

The Saratoga Review

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Watch out. The Millennials are coming.

Most of us are well aware of the changing demographics of the workforce. Baby Boomers are preparing for retirement and a new generation of employees, dubbed by some as the 'Millennials,' are requiring organisations to adapt to new demands. Millennials, also known as 'Generation Y,' demand flexibility and bring a conscience to work. They also expect companies to deliver meaningful benefits to society and the environment.

Millennials will be completely e-literate, making increased demands on IT services. Some may, for example, make snap judgements on the attractiveness of a prospective employer based on the reliability, functionality, and design of the company website.

Futurist, Anne Lise Kjaer, a speaker at a recent PricewaterhouseCoopers conference in Barcelona, says:

"Being an ethical company is now one of the key components of successful big business and we are already seeing how this has been recognised by big business leaders today. Companies need to build these values into the DNA of an organisation so that they permeate everything they do, not simply approach it as a public relations exercise. The message from employees is definitely going to be 'Don't tell me, show me!'"

Most of these workers will be less loyal to employers than any generation before them. If they are unhappy at work, they will leave and go to work where the terms, conditions, or corporate brand and culture better meet their expectations and values. They will also be more interested in using their work as a bridge to other career opportunities through further education and training.

Additionally, companies are going to have to keep up with the changing demands of employees if they want the best work force. As companies have aimed to minimise risk in areas such as pensions, employees have had less reason to stick around if they are dissatisfied. With talent at a premium globally, companies will need to work harder to keep their people engaged.

There have been talent shortages before, but now they are occurring across all industries and most importantly, globally. This is an issue in India and China as much as in Europe and the US. And it is not all about money. The companies that offer the best overall package of compensation, benefits, and brand are going to get the best staff. Are you ready for the Millennials? Attracting vibrant and productive individuals to your organisation is only half the challenge – smart and targeted retention strategies are also required.

Driving the Bottom Line: Improving Retention—Part One of Two

Organisations that overlook the proven advantages of detailed and frequent measurement around the cost of retaining and losing valuable employees, especially high performance talent, are allowing dollars to slip away.

People often value something only after it's gone. In the case of retaining employees, it's not just a matter of valuing the employee, but a bottom-line issue that may be the difference between hitting or missing stakeholder's expectations. We believe the "war for talent" has shifted from a battle focused on acquiring talent to one focused on talent retention. Some turnover, particularly of low performers may be good for an organisation, but the trend of rising voluntary turnover noted in our Human Capital Effectiveness Report is causing more and more companies to question what they need to do differently to turn the tide.

The turnover issue has traditionally been seen as HR's responsibility. However, access to the right talent is an operational issue which HR and line management need to manage together to reduce turnover. Undesirable turnover has costly negative implications for organisations, including:

- Lost productivity during a vacancy
- Diminished productivity of the team and Managers who are performing "triple-duty," doing their own jobs, covering for vacant positions, and training replacement new hires
- Increased labour costs due to the need for more overtime or contractors
- Increased hiring and onboarding costs
- Additional impacts of turnover that are more challenging to quantify such as decreased customer satisfaction, increased future turnover, lowered employee morale, and loss of institutional knowledge.

Taken together, these turnover-related costs represent more than 2% of pre-tax income for the average company according to our 2006/2007 Human Capital Effectiveness Report. For companies at the high end of the spectrum (the 75th percentile), turnover costs are equivalent to nearly 40% of earnings!

As data from our 2006/2007 Human Capital Effectiveness Report demonstrate and the table below notes, there is a significant difference between the top quartile and bottom quartile voluntary turnover.

Voluntary Separation Rate			
Industry	Bottom Quartile	Top Quartile	Difference
Public Sector	4.5%	11.7%	160%
Engineering/Manufacturing	5.7%	12.7%	123%
Services	8.4%	18.4%	119%
IT & Electronics	7.3%	15.0%	105%
Pharmaceutical	6.2%	12.6%	103%
Other Finance	10.7%	21.4%	100%
Telecommunications	7.6%	14.9%	96%
Utilities	3.6%	6.7%	86%
Insurance	8.0%	13.5%	69%
Banking	16.4%	25.5%	55%
Healthcare	9.1%	13.6%	49%

In many industries, bottom quartile performers experience twice the separation rate of their top quartile industry peers. Given the cost of turnover, companies that proactively manage and minimise their turnover are contributing, sometimes dramatically to the bottom line.

Driving bottom-line improvement through retention may not be the obvious solution that most HR professionals pursue, as managing and optimising workforce investment is not part of classical business management. Thus, line managers and executives are frequently unaware of the high impact of turnover. An unenlightened reaction to the opportunity to drive bottom-line results through retention might be "Turnover's not a problem. It's the same as it's always been;" or "What's does turnover cost? It can't be more than a couple hundred dollars to rehire people, right?"

HR departments need to present leadership with solid, detailed business cases for reducing turnover. This business case must include pinpointing turnover "hotspots" in the organisation, quantifying the financial impact of turnover by business unit, job class, and performance ranking, and determining actions the company can take to reduce it.

We believe the business case to reduce turnover has three distinct phases:

- Identifying the Scope of the Problem
- Quantifying the Business Impact
- Determining Actions with Impact

Please join us in our next issue for part two of "Driving the Bottom Line: Improving Retention," when we will provide more detail about each of the phases associated with reducing turnover.

Metric this issue: Talent Mobility Rate

Our Talent Management metrics focus on measuring the attraction, mobility and utilisation of an identified talent pool. Identifying the "right" talent group, that which is needed to meet the needs of your business in the future, is the first key step in managing talent.

There are many ways of measuring talent management within your organisation – such as recruitment rate, resignation rate, promotion rate as well as talent demographics and maintaining critical mass. Among these options, some of Saratoga's most popular metrics look at talent mobility rate. The Talent Mobility Rate metric, is designed, to help organisations better measure the retention of their talent pool. The formula for this metric is:

$$\frac{\text{Talent Group Remaining}}{\text{Talent Group}}$$

Have an idea or topic that you would like Saratoga to write about? If so, we would love to hear from you! Please send us your ideas and/or topics.

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