



**High Flyer Trend Report
August 2006**

1. Summary

Innecto Reward Consulting conducted a study to identify if recent cultural, economic and technological changes have impacted on the motivational drivers of talented individuals. These findings would then be compared to the current beliefs in the human resource industry.

A series of 690 interviews were conducted between April and May 2006 with individuals under 40 years old who categorised themselves as 'career orientated'. This was complemented with research which took into consideration the viewpoints of 189 human resource professionals.

There was a clear discrepancy in the findings of the two separate studies: career orientated individuals identified that financial reward was their number one motivating factor; on the other hand, human resource professionals placed financial reward as the number three motivator for this distinct group.

The study also found that this difference is having a negative impact on talent retention, with more than three quarters of businesses admitting they are losing at least five talented employees every year. Equally worryingly, most British businesses do not have a strategy which identifies and nurtures their talented work force.

The Innecto study also identifies a that workplace attitudes are continuously changing; people in their 20's and 30's are readily prepared to change jobs on a regular basis in an economy where talent is scarce and opportunities – both in the UK and abroad – are abundant. As a result, businesses are losing key staff members due to their inability to treat talented individuals differently and to adopt a long-term approach of attracting and retaining talent.

2. Introduction

In April 2006, Innecto, a UK-based reward and pay consultancy, commenced a study to define the motivators for the current working generation – the under 40's who are career minded and highly ambitious. The current belief in the HR profession is that career minded employees are not primarily motivated by financial reward, but by other factors, including quality of work, a good working environment, career opportunities and personal development. However this perceived belief has not been challenged for many years, and with the entire dynamics of the workplace evolving as a result of social, economical and technological changes, this study set out to understand and interpret the mindset of this generation of current business management and future leaders.

In Britain, the under 40's is the first working generation without the "Job for Life" attitude; older generations entered the job market looking for a private or public sector position which would see them through their career. However changes, enhanced by the internet generation, meant that we are now operating in a global job economy, and the traditional employer-employee relationship has been completely transformed. It is now routine HR practice for businesses to review their staffing requirements and make regular changes according to short-term business needs.

3. Outside influences

During the past five years, British society has fundamentally changed. While the dot com boom and bust brought success for few and disillusion for many, it left us with a fast-paced and dynamic way of doing business. That's why one year in the Internet world was compared to a dog's year –seven years of change crammed into one. Although that era has passed, working habits haven't, and those with the skills to successfully operate in a fast-paced, multi-tasking, customer-centric organisation are in high demand.

For most businesses, their most significant expense is their total wage bill. With revenue and profits the principal indicators for determining business success, the

modern organisation is regularly reviewing their staff costs, and now have numerous options to reduce them. Redundancies, outsourcing, offshoring and interim management are all tools used by businesses, both in the short and long term. As a result, this means a job for life is a notion of the past.

The internet also opened up a global job market. As easy as it is to locate the best price for a home stereo is it to identify the highest salary available based on an individual's skills base and experience. Salaries have become extensively transparent, and staff are armed with the information and proof determining if they are under (or over) paid. This phenomenon doesn't just apply to the UK – it is just as easy to find this information in job markets throughout the world, and work permits are easy to obtain if the individual possesses the skills lacking in these regions. With economic growth currently being experienced in most developed and emerging countries, career minded people are more willing to move city or country for a better wage, job prospects and a different way of life than their older counterparts.

From an economic viewpoint, the UK has never been in better shape. Low employment means that it's a seller's market, and talented individuals no longer need to stay in dead-end or underpaid jobs. While research has shown that in the lower ends of the wage scale, workers are willing to switch employers for a few pence extra per hour, however the Innecto study found that 31 per cent of career high performers would look for another job if they didn't receive the pay rise they expected, and one in four admitted they had quit a job specifically because they didn't get a promotion they expected.

Another important factor is the increase in consumer spending leading to a debt-ridden society, affecting all socioeconomic groups. According to the Alliance & Leicester, the average British household owes £83,722 including the mortgage¹, and CreditAction reports that the average household debt is approximately £7,754 excluding mortgages.² Financial advisors Grant Thornton reports that UK

¹ Alliance & Leicester Building Society report - March 2006

² CreditAction - June 2006

consumers are the most over-indebted in Europe³. This means that the onus on working for income has never been greater.

In conclusion, recent social, financial and cultural influences have completely transformed the British population, affecting the attitudes and drivers of the emerging generation of talented individuals. Precisely how this has affected the study group has been revealed in the Innecto study.

4. Findings

4.1 Motivation

The study clearly found that Britain's new generation of talent are focussed on financial reward. 68 per cent of those that participated in the study said that it was their number one career motivator, followed by personal pride, making a difference at work, a challenging workplace and good team spirit.

In contrast, some of the factors which were not seen to motivate this generation of talent include power, early retirement and workplace competition.

4.2 Rewards

The lifestyle of career 'high flyers' is significantly influenced by financial reward. 71 per cent of the individuals which took part in the study said that their salary bracket was the reward they value most, followed by 'a nice home', luxury holidays, a car and clothing. Clearly financial reward is fuelling these lifestyle categories which the ambitious set considers personally important to them.

4.3 Pay rises

Regular pay rises are important to this group. Nearly three-quarters (72 per cent) said that they expect an annual pay rise. While only 8 per cent said they expect semi-annual pay rises, a further 8 per cent said they expect a pay rise every two years.

³ Grant Thornton – June 2006

The level of pay rise demanded for talent varies, with a majority of talent requiring a 10 per cent annual pay rise above the annual cost of living rises; 21 per cent expect annual pay rises of 15 per cent or more; surprisingly 18 per cent expect annual pay rises based on the annual cost of living rises, and. 21 per cent expect a pay rise of only 5 per cent per year.

This group of individuals is vocal, and have no barriers to addressing pay-related issues with their managers. More than one third (35 per cent) said that they would complain to their boss if they didn't receive an expected pay rise, while complacency was also not in evidence as 31 per cent said they would look for a job if a pay rise expected was not forthcoming. Less than one in ten (7 per cent) said they would quit their job if this situation arose.

4.4 Promotions

Talented employees expect regular promotions and nearly all that took part in the study said they would expect a promotion from their employer at least every two years.

Promotions in fact are so important to this group that they would leave a job if they didn't get the promotion they thought they deserved. One quarter of the sample group said they had quit a job previously when they didn't get a promotion they thought they deserved, and a further third (34 per cent) said they would leave a job if this was the case.

4.5 Additional rewards

While financial reward was the overwhelming reward of choice, the 'high flying' set also expects additional rewards; 45 per cent said they want additional rewards to their pay and 29 per cent want performance related rewards in addition to pay.

4.6 Job retention

The study also identified what talent thought their employers could do to retain their employment. A regular flow of interesting work was the number one factor in their retention, followed by regular pay reviews and a good working environment.

5. The HR professional perspective

The study found that a majority (67 per cent) of HR professionals thought that talent should be treated differently from other individuals, however only 39 per cent said they had an internal strategy to identify, retain and nurture their best staff.

Talent management has become a major discipline within HR over the last 10 years – rooted in the publication of the seminal ‘The War for Talent’ by McKinsey Corporation in 1997. Organisations are spending thousands on identifying and developing talented individuals. The CIPD has just announced a major piece of research to be conducted by Nottingham University into the field. However, there seems to be a fundamental disconnect between the investment in talent management and the ability of organisations to retain key individuals. Of those organisations which had a talent retention strategy, a number of tools were used, including regular pay reviews, training and coaching programmes, flexible benefits, bonus and other incentive schemes and even retention payments, but many HR Directors admitted that their organisation couldn’t keep pace with the requirement for reward and change from this pool of individuals.

The 52 per cent of businesses which didn’t have an internal talent management strategy said that their business had inadequate resources to implement such a strategy, or were following a management policy. Only 17 per cent of the HR professionals which took part in the study said they didn’t think there was a need for such a strategy.

In contrast to the findings of the study of career minded individuals, human resource professionals identified personal pride as the number one motivator for talent, followed by a competitive or challenging environment. Financial reward was ranked as third motivator for this set.

6. Losing talent

While this study clearly identified a gap between HR beliefs and reality regarding what motivates talented individuals, the repercussions of this are already apparent. Three out of four HR professionals admitted their organisation lost at least five talented individuals last year, and nearly a quarter said they have lost more than 20 individuals during the same period.

A majority of ambitious executives (72 per cent) expect a pay rise every year, however 75 per cent of HR professionals said that their organisation lost a significant number of talented individuals every year because their business lacked the flexibility to meet individual wage demands.

Conclusions:

The study showed that there have been distinct changes in the attitudes of motivated and ambitious employees. HR professionals can't afford to accept the out of date notion that this set of individuals are primarily motivated by pride and interesting work. There is a real case that the new generation of ambitious people are highly driven by financial reward and are aware of their options in a booming global job market. Talented individuals are leaving jobs because they are not receiving their expected remuneration, recognition or promotion opportunities, therefore UK businesses must re-consider their strategy to attract and retain top talent – the cost of recruitment and the knock-on effects are often a higher price to pay.

For organisations who have not tackled the issue head-on, the average tenure of a talented individual will steadily decline and regular 'job hopping' will occur. The consequences of this are grave, with businesses losing key staff and being left with acute attraction and retention issues for highly productive employees.

Recommendations:

Businesses must work harder to understand the motivations and drivers of their most talented staff. Being in-tune with market, economic, social and technical trends is important when devising short and long-term strategies to attract, retain and continuously motivate and incentivise talent. While this may be perceived as a human resource issue, in reality it is an issue that affects all aspects of a business – sales, finance, operations and marketing – and a strategy must incorporate the overall business objectives.

Talent gravitates to the best employers, and while financial incentives are indeed not everything a career high flyer is attracted to, changing needs influenced by personal finance and lifestyle choices must be considered.

The foundation of this is for businesses to develop clear pay structures which are flexible enough to reward key people whilst managing pay budgets effectively for all employee segmentations.

Ends

Notes

The Innecto Reward Consulting report on Rewarding Talent was based on a series of 189 interviews with HR professionals responsible for employment issues within UK businesses and 690 interviews with executives throughout the UK. The research was conducted between March and April 2006 in London, Oxford, Manchester, Edinburgh and Reading.

The report will be made available online at: www.innectogroup.co.uk

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About Innecto Reward Consulting:

Innecto Reward Consulting is a specialist consultancy advising businesses on their employee reward strategies. Covering key strategic areas such as pay, bonus schemes, career progression, organisation and job evaluation, Innecto's team of highly experienced reward consultants work with clients to align reward strategy with the overall business plan.

Formed in 2002, Innecto clients include Dixons Group plc, Marsh UK, Walt Disney, Channel 4, Vision Express and Aardman Animation. The company's success is founded on its combination of the skills, experience and depth of larger reward service providers and the agility, flexibility and personal approach of a specialist consultancy.

www.innectogroup.co.uk