Episode 157: Putting employees first: The new war for talent in knowledge industries

VOICEOVER
Welcome to Up Close, the research, opinion and analysis podcast from the University of Melbourne, Australia.

JENNIFER COOK
I'm Jennifer Cook, thanks for joining us. On this episode of Up Close, we challenge the conventional wisdom that businesses should do all they can to retain their valuable employees, that to lose talent is to lose profits. Indeed, today's guest has declared the war for talent is over and talent has won. Ian Williamson is Professor of Human Resource Management and Helen Macpherson Smith, Chair of Leadership for Social Impact at the Melbourne Business School and he says it's time organisations did a complete rethink of what it means to keep talent, especially in light of increasing evidence that many young people are changing employers each year. Indeed, he says many industries are facing the problem not of getting work but finding the right people to do that work. He points to the Indian IT provider, HCL Technologies, as an example of an organisation that has adopted the radical philosophy of putting the employee first and the customer second, based on the belief that great employees have become scarcer than customers. Ian, thank you so much for joining us.

IAN WILLIAMSON
It's my pleasure.

JENNIFER COOK
Ian that sounds like heresy; it's a huge fundamental philosophical shift for business.

IAN WILLIAMSON
I think it is. I think it's an appreciation of where the value has actually been generated in firms and for so long we've thought about value being created by factories or machinery or brands or these various other types of attributes of the organisation, yet I think we've entered into an era, maybe the information era, where
it’s what people know; it’s in between our ears that is actually driving all the value for firms and that that changes the nature of the game in terms of how firms think about employees. Also I think the level of power that employees actually have, particularly in knowledge workers, as it pertains to the relationship they have with an employer.

JENNIFER COOK
And let’s look at it from the point of view of the employee; what’s happened globally and culturally that makes it easier for us to move from organisations?

IAN WILLIAMSON
So on one hand you have this shift to a service-based economy which really makes it about the unique relationship I have with individuals. Simultaneously, one thing we know about services or the types of skills acknowledged workers can provide - engineers, IT executives or lawyers - these are generalizable skills, they’re transportable. If I think of myself as an academic, I used to work in the United States at a university there and I moved to Australia on the other side of the planet and within a week I had the same level of productivity that I had in the United States because the skill set was transportable, it is a professional skill and I think what you’re seeing is the barriers of movement have reduced; so globalisation, trade agreements, information technology, it’s much easier for people to relocate to different situations, different geographical locations. There’s a lot of opportunity and it seems very hard for me to believe that people will give up that mobility, in fact all the statistics that I’ve seen around the world suggest that employee mobility is increasing not decreasing and in some cases, if I think of China for example, the numbers are suggesting that the average tenure for a Chinese employee between the ages of say 25 and 35 is one to two years.

JENNIFER COOK
That is a stunning figure.

IAN WILLIAMSON
Yeah if you think about how long it took you to figure out how to do your job, work with your employer. You probably didn’t figure that out in a year and maybe by two years you kind of figured out what you needed to do and then you’re leaving.

JENNIFER COOK
You’re being very generous to me. Thank you, thank you Ian. But look let’s look at this bottom line fiscal reality that losing employees doesn’t it cost money; I mean the increased admin expenses alone estimated at costing 100 per cent to one and a half times the salary of an employee with high skills. So how do we readjust that thinking?

IAN WILLIAMSON
Well I mean clearly there’s an administrative motive to reduce turnover and the numbers are definitely correct. One hundred to 150 per cent of annual salary is what it takes to replace a skilled professional and that number can jump dramatically if
we’re talking about a highly-skilled individual. So if I was trying to replace a
geologist in Australia, and we have a large mining business here, that number can
easily be 200 to 250 per cent of annual salary.
That typically draws a lot of attention and is why many organisations strive to reduce
the turnover rates of their staff. However, my perspective on this is that that actually
undersells the value of people. In fact the more valuable component of this is the
human capital, the knowledge that a person possesses. So when you lose someone
you lose that knowledge and if that knowledge goes to a competitor that’s the
double-whammy right; I mean not only do you not have it but now the person who’s
competing against you has it and they’re going to use it against you in some
situations.
The other component that we often don’t think about is that people bring with them,
in addition to a depository of knowledge, they’re also a depository of relationships
and their relationships have a very important component both in terms of how things
get done in organisations, but also the way in which we develop business
relationships with clients or suppliers. You have those individuals in your
organisation that you trust; that you go to, to get information; that you trust to sort of
handle things when you’re not there. Imagine what your day looks like if they’re no
longer there; a lot more difficult.
Then also think about your best client relationships. Think about the best sales
people that you have. What distinguishes these individuals is both what they know
about your products, but also they have a relationship that transcends the
organisation with their clients. What happens if they leave? So I think while we can
focus on the administrative component, in fact the greatest value that people
generate for organisations is the human capital, the knowledge, and also the social
capital of the relationships.

JENNIFER COOK
You’re listening to Up Close coming to you from the University of Melbourne,
Australia. I’m Jennifer Cook and we’re talking about the war for talent in knowledge
industries and we’re joined by Ian Williamson.
Now Ian as you were speaking then I couldn’t helping thinking how some
organisations view employees and when they win someone over to their company
they see them as trophies, you know holding them up as we’ve got this person.
Even the terminology we use, you know, I was headhunted, very competitive which
frames it as a win/lose situation doesn’t it?

IAN WILLIAMSON
It certainly does. If you go back in 2001 there was a very famous book that was
published by a former McKinsey consultant called The War for Talent and it really
framed this as a win/lose type of situation in the sense that if I can attract your best
person I get them, you don’t have them and there’s this sort of net sum zero game
going on. I think that that has really shaped our thinking over the last decade about
what it means to win, to be in this talent game in that you win or you lose.
I would think going forward, given the changes that we see in the broader economy
around being more service-based, given the changes that we see in terms of the
preferences of employees, they that have no expectation of being with organisations
for 10, 15 years, perhaps not even two years, that that war mentality, that win/lose mentality, is probably not going to service well, we probably need to rethink this. My perspective on this is it’s not about whether or not you win or lose in terms of getting a person or losing a person, going forward in this information age it’s about do you have access to talent and this is about do you have relationship with talent and that could be that you have relationship with people who have skills doing the recruitment process. You can have a relationship with a highly skilled employee, a person who may be an employee or you could have a relationship with someone who’s a former employee and that still gives you access to the most important component, the human capital perhaps and even more important, the social capital.

JENNIFER COOK
If we go back just one generation or certainly two generations ago where it was a mindset or an expectation that you would get the job and you would stay and invest your loyalty with that employer until retirement and there are still people doing that today, it strikes me that that involves putting a lot of faith in a company and in an organisation. So what you’re saying is now people are putting the faith in their own skills and own time?

IAN WILLIAMSON
Well I think organisations have done a good job of training people to think this way, you know going through the global financial crisis and it’s interesting when people say that’s the greatest financial crisis of our lifetime. Of course I can remember very vividly in 2001, 2002 in the United States everyone thought the dot.com crash was the greatest financial crisis of our lifetime and perhaps in 10 years we’ll be having the same conversation.

In doing this whole process what did you see? You saw organisations laying off individuals in an effort to save costs and out of these crises what organisations say is we’re not going to guarantee your job; we’re going to guarantee that you’re employable so that you’re able to get a job. Now if you’re a somewhat intelligent individual and you’re a knowledge worker, you begin to realise that the thing that makes you most attractive is the breadth of skills that you have. So the more I see the more I can do, so why would I limit myself to only working with the one organisation when I know if I can work with two or three organisations over the course of my career, this actually makes me more valuable. I’ve seen more, I can do more.

I’ve often said that war for talent is over; talent won because I think talent appreciates, people appreciate that the breadth of knowledge that they have, the breadth of exposure, really increases their value and so they have a big incentive to work with different organisations, to work in different settings because it makes them more valuable to employers.

JENNIFER COOK
Why haven’t we thought about talent in terms of these relationships before? Why does this seem to be a new and radical way of thinking when...

IAN WILLIAMSON
We’re often at times trapped by the terminology that we use to think about things and in many cases or at least historically we’ve thought about people when they leave an organisation to go and work for someone that they’re a traitor, that they’ve turned their back on us, that person’s name that we no longer speak around here and this is the notion of this win or lose. Yet what we know from practise is that people leave and go work with organisations and they maintain relationships and friends with their former colleagues and perhaps that’s not a bad thing at all and maybe that’s something we should celebrate. I would even go a step further in the research that I’ve been doing to say that that something that firms need to be strategic about and actually utilise as a mechanism to actually drive value for their firms.

JENNIFER COOK
It’s so interesting isn’t it because what you’re saying is there really should be a war at all?

IAN WILLIAMSON
No I don’t think that’s good terminology at all.

JENNIFER COOK
On Up Close this episode we’re speaking about the war for talent with Ian Williamson. I’m Jennifer Cook.
Now Ian this war for talent, is it more relevant in knowledge industries?

IAN WILLIAMSON
I definitely think so. This is where you see the great scarcity of talent around the world. The reality is there are just not as many highly skilled individuals for the number of jobs in those professions.
I was looking at some recent statistics in India which is a very large provider of information technology outsourced in services. You have several very well-known, highly regarded companies in India that provide this and there was some research done by an organisation there stating that the business threat to that business for that country was the lack of people that they were going to be able to produce to hire to fill their jobs. So the big concern was that they would actually be able to go out and get the business, but would not have enough individuals to actually fill the positions to provide the service. And we’re looking at numbers around 500,000 people shortage. These are huge numbers.
So whether I’m doing work here in Australia or doing work in companies in South America or Asia or the United States, one thing that’s very common is that everyone is saying that the highly skilled individuals; where can I find them; there’s a shortage of them; how can I keep them. So again, I think this shifts the power towards the employee.

JENNIFER COOK
Could you tell us what happened at the investment banking firm Goldman Sachs in 2004 when several high performing traders left to start their own multi-billion dollar hedge fund?
IAN WILLIAMSON
Well this is an interesting story and it kind I think goes to this issue of not using war as the appropriate terminology, that there?s no necessarily a winner or a loser. So in this situation you had several high profile employees in Goldman Sachs, which is obviously a well-known investment bank, leave to go start their own enterprises and there was a lot of coverage stating wow this is going to be very detrimental to Goldman Sachs. How are they going to replace this talent? Is this perhaps the beginning of the end of Goldman Sachs. Now what happens in this situation is interesting. These individuals go off; they start their own funds. They later become clients - I should add very profitable clients for Goldman Sachs - and one of the reasons why they choose Goldman Sachs as a provider is that they had good relationships with people there. When I read this for the first time I thought to myself well did Goldman Sachs win or lose here? On one hand they lost these individuals and they obviously carried with them a tremendous amount of skill sets, so they lost this human capital, but on the other hand they gained very profitable clients and had an advantage over other organisations in getting those clients because they had these relationships. So I think this speaks for this idea that sometimes you might lose the person and perhaps you lose access to their knowledge, but if you?re wise you maintain the relationship and that the relationship actually carries tremendous amounts of value for them, both in the short term and in this case in the long term as well.

JENNIFER COOK
So you?re saying we need to drop this language, this battle language, that it is a war and you?re suggesting a third approach, aren?t you - relational?

IAN WILLIAMSON
Right, so when you talk to many executives about their perspectives on talent, they typically come up with two ideas. The first thing is we definitely want to keep the people that are really good and I think of this as a defensive routine. So in essence I?m going to try to defend against all these other organisations that want to come out and attach and take my talent from me and the way we defend on this is that we try to create these great workplaces that are very engaging, we pay people well, we try to train our managers to understand how to create environments that are exciting and supportive and hopefully by making an environment that?s attractive, people will have less of a motivation to leave. I think that?s a great thing and I spend a lot of time with companies talking about that. Another approach that you see is organisations get very mad, so despite this great environment, a person still leaves. So there you see strategies such as a retaliatory approach and here is where organisations will try to fight to perhaps force non-compete clauses and they?ll put people on garden leave or they?ll make it very difficult for them to find other jobs or they?ll not perhaps provide them with recommendations to other employers. What they?re trying to do is they?re trying to increase the cost of leaving so people will go well I would leave but you know if I leave I perhaps might get a litigation against me around working for a competitor. So this makes it in their mind perhaps less likely that the individual will leave. Not much evidence to suggest that that actually works. I think in many cases when
organisations go down that path, it’s really more of an emotional response, you know, sort of thinking if a person is a traitor than it is anything else and if it has any value perhaps what it might do is it gives you a certain amount of buffer time, maybe you get four or five months where you can launch a product before the competitor can, but eventually you’re going to lose at human capital and your competitor is going to get everything you lost.

I’ve been doing some work with a colleague of mine in the United States, Dr Deepak Somoya who’s at the University of Illinois and based on our research, we suggest that organisations adopt a third approach and this is really a relational approach and this is embracing the fact that people leave. No matter how good a retention strategy you might have, you’re still going to have top individuals leave and that this is a fact of life and everything we’ve seen suggests it’s going to increase. So instead of hiding and trying to fight against that, embrace it and appreciate that the reasons why people leave are not always negative. It could be that they want an opportunity that you can’t provide. It could be because of family situations; they need to move to a different location. That doesn’t necessarily mean that they don’t want to have a relationship with you anymore and in fact them going to work for another organisation perhaps instead of a competitor, what we frame as a co-operator - this might be a supplier, a vendor, a potential client, an existing client - that this relationship that you have with them can carry tremendous amounts of value and if you think about using it wisely.

So we focused on how organisations can use things like alumni programs; a concept that’s clearly well-understood at the universities and have very aggressive and very sophisticated ways of thinking about engaging with alums. Often at times we find that the companies have no thought process around this, yet you have these large organisations that generate thousands of alums around the world who actually enjoyed working there and why not develop a relationship with them.

JENNIFER COOK
Have you got some examples of those companies?

IAN WILLIAMSON
Well I think there’s a wide variety of examples in different industries that have done this quite effectively. One that stands out to me who’s really leading this is McKinsey, the consulting firm. If you go to their website which you?ll find is they have a whole section of their website dedicated to alums. In this website they highlight the achievements of their alums. They provide information on cutting edge research that they’re doing. They invite them to events to bring them back to talk about different issues. One might say, why would a company invest money and time to deal with people that no longer work for them? Well, you have to think about what their business is. McKinsey sells consulting services. The economists might call this a credence good; a good whose value that you cannot ascertain until after you’ve consumed it. It’s not like you can go kick the tyres, drive it around, take it for a test drive. When you hire a McKinsey consultant, you don’t know if they’re any good until after they’ve delivered the service, typically after you’ve paid them. So how do you make a decision as to whether or not you want to hire a particular consultant or a lawyer or an accountant? These are all things that if you’re not in
that area, how do you evaluate them? Well typically we go and we ask a friend. Have you ever had a lawyer before? who?d you use? did you like that person? And we use that as a referral. Right? and we?re very comfortable doing it. Why? Is it the case that your friend is a lawyer? No. It?s because you trust the relationship; it?s the social capital.

So what McKinsey I think and others are realising is that when individuals are dealing with a consumption decision they really are dealing with this uncertainty, particularly if it?s a highly skilled situation. How do I reduce that uncertainty? I rely on relationship because the relationship conveys trust and it conveys reciprocation so that you?re not going to take advantage of me because we are in relationship. So a McKinsey person leaves for whatever reason and they go to work for a company. That company needs consulting services. The employee says you know I used to work at McKinsey and those guys are pretty good, we should give them a call and they go well okay if you know them we?ll trust them, why not give them a try and thus they?re able to get business.

So this is where I think they are very savvy in appreciating that not all turnover is always bad; that if a person leave to go to a potential client, that?s probably going to increase the opportunity that you have to get business from that client in the future.

JENNIFER COOK
You?re listening to Up Close coming to you from the University of Melbourne, Australia. I?m Jennifer Cook and we?re talking about the war for talent in knowledge industries and we?re joined by Ian Williamson.

So Ian when we look at this 250 per cent replacement cost when an employee leaves an organisation, how do information systems such as client relationship management and other technology-based approaches deal with this?

IAN WILLIAMSON
Well I think organisations obviously are savvy in that they are trying to figure out ways to deal with the loss of the individual, so if I?m concerned about losing the human capital, the knowledge of a person, I might want to have an information technology system that allows me to capture what they know and you have various organisations that try to incentivise and encourage employees to put their information in databases, share employee contacts, write down details on particular client relationships and the idea being that if that person did leave, the company still possesses the knowledge that they could use to engage with their client.

JENNIFER COOK
I can see the flaw there. You?re basically asking someone to hand over their contact book.

IAN WILLIAMSON
Yes.

JENNIFER COOK
They?re not going to do that.
IAN WILLIAMSON
Well there’s a lot of evidence to suggest that individuals do not provide the information; that they are not very active in filling in these databases. There are things you can do to increase their willingness, but again you have to appreciate the distinction between human capital and social capital. So human capital is the knowledge and that represents perhaps the potential for you to engage in activity. But social capital is the opportunity to actually realise that potential. So knowledge with that relationship typically doesn’t create economic exchange. In fact, people will engage in relationship or exchange with individuals based on a relationship even if they’re perceiving them as incompetent. Right? So I may not perceive you as a vendor as really being capable of doing something, but I trust you so I will work with you to actually up-skill you to provide the services that I need versus I know that you’re capable of doing something, but I don’t trust you. Right? And so I don’t trust what you’re going to do with my intellectual property. Perhaps you might share this intellectual property with my competitors who you also have as a client. Perhaps you might try to compete with me or against me with my own material. So the ideal situation is that I have partnerships with individuals who are highly skilled and I have high levels of trust, but if you look at behaviour we typically focus on trust over skill.

JENNIFER COOK
So Ian if we look at this idea that you could have lifetime employment and oppose that with this now view that you’re guaranteed to be employable, you need to have a skill set, could you put this in the context of a country say like Japan and what that means there?

IAN WILLIAMSON
Obviously Japan is well-known for many of the large organisations having lifetime employment opportunities and this is also true in many other countries with other companies, but again it changes the whole perspective of what is the role of management. If I have an employee that’s been with me for 20 years and they have seen my system in and out, many organisations will say well we can’t afford to keep them anymore; they make too much money for what they provide so we’re going to remove them from the organisation and perhaps we can replace them with lower skilled or perhaps cheaper labour. This is again focusing on this administrative component as to how people add value. I would say that organisations that adopt that type of philosophy, the successful ones, what they look at and they say wow how lucky am I; I have a person that’s 20 years of human capital. They developed 20 years of relationships. So the question is not how can I pay them less, how can I reduce my administrative costs; the question is how can I generate greater value, greater return, from this human capital and the social capital. This is I think fundamentally where you see managers who are taking a perspective on people in two different ways. You have one set of manager who looks at people and they fundamental think of people in terms of expense and it makes sense because business schools we teach people to use financial statements and on financial statements labour is typically treated as an expense. Interestingly enough
buildings are treated as assets. So when you ask a manager what do you do with an expense? You reduce an expense. What do you do with an asset? You generate a return from an asset. Does it matter how much an asset costs? No, it’s about what the return can generate. So if I care to spend that $1000 and get a 10 per cent return or $10,000 and get a 10 per cent return what would I do? I spend $10,000 because I would get a better return and this is the way we need to think about people right. So if I’m going to have a workforce that’s been there for a long period of time, I have a tremendous human capital, an asset. I have tremendous relationships. They know people within the organisation and outside of the organisation. The managerial challenge here is not how can I reduce my expenses, it’s how can I generate a higher level return for this wonderful asset that I have. This is I think the thing that differentiates the successful and the unsuccessful organisations.

JENNIFER COOK
Ian thank you so much for your time today and for showing us that there shouldn’t have even been a war at all in the first place.

IAN WILLIAMSON
My pleasure, Jennifer.

JENNIFER COOK
That was Ian Williamson, Professor of Human Resource Management and Helen Macpherson Smith, Chair of Leadership for Social Impact at the Melbourne Business School and he’s been speaking with us about the war for talent in knowledge industries.

Relevant links, a full transcript and more info on this episode can be found at our website at upclose.unimelb.edu.au. Up Close is a production of the University of Melbourne, Australia.

This episode was recorded on 18 August 2011 and our producers were Kelvin Param and Eric van Bemmel. Audio engineering by Gavin Nebauer.

Up Close is created by Eric van Bemmel and Kelvin Param. I’m Jennifer Cook. Until next time, good bye.

VOICEOVER
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