service; and a month-long paid sabbatical for employees who have worked at the company for seven years. The company also uses financial retention strategies for senior management, including stock options and a long-term incentive plan.

INTEREST PAYS

The ability of employees to do interesting work could make an important difference in improving retention and discretionary effort, suggests research on full-time workers and independent professionals conducted by Hudson. The 2005 global study examined what full-time and independent professionals want from their work experience and how well their job situation satisfies them.

Of 20 specific work attributes, including pay, health benefits, retirement benefits and employment security, full-time professionals in every country studied rated “doing interesting work” as the most important job attribute. (In some cases, it was tied with other attributes.) In the United States, full-time professionals rated doing interesting work, achieving a high level of competence, work-life balance and receiving health benefits at 8.6 on a scale of zero to 10.

“Individuals want to broaden their skill sets and get the experiences they need to advance their careers and keep their jobs interesting. Employers who acknowledge the importance professionals put on doing interesting work will have more success in retaining them and in increasing their discretionary effort,” Morgan said.

At Microsoft, and other technology companies, employees care about “being able to create software that matters to people – a lot of people. They want to see their work get used and make a difference,” said Pitasky. “One of the things we try to do is make sure that everybody has that opportunity.” He added that flattening the organization increases employee engagement because it “gives you visibility into the work people are doing and helps with communication.”

How can companies know whether employees are engaged? Ask them, said Andrea Zintz, Vice President of Hudson Talent Management. Managers and executives should be expected to engage with workers on an ongoing basis, she said. “Companies have to say to their leaders ‘we expect you to have these conversations – to put them front and center. ‘Leaders should be asking [workers], ‘What does it take to engage you?’ (but) they have to do it in a way that is more ‘ask’ than ‘tell.’ ”

Once companies know what employees consider interesting, they can attempt to engage them in those type of assignments. Employers can follow a straightforward approach to assessment:

1. Create a comprehensive list of assignments that need to be accomplished
2. Survey employees on which assignments they find to be the most interesting
3. Ask employees to provide suggestions for other types of assignments they would like to work on
4. When staffing projects, try to match up employees with the type of work they said they found interesting

While this type of internal research is valuable and inexpensive to conduct, very few companies do it. Only 36 percent of the respondents to the Hudson retention survey reported that their organization conducts internal surveys. Of those, 72 percent said they always participate.

RULES OF ENGAGEMENT

Retention and discretionary effort are intertwined, Morgan said, and both are related to the degree of employee engagement.

A 2004 study of 50,000 employees around the world by the Corporate Leadership Council (CLC) found that the most highly engaged employees exert 57 percent more discretionary effort than their least engaged colleagues, producing a 20 percent increase in individual performance. The highly engaged employees are 87 percent less likely to leave their organizations than their disengaged peers. Interestingly, the CLC found that nearly all demographic subgroups (tenure, age, parenthood, type of job) were indistinguishable from the workforce as a whole.

Committed employees have a stake in the success of their organization, and feel pride in its accomplishments. They understand how their work contributes to achieving the goals of the company. They are customer focused.

“Discretionary effort is what differentiates good employees and great employees, good companies and great companies. You have to think that people who would entertain a job change probably aren’t putting forth discretionary effort,” Morgan added.

He said discretionary effort is what distinguishes Federal Express from the U.S. Post Office, and Saturn from other parts of General Motors. “It means employees go above and beyond to make sure they are satisfying the customer.”

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“If you go to a FedEx facility at night when planes are coming in, everyone is focused on the overnight delivery goal. When the first batch [of packages] gets unloaded, the clock starts. It’s a countdown, and people are engaged. The company’s whole reward and promotion system is built on engaging the employee,” Morgan explained.

FedEx employees appear to be the exception, not the rule. A 2005 global study by Towers Perrin found that only 14 percent of employees at large and mid-sized companies were “fully engaged” in their work. A great majority of workers, including those in the United States, are only “moderately engaged” or “actively disengaged.” The results of the study, which included more than 85,000 employees in 16 countries, are consistent with similar studies conducted in the previous five years.

The ramifications of a disengaged workforce are real. The Towers Perrin survey found that 59 percent of highly engaged workers were willing to remain in their jobs, compared to 24 percent of disengaged employees.

TAKE THE INITIATIVE

The best way for companies to engage employees is to create a talent plan that is directly tied to the goals of the organization. The components of such a plan include identification of critical competencies and skills, job profiles, an assessment strategy, onboarding process, and training and development initiatives. The plan must be continually updated, as the business strategy evolves.

Unfortunately, most companies do a poor job of creating a talent plan that supports the strategic plan.

“You better pay as much attention to your talent plan as you would to your marketing plan or your technology plan,” Morgan cautioned. “Just think if you tried to operate your business today with the same technology you had 10 years ago – how competitive would you be?”

Developing employees in sync with the business strategy increases their contribution to the company and makes them feel better about their role. “Targeted development around what the business needs drives retention. If you don’t have a plan that is directly tied to the goals of the organization, you don’t get full return on your human capital investment,” Morgan said.

For example, if your business requires that employees be agile, flexible and able to move easily from one type of assignment to another, your talent plan must reward employees for developing those competencies. If it doesn't, the human capital infrastructure isn't supporting the company's needs. As employees move up the ladder, the lack of alignment between competencies and business needs becomes more of an issue.

Effective leaders are essential for an effective talent plan. Programs such as 360 degree reviews, job rotation and mentoring by top executives are useful in developing leaders' competencies. "Companies need to make sure leaders have clear feedback on what they need to do and how well they do it," said Zintz. These efforts are important not only for retaining leaders, but for making sure that they know how to motivate the workers who report to them.

A company's talent plan should acknowledge that different categories of employees require different retention strategies. For example, high-potential workers – those individuals who are expected to become the top leaders of the company – require very specific career development plans, as well as more individual feedback, coaching and mentoring than others in the organization, according to Timmerman, who is writing a book on the subject.

"In the case of high potentials, having a good personal relationship with one or more members of the executive team is very important to keep them in the organization," Timmerman said.

FLEX TIME AND EFFORT

A flexible workforce structure is another key element in reducing turnover and increasing discretionary effort. "The talent you need today might not be the talent you need next week. If you have only a full-time workforce and your business plan changes, you end up on a roller coaster, ramping up and ramping down. It gives the organization whiplash," Morgan said.

Companies can protect their mission-critical staff from those peaks and valleys by using independent contractors. Employers can take advantage of independent talent while better managing their costs. At the same time, full-time employees don't have to be looking over their shoulders for the next layoffs. A 2001 study by economists at Lehigh University and the University of Oklahoma found that earnings, gross margins and stock returns improved with the increased use of contingent labor.

Using independent professionals also can increase the degree of discretionary effort put forth on a project. Instead of reassigning full-time workers who may not be interested in a particular assignment, companies can tap into an independent worker's enthusiasm and commitment. On the other hand, the project might provide a great opportunity for the right full-time employee.

"The complexity of managing talent has moved up a notch because of these factors. You can't just offer nice benefits and have a nice place to work and think you have an effective talent plan," Morgan said.

CONCLUSION

In the days when employers promised job security, employees reciprocated with company loyalty. Now that there is no such thing as job security, employees have a new definition of loyalty: they will stay with a company only as long as the job allows them to learn and practice the skills that will advance their career. Consequently, companies that want to retain and engage top talent need to hold up their end of the bargain by:

- Developing a talent plan tied to the business strategy. An effective talent plan should clearly distinguish among the different talent levels in the organization. For example, employees with high potential must be developed differently than others in the organization. A one-size-fits all talent plan is no more useful than a one-size-fits-all business suit.
- Offering employees the opportunity to develop their careers. Employees should be able to do work that interests and challenges them, and that enhances their resume. This generates discretionary effort and creates a "win-win" for the company and the employee.
- Being flexible about when, where and how people work. Job-sharing, flex time and telecommuting are examples of non-traditional work arrangements that smart companies are adopting.

Companies with a meaningful talent plan identify the employees they want to keep. They give them solid reasons to stay and grow as the company grows. Organizations without such a plan watch their best workers walk away, leaving their future to those who are left behind.