



Stemming the tide

By Tony Clancy and Arnaud André

Companies everywhere are struggling to hold on to their most valuable employees. But the war for talent can be won—with new programs that combine competitive compensation with better communication, a wide range of personal growth opportunities and a clearer articulation of standards and expectations.

What keeps CEOs awake at night? The prospect of arriving at the office the next morning to find that all their most talented people have gone.

Like all nightmares, this one is informed by a certain amount of exaggeration—but not much. In recent years, turnover rates at major corporations around the world have been climbing relentlessly and show no signs of abating.

According to reports from the California-based Saratoga Institute, attrition rates at US companies have increased by nearly 20 percent during the past five years, to an average rate of 16.5 percent. At European companies, employee turnover was up by 10 percent in 1999 to an average of 14 percent, according to Saratoga Europe. Making a bad situation worse is the fact that the attrition rate for new hires is nearly 30 percent in the first year of employment.

Not only is such turnover extremely costly in monetary terms; in the great majority of cases, when talent leaves a company it is to join a direct competitor. Given the fact that retaining a base of skilled, motivated employees is so critical to success in the new economy, it's no wonder so many executives are losing sleep.

Blunt instrument

In addition to all the anxiety, there is widespread confusion about how to deal with the problem of employee retention, and little demonstrable progress in addressing the issue head-on. Indeed, retention has become so problematic in some industries that in an attempt to keep people, companies have resorted to the bluntest of instruments: money, and lots of it. Not surprisingly, these organizations eventually discover that money doesn't necessarily buy loyalty.

So what's the answer to the retention dilemma? How do companies

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keep more of their star performers, and keep these individuals engaged and motivated longer? Research recently conducted by our firm, including in-depth interviews with nearly 500 senior executives from 10 different industries around the world, reveals that to win the war for talent, companies must adopt a new approach to retention: one that focuses on communication as well as compensation; on opportunities as well as options; on performance as well as perks.

It is clear from our research that employee retention is at or near the top of corporate agendas. But awareness and concern do not always translate into effective action.

At the core of the problem is the fact that people issues are still a huge puzzle for most corporate executives and managers. A company is, in reality, a highly complex system whose relationships often are difficult to fully understand and anticipate. Whereas simple mechanical systems feature straightforward causal relationships (for example, you apply the brakes and the car stops), corporate systems are composed of many overlapping, nonlinear “feedback loops” that make it hard to predict the ripple effects that one action will have on the entire organization. Because a company—particularly a larger one—is vulnerable to so many continually changing variables, finding the root of a problem can be difficult indeed.

In fact, research has shown that individuals, including managers, can deal with only a handful of variables at one time when trying to implement change in an organization. The unpredictability of human behavior is perhaps the ultimate variable. Several companies, for example,

have been blindsided by employee response to their offers of early retirement. While their intention was to pare their workforce by making it attractive for certain workers to leave the company, they couldn’t predict the large numbers of high-performing employees who—for varying personal and professional reasons—opted to accept the offer instead.

That’s not to say that companies aren’t able to deal with complexity. On the contrary, many have done a stellar job in the past two decades managing complexity in their supply chain activities, for example. However, the supply chain optimization software that they employ today is the product of decades of experience with manufacturing, transportation, and logistics models and metrics—something that companies don’t yet have for human performance.

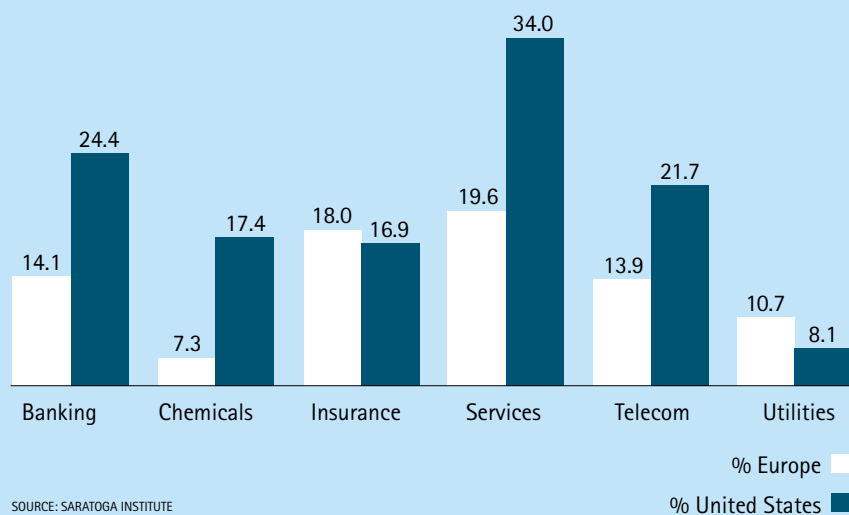
This lack of experience with human performance tools and models is what makes it so difficult for executives to understand what factors influence people’s decisions to stay with or leave a particular company—and, subsequently, to craft the ideal mix of pay, perks, and personal and professional development that will motivate each employee. It’s also a major factor in most companies’ inability to measure specific employee contributions and correlate them with overall financial performance.

Frustration

Generally, executives agree that people issues are extremely important, and most of them openly support the notion of doing more to retain valued employees. Unfortunately, many of these same executives, while talking a good game, are failing to act effectively—if at all.

Revolving door

The average turnover rate in the United States and Europe was highest in services in 1999.



At two-thirds of the companies we studied, executives said professional development of their existing employees will become significantly more important in the near future. And at more than half of the companies, interviewees named “training and development” as one of their top initiatives to improve human performance.

In reality, however, just one-quarter of the companies reported making any changes in their growth and development programs. And when they did, the changes tended to be one-off quick fixes for an isolated problem instead of part of a proactive, coherent attraction and retention strategy.

Of course, the classic method of addressing retention is to throw money at the problem in the hope that, eventually, if the offer is attractive enough, the employee can't refuse. Indeed, most companies continue to rely primarily on compensation to stem employee flight, largely because it's one of the few things executives can

understand in concrete terms and directly control.

Bonuses are the financial incentive of choice, but companies also offer higher salaries and stock ownership or options. The attitude of management seems to be that money is the universal motivator, and that the highest bidder takes all. Unfortunately, such thinking runs counter to most studies on job satisfaction and the attitudes of new recruits—which routinely identify such things as learning opportunities, professional growth, type of work, autonomy at work and intellectual stimulation as more important factors than compensation.

The fact is that money only buys time, not loyalty. A company that competes for talent strictly on cash is vulnerable to the next big offer. This game of escalating salaries is a little like an arms race: expensive and, ultimately, difficult—if not impossible—to win. As hard as it may seem, companies can wean themselves from this reliance on money and implement

more effective retention programs. Our research has uncovered several common traits among companies that have been able to actually buck the turnover trend and not only keep their talented employees but also motivate them and improve their performance. These companies:

- Learn what employees really want most by communicating with them, including receiving continual feedback.
- Provide a wide range of growth and development opportunities for all levels of employees.
- Adopt measurement and reward systems that clearly articulate what is expected from employees, and reward them accordingly.

The complex nature of human relationships within a company makes it extremely difficult to know what motivates employees and what turns them off. A number of pioneering companies have successfully addressed this issue by using interesting new tools or by using more traditional ones differently.

Many industries are implementing computerized modeling and simulation tools that help executives understand how people behave and learn in complex systems; this knowledge is applied across the organization on an ongoing basis. Companies can, for example, use such tools to test-market a new benefits plan or training program before actually launching it to gauge how it might be received by employees.

To help employees navigate through the company and gain access to development opportunities, many companies—including large multinationals such as PPG Industries, DuPont, General Electric Company,

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Ogilvy & Mather, Sara Lee Bakery, Merck & Company and CNA Financial Corporation—have implemented mentoring or coaching programs. Such programs create a trusting environment in which employees feel freer to ask questions, voice concerns and express frustrations; this, of course, gives managers a better sense of the pulse of the workforce as well.

However, these companies are discovering that such programs can be increasingly difficult to launch and sustain. Wide geographic dispersion of employees is not uncommon at many companies. Today's highly mobile workforce is just as likely to spend as much or more time at other offices within the company or at client sites as at the head office.

Obviously, direct, in-person contact with a mentor can be difficult under these circumstances. Chase Capital Partners, a New York-based global venture capital organization, has solved this proximity issue through the use of an Internet-based tool developed by Perform.com, a technology company that helps companies manage and develop their people. Such tools are invaluable for keeping employees connected to their mentors even when separated by great distances and unpredictable schedules.

Similarly, today's technology has even made the traditional method for keeping employees engaged and informed—simple, regular communication—easier than ever. By using tools such as e-mail and the company intranet to maintain constant dialogue with employees, good managers can not only avoid being surprised by a formerly happy employee suddenly announcing his or her resignation. They can also give employees the opportunity to ask questions, discuss

aspirations and relate their impressions of how the company is treating them—no matter where the respective parties are located.

Star power

Our research and experience shows that the most motivated and loyal employees are those whose companies help them become star performers by providing a comprehensive set of personal and career development opportunities across the whole enterprise, without functional or divisional restrictions. In effect, companies must make their employees more attractive to the external market so that they satisfy the employees' real desires for growth and development.

One of the more surprising findings from our research is that a majority of survey participants give employees the chance to be involved in creating the company's overall business strategy. Swedish financial services leader Skandia, for example, has created a "Future Center" in which teams of employees representing a broad mix of age groups, functional roles and cultures are encouraged to create a vision of the company's future. By getting involved in this way, Skandia's employees get a level of insight into the business and exposure to issues that they don't encounter in their day-to-day responsibilities.

Another way of helping employees grow and develop is to provide them with the opportunity to move around within the company when opportunity calls. Nissan Motor Corporation, Cisco Systems, Ford Motor Company, Microsoft Corporation and Toyota Motor Credit Corporation are just a few of today's leading companies that have a formal policy in place for enabling—and encouraging—employees to regularly rotate among

functions or divisions, or to apply for positions within the company as they open up.

To this end, some companies are beginning to move toward a project-oriented approach, in which employees (and not just the “high-potential” ones) work on a series of diverse, limited-term assignments, instead of within a single department or function. This keeps employees exposed to fresh challenges and environments while eliminating much of the boring routine that can creep into any job—and that often motivates individuals to begin looking for new opportunities outside the organization.

“Talent exchanges” take this project-oriented approach a stage further. These exchanges, which connect talent supply (employees, freelancers and consultants) with company demand (projects and positions), promise to match the best people in the organization with the right opportunity. They also tend to improve employee morale because they provide a means for individuals to exert greater control over their careers.

According to one executive at an international financial services company, the “cross-pollination” achieved by talent exchanges helps the company “break holes in our silo-oriented view of the business, and ensure that our people don’t get bored and begin looking for work with our competitors.”

Compaq Computer Corporation and Siemens Business Services, a division of the global engineering and electronics giant, have used the talent exchange concept to both effectively meet customer demand (by putting the best people on each task) and ensure that employees are exposed to challenging opportunities. Both companies have used an

Internet-based enterprisewide software application to create collaborative “virtual services communities” that house comprehensive information on resource and skill-set availability around the world. This enables managers to understand, at a moment’s notice, the project status of their highly mobile and geographically dispersed workforce so that upcoming projects can be effectively staffed.

Leaders in the retention arena also provide employees with all the tools and training necessary to do their jobs. Increasingly, the focus has been on technology, such as simulation, to train and empower the workforce.

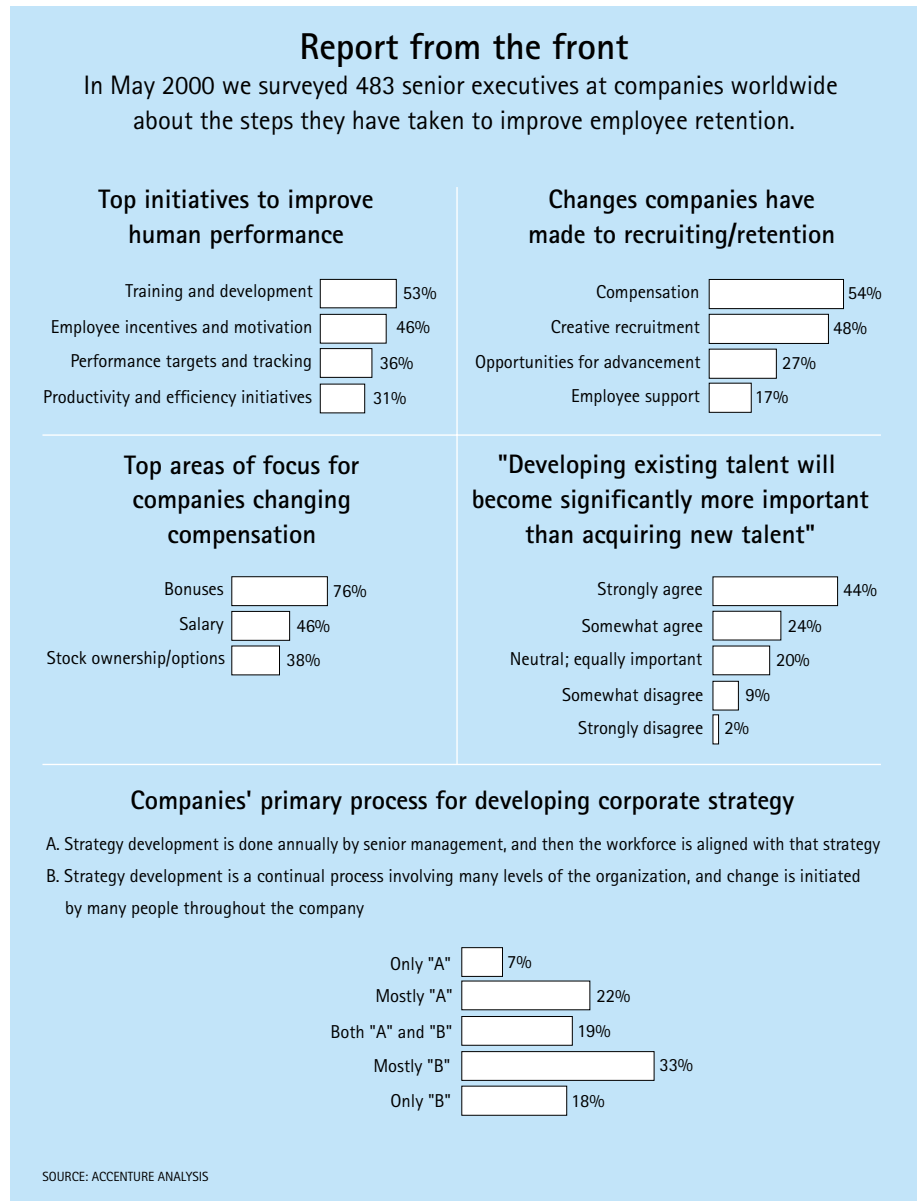
BellSouth, for example, trains its customer service representatives via 16 to 24 hours of simulated customer calls. This approach takes advantage of best-practice examples of how to handle specific situations and enables the representatives to learn by doing. Furthermore, when employees practice in a “safe” environment, with “virtual” customers, they are more relaxed and learn more easily.

Siemens has used a combination of technology and group-based simulation activities to prepare 10,000 finance and business professionals for a major expansion of the company’s business outside Europe. A 48-hour simulation exercise allows participants to act in different roles—financial analyst, finance manager, project controller—to get a feel for the particular demands of each position so that they could quickly and proactively respond to new market opportunities.

In both cases, the companies realized significant bottom-line benefits from their initiatives because of better trained, more motivated employees.

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A common situation that can lead to employee dissatisfaction, or even departure, is the lack of a well-articulated and consistent performance measurement and reward system.

Our work in this area indicates that employees who leave organizations often complain that they never knew what their previous employers or supervisors expected of them, and that there seemed to be no identifiable relationship between performance and rewards. Furthermore, our clients report that many professionals who switch jobs often do so

because they don't feel that they have any tangible impact on their company.

To address such situations, many companies are becoming more rigorous in how they measure and reward their employees. They're not only making it clearer to employees what their roles are in the greater organization, they're also infusing a much higher level of accountability into every position in the company.

For example, one company is creating a "causal map" that spells out the relationships between individual

employee behavior and business strategy. This document clearly identifies the financial and customer objectives that are critical to attaining the company's goals; the specific behaviors that are needed from each employee to achieve the financial and customer objectives; the metrics that would measure each behavior; and a set of key performance indicators for each employee's job.

A sophisticated information technology architecture enables the company to collect and organize the operational and individual performance data. A personalized Web portal gives each employee a real-time snapshot of how he or she is performing relative to the established goals and plans.

Approaching performance measurement in such a precise and comprehensive way helps a company focus the attention of all of its employees on the company's overarching strategy. It also provides its workforce with clear direction and a measurement tool that everyone can understand and easily use. And the causal-map technique gives employees more insight into their roles within the organization and how their individual actions directly affect the company's performance.

The company is using the newly defined metrics to make each employee accountable for specific, quantifiable results—and is rewarding each appropriately, according to performance. Importantly, such rewards are not strictly monetary. In the best cases, measurement is used not only to justify salary increases and bonuses but also to identify in a timely fashion those areas in which employees need improvement so that shortcomings can be addressed and the desired skills can be developed.

This approach, which includes regular input from employees close to the point of action, is significantly different from the traditional means of providing workforce input, which historically has followed a more arbitrary schedule set by the human resources department. Again, Internet tools currently on the market can help provide dynamic, real-time feedback regardless of where employees and their supervisors are located.

Great expectations

Companies must recognize that as the new economy matures, a new definition of employee is emerging; indeed, the employee of the future may not be an employee at all. Contingent, part-time or contract workers, or even employees of another organization in a "value network" with which the business has formed an alliance or partnership, will become indispensable parts of the company's overall talent network, and yet not necessarily part of the nuclear family.

This fundamental shift in employee attitudes and characteristics, along with the diversity of the workforce itself, means companies must develop new management and support systems that accommodate several different types of employees—without losing sight of the ultimate goal: retaining the best talent.

While many organizations intuitively understand that their one truly differentiating asset—their people—is key to their success, establishing how to retain the best continues to elude the majority. And the task is not likely to get any easier as succeeding generations enter the workforce with new expectations and demands. The companies most adept at retaining and motivating their workforce in the new economy will be those

that use better two-way communication to accurately pinpoint what employees care about; compensate employees competitively yet emphasize an environment that nurtures and cultivates talent; and clearly articulate what's expected of each employee and define the rewards of meeting those expectations.

The war for talent will continue. But it can be won. ■

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