Attracting and Retaining for Survival

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The Key is individual and business integration

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WorldatWork.
The Professional Association for Compensation, Benefits and Total Rewards

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- Dr. Boyd is full-time professor and internationally recognized expert in the field of management and human resources with over 30 years of corporate and consulting experience. He is professionally active as an educator, consultant, writer, and speaker.
- Mike founded Boyd Associates to focus on human resource strategies. He previously created and managed the Human Resourcing Strategies program at IDC where he concentrated on critical workforce factors including hiring, retaining, developing, and managing the 21st century workforce. Prior that that he was an HR executive at Quantum Corporation, Digital Equipment Corp., Honeywell Inc, The Foxboro Company, GTE, Union Carbide Corp., and the U.S. Army.

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Bill Coleman has more than 20 years of compensation and benefits experience in consulting and corporate management. He heads Salary.com's compensation and content teams, who research and publish Salary.com findings on compensation data and trends for an audience of human resource professionals, business managers, and individual employees.

Before joining Salary.com, Coleman was a senior executive compensation consultant with Watson Wyatt Worldwide and the director of marketing and manager of special compensation and benefits projects at PricewaterhouseCoopers. Coleman's experience includes the analysis and design of executive and broad-based compensation programs for public and private organizations, ranging from pre-IPO technology startups to Fortune 100 corporations.

National media outlets including Fortune magazine, CNN, and the Wall Street Journal as well as human resource trade publications have turned to Coleman for his expertise in compensation and other recruitment and retention issues. His articles have been selected for publication in human resources publications including Compensation and Benefits Review, HR magazine, and BrassRing Campus' Careers and the MBA. He also served for two years as the executive compensation expert for Monster.com's executive-oriented site.

Coleman is a member of WorldatWork, the Society for Human Resource Management, and the National Association of Stock Plan Professionals. He earned a B.S. in mathematics from the Massachusetts Institute of Technology. He is a Certified Compensation Professional.

Strategic Issues

- The Labor Market in the 21st century
- Workforce Demographics and Dynamics
- Employment in the 21st Century
- Retention is the key to survival
- Total Rewards is an HR challenge

The Market

- One of the greatest challenges faced by all firms is finding, retaining, developing, and deploying the skilled workforce necessary to meet the organization's objectives.
- People have discovered that they have a market in which they can maximize the financial return on their own labor.
- The "good-old-days" of employer control of the labor market will never return!
- The reward mechanisms today are complex – Total Rewards are individual
- More today than ever, the rewards must focus on the business goals.

Issues

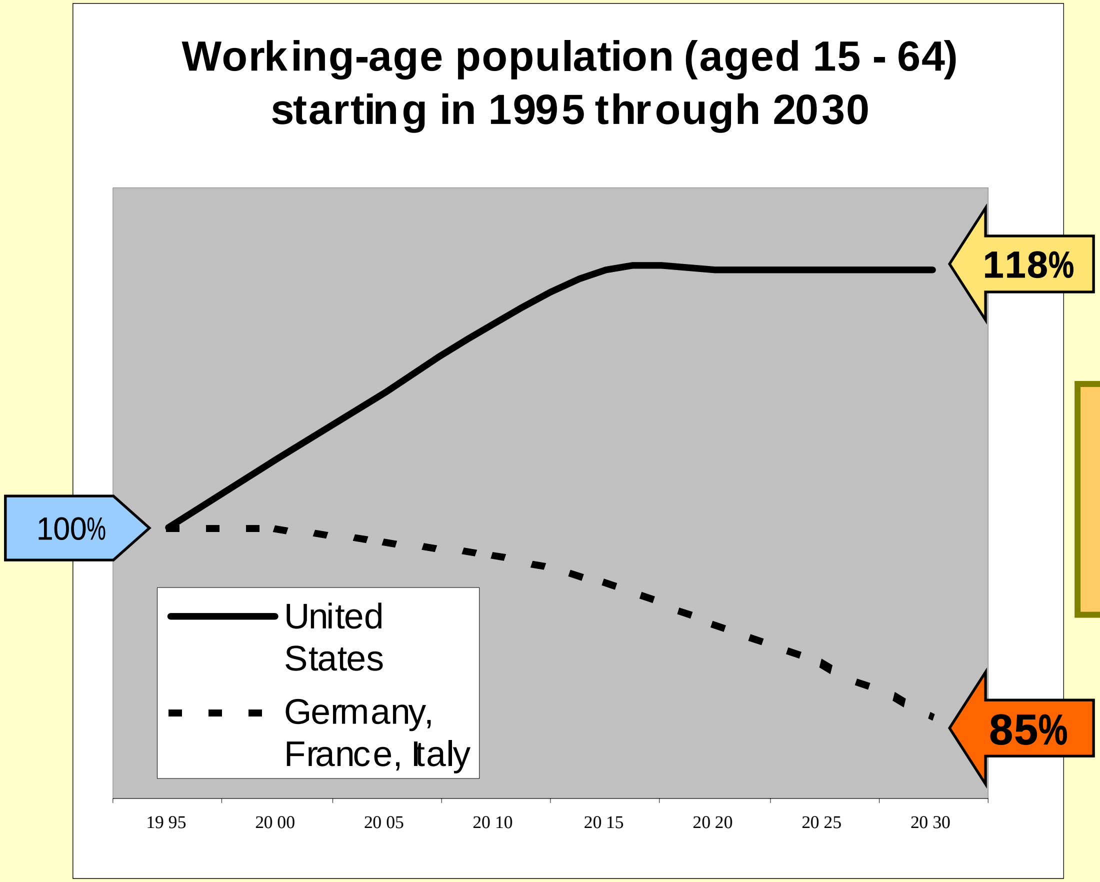
- Recruiting and Retaining the best workforce – It's still Fierce *(especially IT, traders, engineers, bio-technology, healthcare, HR experts, consultants, etc.)*
- Key Workforce Issues of the 21st Century are individual, not group oriented
- The Employment Proposition for today is individual accommodation
- Retaining employees is an individual focus.
- Total Rewards may mean something entirely different to each person.

Competition Is Still Fierce…

in the labor market for people who are trained or trainable.

- 2001 was a year of hiring freezes (40% of employers according to Wm Mercer).
- In 2002 70% of employers had planned to hire professional and technical employees (Mercer). Most put their plans on hold or reversed them.
- 2003 – 2006 saw the market become global – much hiring was non-US.
- Recruiters are targeting AARP, India, Your company
- There is still intense competition for critical trained technical and professional employees.
- The future will present a competition for anyone who is trainable.

The Western Workforce will be smaller

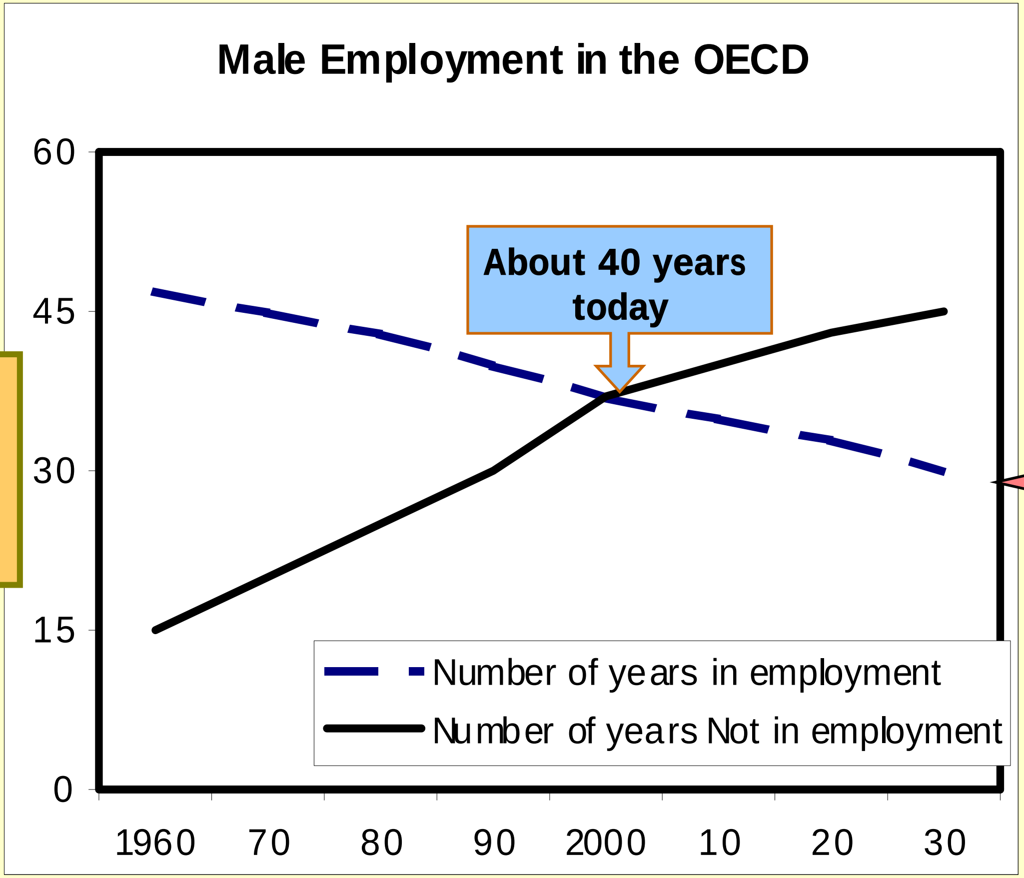


Source: JP Morgan, in The Economist and OECD

Only immigration will Keep the U.S. workforce From declining.

In the 21st Century The actual number of available workers will decline

The Western Workforce will work fewer years

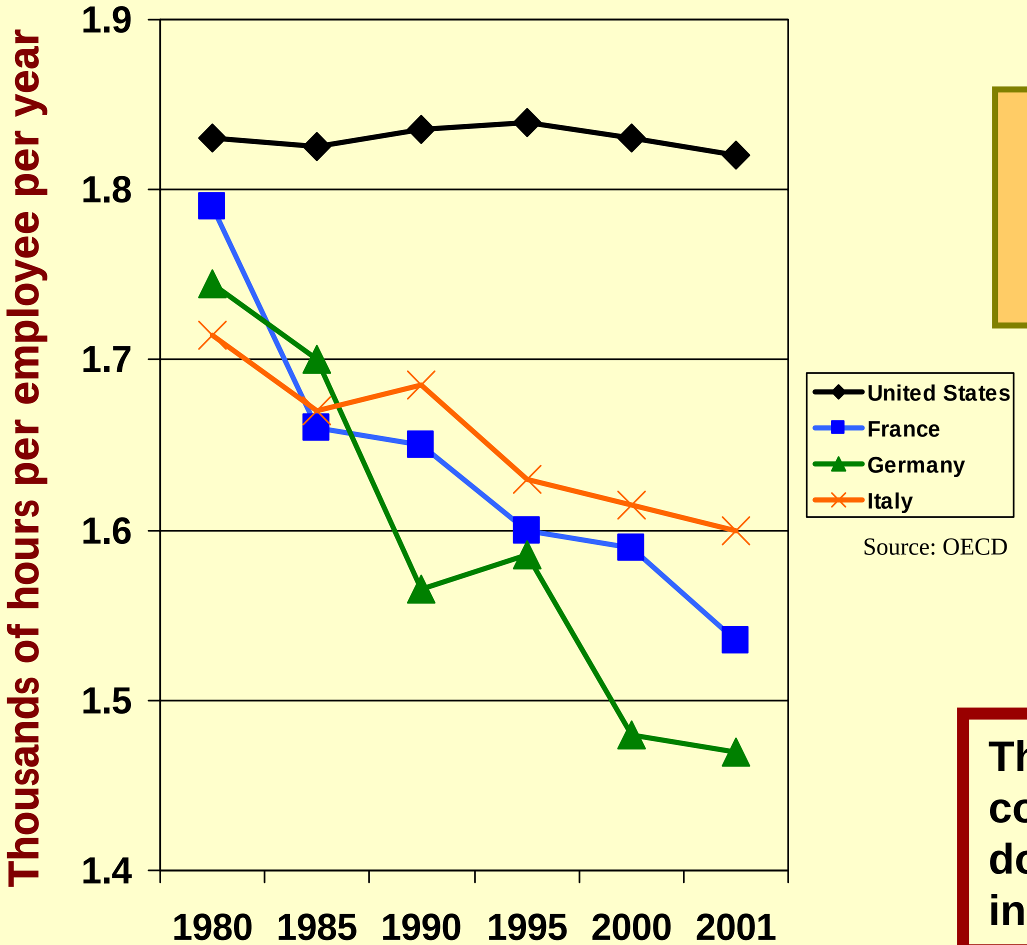


That is a 25% decrease in the number of years worked per person

Down to 30 years by 2030

Source: OECD in The Economist

Hours Worked per Person will Decrease



As a frame of reference:
40 hours per week
for 50 weeks
= 2000 hours

The trend is continuing downward in 2006

You must attract and retain more people from a smaller available workforce!

There is a new age of work and a new workforce

- It's global. It's diverse. It's independent.
- It has no barriers and few norms.
- The relationships between enterprise, work, and human beings has been forever altered and redefined by technologies, values, and humanity.

There are four generations in today's workforce:

WWII Generation (Veterans) -- still control a lot of the POWER

Baby Boomers

- Baby boomers -- turning 60 at the rate of over 10,000 per day.
- The median age of the US workforce - 40.5 years old in 2005. (Watson Wyatt Worldwide)
- Around 2010 -- 34.4% of the US population will be 55 years or older (US SBA)
- By 2012 they will be retired (US DOL) – Will They?
- Baby Boomers are dropping out of corporate America. (what are they doing?)

Generation X

- Don't ever forget that the Xers are the children of the Boomers.
- They were socialized by their parent's values, experience, and prosperity. They WILL balance their lives. Serious careers

Generation Y

- more focused on material and career; Global; always connected; Demands inclusion and participation -- entitled

Work Style Trends

- More people will work from a home or "local" office. (Over 50% have broadband in the US)
- Employees will decline work that they don't want to do.
- Workers will refuse work that infringes on their personal values or obligations – such as family and parenting.
- More people will become contract, consultant, or independent workers.
- More people will have multiple employers.

The Employee Lifecycle must be a constant consideration

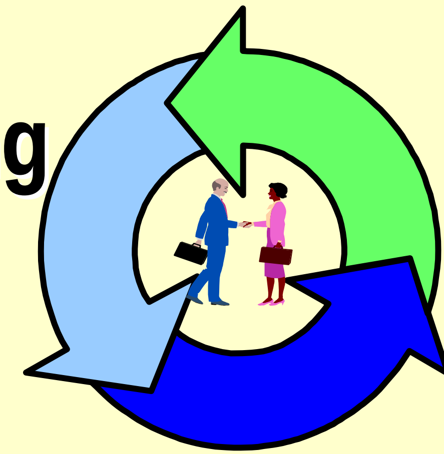
- The employee lifecycle includes all employee changes such as hiring, promotions, transfers, redeployment, terminations, acquisitions, mergers, reorganizations, retirement, rehiring, and layoffs.
- It important to recognize that there is a lifecycle associated with each individual's relationship with the company.
- The rewards aimed at retention and performance must change with each stage of the lifecycle.

Retention

The age-old work of Human Resources

Maintaining

Obtaining



Retaining

Must continue to be executed flawlessly

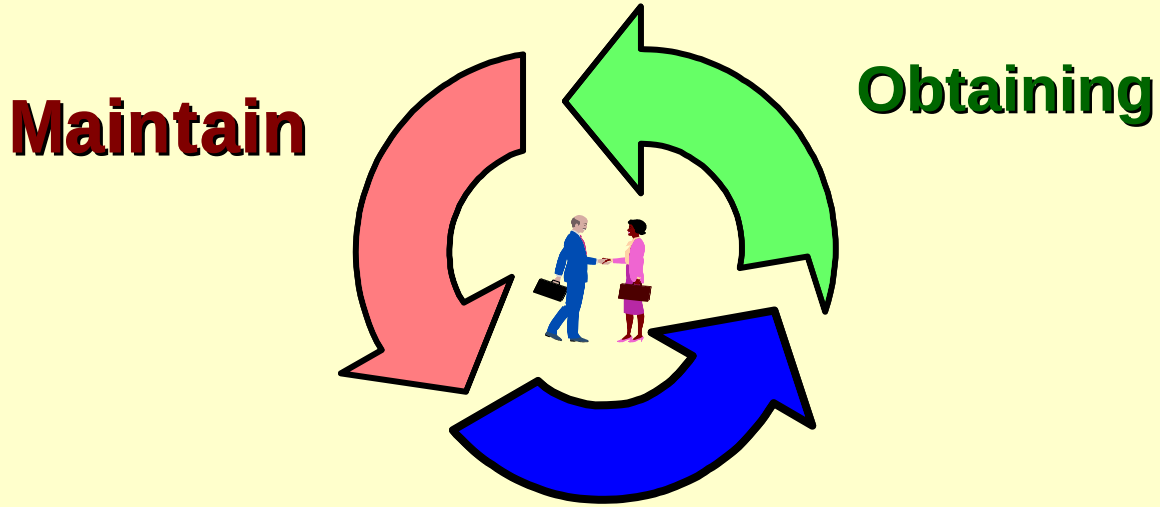
The Basics are the only Foundation for Success

The Critical Work of HR is even MORE critical today

Maintain
- Work / Life Balance
- Emotional Health
- Social Comfort
- Financial Security
- Dignity

Obtain
- Recruiting
- Selecting
- Hiring
- Assimilating
- Security

Retain
- Compensating
- Benefiting
- keeping whole
- Scheduling
- Work Design
- Predictability



Retaining

your workforce is the core competitive activity for the 21st century

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The Impact of Attrition is Enormous

The Cost of Attrition

- Department of Labor statistics on the cost of replacing an employee: one third of a new hire's annual salary. Other studies conclude three times annual salary.
- A fast food companies calculate the cost of $500 to replace one crewperson and about $1500 to replace a manager. An operation of 500 employees with 100% turnover in a year would cost the company $250,000
- The average replacement cost of a truck driver is $3000-$5000

The Cost of Attrition

- A **fee** for finding a CIO is $50,000 to **$125,000**; for a CEO is $90K to **$1M**; an experienced IT professional is $15,000 to $60,000
- The **lost revenue** when a consultant or a fund manager leaves is between $50,000 & $1Million+.
- The average cost of replacing one professional employee exceeds $50,000
- **Poor work or lack of staff** that causes downtime for credit card authorizations costs over **$2.5M per hour**.
- Losing one account because of poor customer service: $100, $100,000, $100,000,000 +++++
- In the late 1990s PwC realized a recurring **annual savings** / net profit increase **of over $500,000,000** by reducing attrition by 5%
- A five-year employee represents at least a $500K investment. If they leave, ROI is minus $500K

What has changed?

There is a new workforce

Global

Diverse

Independent

It has few barriers and recognizes few norms.

The **Power** has shifted from Employer to Skilled Labor

- In the 1980s *companies* were asking: “WHY HIRE?”
- In the 1990s *workers* were asking: “WHY JOIN UP?”
- In the 21st century workers are asking: “WHY STAY?”

This shift in Power has changed the hiring and retention rules

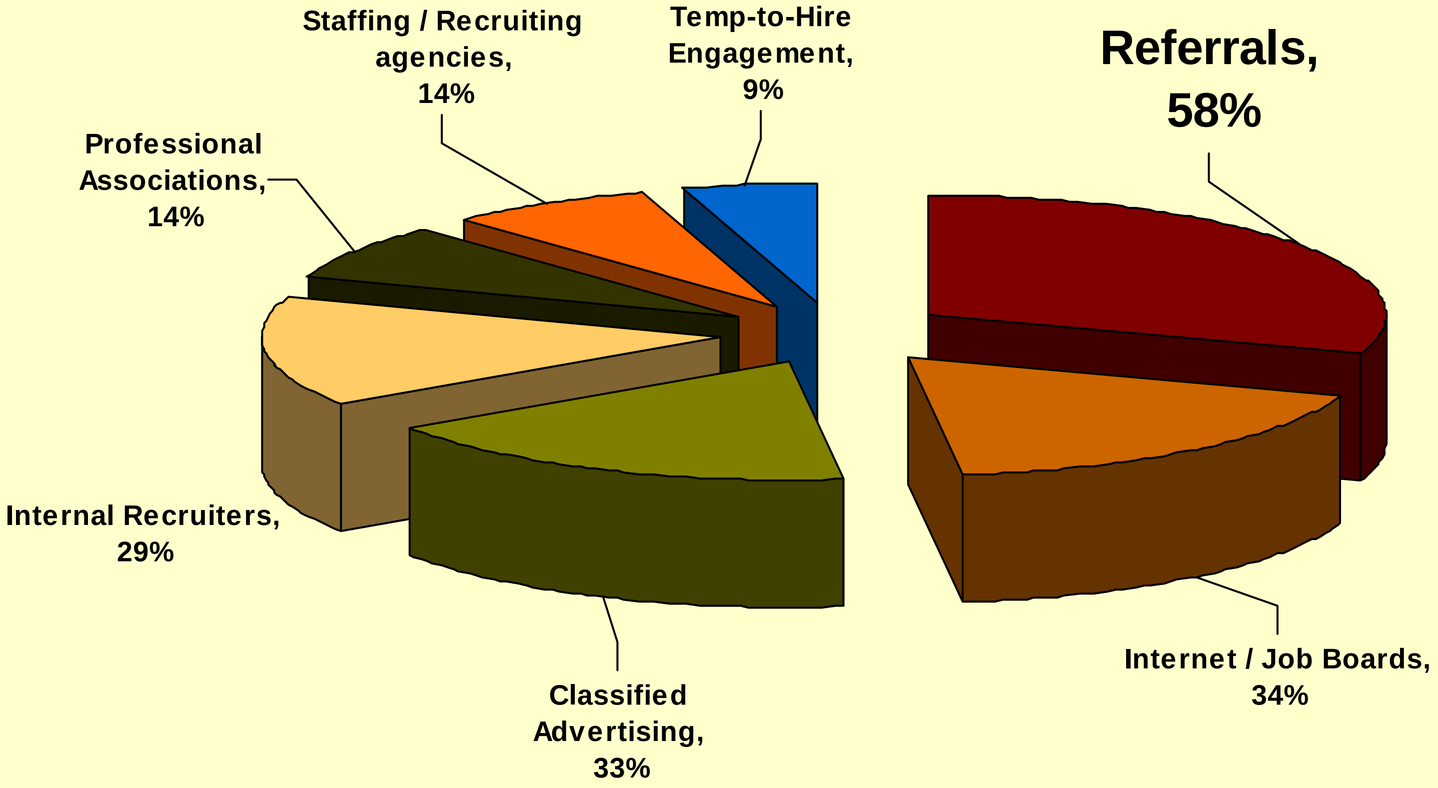
Changes and Change Drivers

- A decade of Corporate restructuring has changed the **employee - employer relationship**
  - loyalty/lifetime employment gone
  - corporate control of benefits diminished
  - paternalistic career paradigms replaced by employee empowerment
- Changing **demographics** of the workforce
- A strong **economy** for an extended period
- The **Internet** has created new work
- Some **predatory employment practices**
- A **lack of trust** is pervasive
- Today's employee considers the Total Reward

Your Next Employee -- ?

- The recruiting dynamics in the 21st Century have changed dramatically.
- People don't want to LOOK for a job – They expect you to look for THEM.

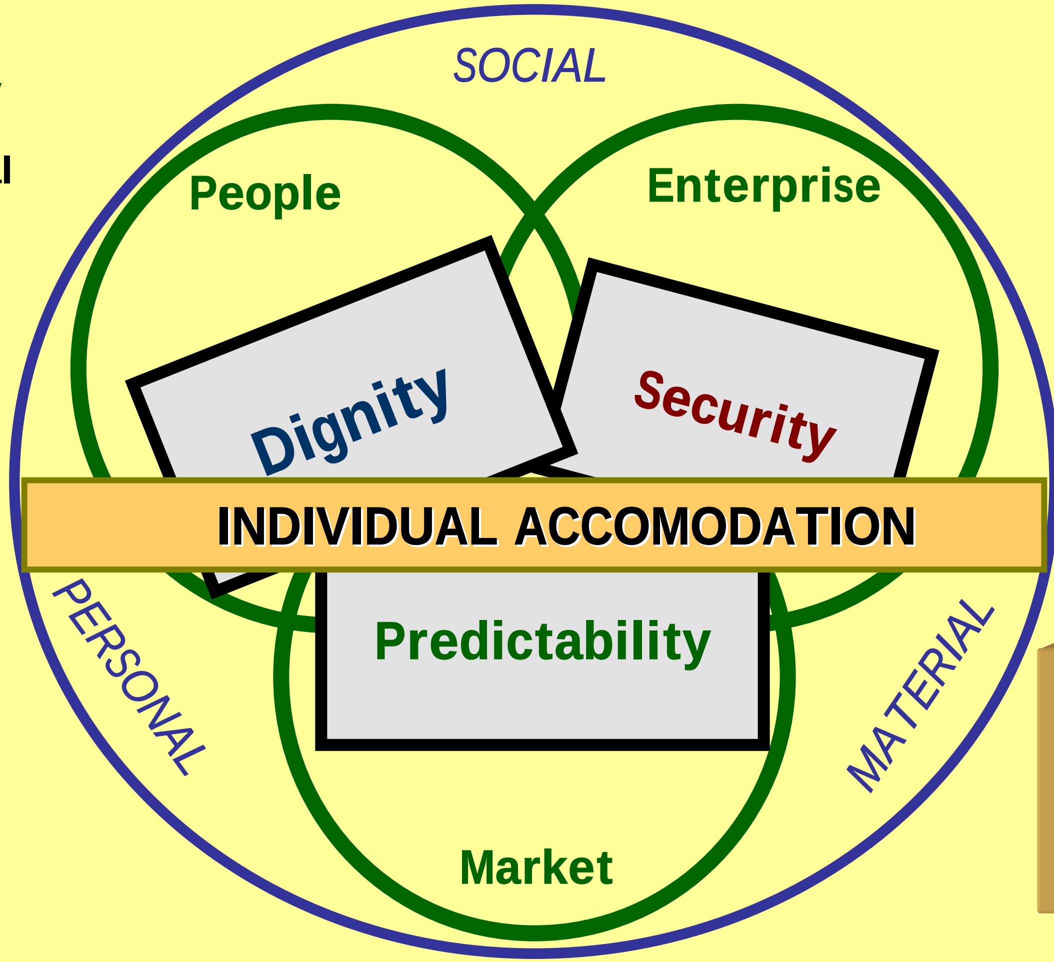
HR executives' Hiring Preference -- 2005



Source: Harris Interactive survey of 502 HR execs; in USA Today, 9 Feb, 2006

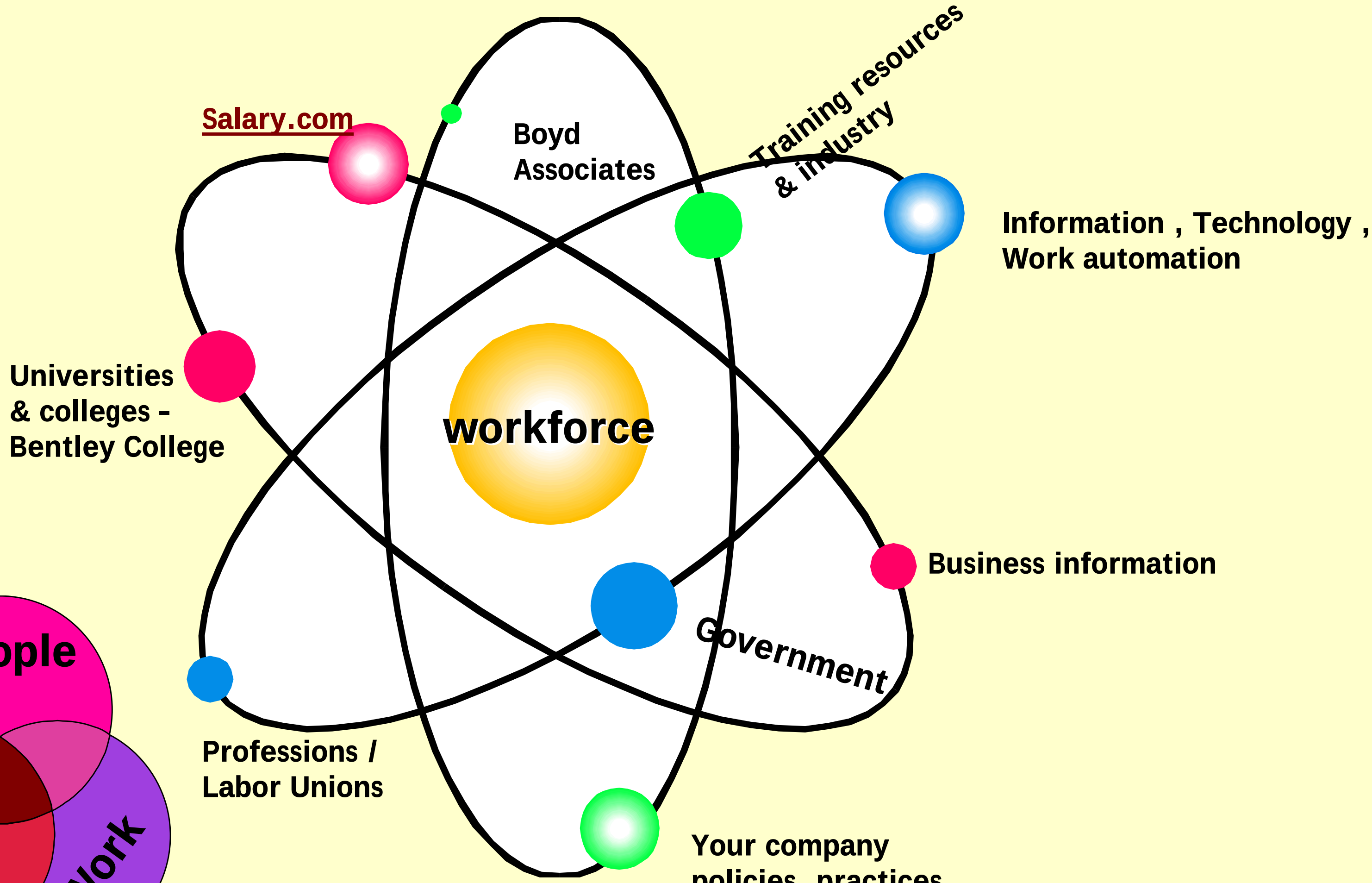
Integrating Individual and Employer Needs is the work of HR

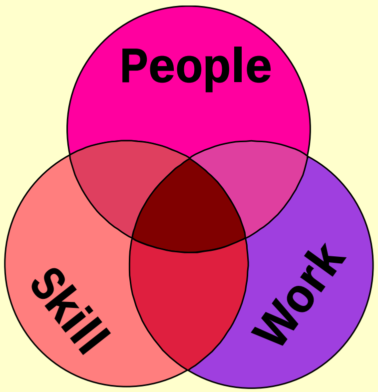
- Society
- Company
- Individual



Means:
- Complexity
- Variety
- Cost

Integrating interests and resources: What Influences the Workforce?





Summary of What's Happening

- The labor force is shrinking
- Workforce has new attitude and tools
- Workers have become individual and complete
- Cost of changing companies has been reduced
- Workforce mobility is internet enabled
- Old tools, methods and assumptions irrelevant to the new 21st century global labor markets

To Make the Solutions more difficult to implement:

There is a Gap between what Executive Management Believes and Reality

What Top Management says:

- 75% of executives surveyed by McKinsey said, "Chronic shortage of talent constrains the pursuit of growth opportunities."
- Only 15% of those state, "Improving the talent pool is one of our top priorities."
- HRI study found that most **managers still believe money is the top employee motivator**.
- A survey by William Mercer Inc found that many employers know that 'emotional factors' drive employee retention, they also found that these companies solved retention with money only solutions.

There is a major disconnect from reality!

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Managers Make decisions on BAD information / beliefs

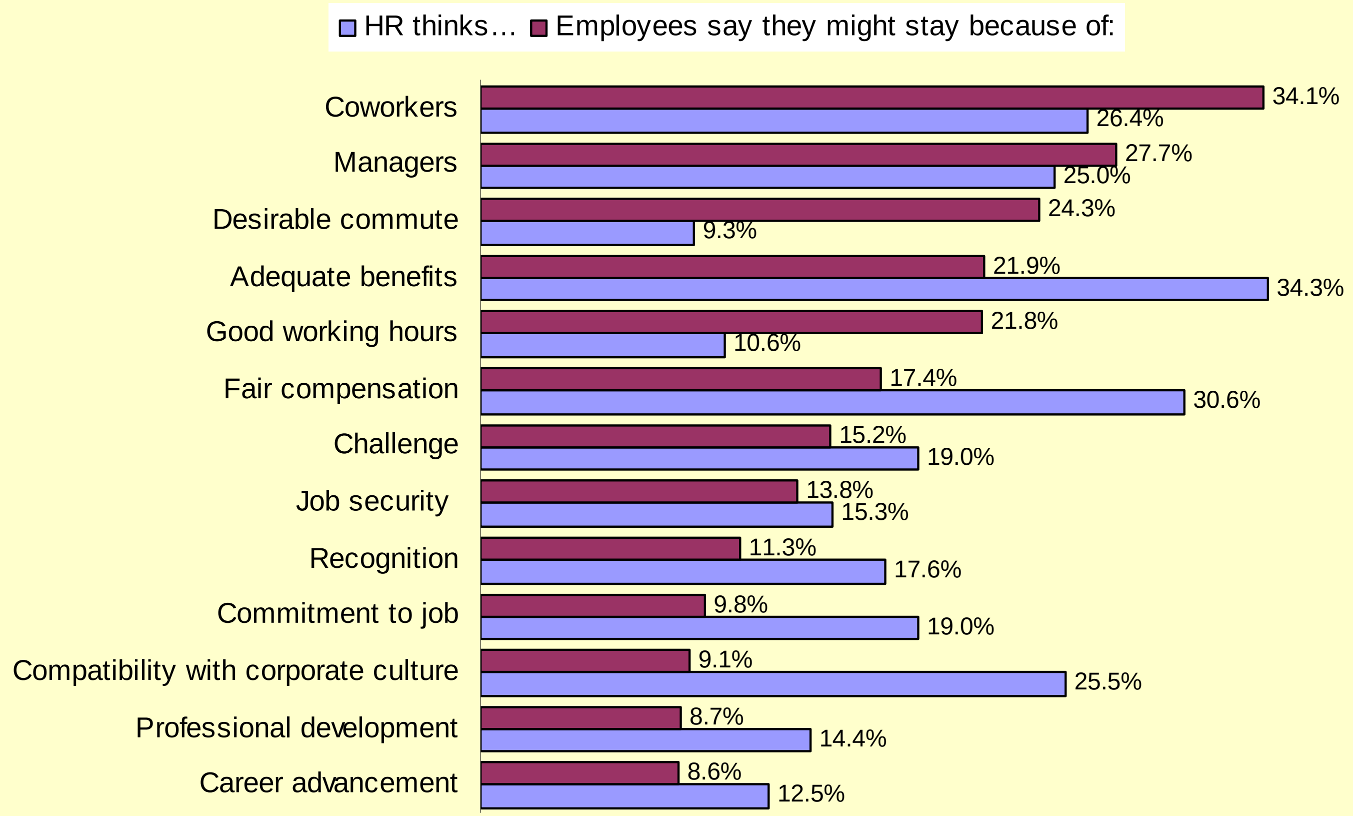
Significant factors in employee motivation

	Employee Rank	Employer Rank
Desire to maintain reputation	1	4
Being appreciated	2	1
Belief that the work is important	3	3
Interesting assignments	4	2
Enjoyable and friendly atmosphere	5	7
Prove capabilities to self	6	6
Prove capabilities to others	7	5
Opportunity for promotion	8	8
Expect significant financial reward	9	9
Pleasing their supervisor	10	10

Source: Watson Wyatt Worldwide, 2003/2004 Strategic Rewards: Maximizing the Return on Your Reward Investment

Employers underestimate the retention value of managers, commute and working hours.

Employees clearly identify their coworkers, managers and desirable commute as the three most important issues, whereas the employers report adequate benefits, fair compensation, and coworkers as the top three. If this disconnect exists within an organization, it could lead to the employer focusing on the wrong issues to improve employee retention.



Source: Salary.com 2005/2006 Employee Job Satisfaction and Retention Survey; over 1500 responses

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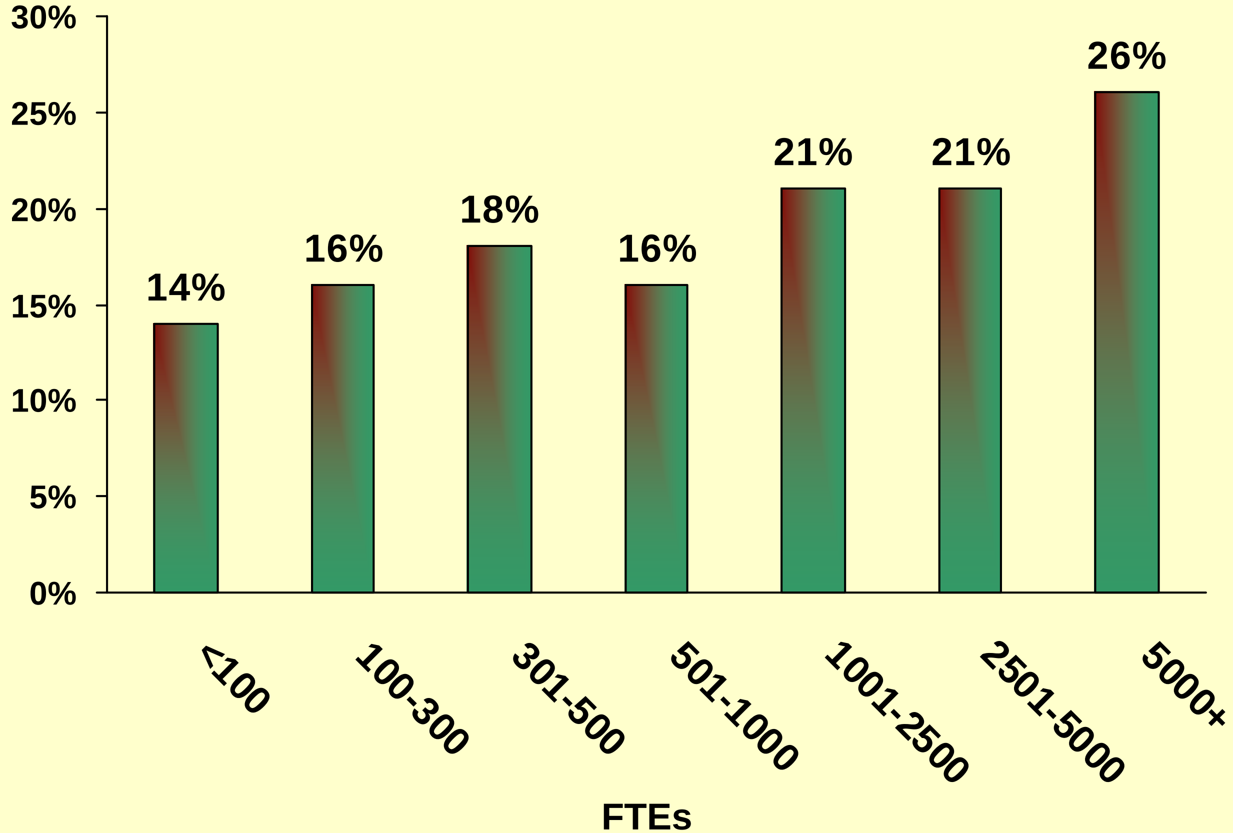
Voluntary Resignations have been Increasing

Companies are experiencing increasing rates of attrition

There are no indications that this dynamic will change

Source: 2000 SHRM Retention Practices Survey

The Larger the Company, the Higher the Percentage Voluntary Resignations (USA)



Source: 2000 SHRM Retention Practices Survey

Why are they leaving?

Most Common Stated Reasons for Leaving:

The #1 reason is because of the "boss"

(Or at least, what the boss controls --compensation, for example)

"Poor management"
The ultimate challenge for the CEO

People Leave Managers more often than companies

- **Most of the reasons people leave a company are tied to their manager's behavior**

- 6 of the most common reasons given in post exit interviews
  - lack of 2 way **communication**,
  - **work** not exciting or interesting,
  - no **opportunity** to learn or grow,
  - not **recognized** for their performance,
  - little **control** over job,
  - and they do not see that their job makes any **difference**

Most Common Reason for Leaving

According to the salary.com™

2005/2006 Employee Job Satisfaction and Retention Survey
(over 1500 responses)

Most people - 57% -
will leave their jobs because of an
Inadequate Compensation package

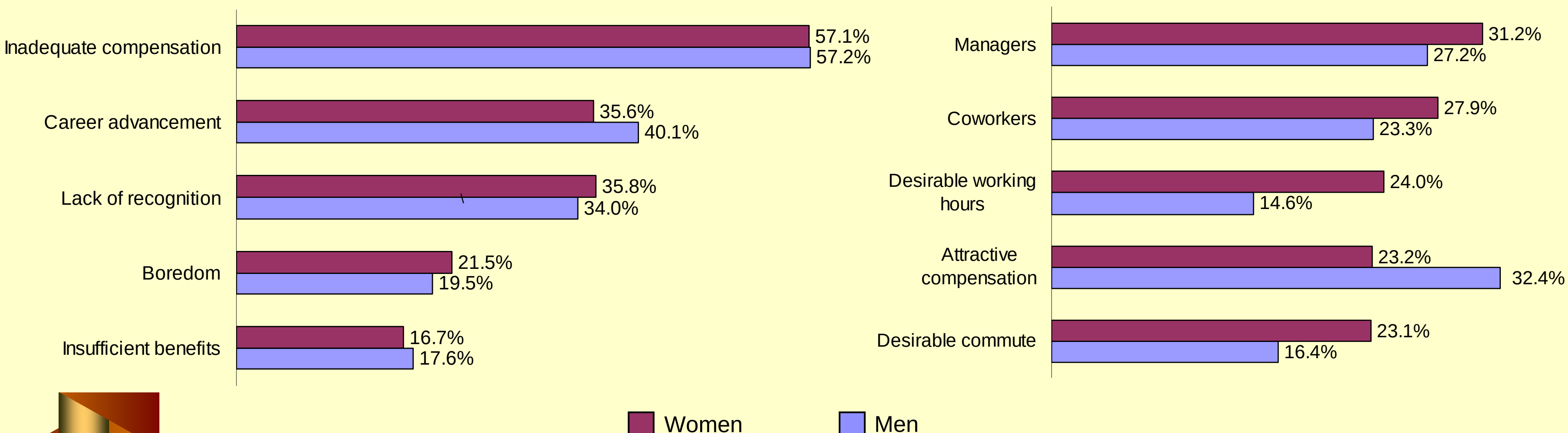
Gender differences only appear in reasons for staying—not reasons for leaving.

Men and women leave their jobs for the same reasons, with only subtle differences between the two groups. Their reasons for staying, however, vary more widely.

When men stay at a job they are much more likely to do so because of a desirable compensation package whereas women are more likely to stay because of the people they work with/for and because of work convenience and flexibility.

Why men and women *leave* a job

Why men and women *stay* at a job



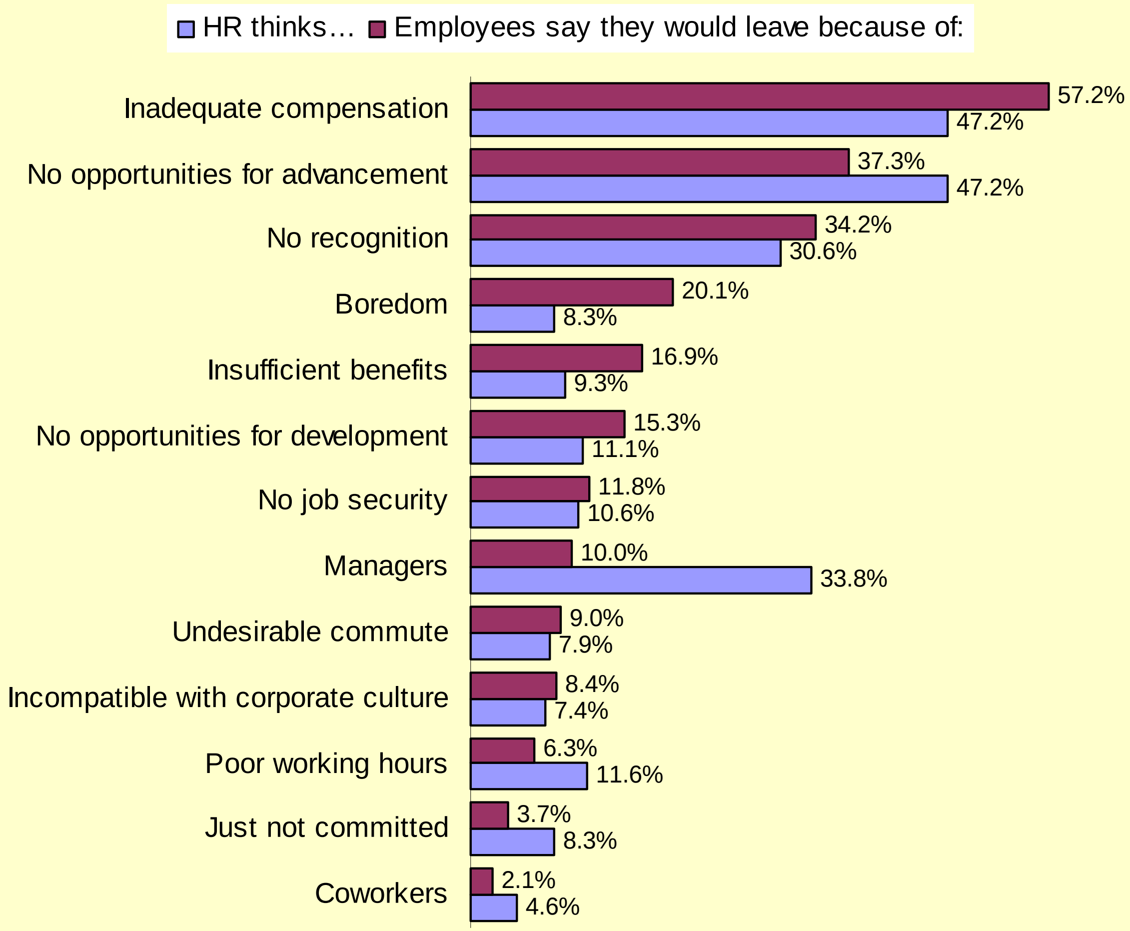
Source: Salary.com 2005/2006 Employee Job Satisfaction and Retention Survey; over 1500 responses

Some Key Findings for Retention Programs and Strategies

1. 65% of employees plan on looking for a new job in the next 3 months.
2. Employees are more committed to their job searches than their employers anticipate.
3. Gender differences only appear in reasons for staying—not reasons for leaving.
4. Lower paid employees are 66% more likely to look for a new job than highly paid employees.
5. Satisfaction varies by level and tenure.
6. Employers underestimate the retention value of managers, commute and working hours.
7. Employees leave organizations for reasons different from why they stay.
8. It costs employers more to replace employees than it would to keep them.
9. A 10% salary increase makes up for most shortcomings.
10. Many employees think they're underpaid when they're not.

Source: Salary.com 2005/2006 Employee Job Satisfaction and Retention Survey; over 1500 responses

Employees **leave** organizations for reasons different from what HR believes.

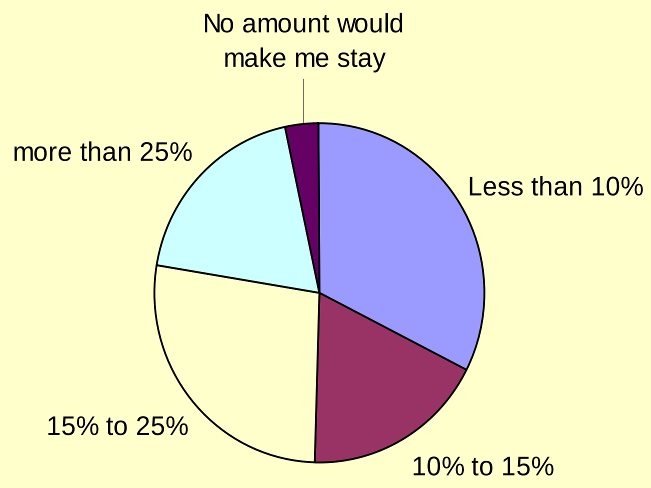


Source: Salary.com 2005/2006 Employee Job Satisfaction and Retention Survey; over 1500 responses

It costs employers more to replace employees than it would to keep them.

The cost of replacing an employee ranges from 26% to 100% of a person's annual compensation depending on the position.

What increase to your base salary would keep you in your current position?



Most employees would stay for less than 26%

Source: Salary.com 2005/2006 Employee Job Satisfaction and Retention Survey; over 1500 responses

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Retention is really very Simple

The Best Companies to Work For Know What Their Employees Want and Provide It.

How do you keep them?

Today's Tools Don't Work

- An employment proposition built on cash compensation is easy to replicate
- Satisfaction with present position is no longer related to an intent to stay
- Employees no longer assume they will stay for a politically correct tenure
- Compensation in "hot" markets changes constantly
- Total Rewards strategies can include "sticky" compensation and relationship components

Solid Retention Programs and Practices are Researched, Planned, Executed, and Improved

They are not chance.

- The results of best practices are consistent across all levels of an organization and all industries
- Findings are consistently replicated by all studies
- If you want to 'keep' your best talent, the most powerful intervention will happen with managers
- HR can provide tools, measurement systems, training, set expectations but cannot solve the problem

Top Management must be part of the solution

- At one time, Intel had a desired average tenure for employees of 4 years which translated to 20% turnover rate a year.
- They realized that 20% turnover per year would effectively put them out of business.
- In 1998 they changed their approach; now Intel has:
  - Defection risk matrices for key employees
  - Business site employee relations audits
  - Employee turnover web site
  - Organizational design turnover diagnostics
  - Changed hiring profile from ‘hot’ specialists to retrainable generalists
  - Include turnover costs in all company financial models

HR needs to provide a basic level of service

- Collect **accurate** attrition data
  - Need third party exit interview data
- Have an in-depth **understanding of attrition** for each type of position
- Understand the **reason for each termination** in depth
  - Do comparison studies of elements from other companies that hired your talent
- Understand the **organizational causes** of your attrition

HR needs to go beyond the basics

- Prepare the organization and its managers for personalized retention of employees.
- Keep relationship with retirees and alumni with key skills or knowledge
- Know what is going on in the labor market and inside your company. Maintain in-depth knowledge of company, work, day-to-day work issues
- Be involved; be able to observe and analyze from the employee perspective

TOTAL REWARDS-

The Question really is—

How do you implement a TOTAL REWARDS strategy that will build a relationship with employees that transcends any particular job that you want them to do?

It must deliver value that extends from the earliest preparation for work to the real end of their ability to do work.

The Design of Total Rewards Includes:

- **JOB and WORK DESIGN:**
  - Flexible Work Schedules
  - Job Sharing
  - Reduced Commute Time
  - Desirable Job Content
  - Autonomy and Self-Direction

The Design of Total Rewards Includes:

- **Recognition:**
  - Bonuses
  - Incentive Bonuses
  - Incentive Compensation
  - Base Pay is really the “base”

The Design of Total Rewards Includes:

- **Comparative Rewards:**
  - 20th Century pay philosophies assumed that differentiation is desirable
  - Cultural differences in the Global economy challenge that belief.
  - There is a question of how that assumption will hold up with the youngest generation.

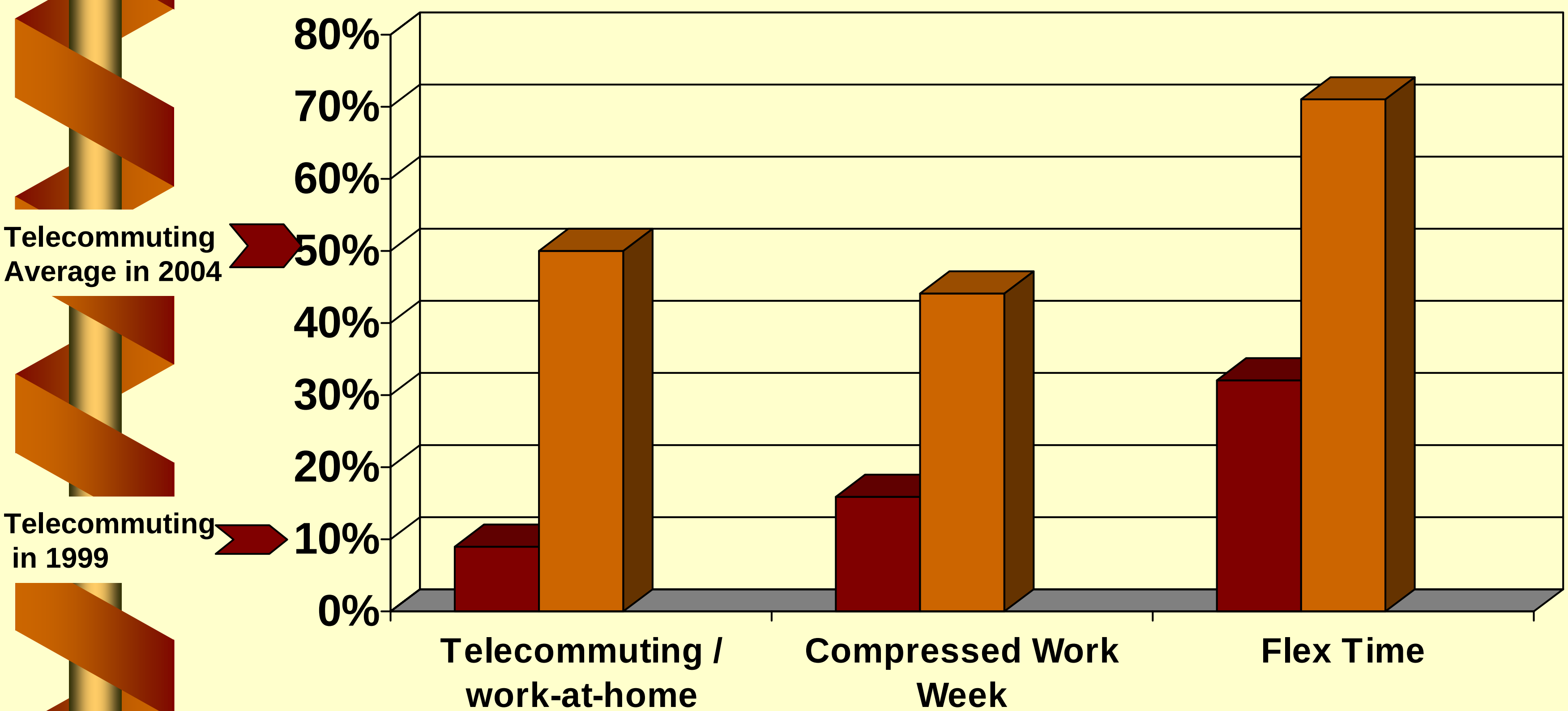
Some of the components of successful TOTAL REWARD programs include

- Flexible work arrangements
- Interesting work assignments
- A collegial work environment
- Employee friendly managers due to extensive manager training and development
- Integrated social activities
- Challenging and rewarding work
- Fair and equitable pay and benefits programs
- Continual and open communication
- Continual employee feedback
- Supportive and high-touch employee development
- Team environment
- Goals and metrics

In 1999 only a few employers allowed Telecommuting

▪ PeopleSoft	50%
▪ Erie Insurance	30%
▪ American Management Systems	25%
▪ Patagonia	20%
▪ Xerox	20%
▪ Bureau of National Affairs	18%

Work-Life Benefits are Key to Retention



Mellon Financial Corp. – 1/2004 work-life study of **646 US employers**

If you want commitment and loyalty from your employees, you will have to make an unusual commitment - in dollars, in flexibility, in programs, in benefits, in trust, in manager quality, in understanding the changing workforce and in company attitude.

Pat Fleming

What your employees FEEL and say about your company will be the brand perceived and believed in the market

The perfect example is a century old:

- In the early industrial age the company norm was the “COMPANY TOWN.”
- In Europe is was the “Shop Culture”
- In Asia it has been the cultural norm.
- People were socialized and trained from the earliest education for work at the “company.”
- Workers were paid, kept healthy, maintained in retirement, and provided dignity at death by the “company.”
- The Company provided the full range of support – Rewards were TOTAL -- people’s personal and company lives were fully integrated.

The Workforce will continue to increase in cost

The global workforce will be smaller; work fewer years; and work fewer hours

•The working age (15-64) age population will stop growing in 2012 in the U.S.,
•And decline in Europe and Asia
•The average person will work 25% fewer years during their life (from 40 in 2000 to 30 in 2030
•And will work fewer hours per week on average – less than 40.

A focus on Total Rewards will manage attrition, performance, and cost.

What are some Examples of Best Practices in Retaining Human Resources ?

How to Keep on Trucking!

- Turnover in trucking is routinely 100-140%.
  - Celedon Group Inc. -- actively recruited women and retired couples; then company allowed dogs in the trucks. Turnover went from 140% to 85%
  - J.B. Hunt and M.S. Carrier Inc reduced turnover rates from 85% to 45% by guaranteeing drivers home time after a certain number of days on the road
  - Allied Holdings offers paid chaplains to circulate among the drivers asking about their stress and families; also send a Christian Magazine home. Their attrition rate is 3-4%

Best Companies to Work For Know What Their Employees Want and Provide It

They have a positive employment Brand

- Deloitte and Touche - Ranked 8 out of 100 in 2000
  - Number of new jobs in 2 years -7,770
  - 62,000 applicants
  - Identified 'women' as high attrition group and launched the "Women's Initiative" in 1992
  - Flextime; part time without losing 'fast track' status; child care
  - Continually ranked one of the best in work/life balance

Unusual Benefits Reflect Unusual Commitment

- Fannie Mae - 10 paid hours a month for volunteer work
- FedEx - Free ride in jump seat of company planes
- MOOG - 35 extra vacation days on 10th year anniversary and every 5th year thereafter
- Shell Oil - Automatic contribution of up to 10% of pay to every employee's savings account every year, no matter what the employee contributes
- Finova Group - $3,000 a year per child for college tuition, as well as, concierge service, free on-site massages
- Xerox - Life cycle account of $10,000 to help employees cross major thresholds (buying first house, college tuition)

Unusual Benefits Reflect Unusual Commitment (cont.)

- Unisys has created a Web-enabled employee portal to make it easier for employees to manage their own human resources transactions.
- BrassRing, Inc. has an extensive at-home workforce to accomplish resume processing.
- Fenwick & West LLP have a chairman's open door policy, celebrate successes, show appreciation often, spot bonuses, and weekend getaways to the company condo in Hawaii.
- Battelle Memorial Institute uses multidisciplinary teams, royalty sharing with scientists, core value championing, exciting projects, and respect for ideas.
- Pfizer grows employees laterally across geographies and functions.

Impact

- Individualization and accommodation will define the HR practices of the 21st century.
- Employment and Employee Relations management will get harder.
- The largest crisis of the 21st Century for the business world will be the competition for people who can do the work. Other issues of technology, market, margin, etc. will pale in comparison.
- The crisis will be global. The crisis will also affect all segments of the economy. Manufacturing, retail, service, etc. industries in the industrialized parts of the world will also experience crisis level worker shortages.
- The available workers in the 21st Century will expect and demand individual accommodation with regards to their needs for security, predictability, and dignity.
- There will be a new global employee.

Strategic Recommendations

- Transfer enterprise organizational power to the workers. Traditional management strategies and tactics will not work.
- Share surplus value (profit) and ownership of the enterprise equitably with the people who are doing the work of the enterprise.
- Support and enhance the interdependency that is necessary with external groups, businesses, and individuals to accomplish objectives.
- Shift from a "division of labor" model to a "individualization of labor" model of the relationship between business objectives and how work is accomplished.
- Become "participant-centric." Work is a social activity and group results will be defined by the participants. Participants include those who influence workers (family, church, community, government, etc.).

Solution 1

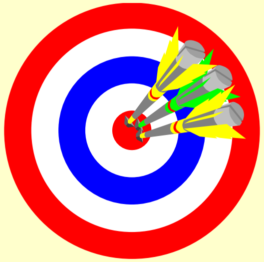
HIRE LEARNERS

- Companies that hire people who can learn, and provide the learning environment necessary will prosper.
- The competition for intellectual labor will move into a crisis mode. Many companies will fail because they can not find enough people to do the work.
- Companies must either be learning social organizations or go out of business. Yesterday's knowledge and human capacity will not be competitive for tomorrow's business.

Solution 2

ENGAGE YOUR CURRENT WORKERS

- Make retaining your employees your most important strategy. Without it all of your other strategies will fail.
- The cost of Attrition for Wal-Mart in one year can exceed **$1.5 billion**



Thank You

Any Questions?

THANK YOU

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Compensation in Context

Salary.com Research:

For a Complimentary copy of the report:

2005/2006 Employee Satisfaction & Retention Survey
(January, 2006)

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