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The Towers Perrin Talent Report 2001:

NEW Realities in Today's WORKFORCE

For additional copies of this report, to order the Canadian survey report or to order *Business, People and Rewards: Surviving and Thriving in the New Economy*, published by Towers Perrin and the Economist Intelligence Unit, please call 1-800-525-6741.

The following related survey reports are also available by calling our toll-free number:

- *The Total Rewards Alignment Index: Engaging Employees for Enhanced Performance: A New Role and Direction for Total Rewards*
- *Stock Options Around the World*
- *Meeting the Global Rewards Challenge: A 15-Country Study of Performance and Reward Management Practices*
- *Retirement Income Around the World*
- *Worldwide Total Remuneration*

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1 INTRODUCTION

managing talent

EVEN BEFORE the horrific damage - both human and financial - wreaked on September 11, 2001, the global economic picture was uncertain. Now the number of layoff announcements has jumped, and a MILD RECESSION may deepen. Will the prolonged boom give way to a full-blown recession? Has a job market that less than a year ago favored employees shifted to one in which employers have the upper hand?

That may appear to be the story. But results of a recent Towers Perrin survey of employees at major North American organizations tell a different tale - one with profound implications for the health of America's largest corporations. Our research reveals that the challenge of managing talent in times of uncertainty is just as big as - if not bigger than - it was during the boom.

Converging forces help explain the enormous pressure on companies to master the talent management challenge:

- **Business success has become much more "people dependent,"** due in large measure to companies' needs to innovate and leverage technology - each of which requires people with the capabilities to turn ideas into products and services, and technology into usable tools. The Internet has not only made speed a given, but also creates market opportunities and demand for new, customized services and solutions. As a result, business relies much more heavily than in the past on the commitment and talents of employees to deliver.

- **Job creation is outpacing workforce growth.** According to the U.S. Bureau of Labor Statistics, U.S. companies will need to fill 55 million positions over the next decade, but only 29 million potential employees will be available to take those jobs. In some industries and job categories, competition for workers will be even more severe - and the trend is global.

- **The marketplace for talent is increasingly global, and company workforces are therefore diverse in complex, new ways.** Companies can no longer rely solely on local, regional or even national workforces to meet their business needs - due in part to globalization of company operations and labor supply issues, and in part to company efforts to attract employees from different backgrounds who more closely reflect the diversity of their customer base. A global workforce presents its own set of challenges: ethnic, religious and cultural diversity, more complex mixes of work ethic, more complex expectations regarding salary, benefits, training and development, and work environment.

- **Expectations and desires about the employment relationship ("the deal") are also becoming more complex.** Employees now define themselves and their expectations in terms that go beyond traditional gender, age and ethnic categories - and these definitions can change over time. Some prefer an employment relationship that allows them to try a number of different jobs as a way to gain experience and develop a broad skill set. Others want balance between work and commitments beyond work. Still others are looking for a fast track that offers challenging work, quick advancement and high rewards. Attitudes and expectations such as these determine, in turn, which factors attract, retain and engage employees, adding a new spectrum of issues to the talent management challenge.

IN THIS SURVEY REPORT, we use "talent" to refer to all employees engaged in the corporate mission, and the phrase "talent management" to mean the collective actions an organization takes to attract, engage and retain employees. Effective talent management incorporates an understanding of the capabilities required to execute business strategy, how value is created for customers, which employee groups contribute to business value and the factors that drive desired behaviors in different groups.

- **Employees have become more sophisticated "consumers" of employment opportunities.** Employees know - or can easily find out - what jobs are available in their fields, which are the best companies to work for, how much they should expect to earn and what type of career track they can anticipate - all with a few clicks of a mouse. They can then apply for positions that best meet their needs simply by e-mailing their resume to the prospective employer or posting it on an electronic job board. This technological ease and wealth of information have gone a long way toward creating a new class of "job scanners" who are continuously evaluating their work options.

- **A new employer/employee dynamic has emerged** with more complex and sophisticated needs and solutions on both sides of the table. Those employees with needed talent and skills are in stronger negotiating positions with current and prospective employers. On the other side, well-placed companies have the opportunity to take advantage of this new environment to attract top talent that may be open to moving.

Many of these insights are drawn from a global study conducted by Towers Perrin in 2000, in partnership with The Economist Intelligence Unit (EIU), entitled *Business, People and Rewards: Surviving and Thriving in the New Economy.* Synthesizing business performance data and views gathered from senior executives worldwide, the study findings indicate that business strategies are changing radically and that many organizations see a need to reinvent their people strategies and accompanying reward programs in order to deliver on new corporate goals.

Our new survey, *The Towers Perrin Talent Report 2001: New Realities in Today's Workforce,* completes the picture, bringing fresh perspectives directly from today's workforce - on employee mobility, changing demographics and new expectations for the employment relationship.

trends

The survey included responses from nearly 6,000 employees working for medium to large companies in the U.S. and Canada. It also targeted a subset of the respondents who have managerial roles and are involved in human resource activities and decisions. This report presents information culled from the U.S. respondent data, with some relevant comparative Canadian information. A second report featuring Canadian results is also available. (See inside front cover for ordering information.)

Four key trends emerged from our U.S. and Canadian responses:

- Employees are mobile, highly informed and are generally "in the market" in some way, most of the time.
- Employees don't place much emphasis on a long-term relationship with a particular employer.
- While employees have become substantially more individualistic in defining their employment relationships, achieving balance between work and life is increasingly a primary value, despite pressures toward a "24/7" employment model.
- The things that attract people to a company - primarily pay and benefits - are not the same things that keep them or engage them to do their best work and focus on the organization's broader business goals.

From the employer's point of view, one overriding theme prevails: our manager respondents said that finding and managing talent has become much more - not less - challenging than in the past, requiring new strategies and tactics. Despite the slowing economy and increasing layoffs, and despite the troubles facing certain industries, employers have not gained a significant advantage in attracting and retaining high-performing employees.

So how can employers succeed under these conditions? We believe that in order to achieve their objectives, employers must first have a clear understanding of the environment and the workforce. They then need to create reward systems that will not only allow them to recruit effectively but also to elicit performance that produces business results. Indeed, employers are finding that old, broad categories and formulas must give way to a more flexible palette of rewards that embrace the terms of the new workforce.

To gain a clear understanding of the data we gathered and the implications for employers, we've divided our report into several sections:

- New workplace realities
- What drives employees: attraction, retention, engagement
- What high-performing companies do differently
- Where we go from here.

Conventional Wisdom

During the economic boom, employees had all the power; now, in a down economy, they've lost that power and can no longer afford to be mobile.

the NEW Reality

Many employees still have the power of choice (e.g., high performers, high potentials and people with critical skills in tight markets).

Employers also have power: they are hiring and downsizing at the same time to upgrade their human capital.

New Reality #1: Employees: Loyal to Themselves and on the Move

The first "new reality" facing employers is that workforce attitudes about mobility (and related behaviors) have changed significantly over the past few years. A decade ago, corporations told workers that the era of lifetime employment was over and that people should expect to work for multiple employers during their careers. Overall, the message has been received, and permanent changes have been wrought in the way workers view their relationship with an employer. In short, they no longer have a strong sense of loyalty to their employers, and, as a consequence, they're prepared to move on when the time is right - for them.

One very telling indicator of how employee attitudes have changed lies in workers' views on what constitutes an appropriate amount of time to spend with a single company. A lengthy stay with one employer once was a sign of character or stability. Not anymore. Sixty percent of our U.S. respondents say there is currently no minimum ideal tenure. Furthermore, the tenure issue is not a litmus test for generational values. Our research indicates that older workers, 55 and up, attach less importance to length of tenure than younger ones *(Exhibits 1 and 2).*

Our research also shows that a majority of our respondents - fully 56% in the U.S. and 58% in Canada - are open to moving on *(Exhibit 3)*. Twelve percent say they are actively looking or have made plans to leave. The other 44% are what we call "job scanners," who say they're not

(continued on page 7)

CONVENTIONAL WISDOM

Older workers still believe in lifetime employment with a single company.

the NEW Reality

The oldest age group (age 55+) was the most likely to say there is no appropriate amount of time to stay in a job.

Exhibit 1

Mobility no longer carries a stigma

What is the appropriate amount of time an employee should stay with a company?

Exhibit 2

Employee views on tenure

Percent of total sample/age group that agree:
" There is no appropriate amount of time to stay in a job"

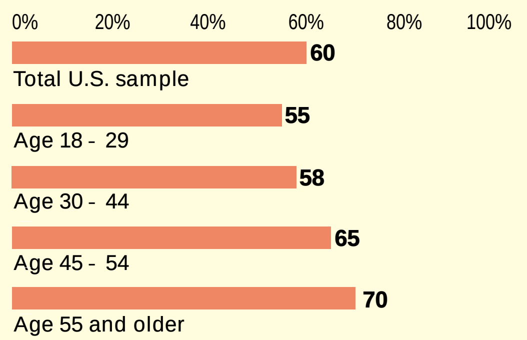
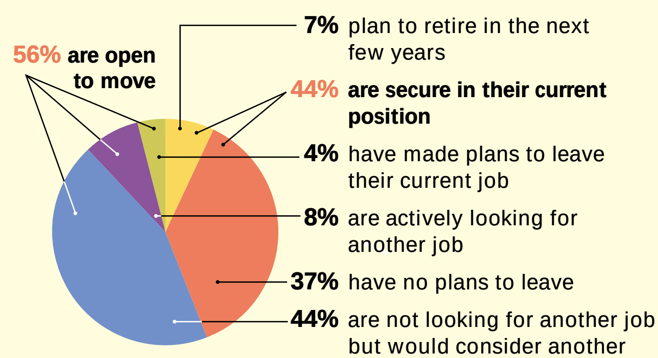


Exhibit 3

A majority of the workforce is in the market



CONVENTIONAL WISDOM

Everybody wants to be a free agent, loyal only to themselves and moving on quickly to the next job that most values their skills.

the NEW Reality

Relatively few - about 6% - want to be "free agents".

Today's Employees Are Defining Themselves in New Ways

CLEARLY, THE GROWING COMPLEXITY of the current environment demands a more nuanced view of the workforce, as well as the levers employers can pull to get the results they want. To gauge current worker priorities in their employment choices, we developed five career models that, based on other employee research we've conducted, reflect a variety of current workforce values. We asked our respondents to choose the one that best describes the employment deal they want:

- Balanced careerists — put priority on work/life balance
- Company-dedicated careerists — focus on long-term skill development and mutual loyalty
- Fast-trackers — seek high involvement, high rewards and quick advancement
- Experimenters — want to try different things and build a portfolio of skills
- Free agents — aim to move between/within companies where their skills are in highest demand.

Exhibit A
Career models: Who chose what

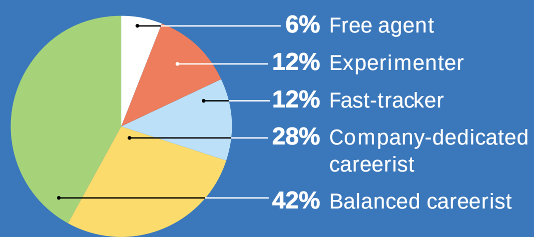
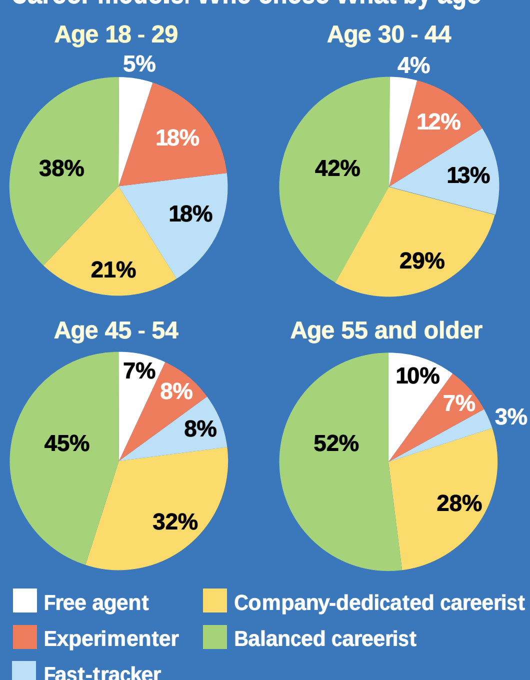


Exhibit B
Career models: Who chose what by age



In some of the study's most interesting findings, we learned that balance and stability loom large in most people's lives — by virtue of the fact that 42% of the U.S. respondents described their desired deal as balanced careerist, and 28% more selected company-dedicated careerist as the ideal model. So, despite their general willingness to keep their options open and stay in touch with potential opportunities, relatively few employees today fit the 1990s stereotypes characterized by ambition, professional restlessness or dreams of wealth *(Exhibit A)*. Our data show a similar distribution of these five groups among Canadian respondents.

Moreover, only a combined 30% of respondents chose fast-tracker, experimenter or free agent — categories more likely to be associated with individual success. These basic percentages held steady among all age groups, although balance and stability generally became more important with age *(Exhibit B)*. So much for the belief that we're becoming a "free-agent nation."

Our data show that there are, nevertheless, some interesting anomalies. For example, the current generation of those 55 and older in the U.S. have lived through the end of the era of lifetime employment, and it shows. More of them — 10% — identified themselves as free agents than any younger age group. Contrary to stereotype, these older free agents are not just cruising to retirement; they're very engaged in their work and continue to weigh their options.

actively looking, but are open to new opportunities or other offers. Employees in this group keep their eyes and ears open in various ways, for example:

- 40% have talked about jobs with friends at other companies.
- 36% have researched job-posting Web sites to monitor new opportunities.
- 30% have talked with a former colleague who recently left the company *(Exhibit 4).*

The job scanners are a burgeoning category - people who may not be ready to leave tomorrow, but who are searching job boards, posting resumes and waiting for something interesting to pursue. These employees are quite possibly a time bomb for employers, especially since those most likely to be scanning the horizons are the 30- to 44-year-olds *(Exhibit 5).* The organization's future leaders will likely come from this group, *and,* according to the U.S. Bureau of Labor Statistics, it is expected to be the smallest employed group in the coming decade.

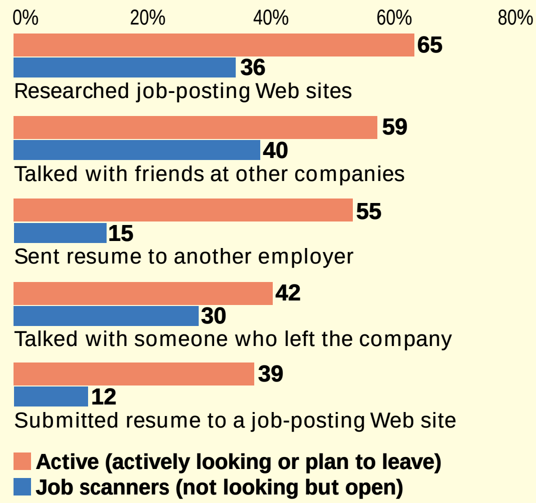
Moreover, job scanning appears to be virtually universal, regardless of the way employees prefer to define their employment relationships. For example, while one might expect self-described balanced careerists to value the status quo, they're just as likely as the average respondent to be job scanners. *(See sidebar, opposite, for a description of career models.)*

The Internet is one of the driving factors behind the job scanner phenomenon.

The Internet is one of the driving factors behind the job scanner phenomenon. This powerful tool opens up a wealth of employment information - not just about available positions, but also about

Exhibit 4

"Job scanners" are also potentially on the move

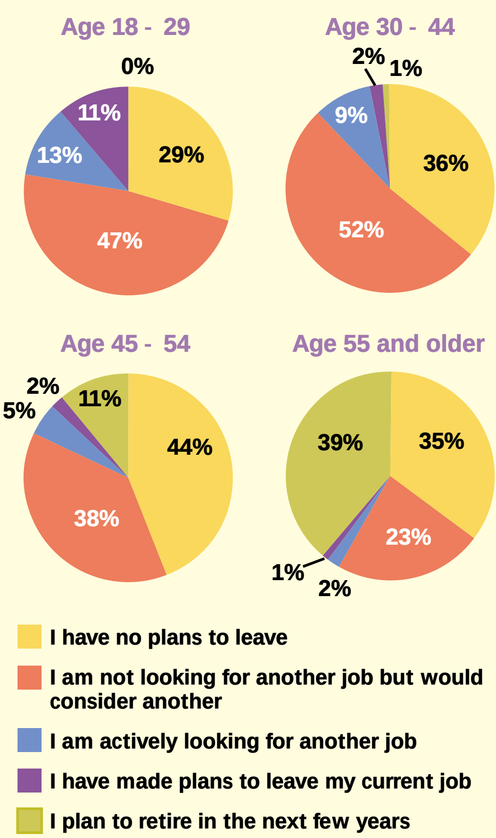


Web research is among the activities most closely related to employees' intent to leave

Exhibit 5

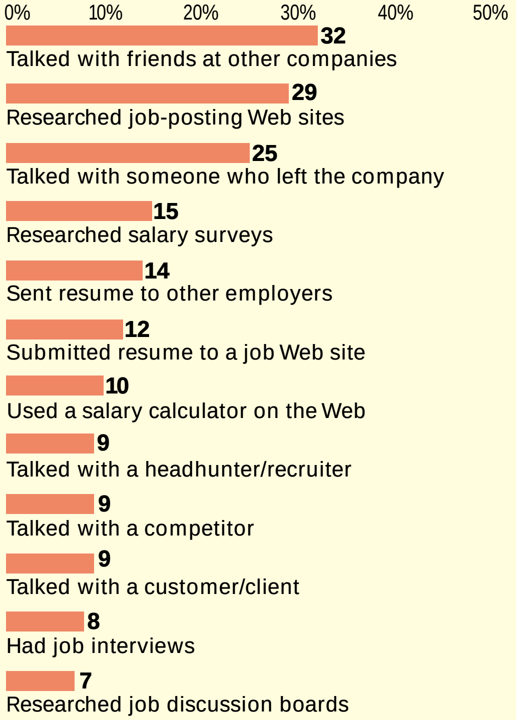
Mobility by age

Future leaders (age 30 - 44) could be on the move; more than half are " job scanners" open to opportunities - the highest percentage of any age group



salaries, culture, management styles and company gossip, all of which can be accessed from home or office without tipping one's hand. Indeed, this is one area where the Internet has truly had an impact on workers' lives, and it represents a new challenge to anyone involved in recruiting or efforts to maintain a committed workforce.

Exhibit 6
Employees are highly informed about their options



Web research is among the activities most closely related to employees' intent to leave

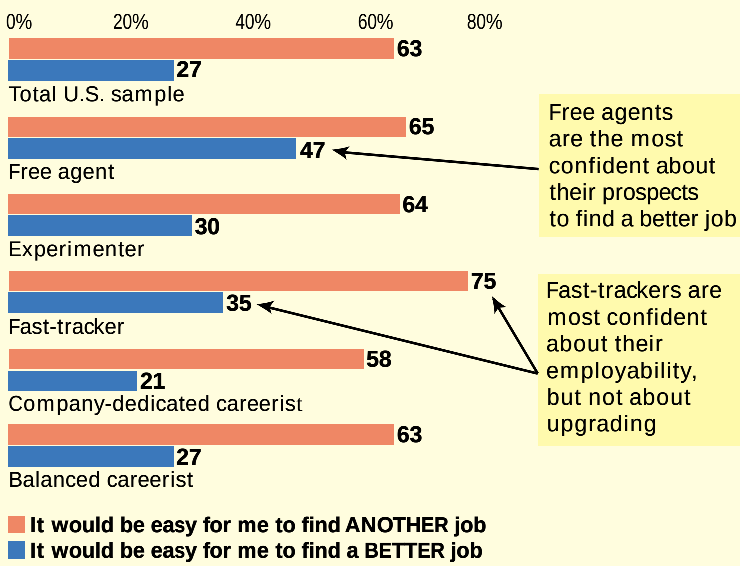
In fact, our survey analysis shows that research on the Web is second only to sending resumes to other companies as the strongest indicator of employees' intent to leave their current employer. And well over a third (39%) of the U.S. survey respondents have used this resource in some employment-related way *(Exhibit 6).* Specifically:

- 29% have researched job-posting Web sites.
- 15% have researched salary surveys.
- 12% have submitted a resume to a job-posting Web site.
- 10% have used a salary calculator on the Web.
- 7% have researched job discussion bulletin boards.

Workers optimistic about their prospects

Overall, U.S. workers are confident about their prospects, with about two-thirds (63%) of the respondents saying that it would be easy to get another job *(Exhibit 7).* Company-dedicated careerists are the least optimistic at 58%, and fast-trackers the most at 75%. Finding a *better* job is clearly another matter; only 27% of respondents overall express confidence on that front, and company-dedicated careerists are again the least optimistic at 21%, while free agents are the most at 47%.

Exhibit 7
Easy to find another/better job - total sample and by career model



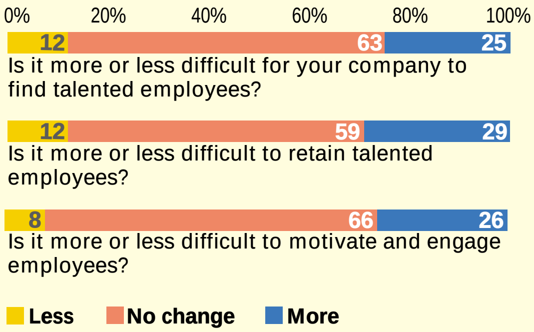
New Reality #2: Talent Is Still a Scarce Resource

Consistent with employee perspectives, managers in our study confirm that, despite the current economic climate, talent remains a scarce resource. Indeed, the vast majority of our manager respondents (88% in the U.S. and 91% in Canada) believe that, compared with more favorable economic times less than a year ago, it is now just as difficult or more difficult to attract and retain talented employees. Even more (92%) believe it is as difficult or more difficult to engage and motivate employees *(Exhibit 8).*

Exhibit 8

Managers believe they will continue to struggle to attract, retain and engage talent

Given the changes in the economy over the past several months...



Given current circumstances, it's more difficult to predict what will happen over the longer term. Nevertheless, unless we face a decade-long economic depression or full-fledged war, it's likely that demographic issues will have a profound effect on employers over the next several years. As the workforce shrinks due to the massive retirement of baby boomers and as new jobs are created, a U.S. labor shortfall of 26 million is expected in the next decade, according to the Bureau of Labor Statistics. In Canada, labor shortfalls are just as acute and are exacerbated by the flow of talent to the U.S. and a nationwide skills shortage.

It's likely that demographic issues will have a profound effect on employers over the next several years.

When the kinds of organizational capabilities that are deemed critical to success in the future are considered, the people gap becomes even more significant. As senior executives in major companies around the world have told us in earlier Towers Perrin research, their focus is shifting: innovation and new product and service development are growing in importance, compared with traditional operating concerns *(Exhibit 9)*. These are exactly the areas that demand top-flight talent.

Moreover, despite the fall of the dot-coms (which was based more on a burn-rate business model than on any decline in the importance of technology), the high-tech sector will remain the industry of choice for a substantial percentage of workers with the requisite skills and education. This means that most other industries will continue to compete with high tech for the same people (*Exhibit 10,* next page). Thus, the current downturn gives employers little breathing room.

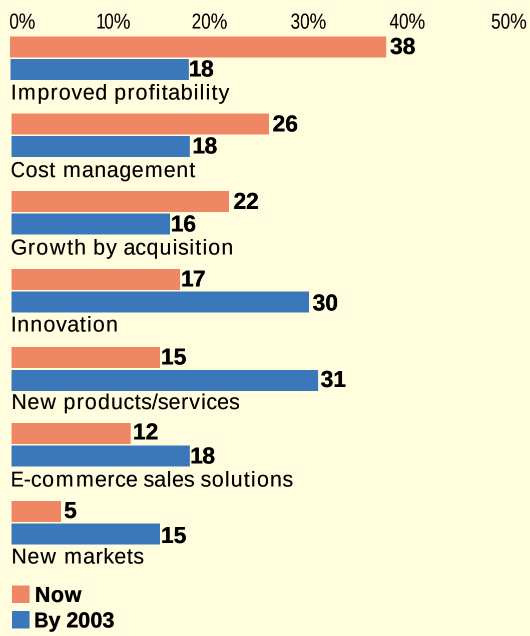
New Reality #3: No More "Shrinking to Success"

Clearly, employee mobility and talent shortages, combined with mounting pressures to operate and staff as efficiently as possible, have created an environment that requires new thinking. Our research bears this out. For example, the nature of downsizing has changed in ways that contrast sharply with the broad-brush approach of the early 1990s, when across-the-board cutbacks, incentives for early retirement and voluntary

Exhibit 9

Data from a related Towers Perrin study: *Business, People and Rewards*

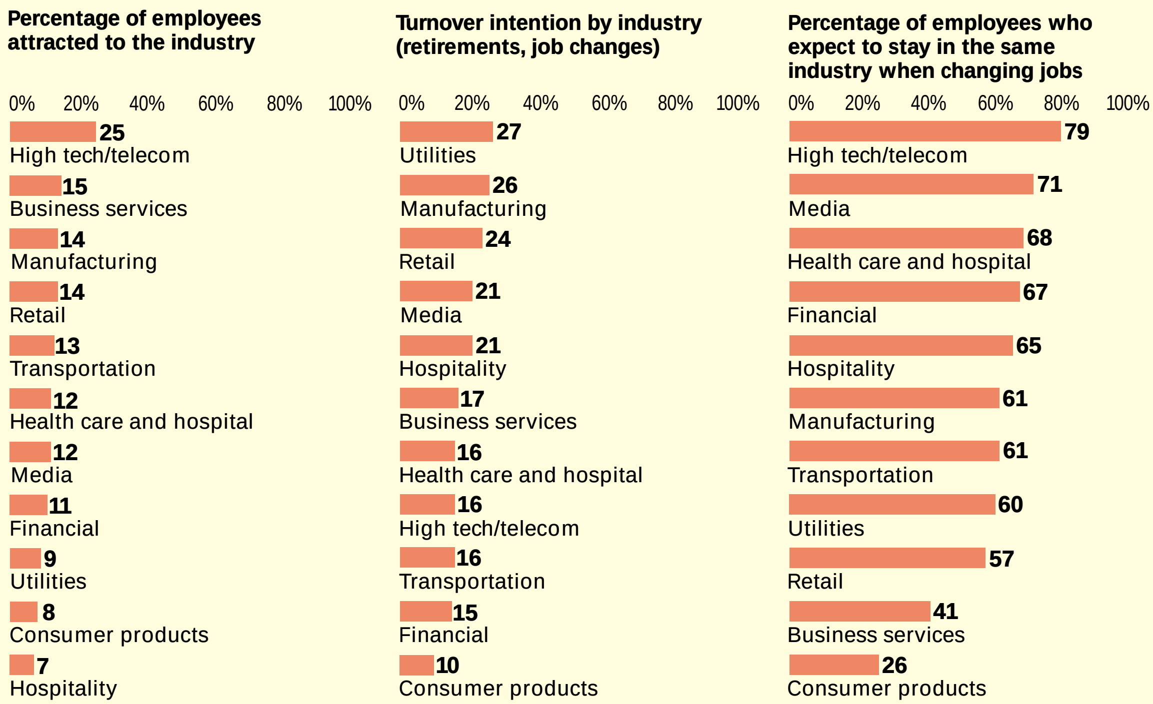
In executing strategy, what do companies most need to emphasize?
(% of senior executives responding element is critical or important)



Source: Towers Perrin/Economist Intelligence Unit Study: *Business, People and Rewards: Surviving and Thriving in the New Economy* staff

Exhibit 10

Employee attitudes toward selected key industries



departure packages were the norm. Companies have discovered that too often those savings were false economies, taking a heavy toll on long-term company strength. Put simply, they discovered that you can't shrink to success.

Exhibit 11

Companies are making performance-based staffing decisions

Notably, 54% of the companies in our study that have cut staff in the last six months are looking at performance, cutting low-performing employees and/or business units first

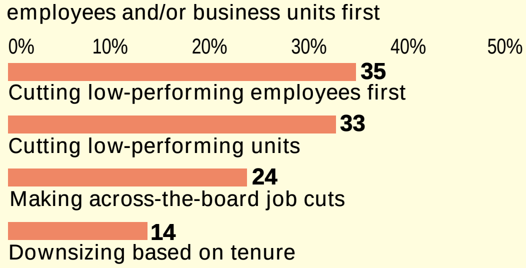
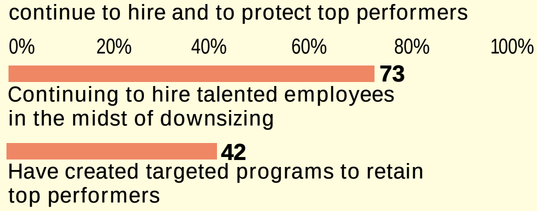


Exhibit 12

Companies making cuts are still hiring

The vast majority of the companies in our study that have cut staff in the last six months continue to hire and to protect top performers



Today's cutbacks tend to be more surgical in nature and are designed to respond to strategic changes in an organization. As companies move into and out of businesses, begin and end strategic partnerships and buy or sell divisions, they add to and reduce staff accordingly. And rather than making across-the-board cuts, they use performance as a guide. For example, over half (54%) of our U.S. respondents who are making staff reductions are basing their decisions predominantly on individual or business-unit performance *(Exhibit 11).* At the same time, fully 73% of these companies continue to recruit in areas where skills are needed even while they are cutting in others. Notably, 42% have created targeted retention programs for the best performers *(Exhibit 12).*

3 WHAT DRIVES EMPLOYEE BEHAVIOR: ATTRACTION, RETENTION, ENGAGEMENT

We asked our respondents several questions about the elements of a job that attract them. We also analyzed the factors that influence employees' decision to stay with a company, as well as those that motivate them to do their best work and develop a sense of shared destiny with the company. The results showed that employee choices and decisions about joining, staying and engaging in the business are influenced by different tangible and intangible rewards. What's more, different age groups and "career models" (free agents, balanced careerists, etc.) look for somewhat different rewards in each employment phase. The key for employers is to understand the drivers for each phase of an employee's relationship with the company and then to manage those drivers effectively.

What attracts

With so many people apparently receptive to new job opportunities, it helps to know what they're looking for. First, our research shows that it's critical to get the basics right - competitive pay and health benefits are top attractors for all employees, regardless of age or career model preference *(Exhibits 13* and *14).* Not surprisingly, retirement benefits also figure prominently in the picture among older workers. These are fundamental requirements; without them, an employer simply will not be in the game for talent.

Beyond the basics are the intangibles such as opportunities for advancement and work/life balance. Clearly, if competitive salary and health benefits are required fundamentals, then these intangibles can represent *differentiators* for employers who are sensitive to their value among key employee groups.

Exhibit 13

What attracts employees varies by age

Top Attractors	U.S. overall	Age 18 - 29	Age 30 - 44	Age 45 - 54	Age 55+
Competitive base pay/salary	★	★	★	★	★
Competitive health care benefits package	★	★	★	★	★
Opportunities for advancement	1	1	2		3
Work/life balance	2	2	1	2	
Competitive retirement benefits package	3			1	1
Pay raises linked to individual performance	3		3	3	2
Learning and development opportunities		3			

★ Core rewards that rank at the top for all groups
1 - 3 Top differentiators in rank order

Exhibit 14

What attracts employees varies by desired career model

Top Attractors	U.S. overall	Free agent	Experimenter	Fast-tracker	Company-dedicated careerist	Balanced careerist
Competitive base pay/salary	★	★	★	★	★	★
Competitive health care benefits package	★	★	★	★	★	★
Opportunities for advancement	1	2	1	1	1	2
Work/life balance	2	2				1
Competitive retirement benefits package	3	2			2	2
Pay raises linked to individual performance	3	1		2	3	3
Recognition for work				3		
Challenging work		3	3			
Learning and development opportunities			2			

★ Core rewards that rank at the top for all groups
1 - 3 Top differentiators in rank order

Again, variations follow predictable patterns. For example, opportunities for advancement are most important to younger workers and somewhat less significant to older ones. Work/life balance is most important to U.S. respondents in the 30-to-44 age range. It seems reasonable to suppose that the demands of raising a family are at their peak for this age group. Looking at our career model groups, it's interesting to note that work/life balance is important not only to the balanced careerist, but also to the free agent.

Companies with North American markets and operations should be aware that there are some important differences in key attractors for Canadian respondents, with collaborative and entrepreneurial environments scoring almost twice as high as for U.S. respondents.

CONVENTIONAL WISDOM

Pay and benefits are not as important as they used to be.

the NEW Reality

Competitive pay and benefits are fundamental, but employees have expanded their idea of what constitutes a good employment "deal" or package.

value

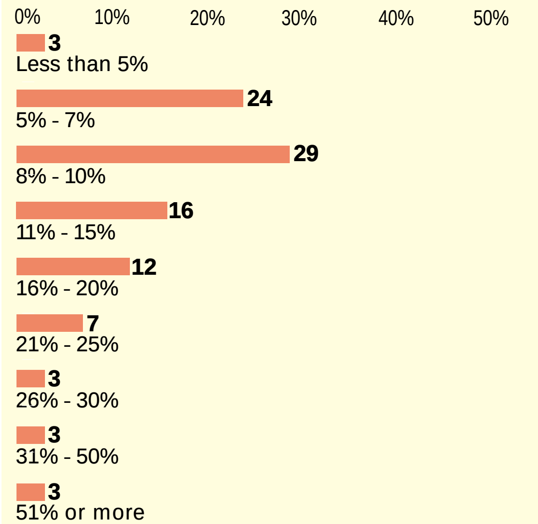
What attracts them may not be what keeps them – or engages them

As we've just shown, our survey findings confirm that employees not only value a range of tangible and intangible rewards, but value different things at different stages of their careers and working relationships with a company. What our study also reveals is that different reward elements have a different impact depending on which decision an employee is making. So, while competitive pay and health benefits are critical fundamentals, other elements are more or less important depending on whether the employee is deciding to join, stay or fully commit to a company.

For instance, pay is an important factor in attracting potential employees but, according to our findings, employees don't necessarily expect offers of large pay increases to move to another company, and pay alone won't keep them in a job. In fact, most employees have relatively modest expectations about the level of pay increase they would accept to move from one company to another. For example, over half of our U.S. respondents (53%) indicate that they would expect an increase of just 5% to 10% when changing jobs, suggesting that the right combination of other elements must be part of the package that either attracts them away or keeps them where they are *(Exhibit 15)*.

Exhibit 15

How much of an increase would you expect if you left your job to take another?



CONVENTIONAL WISDOM

Everyone wants a huge increase in pay for changing jobs.

the NEW Reality

Pay is still a major factor, but people are now evaluating job offers as a total deal, rather than only considering pay.

Clearly, for employers to realize full return on their investments in people and rewards, they must understand which levers drive which behaviors for which employees.

Getting employees to engage in the business

Getting employees to invest their energy, deliver the kind of performance that produces results and stay with the company are just as important in a down economy as they are in a boom. Here a whole new set of levers comes into play.

Exhibit 16

The 10 key drivers of engagement crossed three quadrants of total rewards

Employee Engagement

Pay

- 3 Clarifying what the company expects and what you can expect in return
- 4 Providing recognition for talented employees
- 9 Helping employees understand how their performance impacts the company's business goals

Benefits

Learning and Development

- 5 Developing the skills of employees
- 7 Advancing talented employees

Work Environment

- 1 Reputation in the job market as a good employer
- 2 Supporting teamwork
- 6 Senior leadership effectiveness
- 8 Understanding the unique needs of high performers
- 10 Supporting innovation

Exhibit 17

Three quadrants of total rewards are key to retention

Employee Retention

Pay

- 3 Providing competitive base pay
- 5 *Clarifying what the company expects and what you can expect in return*

Benefits

Learning and Development

- 1 *Developing the skills of employees*
- 6 Developing leaders
- 7 *Advancing talented employees*

Work Environment

- 2 *Understanding the unique needs of high performers*
- 4 Aligning HR programs to meet the business objectives
- 8 *Senior leadership effectiveness*
- 9 Fully tapping into employees' skills and abilities
- 10 *Supporting teamwork*

Note: Italics indicate the item was also a primary driver of engagement

For example, competitive benefits, a key factor in attracting employees, do not drive engagement - i.e., employees' commitment to the organization and their motivation to deliver their best work. Much more important in the engagement equation are intangibles such as recognition and advancement for talented employees, senior leadership effectiveness, a culture of teamwork and innovation, and a clear line of sight between what employees do every day and how the business performs *(Exhibit 16).*

The factors that retain employees are similar - but not precisely the same *(Exhibit 17).* Here competitive base pay comes back into the picture, along with other factors such as the company's effectiveness in developing leaders, fully tapping into employees' skills and abilities and, interestingly, developing HR programs that make sense in the context of the business.

Beyond the generalizations, however, there are some fairly specific variations between age groups in what it takes to elicit engaged behavior. For U.S. workers 18 through 29, for example, leadership development and management processes that provide regular feedback are more important than support for teamwork and innovation. For those between the ages of 30 and 44, developing leaders and providing challenging work are more important than developing employee skills and advancing talented employees.

As workers get older, work/life balance once again emerges as a key engagement factor, while recognition/reward for talent and leadership issues become less prominent. Overall, while the differences in engagement drivers for various age groups seem intuitive in many cases, employers who need to build performance-based cultures must understand these differences and respond accordingly.

Looking at engagement drivers from our career model perspective, interesting variations once again arise. Notably, balanced careerists are motivated by such things as teamwork, senior leadership effectiveness, challenging work and a climate of innovation - not the kinds of things that would characterize someone just putting in time on the job. So, although conventional wisdom might suggest that work/life balance and engagement in the company don't mix, our survey proves the contrary.

Conventional Wisdom

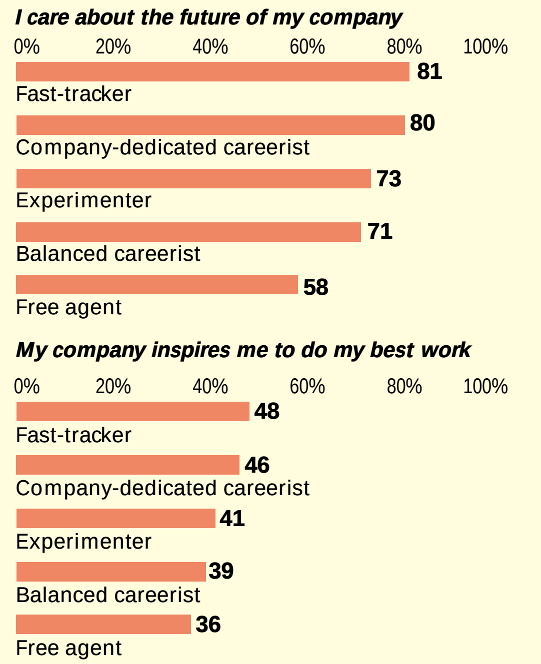
People who want work/life balance are generally less hard-working and motivated than others.

the NEW Reality

Balanced careerists show strong commitment to their employers and an interest in challenging work - they just want to " get the balance right."

In fact, *Exhibit 18* shows that while balanced careerists don't lead the pack on some of the elements that measure engagement levels, they do express a relatively strong sense of shared destiny with their employers. In terms of being inspired to do their best work, the picture is similar, although the message here is more about what employers should do to improve the scores for all groups.

Exhibit 18
Career models and connection with the company



The importance of "brand" – It's about more than just the product

Finally, our data illustrate that a company's reputation as a good employer is a key lever in engaging people. This suggests that even in the current environment, companies that need a committed workforce should not abandon efforts to build and convey a strong employer brand in the marketplace.

Conventional Wisdom

When times are tough, it's okay to dial down employer-of-choice programs.

the NEW Reality

A company's reputation as a good employer is a key lever in engaging people. So even when business conditions are tough, companies that need a committed workforce should not abandon efforts to build a strong employer brand.

Our survey included U.S. employees working for publicly traded companies, which allowed us to compare high-performing and low-performing organizations - those in the top 25% of the group in terms of five-year total shareholder return (TSR) and those in the bottom 25%. (Looking at the period from second quarter 1996 to second quarter 2001, our top companies are truly top performers, delivering five-year TSR 10 points higher on average than the comparable segment of the S&P 500; TSR for the low performers was six points below median TSR for the S&P 500.)

Most significantly, high-performing companies are able to engage employees in their business - and it shows in how employees rate their employers on some of the key factors that drive engagement *(Exhibit 19).* For instance:

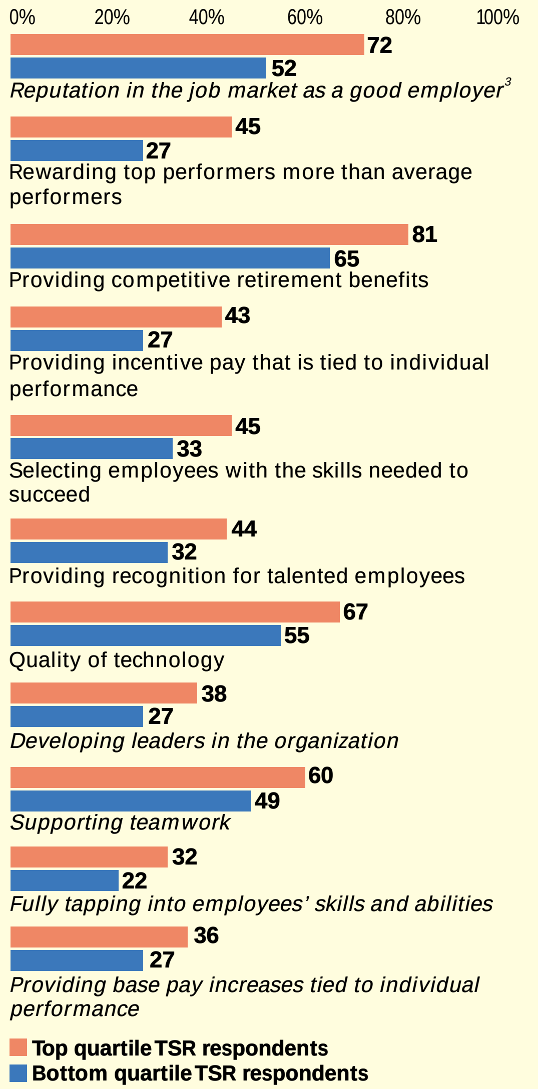
- Employees at high-performing companies give their companies higher marks for reputation as a good employer (72% vs. 52%).
- More employees at the successful companies give high marks to their organizations' support for teamwork (60% vs. 49%) and effectiveness in tapping into employees' skills and abilities (32% vs. 22%).
- More employees at these companies are positive about their organizations' effectiveness in developing leaders (38% vs. 27%).

In addition to receiving higher ratings on these and other employee engagement factors, high-performing organizations take other steps, too - notably, reinforcing a performance-based culture

Exhibit 19

What makes high performers[1] different: employee engagement and rewards for performance

How employees rate their companies on key factors[2]



[1] In this study, high-performing companies were identified as those delivering five-year total shareholder return (TSR) in the top quartile of the sample group. This group's performance is 10 points higher than the comparable group in the S&P 500

[2] In descending order of rating gaps between high-performing and low-performing companies

[3] Italics indicate the factor was also a primary driver of employee engagement

and focusing employees on results through rewards for performance. Specifically:

- More employees at these companies are positive about their organizations' approach to differentiating rewards for top and average performers (45% vs. 27%).
- More believe their organizations are effective at providing incentive pay that is tied to individual performance (43% vs. 27%) and base pay increases tied to performance (36% vs. 27%).
- More are positive about their organizations' recognition of talented employees (44% vs. 32%).

In understanding the significance of these results, it's important to recognize that success breeds success. In other words, the attributes and results of successful companies are closely intertwined and form a "virtuous circle," wherein a high-performing company attracts, engages and retains high-performing employees, whose work in turn strengthens the company. These employees, in turn, give high marks to their company for the strength of its employer brand and effectiveness in linking performance and rewards.

However, the results also suggest that, even in high-performing companies, there is room for improvement, especially in the areas of leadership effectiveness and leveraging employee capabilities. And while these are classic - and difficult - problems, they can be solved, as we discuss in the box on the right.

The Crucial Role for Managers

OUR SURVEY ANALYSIS showed that, overall, management effectiveness plays a significant role in employees' sense of engagement in their jobs. Looking at the role of direct supervisors, however, we also found that even top-performing companies have room for managerial improvement.

In both Canada and the U.S., employees in companies across the board generally gave their managers only poor-to-average marks for recognizing and rewarding performance, empowering employees, encouraging innovation, judgment, team building, providing goals and direction, communicating effectively and big-picture thinking *(Exhibit 20)*. According to our analysis, these are precisely the manager behaviors that most affect employee engagement.

Exhibit 20

Managers across all companies received low marks in areas most strongly linked to employee engagement

Percentage of employees who say their managers do well at…

These are the manager behaviors that have the most significant impact on employee engagement (in descending order)

5 WHERE DO WE GO FROM HERE?

What emerges from our study is a picture of a workforce that is more mobile, better informed, more individualistic than ever before and confident in its ability to move. Such considerations as age and work/life balance no longer carry the stigma or simplistic assumptions about drive or ambition they once did. Moreover, we know from management that competition for talent remains fierce even in a weak economic environment and that when conditions improve, demographics and immediate business needs will combine to exert tremendous pressure once again.

The survey findings also indicate that major change is required for many employers if they are to effectively court key talent. Many HR policies and people programs seem to be out of sync with the needs and demands of the current workforce.

It's clearly time for a new perspective on how to manage talent. In fact, given the dramatic changes in the business environment, we believe it's time for a whole new metaphor and approach to talent management issues. The much-touted "war for talent" implies a finite challenge with an outcome that defines winners and losers. A far more relevant approach is to consider the labor pool in the context of a market, driven by supply and demand, with employees acting as consumers in their buying behaviors and responding to behavioral triggers such as employment brand and value proposition.

This new, competitive market demands a more thoughtful strategy to ensure that the organization is not only able to recruit and retain talent but also mobilize talent to achieve a sustainable competitive advantage. Doing so means that flexibility and a keen understanding of the marketplace will be essential so that organizations can respond quickly to the newly defined needs and desires of a complex workforce. At the same time, cost will be an issue, and the human resource function will have to overtly link people value and costs to a clearly identifiable return on investment.

> It's time for a whole new metaphor and approach to talent management issues.

Organizations have already begun to think about some of the levers they can use to build and engage their workforce. For example, in recent years we have seen some significant innovation in the pay and benefits arena. Practices that were once limited to executives - from stock options, incentive pay and SERPS to signing bonuses and perquisites - are now being used more broadly to support the recruitment and retention of key talent.

While innovations in pay and benefits have helped organizations begin to respond to their talent issues, they represent only part of an effective talent management strategy. What's more, pay and benefits are the most easily replicated aspects of an organization's total rewards offering. Any competitor can offer more. If pay and benefits become the sole way in which an organization differentiates itself from competitors, it runs the risk of overinflating its total compensation expenditure - without necessarily ever creating an engaged workforce.

change

action

Instead, companies need to customize tangible and intangible rewards to specific groups according to their business objectives at each level. Specific actions to consider include:

- **Understand what drives customer value and financial results** and how employee behavior affects those outcomes.
- **Understand the workforce:** employee demographics, social makeup, perceptions and needs. Gather reliable data and analyze it well. Resurvey employees frequently. Today's "fast-tracker" employee may be tomorrow's "company-dedicated careerist."
- **Create a compelling value proposition.** Understand the deal with employees and why it will appeal to the type of employee the organization needs. Continually resell the deal to employees.
- **Develop a comprehensive, flexible program offering.** Employee needs and desires change over time. Benefit programs are more cost-effective and more compelling if they are carefully planned to link with the goals of the organization and are designed to meet individual employees' needs.
- **Stay competitive.** The basics - competitive salary and benefits - must be a given. But employers must also understand what the competition is offering and whether it is of interest to their employees.
- **Concentrate on execution.** The role of the manager is crucial.
- **Recruit top talent continuously** - both internally and externally.
- **Invest to engage.** Maximize return on investment by optimizing rewards to increase employee engagement.
- **Focus employees.** Make sure they understand what to deliver and reward them for doing it.

Employee needs and desires change over time.

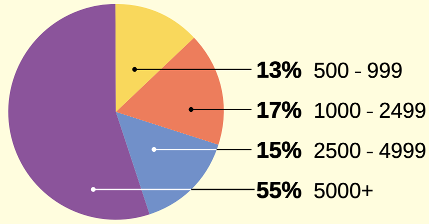
How companies respond to these challenges will affect their ability to deliver on immediate strategic goals. For the long term, organization performance in these areas will influence the organization's ongoing strength, its ability to attract high-quality workers and cultivate a next generation of leadership, and thus determine the growth outlook for shareholders.

APPENDIX: SURVEY METHODOLOGY AND DEMOGRAPHICS

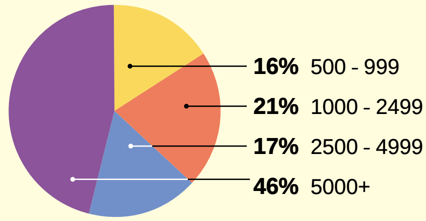
Towers Perrin conducted this employee research project in April and May of 2001 in conjunction with survey organization Harris Interactive. A total of 5,707 randomly sampled respondents from companies with 500 or more employees completed the questionnaire. Of those, 4,942 were from U.S. companies and 765 were from Canadian companies. The following charts provide more detail on the survey sample.

Respondent demographics

Company size: U.S.

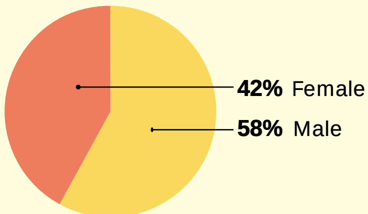


Company size: Canada

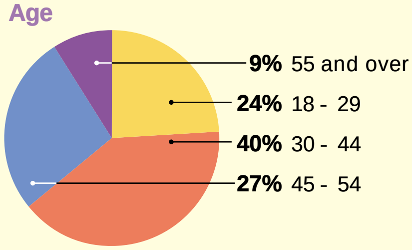


Respondent demographics: U.S.

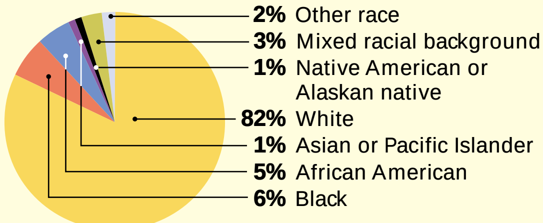
Gender



Age

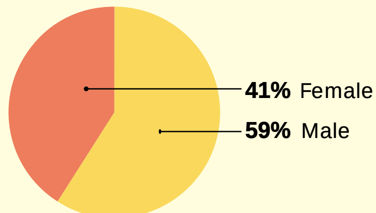


Race

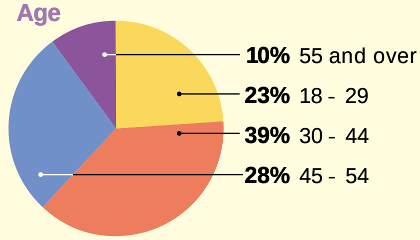


Respondent demographics: Total sample (U.S. and Canada combined)

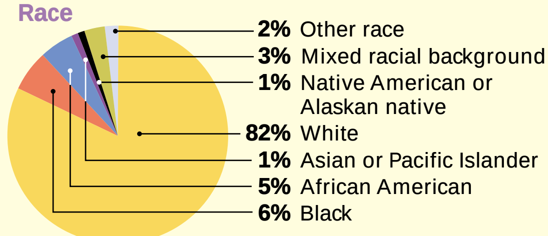
Gender



Age



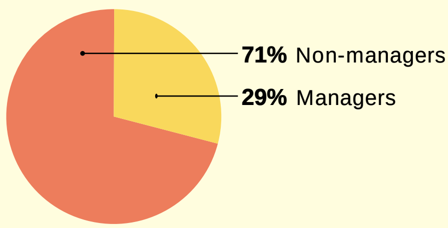
Race



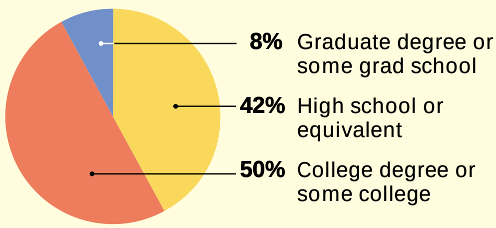
demographics

Respondent demographics: Total sample (U.S. and Canada combined)

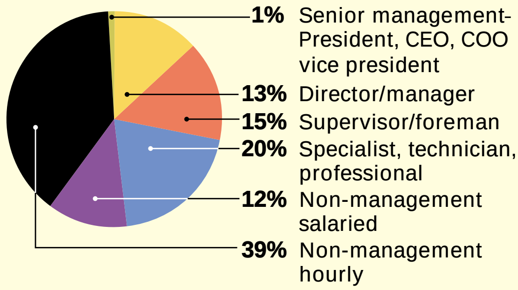
Manager/Non-manager



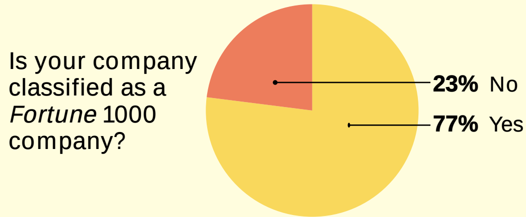
Education

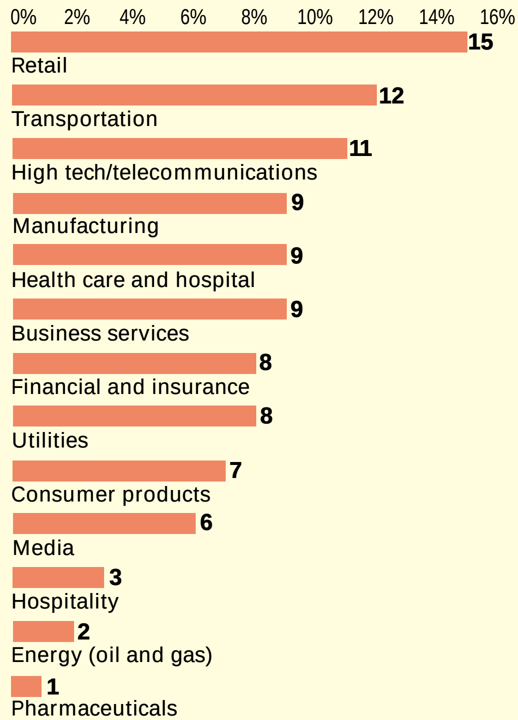


Position



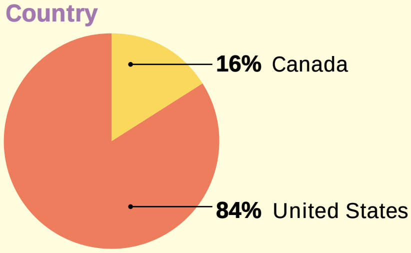
Respondent demographics: Total sample (U.S. and Canada combined)



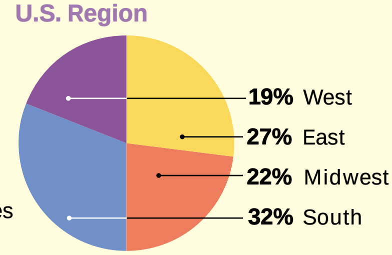


Respondent demographics:

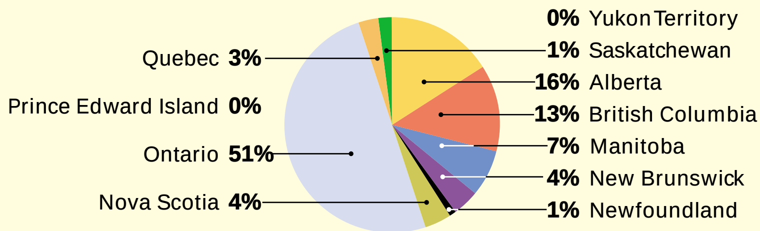
Country



U.S. Region



Canadian Province



ABOUT TOWERS PERRIN

Towers Perrin is one of the world's largest management and human resource consulting firms. We help organizations improve performance and manage their investments in people, advising them on human resource strategy and management, change and culture, total rewards (including compensation and benefits), HR technology, and administration and communication, both Web- and print-based. For more information about talent management, contact your Towers Perrin consultant.

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