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point of view

Keeping your top talent

Employees are more likely than ever to view themselves as free agents who can easily switch teams. As the economy recovers, that's what many people may do. Here's how to keep your top talent.

Highlights

- Assess the talent pool and determine whether there are opportunities to add employees who raise the talent level of your organization.
- Focus on non-financial incentives, such as training and mentoring programs, challenging assignments and flexible work schedules.
- Determine whether top performers feel adequately compensated, especially if the company froze pay or cut benefits during the recession.

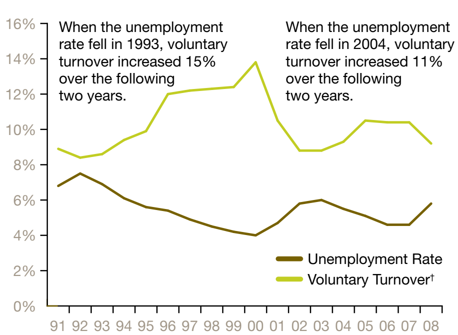
Voluntary turnover climbs with economic recovery.
Recruiting picks up as companies try to take advantage of dissatisfaction stemming from pay freezes, benefit cuts and increased workloads.

The Internet has made the talent market more transparent.
This time around, it's easier for recruiters and competitors to identify your top performers, using Web sites like LinkedIn.com or ZoomInfo.com.

Companies can take steps to ensure that their key people are engaged and don't walk out the door.
Providing top talent with new, rewarding challenges to help position companies better for the future can pay off in the near term.

Managing in a world of free agents

Voluntary turnover rises when unemployment declines



†Voluntary turnover results are based on PwC Saratoga's US Human Capital Effectiveness Report

Source: PwC Saratoga US Human Capital Effectiveness Report, 2009/2010.

While the trend toward free agency predates the Great Recession, it's likely to accelerate as the economy recovers.

The reasons are partly generational. Workers under 30, known as the millennial generation because they came of age in the new millennium, are more likely to switch jobs than previous generations. They tend to view jobs as a way to build their resumes and their careers rather than steps on the corporate ladder.

Many older employees aren't feeling very loyal either. No one really expects to work their entire life for one company anymore, especially after the widespread layoffs of the past two years.

Nearly half of the 450 human resource practitioners surveyed in December 2009 by PwC Saratoga said they expect an increase in voluntary employee turnover. One in eight expect turnover to increase by more than 10%.

The results are in line with surveys of employees, including one last year by Adecco Group that found that 54% of employed adults said they were at least "somewhat likely" to look for a new job once the economy recovers. The percentage (71%) was highest among those under 30. The numbers don't include passive job candidates, who aren't thinking about leaving but might be lured away by a competitor.

In another survey, the Conference Board recently found that only 45% of respondents were satisfied with their jobs—the lowest level in two decades.

Still another troubling trend: Employee engagement levels (an employee's involvement with, commitment to, and satisfaction with work) among top performers fell more sharply last year than they did for workers overall, according to a survey by Watson Wyatt Worldwide and WorldatWork, an association of human resource professionals.

Recruiting efforts are already picking up in financial services where many firms that took government money during the financial crisis have already paid it back. It's also happening in technology, entertainment and marketing, a recruiter recently told The Wall Street Journal.

It's no accident that 43% of the 1,400 chief information officers surveyed by Robert Half Technology said retaining employees is their top staffing priority in 2010.

CEOs are focusing on talent

CEOs, who have spent the past two years concentrating on cost control, are already shifting their attention to talent management. In PwC's *13th Annual Global CEO Survey,* 70% of US CEOs said they intend to change their strategies for managing talent.[1]

Voluntary employee turnover, of course, isn't necessarily a bad thing. If mediocre or poor-performing employees leave, you may have an opportunity to raise the talent level of your organization in a way that more than compensates for the cost of replacing people. Departures also can clear the way for promotions.

The trouble is that, unless you take steps to retain and motivate your key employees now, you're more likely to lose the very people you want to keep.

Employee engagement is critical

Taking steps to motivate top performers tends to boost morale and make a wide range of employees more productive and committed to their work. Numerous studies have found a correlation between high levels of employee engagement and corporate performance, especially in the area of customer satisfaction.

By doing nothing, you risk having disengaged employees who aren't productive and might even hurt your company's reputation in the market place.

1 PricewaterhouseCoopers 13th Global CEO Survey, http://pwcpdfgen.beehivemedia.com/PDFOutput/20100215091406597.pdf

Preventing a tidal wave of departures

One metric to track is a company's high performer separation rate. The number should be very low. The average was 4.8% in 2007 as the economy was weakening, down from 5.6% in 2006, according to PwC Saratoga data.

Taking the following steps to ensure that your key people remain engaged can mean the difference between a few departures and a tidal wave.

1. The financial crisis and ensuing recession have quickened the pace of structural changes already underway in many industries. As companies rethink the way they operate, they should assess the talent pool and look for opportunities to add new skills while keeping their existing employees motivated and engaged. Forty-four percent of US CEOs who responded to PwC's *13th Annual Global CEO Survey* indicated that they are redefining roles in their organization as a result of the crisis. Said Michael Roth, Chairman and CEO of Interpublic Group, "What you do in this environment is add to your talent base and reposition your talent to be more suited to the challenges ahead." Retaining top talent can mean engaging them with new, rewarding challenges. Failing to do this could mean losing ground to a more agile competitor.

2. With budgets expected to remain tight, it makes sense to focus on non-financial incentives such as training and mentoring programs, challenging assignments and other opportunities for growth and flexible work schedules. These incentives require more time and effort on the part of managers, but studies suggest that, over time, they can be more effective than handing out bigger bonuses.[2] A 2008 PwC survey found that lack of career development was a more important factor in turnover among pivotal employees than compensation.

3. This may be obvious, but determine whether your top talent feels well compensated. By freezing pay across the board or cutting bonuses and benefits during the recession, you may have inadvertently given key employees a reason to leave. Companies should assess the marketplace and consider making adjustments if the gap between what they pay top and average performers has shrunk. In 2007, before the recession, salary increases for high performers were 45% larger than for average performers; by 2008, the differential had shrunk to 26%, according to PwC Saratoga data.

4. To figure out the right mix of incentives, executives need to first determine what motivates their top performers and other key employees. A good place to start is demographics. Technology, entertainment and media companies, for example, typically have a high percentage of pivotal talent from the millennial generation, who tend to look for flexible work arrangements, challenging assignments and a sense of belonging. At aerospace, energy and healthcare companies, pivotal employees are often Baby Boomers, who are also interested in flexibility but are more concerned about healthcare and retirement benefits.

5. Well-designed employee engagement surveys can help companies figure out how to motivate and engage their key people. The results might even surprise some executives. In a survey last year of human resource managers and employees, Spherion Corp. found a divergence of opinion about what factors most influence an employee's decision to stay. The managers cited management climate, supervisor relationship and company culture, but the employees said the top factors were benefits and compensation.

6. Employee engagement surveys also can give companies an indication of their top people's intent to stay. Another metric is the high performer separation rate. This number should be very low. The average was 4.8% in 2007 as the economy was weakening, down from 5.6% in 2006, according to PwC Saratoga data.[3]

2 PricewaterhouseCoopers, Managing Tomorrow's People, Millennials at work–perspectives from a new generation, http://www.pwc.com/gx/en/managing-tomorrows-people/future-of-work/millennials-survey.jhtml

3 PwC Saratoga US Human Capital Effectiveness Report, 2009/2010, http://www.pwc.com/en_US/us/hr-saratoga/assets/human_capital_effectiveness_report_0809.pdf

Companies need to act now to motivate and engage key people—or risk losing them

Q&A

Q: Who are the people companies should focus on?

A: Top performers matter a lot. So do people with the potential to become top performers. A third, less obvious category is what we call pivotal talent, meaning the people who add a disproportionate amount of value to a company, but aren't necessarily high-profile employees. In a pharmaceutical company, they may be research scientists. At a restaurant, they're likely to be cooks and servers. At a bank, they could be tellers.

Q: How can companies prevent recruiters and competitors from figuring out who their best people are and trying to lure them away?

A: They can't. There's simply too much information floating around about employees and their accomplishments, including what they post themselves on LinkedIn. What's more, trying to block contact with recruiters and competitors can backfire, making key employees more likely to leap if they think Big Brother is watching. A company's time and money is better spent on efforts to engage its top talent.

Q: What can companies learn from employee engagement surveys?

A: Well-designed surveys can pinpoint challenges to productivity and assess key indicators, like employees' commitment to stay put. Executives can use the information to decide how to adjust incentives to motivate key groups of pivotal people. In times like these, companies should conduct employee surveys more frequently.

Q: What can companies do to ensure that they have the right people in place?

A: Agility is crucial. As the economy recovers, companies will need to continually assess whether their people have the skills needed to operate their evolving businesses. They will need to identify talent gaps and figure out how to fill them. This will be especially challenging for companies that cut headcount sharply during the recession and will need to staff up quickly to meet rising demand. Exit surveys can help companies identify candidates who can be rehired.

Q: How do I know whether my company is at risk of losing key employees or whether we'll be able to attract top talent?

A: You can get an idea by taking stock of what we call your Employee Value Proposition. By that, we mean the perception people have of what it's like to work for the company, including the financial and non-financial incentives you offer, the corporate culture and even policies on corporate responsibility. If your employees would rather work for the competition, you're in trouble.

One way to start is to survey your work force. Exit surveys conducted six months or so after departures can be helpful. Web sites like Vault.com, Glassdoor.com and WetFeet.com are full of information about how people perceive working for a company. Several services also offer to monitor companies' reputations online.

Contact Information

To have a deeper discussion about how to keep your top talent, please contact:

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