

## Becoming an Employer of Choice: Strategies for Worker Recruitment and Retention

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*The demographics of the nation tell us we are getting more culturally diverse and increasingly “older,” with a large segment of “baby boomers” nearing retirement age. Already there are certain skill shortages emerging that will only be compounded as large numbers of skilled workers leave the labor force. It seems inevitable that employers will face a skills shortage in the near future. Skill shortages create a sellers’ market<sup>1</sup> where employers will have to compete aggressively for the services of talented and, especially, technology-savvy workers. Human resource (HR) management practices must be adapted to sellers’ market conditions. Productivity and profits will fall among firms that can’t recruit, reward and retain highly skilled workers during the coming shortage. However, firms that become employers of choice can hold on to their market shares and remain competitive in the global economy.*

In the midst of a buyers’ market, employers find it hard to imagine the pendulum swinging in the other direction.

The imperative for adjusting HR management practices to enhance worker retention is not obvious in the current environment because labor supply conditions have favored employers since roughly the second quarter of 2001. Starting summer 2001, the economy slowed, growth in consumer demand eased and layoffs occurred as employers adjusted to overcapacity, especially in the technology and transportation sectors, and to state and local budget crunches. The increasing cost of security in the post-September 11 world, the “dot.com bust” and price competition from foreign producers slowed domestic job creation.<sup>2</sup>

With fewer new jobs being created, employers that have managed to survive the shakeout have increased leverage in the labor market. Thousands of dislocated workers—including many who are technology savvy—find themselves looking for jobs alongside recent high school and col-

lege graduates.<sup>3</sup> In the resulting buyers’ market, wage growth has decelerated from the torrid pace seen through much of the late 1990s. Some dislocated workers have been lucky enough to find new jobs in the industries where they had been employed previously. But, based on national evaluation studies, on average they have gone back to work for less than 80% wage replacement—often requiring two years or more to regain lost earning potential. Some have returned to their old industries as contract or part-time workers without many of the benefits and perquisites they enjoyed during the sellers’ market of the late 1990s. Other workers who’d lost high-skill/high-wage manufacturing jobs accepted lower-skill/lower-wage employment in the service sector.<sup>4</sup>

As long as buyers’ market conditions prevail, employers instinctively will bolster short-term profits chiefly by holding down labor costs. In addition to holding the line on wages and benefits, employers will adopt more labor-saving technology to enhance the productivity of each worker.

Although this buyers’ market likely will prevail for a few more years, the pendulum is swinging back toward sellers’ market conditions. Key indicators suggest that the national and state labor markets are on the mend. Labor surpluses favorable to employers are likely to prevail in the short run—particularly in low-skill occupations. But even in the current buyers’ market, employers are experiencing skill shortages in a number of high-skill occupations—especially in the education and health care industries.

Census data tell us that the skills shortage will begin to emerge when baby boomers begin to retire starting as early as 2006. Boomers comprise roughly 60% of the prime-age workforce (i.e., workers between 25 and 54 years old). If the economy only grows at a modest rate of 3-3.5%, anticipated shortages in the domestic labor supply likely will be 5.3 million in 2010 and 14 million by 2020. That is because “the cohorts that follow are just too small to replace the [B]oomers.”<sup>5</sup>

If labor force attachment rates and oc-

cupational employment patterns among demographic groups continue along historic trend lines, **the general labor shortage will be felt most acutely as a skilled labor gap in professional, managerial and technical fields.** Baby boomers who are on the brink of retirement are employed disproportionately in those high-skill occupations. Successive cohorts in the smaller “feeder pools”<sup>6</sup> are comprised disproportionately of individuals from demographic groups that historically are less attached to the labor force and generally have lower levels of educational attainment.<sup>7</sup>

Economists ratchet the forecasted skills shortages upward when they take enrollments and graduation rates by field of study into consideration. Enrollments are declining in the kinds of math, science and technology-related postsecondary programs most closely related to high-skill/high-wage occupations with the fastest employment demand growth.<sup>8</sup>

Somewhere between 2007 and 2011, labor market conditions in the United States should begin to resemble those experienced between 1998 and 2001. Employers will again find it increasingly difficult to recruit and retain skilled workers.

### Possible Responses to Skill Shortages

*The long-term tragedy of offshoring isn't that it's snatching up many skilled American jobs. It's that it can't possibly snatch up enough.* —Paul Kaihla

In the past, American employers responded to shortages in the domestic supply of skilled labor by importing temporary (nonimmigrant) foreign specialty workers on H1B visas (commonly computer programmers, systems analysts and engineers); using L1 visas to transfer employees from a firm's foreign plants or subsidiaries to worksites in the United States; or shipping the jobs themselves offshore. But according to Paul Kaihla, de-

spite “double-digit” growth in the use of H1B and L1 workers and outsourcing to low-wage countries, such solutions have barely made a dent in the imbalance between the supply of and demand for highly skilled labor.<sup>9</sup>

By the time anticipated domestic skills shortages are painfully obvious in 2007, it will be more difficult to recruit highly skilled workers from abroad at relatively low wages. Wage equalization has already begun in many low-wage countries, as well as emerging skilled labor shortages. Interestingly, the same wage and labor supply issues that concern U.S. companies will also apply to the labor markets of many foreign countries. Shipping jobs offshore to low-wage countries will be come a less attractive way of holding down labor costs.<sup>10</sup> U.S.-educated foreign workers will be increasingly likely to return to opportunities in their native countries. This probably will result in a small-scale “brain drain,” especially in math, science and engineering.

At the same time, the aging of the workforce will factor more heavily into succession planning—a topic that is beginning to command the attention of HR managers in both the public and private sectors. Some firms already are devising strategies to retain the services of their older, highly skilled workers beyond normal retirement age. Such plans likely will appeal to Americans who, because of better health care and longer life expectancy, prefer to remain active and productive on the job beyond age 65. Such plans also will appeal to those whose anticipated incomes were decimated by declining stock prices and corporate failures among key holdings in their retirement fund portfolios. Nonetheless, efforts to retain older, high-skill workers are only stopgap measures. The baby boomers eventually will retire and must be replaced. Anticipating the inevitable rash of retirements, progressive firms are now more serious about identifying the next wave of talent, with senior managers and professionals

increasingly being asked to mentor and groom their own successors.<sup>11</sup>

To handle anticipated increased business as the economy rebounds, companies are starting to rebuild capacity at the managerial level. They are trying to scoop up professionals with proven performance track records who were laid off during the last rounds of downsizing.<sup>12</sup> Gradually and cautiously, employers will go deeper into their staffing patterns to rebuild capacity. Even now, some employers are engaging in *stealth hiring*<sup>13</sup> focused on specific talents and targeting key top performers. Others are doing *dry hiring* (interviewing candidates to identify desirable and available talent without actually hiring—stockpiling prescreened resumés to “build bench strength”).

As businesses that survived the shake-out rebuild capacity and as start-up companies begin to gain momentum, workers with highly sought-after technical skills will command ever-higher wages. They will be able to “shop” their skills to firms that pay the most competitive wages and supplement base earnings with the most attractive packages of fringe benefits and perquisites.<sup>14</sup> See the table below.

The prevailing view of best strategies for workers to succeed at work in a buyers' market, lifetime employment and hierarchical career paths is exemplified in William H. Whythe's *Organization Man*.<sup>15</sup> Daniel H. Pink discusses best strategies for workers in a sellers' market—opportunistic, entrepreneurial career paths—in *Free Agent Nation*.<sup>16</sup>

As the shortage becomes more apparent, some employers likely will try to poach skilled workers by outbidding their competitors. They also will have to offer higher wages to recruit foreign technical specialty workers as former “Third World” countries experience improving economic conditions and their own skill shortages.<sup>17</sup> Instability resulting from a vicious cycle of wage competition could create a mercenary worker environment and upset the firm's internal wage hierarchy

Table	Terms and Conditions of Work	
	In a Buyers' Market	In a Sellers' Market
	At-Will Workforce (workers holding jobs at the will of the employer)	Free Agency (resembling professional sports and entertainment) Me, Inc.

as competitors engage in retaliatory poaching.<sup>18</sup>

In a tight labor market, firms can get caught in an upward wage spiral. To keep from being “raiding targets,” employers have to up the ante to retain their incumbent workers. Eventually, this will put pressure on profits, parsing (i.e., accounting separately for the impact of) earnings between retaining key workers and investing in the technology and research to develop next-generation products and identify new markets.

It would appear that employers may be on the horns of a dilemma during the coming skills shortage. Those that get sucked into bidding wars are likely to get caught in an upward wage spiral that diminishes competitiveness in the long run. Those that don't offer higher wages immediately may experience lower productivity, forgo business opportunities and lose market shares or contracts for lack of skilled workers. Firms that figure out how to recruit skilled workers, retain them and continuously enhance their productivity will become “employers of choice.”

## Employers of Choice

An *employer of choice* is a firm whose employment policies and HR management practices give it an edge over its competitors in recruiting and retaining appropriately skilled workers and optimizing their productivity while maintaining or increasing their profitability and market shares.<sup>19</sup>

In exit interviews, workers often say they change jobs for higher wages. Employee surveys often identify compensation as a chief source of dissatisfaction. Instead of taking an adversarial view, employers of choice understand that such findings simply express workers' aspirations to share in their employers' good fortunes. One way to tie the interests of workers and employers together is to increase compensation while staking more of it to performance (e.g., commissions, bonus for exceeding productivity goals) and mutual risk (e.g., through profit sharing and stock options).

But, more importantly, employers tend to overestimate the importance of wages. Skilled labor does not necessarily go to the highest bidder. Employers must find ways—other than through bidding wars—to combine tangible benefits and intangi-

bles to make themselves more attractive to skilled workers during the coming shortage. Assuming a firm offers wages that are reasonably competitive, other factors weigh heavily in employee recruitment and retention, workplace satisfaction and productivity. These other factors revolve around the corporate culture. Namely, do a firm's HR policies, management behavior and manner of communications clearly indicate that it genuinely values workers?<sup>20</sup>

In today's tight labor markets, companies compete to find and keep the best employees, using pay, benefits, promotions and training. [But] no matter how generous its pay or renowned its training, the company that lacks great, front-line managers will bleed talent. Talented employees know that managers trump companies.<sup>21</sup>

Firms rated as the best places to work<sup>22</sup> (i.e., employers of choice) have another common characteristic. They make a reciprocal commitment to workers in exchange for their loyalty and productivity. This reciprocal arrangement constitutes a performance-based corporate culture. In this corporate culture everyone from the CEO to front-line managers views workers as assets and revenue generators, rather than as expense or cost items.

*The value of performers in the top 25% of a firm's staff is estimated at three to seven times their annual total compensation.*<sup>23</sup>

*Great ideas and products come from people, not from equipment, buildings or capital.*<sup>24</sup>

There is no magic formula for becoming an employer of choice—other than to be consistent in treating valued employees respectfully and fairly. Below are concrete recommendations commonly offered in the literature on employers of choice.

**1. Continuously “re-recruit” top talent.** That is, continue to court high-performing incumbent workers as if they had not yet accepted a job offer from the company. Workers crave attention and ego gratification. Make them know they are wanted. Recognize incumbent workers for their ongoing accomplishments as if you are still competing for their services—*because you are!* Understand that the accomplishments of your top employees are indicators of talent the competition will want to poach. Let your top performers know they are worthwhile be-

cause of their impact on the company and their positive contributions to society. Give them an occasional award—something as little as a plaque, a recognition luncheon or a choice parking space. If you wait to honor them with a gold watch at retirement, your top talent probably will be long gone.

**2. Give new hires jobs suited to their talents, and engage their interest so they can succeed.** Invest in a thorough interest and aptitude inventory on new hires. A significant portion of turnover—as much as 33%—can be attributed directly to a “bad fit.”

In doing employee surveys, William Mercer discovered the second highest rated reason for dissatisfaction was career development.<sup>25</sup> Highly skilled workers want to be challenged and stimulated in their jobs and given opportunities to learn and grow with the company.

Employers of choice take an active interest in their workers' career development as a way of enhancing their HR assets. Let employees know they have opportunities to grow with the company. For example, give each worker a challenge plan and a road map: Here is where the company expects to be in two years, in five years. Here is where you can expect to be in two years, in five years. Here is the company's commitment to train you for continuous employability and groom you for advancement. Better yet, give them high-, moderate- and low-growth scenarios for the company and what they can expect in each scenario. Demonstrate to them that their best interests are connected directly to making significant contributions that help the company achieve high growth. Base challenge plans on actual career trajectories of predecessors in the company who started in the same job classification, rather than on hollow promises.

**3. Promote from within, to the extent possible.** Internal candidates are superior to external candidates because they usually have a much higher success rate in their new jobs. They already know the corporate culture and have already performed well in it.

Clearly tie career advancement to performance, rather than simple seniority or cronyism. Clearly define internal career ladders and performance metrics for advancing up each rung. This sends out several important messages at the same time. It signals a commitment to the

workers' aspirations for opportunities to grow along with the company. It shows top performers they are truly valued by rewarding them with promotions and earnings gains for their productivity. It reinforces the critical understanding among other workers that performance is the key to their career advancement.

Remember, however, that expeditiously weeding out the deadwood is an essential part of establishing a performance-based culture. Highly skilled workers typically resent having to carry the load for low-performing team members. Failure to terminate low performers frustrates the top performers and lowers their morale.

Keep track of who is "overdue" for promotion and identify which incumbent workers are being courted by the competition. Keep your promises to help them advance as they increase their productivity and contributions to the company. "Some bosses hold back their best employees from transfers for their own advantage. [But] if you don't act to keep their careers moving, they become your next retention problem."<sup>26</sup>

**4. Treat highly skilled workers as professionals with control over their work life.** They resent being micromanaged. Rather, they expect to be trusted to do their jobs to the best of their abilities. Make it clear what they are supposed to accomplish and how their performance will be measured and evaluated. But trust them to set an appropriate pace and give them latitude to exercise independent professional judgment along the way. Give them a variety of stimulating and challenging tasks so they don't burn out doing something monotonous. Consider periodic job rotations and horizontal moves. (The variety not only stimulates and challenges talented workers, but also serves the company's interest by cross-training individuals to backfill positions quickly should critical vacancies occur unexpectedly.)

**5. Avoid layoffs.**<sup>27</sup> While wanting challenges and advancement, talented workers also value the employment security that comes from working for an industry leader with staying power in the marketplace and a growing market share. (Workers who were laid off during previous waves of corporate downsizing may be especially anxious about earning a steady income.) As the economic returns from product lines and services shift, redeploy top talent from divisions or projects with a low return on

investment (ROI) to high ROI areas. As projects are nearing completion, start providing team members the training they need to take on the next assignment.

**6. If you must downsize, cut fat, not muscle.** Remember that business tends to be cyclical. Downsizing when the economy is sluggish reduces the bench strength required to respond nimbly when the economy recovers. It also has a chilling effect on potential recruits by sending a signal that the firm is not fully committed to its workers. If necessary, use temps and contract workers for peak season demands and short-term projects.

**7. Also avoid across-the-board hiring freezes.**<sup>28</sup> An across-the-board hiring freeze unnecessarily shortchanges divisions that can pull a company through a sluggish economy. It also causes you to miss opportunities to hire top talent when it does become available or to retain workers in occupations critical to the organization.<sup>29</sup>

**8. "Overcommunicate" with employees.** Provide "360 feedback" (i.e., constructive rather than confrontational criticism, a two-way dialogue rather than a top-down command structure). Fairly evaluate their performance and progress—benchmarked against their personal challenge plans. Periodically ask them: What do you like best about your current job? Least? What do you want more of from management? Less of? What do you see as barriers to your productivity and performance? What would your next "dream job" be?

Consider using "open book management." That is, let employees know honestly how the company is doing. Workers will tolerate lulls in earnings growth if they see that everyone on the team is tightening their belts when profits are down and market shares are being lost.

Alleviate anxiety or resentment by explaining policies. Let them see the big picture—like why, in lieu of pay raises, a portion of profits might be invested in research and development or productivity-enhancing tools to keep the company competitive. If mergers and acquisitions are on the horizon, let employees know well in advance how they will be personally affected.

**9. To the extent possible, accommodate employees' desires to achieve "work-life balance."** Consider allowing flextime, compressed workweek and work-at-home/telecommute options. Don't be

unnecessarily stingy with health care benefits, vacations, sick leave and family leave. Set up a cafeteria plan with a wide range of options that employees can purchase with pretax dollars. Give each employee the flexibility to structure a benefit package tailored to individual circumstances.

Involve the workers' spouses and children in the corporate family by hosting occasional social events and group outings and sponsoring things like a company bowling tournament or Little League team.

Employers of choice typically have a strong corporate responsibility agenda. They are committed to improving the quality of life in communities where they do business (e.g., through the use of "green" renewable energy resources, promoting diversity in the workplace). They encourage civic engagement among their employees.

**10. Get great mileage out of low-cost perquisites.**<sup>30</sup> On-site day care (which may be subsidized by state and federal programs) can cut down on absenteeism and tardiness. So will concierge-like services (e.g., on-site dry-cleaning pickup and delivery) that the vendor will pay to operate in exchange for the free use of a tiny amount of square footage.

By putting up a nominal fee, an employer can arrange group rates at fitness centers or wholesale establishments like Sam's Club or Costco (which the individual workers pay for).

Consider reimbursements for travel to conferences and membership fees in professional associations as investments in generating new ideas, employee growth, rejuvenation and morale building.

Give top talent state-of-the-art hardware and software "toys" that confer an element of prestige on the "power users" and generate excitement among them while enhancing their productivity.

**11. Cultivate the future workforce by getting involved with education and training institutions.** Actively participate in educational forums to ensure that the curriculum in industry-related programs imparts the knowledge, skills and abilities required for productivity on the job after graduation. Establish relationships with key faculty (through summer work options, consulting opportunities, endowed chairs, equipment and facilities pooling) in exchange for "top draft



choice” job referrals on their promising students. Preposition the firm to “cherry pick” the best students by providing them with mentors, job shadowing opportunities, internships, apprenticeships and summer work experiences before they graduate.

## The Payoff

The employer-of-choice strategy is not some theoretical humanitarian agenda. It is about more than treating workers with respect and rewarding them for altruistic reasons. A prominent consulting firm, the CBI Group, explains it this way: “Simply put, employer of choice status is good business. The strategy can reduce your turnover, increase productivity, reduce costs and enhance your bottom line.”<sup>31</sup>

Happy employees—employed and constantly rerecruited by the high-performance firm of their choice—are more productive. They are motivated to work hard at their current jobs and constantly acquire essential skills needed to perform future duties and tasks proficiently. Happy employees are less likely to be absent or tardy. They provide better customer service.<sup>32</sup> All this has a direct bearing on sales<sup>33</sup> and profitability.<sup>34</sup>

The biggest payoff, however, is reduced turnover cost.<sup>35</sup> Too many firms underestimate the cost of turnover because they look only at what they spend on advertising, applicant screening, interviews and the paperwork required to bring a new hire on board. They forget that turnover costs include the following.

**Separation costs.** Administrative costs are incurred when workers depart: severance pay, any increase in the employer’s contribution to unemployment insurance, COBRA processing, litigation (if any) for unjust termination or violations of the Fair Labor Standards Act, Family Medical Leave Act or Equal Employment Opportunities Act.

**Vacancy costs.** Sales are lost when labor shortages result in missed project completion dates. In the worst-case scenario, project completion delays may cause the firm to lose the advantage—if not an entire market segment—if it fails to be the first mover. When product delivery deadlines are missed, carrying costs increase as inventory turns too slowly. Customers cancel orders when delivery deadlines are missed. In the worst-case

scenario, disgruntled customers take all of their business elsewhere.

There may be a loss of team synergy. That is, the productivity of remaining team members decreases because the departing worker provided stimulation and input essential to accomplishing their respective tasks. They may try to cover the duties and tasks but lack the expertise to be as proficient as the departed worker was. Morale among remaining team members may decline. The quality of their output may decrease if they experience fatigue and burnout from carrying an extra load while the departed worker’s position remains vacant.

Labor costs increase if remaining employees are given overtime to cover the duties and tasks while the departed worker’s position remains vacant. Alternatively, a premium must be paid to any service company that supplies temporary personnel to fill the vacancy. Temps may not be as proficient as the departed worker and produce lower quality output even though their wages plus the service company’s premium are greater than the departed worker’s wages.

The higher the skill level of the departed worker, the higher the vacancy costs per unit of time. Total vacancy costs for high-skill positions are compounded by the greater length of time they are likely to remain unfilled. The higher the skill level of the departed worker, the smaller the talent pool from which a replacement can be recruited. The smaller the talent pool, the longer the position is likely to remain vacant.

**Replacement costs.** These are the factors, previously mentioned, that most firms recognize as comprising turnover costs: direct expenditures for recruiting (e.g., newspaper ads, referral bonuses and bounties); applicant screening (i.e., HR department time spent reviewing résumés, testing applicants, checking references); interviewing (i.e., interviewers’ time plus administrative time to set up interview schedules); orientation time and materials; processing paperwork for new hires.

For high-skill positions, recruitment costs may include extraordinary expenditures for such things as headhunter fees, conducting a nationwide rather than local search, and the higher costs of advertising in specialized professional journals or posting vacancy notices with occupa-

tionally-specific electronic job-matching services.

In a tight labor market, a replacement with skills that are in demand may command a higher wage than the departed worker’s plus a signing bonus and/or moving expenses. The total compensation for the new hire often exceeds the modest increment it would have taken to keep a relatively satisfied high-performance worker from accepting a competitor’s offer.

**Training costs.** Training costs include tuition for formal education and training (or for materials and an in-house trainer’s time) to fill any gaps between a new hire’s knowledge, skills and abilities and those required for adequate job performance. Training costs also include time spent by administrators or supervisors on new hire orientation.

**Performance differential.** Even after receiving formal “gap” training, a new hire is not likely to be as proficient as the departed worker who had unique company- and project-specific know-how (tacit knowledge acquired on the job). On average, new workers only do 75% as much work as an experienced employee.<sup>36</sup> The ratio of speed to productivity varies inversely with the skill level of the position. The higher the skill level, the longer it takes a replacement to “get up to speed” to match the productivity of the departed worker. The more on-the-job experience the departed worker had, the longer it will take the replacement to get up to speed.

Indeed, as many as one in three replacement workers never gets up to speed and has to be terminated.<sup>37</sup> This starts the replacement process all over again with more separation, vacancy, replacement and training costs. (Note: In computing the replacement costs—especially the performance differential—it is important to use the productivity of the original departed worker as a baseline rather than the productivity of the interim replacement who did not work out.)

Replacement workers also have an indirect effect on productivity while getting up to speed. They require more supervision time by managers. They may turn out lower quality work, requiring more of their output to be reworked by others or scrapped altogether because of excessive defects. They may be the “bottleneck” in a process flow that bogs down the performance and output of other team members.

Taken together, these factors add up to very significant turnover costs. Of course these costs will vary according to the skill level of the departed worker, the duration of the vacancy, the size of the talent pool, and the efficiency and effectiveness of a firm's HR department in finding a competent replacement. Without going through actual calculations, you can get a feel for the range of vacancy costs from examples provided in various studies:

- Turnover costs: fast-food preparation worker, \$500; fast-food manager, \$1,500; truck driver (long haul/over-the-road), \$5,000; insurance company executive, \$35,000.<sup>38</sup>
- The "conservative" turnover cost for registered nurses is roughly 33% of the annual total compensation for the departed worker. At prevailing wages, that comes to \$18,270.<sup>39</sup>
- For a software engineer, turnover costs are estimated at \$150,000. For a project team leader on a major application development project, the turnover costs can range from \$200,000 to \$1 million (if delays are so significant that the application is not "first to market"); or worse, it could result in a business failure if the team leader's departure means that the project is not completed.<sup>40</sup>

As alarming as these figures are, they underestimate turnover costs incurred when the departing worker is a top performer. The estimates above were generated using multipliers (usually around 33% in moderate skill positions) based on the productivity of the average worker in each occupation. John Sullivan, professor of Human Resource Management Studies at the San Francisco University, suggests that while the turnover costs of the average worker may be 33% of the annual compensation, turnover costs for the top-performing workers (i.e., those in the upper quartile) may be three times (300%) their annual compensation. Dr. Sullivan concurs with Bill Gates. "A superstar may perform at a rate 100 times greater than the average employee." Therefore, when calculating the turnover costs for a specific firm, it is important to use a formula to reflect the weighted averages, say, by quartile, for workers in each occupation in the staffing pattern.<sup>41</sup>

The proverbial *invisible hand* of economic necessity may well compel employers to adjust their HR policies

to sellers' market conditions where skilled workers are in short supply. Employers that anticipated the coming skills shortage already may have a leg up on the competition by pre-need hiring of the top talent. Others, however, are so preoccupied with the bottom line in the coming quarter that they fail to see the skills shortage looming on the horizon. The longer it takes for them to realize the pendulum is swinging back to sellers' market conditions, the lower the talent level among those who remain unemployed and available. Becoming an employer of choice is not a concession to workers. It is the ultimate pairing for productivity.

When all impacts on productivity, marketing and labor costs are considered, it makes good business sense to become an employer of choice voluntarily—sooner rather than later.

**B&C**

## Endnotes

1. The terms *sellers' market* and *buyers' market* refer to which party has greater bargaining power in an economic transaction. In labor market transactions, the workers (i.e., those selling their labor) have relatively more leverage when employment demand exceeds the supply of workers. In a sellers' market, labor can command higher wages and extract concessions from employers regarding the terms and conditions of employment. Workers can shop their skills to other firms when their current employer will not meet their wage demands. When labor supply exceeds demand, we have a buyers' market where employers can hire labor at bargain prices and pretty much dictate the terms of employment. Insofar as labor supply and demand never truly reaches equilibrium, the pendulum swings back and forth from sellers' market to buyers' market conditions.

2. While the terrorist attacks of September 11 had a direct effect on business transactions that ran through the twin towers of the World Trade Center, the economic repercussions were felt by companies far removed from Ground Zero. Tourism and passenger airlines throughout the United States lost business when fears of additional attacks led people to cancel business and vacation travel plans. That had a ripple effect through related industries. Fast-food establishments at DFW and Bush International Airports, for example, had to lay off workers when the number of passengers in the terminals dropped significantly. So did travel agencies and the hotel/motel industry. See the *Unemployment Insurance Benefits Letter #10-03* dated June 23, 2003 to displaced airline-related workers from the Texas Workforce Commission.

3. The postbubble flood of dislocated workers into the ranks of the unemployed added to the ever-present and fairly steady turnover due to normal frictional unemployment, technology-driven displacements and trade-related adjustments.

4. That was one of the segments of the national economy that continued to exhibit em-

ployment demand growth while jobs in manufacturing and the information technology industries were impacted by the dot.com bust.

5. Paul Kaihla, "The Coming Job Boom" in *Business 2.0* (September 2003) p. 98. Note that, in all probability, the labor shortage will be less severe in states such as Texas, Arizona, California and others with large concentrations of younger, primarily Hispanic workers. Texas, for example, has enjoyed significant net gains in individuals of prime working age as a result of cross-state migration within the nation and from immigration by foreign nationals. The fertility rate (surplus of births over deaths) in Texas also is higher than the national average. However, higher-than-average population growth in Texas will not necessarily resolve the anticipated skills shortage.

6. That is, potential replacements for the retiring baby boomers commonly are referenced as Generation X (or "Gen X") and Generation Y (or "Gen Y").

7. While the anticipated general labor shortage likely will be less severe in Texas than in other states, the *skilled* labor shortage is likely to be as bad—if not worse! Most of the population growth in Texas has been fueled by the immigration of low-skilled aliens and higher-than-average fertility rates among Blacks and Hispanics, demographic groups that historically have had lower-than-average rates of labor market attachment and educational attainment.

8. See M. Anderberg, *Technology Worker in the New Texas Economy* (Austin, TX: Career Development Resources, 2002) and annual reports compiled by the National Center for Education Statistics, the National Science Foundation, the Institute of Electronic and Electrical Engineers, the Texas Higher Education Coordinating Board and the Texas Automated Student and Adult Learner Follow-up System. What is even more alarming is that scores at the K-12 level on math and science tests are low by international standards at a time when (a) math and science are becoming increasingly essential to high-wage occupational employment; (b) student scores in other countries are improving rapidly.

9. P. Kaihla.

10. Wages gradually are creeping up in low-wage countries as their economies start to prosper—thus reducing the wage differential that made them attractive places for American-owned businesses to locate offshore operations. Countries such as Japan, China, South Korea, India and Taiwan are providing more opportunities and incentives for their talented and technology-savvy youths to attend postsecondary education and training programs in their homelands. Those countries (along with Germany, Russia, Ireland, Malaysia and Singapore) are providing more incentives for graduates of math, science and technology-related programs to remain in their homelands and to lure highly skilled workers that had immigrated to the United States to repatriate. See M. Anderberg, *The Digital Divide* (Austin, TX: Career Development Resources, 2003).

11. As firms downsized during the economic slowdown after 1999, cuts were not necessarily made evenly across all age cohorts and levels within their staffing patterns. Many firms "flattened" their organizations as a means of downsizing. That is, they kept their senior leaders (now reaching retirement age) and their production line workers while eliminating layers of junior executives, mid-level managers, administrators and supervisors. Thus, they deprived themselves of the "bench strength" to replace re-



tiring senior executives with in-house candidates with proven performance records and intimate knowledge of company operations.

12. Indeed, firms try to hang on to top talent up to the very end (i.e., when they close a plant or office as opposed to general downsizing). The most talented are the last to be laid off and they don't remain unemployed very long—even in lean times. The very best are not likely to be available when a rebounding company tries to recall them. The longer a firm waits to rebuild its staff during an economic recovery, the lower the talent level among the ranks of those who remain unemployed. See J. Sullivan, *Effective Layoff—Avoiding Layoffs in the First Place; Why Hiring Freezes Are Dumb: Shift Your Recruiting Strategies as the Economy Changes; Pre-Need Hiring and Workforce Planning; Where Have All the Good Candidates Gone: The Shortage Explained; The War for Talent Is Over and Guess Who Won?; and How to Hire Great People That Don't Need a Job*.

13. See The Herman Group *Trend Alert* (May 26, 2004) at [www.hermangroup.com](http://www.hermangroup.com). Roger Herman uses the term *stealth hiring* for employers that recruit quietly knowing their competitors watch each other's hiring patterns as indicators of growth and market positioning. *Dry hiring* is Herman's term for going through dry runs (just short of hiring) to identify desirable and available talent to build *bench strength*.

14. In the wake of Netscape's gazellelike performance after the initial public offering (IPO) of its stock in 1995, firms used either existing stocks or pre-IPO issues in lieu of wages above the prevailing rate to attract top talent. Throughout the dot.com boom (1995-1999), stock options and workplace accouterments were attractive perquisites. Since the dot.com bust in 1999, faltering stock prices in general and the poor post-IPO performance of many technology stocks have reduced the salience of stock options to high-skill workers and their effectiveness as recruiting enticements. Similarly, as widespread downsizing occurred in the first part of this decade, dislocated workers discovered the transitory value of workplace accouterments and firms realized that it was difficult to recoup their investments in such amenities as recruiting tools. Thus, during the next skills shortage, savvy job-seekers likely will command more concrete and practical benefits—either provided by the employer or procured through employer-arranged opportunities to use pretax dollars. "Benefits" whose value is defined in some potential that may never materialize or diminish significantly in the future (like stock options) likely will not be used as inducements nor will nice-to-have but rather superfluous amenities (such as steam rooms and massage tables in the office suite).

15. (New York City, NY: Doubleday, 1959); also see Sloan Wilson, *The Man in the Gray Flannel Suit* (New York City, NY: Simon and Schuster, 1955).

16. (Lebanon, IN: Warner Business Books, 2001). The business card of Paladin from the old television western comes to mind: *Have Gun/Will Travel*. See the Web-based labor exchange service set up expressly to match freelance workers with firms seeking to engage contractors on a project-by-project basis at [www.free-agent.com](http://www.free-agent.com) and ongoing advice available to freelance workers at [www.fastcompany.com](http://www.fastcompany.com). Also read about the "Me, Inc." concept in E. Moore, *Pathways to Personal Independence* (Austin, TX: Career Development Resources, 2001). The same concept is presented as "You, Inc." through a free newsletter available at [www.inc.com](http://www.inc.com).

17. See M. Anderberg, *The Digital Divide* and Anderberg and Froeschle PowerPoint slide show on the false economy of relying on a supply of foreign technical specialty workers.

18. See J. Sullivan, *The Coming Bid-for-Talent Revolution: Prepare Now or Else*; and J. Sullivan, *Poaching Isn't Just for Salmon Anymore*. Both are available at [ourworld.compuserve.com/homepages/gately](http://ourworld.compuserve.com/homepages/gately).

19. Kaihla cites Cigna, Intel, SAS, Sprint and Whirlpool as American-based firms that understand the coming skills shortage and grasp its implications for HR management. Indeed, *60 Minutes* (CBS) did a feature story on the HR practices of SAS (April 20, 2003). Sullivan in his various works cites Cisco, Agilent Technologies, Juniper Networks and Hewlett-Packard as employers of choice. Hewlett-Packard also is cited along with Federal Express, 3M, General Electric, Wal-Mart and Southwest Airlines by B. Catlette and R. Hadden in *Contented Cows Give Better Milk* (Germantown, TX: Saltillo Press, 1998).

20. Dorrit T. Walsh, *Let's Stay Together—Keys to Retaining Your Valuable Employees*, available at [www.hrplaza.com](http://www.hrplaza.com) (undated) citing data from studies done by William Mercer and Coopers & Lybrand, LLP (now PriceWaterhouse and Coopers at [www.pwc.com](http://www.pwc.com)).

21. In general, see the works of John Sullivan (professor of human resources, San Francisco State University) at [ourworld.compuserve.com/homepages/gately/sullivan.htm](http://ourworld.compuserve.com/homepages/gately/ourworld.compuserve.com/homepages/gately/sullivan.htm).

22. M. Buckingham and C. Coffman, *First, Break All the Rules: What the World's Greatest Managers Do Differently* (New York City, NY: Simon & Schuster, May 1999).

23. Here we are talking about something broader than ratings of businesses offering specific kinds of occupational employment (e.g., Top Ten Companies to Work For [in information systems] by Inter@ctive Week or MBA's Top 50 Companies identified by Fortune at [www.fortune.com/for-tune/diversity/index.html](http://www.fortune.com/for-tune/diversity/index.html)) or for workers from specific demographic groups (e.g., best places to work for women, Blacks, Hispanics, Asians and Native Americans. (See, for example, [www.black-collegian.com](http://www.black-collegian.com); 100 Best Companies for Working Mothers and Best Companies for Women of Color at [www.working-mother.com](http://www.working-mother.com); Fortune's 50 Best Companies for Minorities available at [www.fortune.com/fortune/diversity/index.html](http://www.fortune.com/fortune/diversity/index.html); or for Hispanic females, Latina Style 50! at [www.latinastyle.com/latina50.html](http://www.latinastyle.com/latina50.html)). That is not to say that recognition of firms for their fairness to historically underutilized demographic groups in hiring, retention, promotion and compensation is unimportant. Indeed, equal employment opportunities and appreciation of cultural diversity are necessary but not sufficient conditions for being an employer of choice.

General selections made annually by *Fortune Magazine* are based more broadly on responses to their surveys of employees (without regard for demographic pigeonholes). But little information is provided by the authors (Levering and Moscovitz) on common HR policies and practices among the firms they recognize. The Great Place to Work Institute uses employee surveys constructed around their "trust index" and [corporate] "culture audit," but they do not disclose the details of their models nor do they publicize what factors kept nominated firms from making their list. (Go to [www.100best.org](http://www.100best.org).)

An employer of choice also is more than a plaque on the wall given to a firm that has been "recognized" as such by a consulting group (e.g., see the Herman Group at [\[ployerofchoice.com\]\(http://ployerofchoice.com\), or the Dahlstrand Group at \[www.dalstrandgroup.com\]\(http://www.dalstrandgroup.com\)\) for having engaged its services and implemented its recommendations. \(That is not to say that consulting group recognition or validation is unimportant. Employers of choice can use recognition and awards in their recruiting and retention efforts and in their public relations campaigns. While all firms that have implemented rigorous programs recommended by consultants specializing in this new area are likely to be genuine employers of choice, not all employers of choice have engaged the services of the same—or necessarily any—consulting group en route to becoming an employer of choice.\)](http://www.em-</a></p>
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Despite the growing imperative to become employers of choice as the skills shortage approaches, no single entity is universally acknowledged to have the authority to confer this title to firms. No single laundry list of actions, policies and practices defines the term. Although it borders on circular reasoning, the best definition is an empirical one: An employer of choice is one that talented workers of any background deliberately choose to work for—even when they have other employment options.

24. J. Sullivan, *Cost per Hire: A Better Metric Is the Quality of Hire* at [ourworld.compuserve.com/homepages/gately/pp15js26.htm](http://ourworld.compuserve.com/homepages/gately/pp15js26.htm).

25. J. Sullivan, *Instead of the Cost-of-Hire, Measure the Cost of a Bad Hire* at [ourworld.compuserve.com/homepages/gately/pp15js48.htm](http://ourworld.compuserve.com/homepages/gately/pp15js48.htm).

26. D. Walsh, *Let's Stay Together—Keys to Retaining Your Valuable Employee* at [www.hrplaza.com](http://www.hrplaza.com).

27. J. Sullivan, *Intraplacement* at [ourworld.compuserve.com/homepages/gately/pp15js37.htm](http://ourworld.compuserve.com/homepages/gately/pp15js37.htm).

28. J. Sullivan, *Effective Layoffs: Avoiding Layoffs in the First Place* at [ourworld.compuserve.com/homepages/gately/pp15js167.htm](http://ourworld.compuserve.com/homepages/gately/pp15js167.htm). See also J. Sullivan, *Cost Factors and Business Impact of Turnover* at [ourworld.compuserve.com/homepages/gately/pp15js10.htm](http://ourworld.compuserve.com/homepages/gately/pp15js10.htm).

29. J. Sullivan, *Why Hiring Freezes Are Dumb* at [ourworld.compuserve.com/homepages/gately/pp15js122.htm](http://ourworld.compuserve.com/homepages/gately/pp15js122.htm).

30. J. Sullivan, *Pre-Need Hiring and Workforce Planning* at [ourworld.compuserve.com/homepages/-gately/pp15js99.htm](http://ourworld.compuserve.com/homepages/-gately/pp15js99.htm).

31. See, for example, K. Blanchard and B. Nelson, *1001 Ways to Reward Employees* (New York City, NY: Workman Publishing 1994).

32. Go to [www.thebiggroup.com/Employer\\_of\\_Choice.htm](http://www.thebiggroup.com/Employer_of_Choice.htm).

33. D. Lee, *How Employee Emotions Affect Your Organization's Ability to Compete* at [ourworld.compuserve.com/homepages/gately/lee.htm](http://ourworld.compuserve.com/homepages/gately/lee.htm).

34. To the customer, front-line sales persons are the face of the corporation. Their impressions of the entire firm and its products are colored by the quality of service they receive. See *Corporate Image 2001: It's All About Customer Service* at [www.ipsos-na.com/news/pressrelease.cfm?id=1267](http://www.ipsos-na.com/news/pressrelease.cfm?id=1267). Disgruntled front-line employees tend to be indifferent—if not hostile—when face to face with the customers. Bad customer service not only results in decreased sales but also is associated with increased complaints or returns. In the worst-case scenario, bad service by front-line workers can result in the permanent loss of customers. On the other hand, customers may develop loyalty to individual front-line workers who do provide good service. In the words of J. Sullivan, "Customers buy from their salesperson, not the company." Top-performing salespeople are in high demand. Top salespeople are likely to jump ship

and take their loyal customers with them if a company does not recognize them and reward them for their performance. See Retention Tool Kit at [ourworld.compuserve.com/homepages/gately/pp15js22.htm](http://ourworld.compuserve.com/homepages/gately/pp15js22.htm).

35. B. Catlette and R. Hadden provide data comparing the sales and profit margins for six employers of choice and six “also-rans” in *Contented Cows Give Better Milk* (endnote 19). Also see their Web site at [www.contentedcows.com](http://www.contentedcows.com) for data updates.

36. A spreadsheet for estimating the cost of turnover is available from G. Green, J. Moskal and W. Pinkovitz at the Center for Community Economic Development at the University of Wisconsin—Cooperative Extension at [www.uwex.edu/ces/cced/publications/turn.html](http://www.uwex.edu/ces/cced/publications/turn.html).

37. D. Walsh, *Let's Stay Together—Keys to Retaining Your Valuable Employees* at [www.hrplaza.com](http://www.hrplaza.com).

38. See J. Sullivan, *Cost Factors and Business Impact of Turnover and Cost of a Bad Hire* previously cited.

39. J. Brannick, *Decreasing the Staggering Costs of Turnover in Your Organization* at [www.florida-speakers.com/turnover-costs.htm](http://www.florida-speakers.com/turnover-costs.htm).

40. Colorado Department of Labor at [www.coworkforce.com](http://www.coworkforce.com).

41. J. Sullivan, *The Cost Factors and Business Impacts of Turnover* (previously cited); J. Sullivan, *Performance Turnover: The Cost of Turnover May Be Higher Than You Think* at [ouworld.compuserve.com/homepages/gately/pp15js2.htm](http://ouworld.compuserve.com/homepages/gately/pp15js2.htm).

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