

"It's a War for Talent – How Will *You* Survive?"
Remarks of
Jim Reese
Chief Executive Officer
Randstad North America
to the
Board of Trustees of the
Jacksonville Chamber of Commerce
September 17, 2003

Good evening! I'm delighted to be here and to be part of your Board of Trustees program.

I believe I'm proving Thomas Wolfe wrong when he wrote, "you can't go home." You can. And it's a good feeling.

As you learned from Jim's generous introduction, I spent many years in Jacksonville, learning a lot about the manufacturing industry at the Maxwell House plant.

I'm glad you can still smell a hint of coffee in the air when you come downtown.

My wife, Dina, and I have many fond memories of our Jacksonville days. We began raising our family of three daughters here in Jacksonville. Then, it was the friendliest community you could hope to find. And if the hospitality you've shown me is an indication, it still is.

Since my days here, my career journey has taken me from coffee making to the staffing business – a big leap it might seem.

Actually though, I've learned that no matter what business you're in ... or what business cycle you're in ... long-term success is all about the *people* who are part of your team ... people with the skills and the *will* to succeed.

When I get asked about the staffing business, I like to bring up the movie, *Seabiscuit*. Maybe you've seen it.

The main characters – the owner, the trainer, and the jockey – all saw something special in the moody thoroughbred when others had not. They discovered what made him tick.

One of my favorite lines in the movie was when the injured jockey, Red, was describing to the new jockey how to handle Seabiscuit during the upcoming match race with the mighty War Admiral.

Red instructed, "If you're leading going into the stretch... let the other horse catch up... so 'Biscuit can look him in the eye. Once he does that, the race is over."

You know, with the news media's attention riveted on "jobless recovery" and jobs moving offshore, you don't read or hear a lot about the importance of finding and developing competitors like Seabiscuit for your workplace teams, or learning what makes them tick.

Yet, I'm going to suggest to you that these "issues of the day" are only ripples in the sea. The real tidal wave is coming right behind.

And that brings me to my topic for today, “It’s a War for Talent, How Will You Survive?”

During the next few minutes, I want to touch on the issues making news today.

Then, I want to talk about a workplace challenge just around the corner.

To address it, I’ll share the insight we at Randstad have gained about what makes employees tick.

That insight comes from the sweeping surveys we conduct yearly of employees and employers across North America.

And finally, I want to offer a few takeaways on how you might use this research to your advantage.

But first, for those of you who don’t know too much about us, a little background on Randstad.

Randstad started forty-three years ago in a tiny section of Amsterdam called, not coincidentally, “The Randstad.”

A young Dutchman, Frits Goldschmeding, was celebrating the completion of his Master’s degree in economics with friends. The discussion soon turned to his Master’s thesis. In that thesis, he proposed what was then an innovative idea – that companies could convert their labor expenses from fixed to flexible costs by using temporary labor.

A friend offered to help test his idea. The next day, they made some flyers and headed off on bicycles to comb the Randstad in search of their first job order and a candidate to fill it.

Before the day was out, they had made their first match – placing a receptionist fluent in French, Dutch, German and Flemish in a clerical assignment calling for fluency in French, Dutch, German and Flemish!

In its first year of operation, the tiny company earned a net income of 9 guilders, about \$4.50 in US dollars.

Today, Randstad is a \$5.9 billion international provider of professional employment services and the fourth largest staffing organization in the world ... with nearly 2,300 offices in 13 countries, including 500 in the U.S. and Canada and eight here in Jacksonville.

Last year, Randstad put close to 208,000 people to work around the world **each day**.

Given our history, it’s probably no surprise that our perspective on business development is that *it all starts with innovation* – individuals with compelling ideas and the courage to try them out.

In today’s digital age, innovators create economic value in ways we couldn’t have imagined a few years ago. Innovation drives growth. And people working productively sustain that growth.

This has been America’s formula for economic success for more than a century. And in a global economy, America is the Seabiscuit in the race to innovate.

Yet, as I pointed out earlier, the economic “issue of the day” seems to be on other matters, like a jobless recovery and jobs going offshore.

Let's take a look at these developments. To be sure, there is a shift going on in the exporting of jobs.

A recent Forrester study reports that over the next 15 years, more than 3 million US services industry jobs and \$136 *billion* in wages will move offshore. That's up from \$4 billion in 2000.

We're not talking just about low-skilled jobs. As Forrester points out, many of the jobs moving to Asia are skilled positions in software development, business and financial services, and product development.

The reason, of course, is cost savings. On average, reports Forrester, companies save 25 percent by going offshore.

But what about the supply side of the equation?

Today, according to Forrester, the bulk of offshore labor, particularly in IT, is in India. India's labor pool is growing at a slower rate than global demand for it.

And India's infrastructure can't keep up.

By one estimate, a labor force big enough to meet offshore demand in 2008 would require two and a half times as many cars as India has today and a tenfold increase in air travel.

And other nations like China, Russia, Singapore, and Brazil can't keep up due to lack of offshore experience, language barriers, government policies and other reasons.

So in a global marketplace, salaries will increase in India, and the cost of doing business there will increase. India's rising middle class won't be low-cost anymore. In fact, there's evidence that this is already happening.

Bottom line – a lot of firms attracted to the low-cost promise of off-shore projects will soon have to weigh the downside of set-up costs, security, a shrinking labor pool offshore and other issues – against a diminishing cost advantage.

What about this notion of a jobless recovery?

If you look at the government's monthly payroll survey, you'd conclude that the recovery is a jobless one.

But the payroll total does not count the self-employed, a fast-growing group.

If you look at the household survey, an index of 60,000 households, you'd see nine consecutive months of slow but steady growth of working Americans between last November through this July.

By any measure, jobs are most often a *lagging indicator* of economic recovery, picking up as the demand for services increases.

A lot of experts think we'll see that momentum increase through the rest of this year and into 2004.

More important than these issues though is the tidal wave I mentioned coming in their wake.

The demand for innovation is not going away, particularly in a knowledge economy. Innovation will fuel an ever-increasing demand for workers with the right skills to make innovation pay off.

It means that long-term, the job market is expected to be strong.

Fact is, when the demand for services accelerates, we're going to be facing a sustained labor shortage, due in large part to a seismic demographic shift on the horizon.

Some 76 million baby-boomers – the largest generation in the workforce today – are gearing down for retirement. Their departure is expected to drive down the unemployment rate to a new 30-year low of 3.9 percent ... or lower.

The Department of Labor projects that by 2010, there will be 10 million more jobs than there will be workers to fill them.

And that's factoring in the nearly 7 in 10 "Mature" workers who, according to studies by the AARP and USA Today, CNN and Gallup plan to stay in the workforce and at least work part-time past traditional retirement age.

By 2030, the American workplace may be 35 million short of the 57 million new employees it will need to maintain current annual growth in per capita Gross Domestic Product.

Many who remain in the workforce will lack the basic, as well as specialized skills, to perform digital-era work.

70 percent of the fastest growing jobs will require more than a high school education, and 60 percent of jobs will require skills that only 20 percent of workers currently have.

So not only will there be a labor shortage, but there will be a skills shortage as well.

It will be an *all out war for talent* – not just in the U.S., but on a global scale.

Companies – large, medium, or small – that are able to attract and retain the best talent, and sustain high productivity, will be the winners in this competitive global marketplace.

So how do you keep the best talent?

The answer is by adding value *on employees' terms*. The key for employers is to find out what those terms are – to understand what makes employees tick.

At Randstad, that understanding comes from listening. Here in North America, we've made listening an annual ritual.

For the past four years, we've contracted with the research firm, RoperASW, to talk to thousands of employees across the continent about how they feel about their jobs and careers. We've also spoken with thousands of employers.

What have we learned?

To get the complete picture, let's go back to our first continent-wide survey, conducted in fourth quarter of '99.

As we approached the new millennium, everyone was still pretty much riding the crest of the dot-com euphoria, and employees were taking a pretty entrepreneurial approach to their work.

Four in ten surveyed said they were *always* looking for a better job. Almost as many said they planned to change jobs within five years, and more than one in five admitted they were actually *in the process* of changing jobs.

Job-hopping was the name of the game. And the winners were those who jumped highest and fastest.

In 1999, the balance of power was heavily skewed toward employees. And employers were offering flexible work schedules, condensed workweeks and perks like concierge service, paid sabbaticals and pet insurance to convince them to stay. One Seattle software company even created dock space for workers who wanted to commute by kayak!

Then things began to change...big time.

Our second continent-wide survey of workforce attitudes – conducted in fourth quarter 2000, at the beginning of the economic downturn – found employees of *all* generations and in *all* segments less likely to job-hop.

Instead of finding virtually *everyone* passively or actively looking for a better job, nearly eight in ten *defined success* as finding a company where you want to work for a long time.

For dotcoms and the American worker, the honeymoon was over. Job-hopping was no longer America's *second*-favorite pastime, and employees were looking for safe harbor to ride out the coming storm.

But the late '90s introduced some *lasting* expectations among employees about work.

Chief among these are the demand for a better balance between work and personal life, the desire for more flexibility, and a redefinition of the concepts of loyalty and career. These expectations remain high.

Employees want an employer who understands that personal lives are important.

Even before September 11th, we had seen that, as the economy cooled, the financial frenzy of the past was being replaced by a return to core values. People were "re-centering" and placing more value on the non-material things that matter most – family, community and personal well being.

Then came the dramatic events of two years ago. September 11th, massive lay-offs and the seemingly endless reports of corporate misdeeds crystallized the shift in priorities.

By 2002, focusing on what *really mattered* made more sense to people than ever before.

In our personal lives, this meant focusing more on our families. Our 2002 surveys found almost *three times* as many employees saying that family was their top priority as those who listed work as their top priority.

People also wanted the workplace to reflect a family focus. Two-thirds wanted to feel like their co-workers and supervisors were part of their family.

This priority received even more of an endorsement in this year's survey. Three-quarters of all employees surveyed agreed that it's important for employees to feel like they're part of a workplace family.

And while nearly half (49 percent) of *employers* agreed with this employee desire in our 2002 survey, more than 8 in 10 (82 percent) of employers in this year's survey agreed that a sense of family at work was important.

A flexible approach to employee relations, of course, goes a long way to create that family feeling, make work/life balance possible and address employees' desire for trust and autonomy.

So expect the demand for flexibility to remain strong.

The good news is that flexibility is not only good for employees, but recent research suggests that it can be good for the company, its customers and shareholders as well.

Watson Wyatt's 2002 *Human Capital Index*® study found that companies with the best "human capital" strategies had a three times greater return to shareholders over five years than companies without such strategies.

In that study, a collegial, flexible workplace ranked second on the list of management practices with the most impact on shareholder value.

Also at the top of employees' wish list today is trust.

In 2000, employees ranked trust as the top definition of job success. Employees said their employer's confidence in their ability to succeed – more than money or title – is what really made them feel successful.

By first quarter 2002, trust had gained even more ground with employees, with open, honest communications identified *for the first time* as the antidote to mistrust.

Employees not only wanted you to trust them to get the job done, but they wanted you to trust them enough to communicate with them – fully, truthfully, and often – about how they're doing and how the company is doing. That comes as no surprise in the wake of Enron, Andersen and WorldCom.

In our fall 2002 survey, employees had shifted from wondering whether the boss was competent to wondering whether the boss was *honest*.

Of course, ebbing trust is a problem for any company. But according to a recent *Harvard Business Review* article, it's even more of a problem in a knowledge-based economy because of the connection between trust and that critical priority to the economy – innovation.

Knowledge companies depend on innovation for business growth. But research shows that if employees don't trust, they don't innovate. The article concluded that employees' distrust of their managers and consequent lack of engagement present a huge, unrecognized problem.

While slipping loyalty may produce a dampening effect on innovation, it has raised the bar on employee expectations.

When we asked employees to define loyalty last fall, 4 out of 6 definitions revolved around honesty.

When asked, “*What does it mean to be a loyal employer,*” employees responded resoundingly...*an honest one.*

- 8 in 10 said it means honesty about the company’s financial health
- 8 in 10 said it means honesty about changes at the company
- Nearly 9 in 10 said it means honesty about job security, and
- More than 9 in 10 said it means honesty about work performance

Open, honest communication, of course, is key to any relationship. And the relationship between employees and employers is no exception. Indeed, if ever there were a “magic pill” to boost employee productivity, open and honest communication appears to be it.

Our research shows that employees who regularly receive information about their own and the company’s performance are more satisfied with almost every aspect of their job, including the type of work they do, what they think of their bosses and how much they’re paid.

This year’s survey found that a blizzard of memos or e-mails is not enough. It takes constant effort, attention to face-to-face communication and lot of listening.

It also takes recognizing the danger and power of the infamous grapevine.

Of course, the grapevine – like the commute to the office or the factory – is part of daily life in a business enterprise.

But in taking it for granted, employers may be ignoring its remarkable power to shape the hearts and minds of their employees.

Rumors delivered at the water cooler are often negative, incomplete and inaccurate.

And the grapevine doesn’t just spread in a top-down fashion. It sends its branches out in all directions within an organization – horizontally, diagonally and upward.

The grapevine is lightning fast in an Internet Age. Misleading rumors can be buzzing around a global enterprise and in hundreds of Internet chat rooms before the truth can get a foot in the door.

Here's some food for thought. This year’s *Review* showed that employee morale is nearly twice as high – 75 percent vs. 38 percent – when employees hear news – good or bad – from their employers rather than through the grapevine.

In addition to communicating proactively, you can build trust by encouraging open, honest two-way communication throughout the organization.

It can be as simple as instituting “Management by Walking Around” or establishing employee hotlines.

The key is for managers and senior executives to solicit employees’ thinking on issues as they’re evolving – and to respond to them.

Our research shows that people still prefer to hear about things directly from the boss.

I conduct state-of-the-business conference calls with the entire company every quarter. And we have a “Speak Up” voice mailbox that allows employees to voice their suggestions, compliments, or complaints directly to me, anytime, day or night. My experience is that if you disagree with employee suggestions, explain why.

If you incorporate them, even better.

And when it comes to communicating bad news, I like what Mark Twain said, “When in doubt, tell the truth.”

Clearly, when it comes to good news or bad, open, honest communications is a top priority for employees.

I’ve talked about everything except pay. Is it still important?

Of course it is. If you want to retain top talent, you need to pay people right.

But one thing that’s become very clear in our research is that while good pay is *necessary*, it’s not *enough* to keep employees satisfied.

Indeed, employees have told us that having work that is valued by their employer... working for an employer who understands the importance of employees’ personal lives... and being trusted to get the job done – and to be leveled with – can matter every bit as much as pay.

In other words, pay still *rocks*, but it doesn’t necessarily *rule* for employees today.

So what can you take away from our survey?

First, while job-hopping is out and staying put is in, now is the time for employers to build relationships and loyalty with their employees.

The job market will heat back up. We’re headed for a sustained labor and skills shortage. And employees will inevitably have choices when it comes to changing careers or switching jobs.

Building strong relationships with talented employees *now* is your smartest move for the future.

Investing in employees and giving them opportunities to refine, celebrate and be recognized for their skills will help build those relationships.

Second, if you want to truly connect your employees to their work and your company, listen to what they say is really important to them – what makes them feel truly valued and successful – like trust.

Convey trust in explicit and implicit ways. Employees want open, honest and complete information. Demonstrate trust by communicating with employees fully and candidly about how they are doing and how the company is doing.

And don’t just *tell* them; *show* them that they are valued professionals, trusted to get the job done. Micro managing and second-guessing say just the opposite.

Third, one of the main findings of our last three surveys was that employees want an employer who understands that personal lives are important.

Events over the past two years have propelled personal concerns to the forefront of the American psyche.

Given the dramatic increase in the number of people who say family is a top priority, you can build ties that bind by continuing to address these needs.

Look for ways to incorporate family as a value in the workplace, and employees will reward you for it. “Walk the talk” by finding innovative ways to bring flexibility into the workplace.

Employees who feel they have some flexibility – who feel they have some control in their lives – will be more satisfied with their jobs, more productive... and more likely to stick around.

These are some of the things we’ve learned from our research of employees the past few years. But I’ve only scratched the surface this evening.

If you don’t have a copy of our most recent survey, leave me your business card, and I’ll make sure you get one.

It’s been great to be with you. Thanks again for your time and interest.

###