

Rewards of WorkSM Study

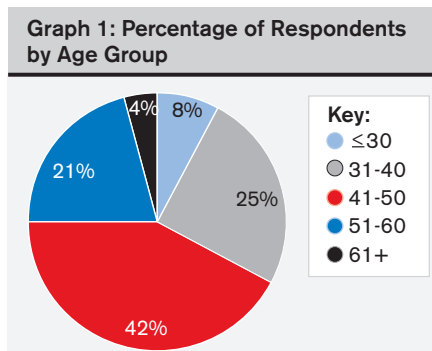
Keys to Retaining and Engaging Employees in Different Age Groups

The leading edge of the 77-million-member baby boom generation, which represents a significant portion of the workforce, turned 60 in 2006.¹ Those boomers are projected to begin retirement at the end of this decade (although some may delay retirement if the recession continues). With this impending shift in the demographic profile of the American workforce, human resource professionals, line leaders and other executives have all taken notice of what organizations can and should do to attract, engage and retain employees. In addition to the looming retirement of a significant portion of the workforce, Sibson Consulting's research suggests that organizations are challenged to retain what are now their younger and mid-career employees due to changing attitudes and perceptions about what rewards are important to retain and engage employees.

Conversations about the ideal composition of the workforce tend to be polarized. For example, many employers are interested in attracting and retaining young talent to breathe new energy into organizational strategy and broaden their core competencies. Other employers are more focused on retaining their seasoned veterans and keeping them motivated because those valued employees possess the relationships, skills and organizational acumen that can only come with years of experience. Some employers want to satisfy, motivate and retain young talent and veteran talent alike.

For the last 10 years, Sibson has used the *Rewards of Work Study* to gain a greater understanding of what attracts, motivates and retains the U.S. workforce — and how employers can use this information to improve desired outcomes in their organizations. The latest study, which is based on a large sample of respondents across a broad cross section of the nation's workforce, provides organizational leaders with important and reliable insights on how employees in different age groups really differ from each other. Sibson's Rewards of Work (ROW) model consists of five elements that comprise the employee value proposition (EVP). These elements are affiliation, compensation, benefits, work content and career. (They are represented in the adjacent illustration). Together, the five elements encompass both financial and non-financial aspects of the employment relationship with the company and are important determinants of employee motivation, productivity, performance and an organization's ability to attract and retain talent.

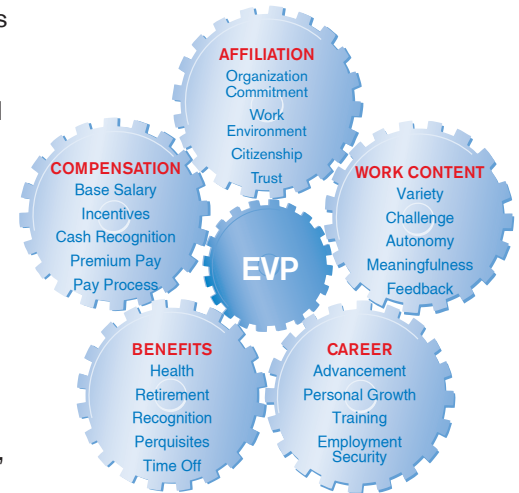
This *ROW Study* report focuses on the EVP at different phases of the employment life cycle. The data is based on the 1,059 respondents to the survey who indicated their ages. Graph 1 shows a breakdown of these respondents into five age groups.



¹ The baby boom generation is generally defined as those born in 1946 through 1964.

FIFTH REPORT OF 2006 RESULTS

The Employee Value Proposition (EVP)



Source: Sibson Consulting

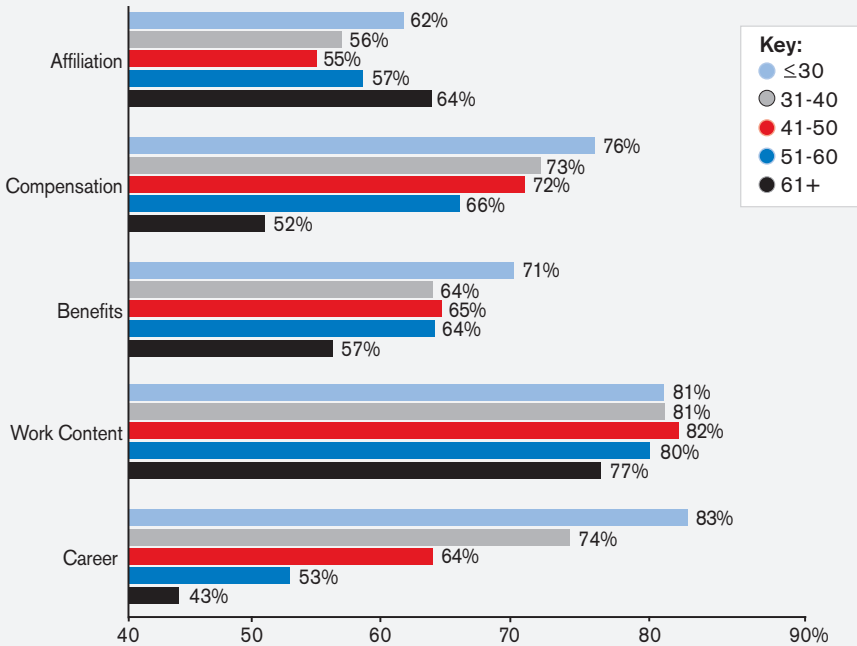
Key Findings

An examination of the data from Sibson's most recent *ROW Study* by age groups suggests that over the course of the employee lifecycle:

- Work content is always the largest motivator of good performance and the most consistent driver of retention, regardless of age.
- Compensation becomes less important in motivating performance, despite a continued growth in satisfaction with compensation.
- Career concerns (e.g., title, status and opportunities for growth) also become drastically less important to employees as a motivator for good performance and a driver of retention.
- Affiliation becomes slightly more important in driving good performance and retention.

This report provides more insights on how the ability of rewards to retain

Graph 2: EVP Elements as Drivers of Retention by Age Groups



employees and employee engagement change with age.

Retention by Age Groups

Graph 2 above illustrates the relative importance of each EVP element in respondents' decisions to remain with their organizations. Compensation and career decrease sharply in their impact on retention for older individuals. For instance, career drops from the most important driver of retention for respondents under age 31 (83 percent very important or extremely important) to the least important driver of retention for respondents older than 60 (42 percent favorable).

The oldest group of respondents indicate that work content followed by affiliation and benefits are most important to them to remain with their current organization, with 77 percent, 64 percent and 57 percent very important or extremely important, respectively. Affiliation decreases slightly as a driver of retention for middle-aged respondents (55 percent very important or extremely important for 41 to 50 year olds), compared to

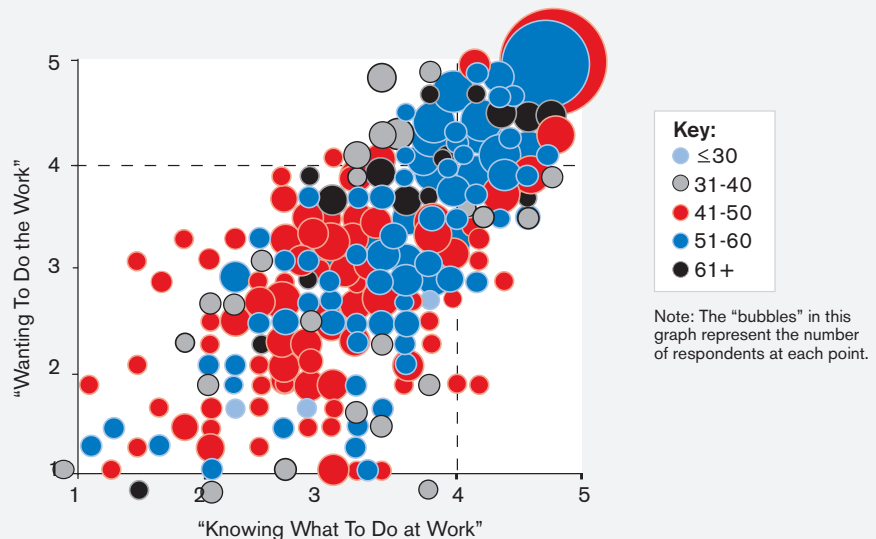
younger (62 percent very important or extremely important) and older respondents (64 percent very important or extremely important).

Engagement by Age Groups

Sibson defines engagement as **knowing what to do at work and**

wanting to do the work. Sibson developed an engagement characteristics matrix to analyze the data collected from the 2006 ROW Study. The engagement characteristics matrix is a two-dimensional scatter plot of the combined scale scores for the two-factor engagement model. As shown in Graph 3 below, the y-axis represents wanting to do the work and the x-axis represents knowing what to do at work. The scale scores represent the combined average of multiple questions that make up both engagement dimensions, which are measured using a five-point scale in which "1" represents the low end and "5" represents the high end and are then averaged. For example, in the case of wanting to do the work, a "1" indicates there is little or no desire to want to do the work, "5" indicates that there is a very strong desire to do the work, and a response of "3" is considered a neutral rating. For example, knowing what to do at work includes "understanding of the organization's vision of success," "how the employees can contribute to helping the organization achieve its vision," and "clear understanding of job expectations."

Graph 3: Engagement by Age Groups

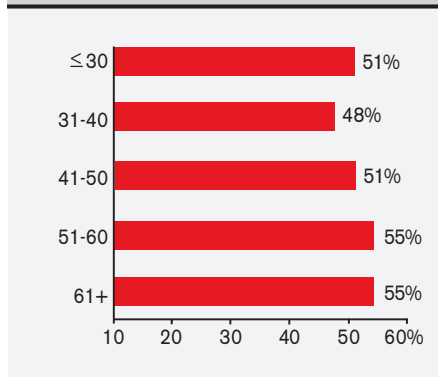


Wanting to do the work includes “gaining satisfaction from the job and work content” and “being inspired by the organization to perform the work.” The lines drawn on the x-axis and y-axis at the scale point of 4 define the quadrants of the matrix.²

Using the engagement characteristics matrix as the criteria for defining those respondents who are “engaged,” there is an interesting pattern across age groups. Specifically, those in the three youngest groups (less than 51) are the least engaged. The 31-to-40-year-old age group, has the lowest percentage of engaged respondents, with only 48 percent of the cohort both “knowing what to do at work” and “wanting to do the work.” The percentage of “engaged” respondents is somewhat higher at 51 percent for both the younger than 30 and the 41 to 50 cohort. Interestingly, the percent age of “engaged” respondents peaks at 55 percent in the 51 to 60 cohort, and then stays at this level for the age cohort of more than 60 years of age. (See Graph 4.) The above findings indicate that older employees are 8 to 13 percent more likely to be engaged than younger employees. Organizations should understand how their own engagement results may vary across these groups, if they do not already.

The *ROW Study* and subsequent work with client organizations has indicated that both overall levels of engagement and individuals’ perceptions of the five reward elements can be significant drivers of employee performance. Specific to the *ROW Study*, respondents in all age groups indicated that work

Graph 4: Percentage of Engaged Respondents by Age Group



content is the most important EVP element for motivating performance. Between 79 percent and 83 percent of individuals in all age groups rated work content as very important or extremely important as a performance motivator.

Affiliation was the only element that was rated highest by the oldest respondents, those over age 60, compared to all other age groups. Surprisingly, benefits were rated as important or very important by a greater proportion of the youngest respondent group (62 percent) than all other age groups. It is important to note that this finding does not indicate that benefits are less important overall in the minds of older employees than younger employees, but it does indicate that benefits are less effective at motivating job performance for the older employees.

Generally, all five elements of rewards decrease in effectiveness to motivate performance as individuals grow older. For instance, 73 percent of the respondents 30 years old or younger rated compensation as very important or extremely important in motivating their best performance. This percentage is slightly lower (72 percent) for those 31 to 40 years old, and then begins to decline decidedly by decade: 67 percent (41 to 50 years), 61 percent (51 to 60), and to a low

of 46 percent for those respondents older than 60.

The decrease in effectiveness of compensation to motivate good performance as individuals age is second only to the decrease in effectiveness of career as a performance motivator. By age group, the percentage of respondents who indicated that career is very important or extremely important in motivating performance drops steadily from a high of 81 percent for those 30 years old and younger to 40 percent for those older than 60.

It is important to note that after age 40, less than two-thirds of respondents were motivated to perform by affiliation, career, compensation and benefits. Graph 5 on page 4 illustrates the percentage of respondents in the age groups who indicated each EVP element was important or very important in motivating their best performance.

Commentary & Conclusion

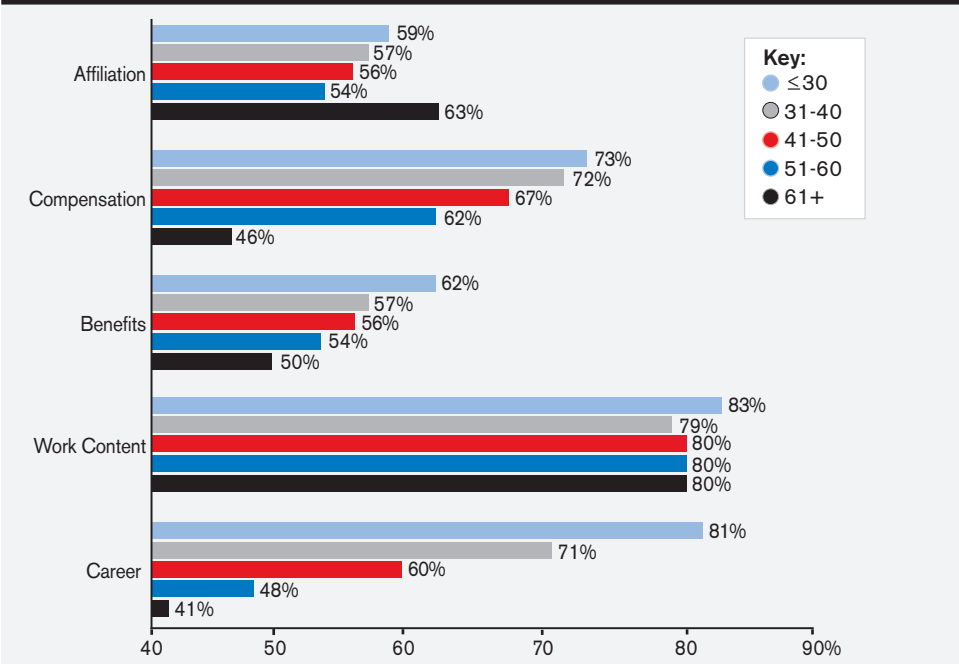
The series of data and analyses in this report reveals compelling evidence that individuals from different age groups value EVP elements differently in terms of what retains and engages them. These findings suggest organizations may be able to improve their ability to retain and engage their workforces by understanding what adjustments to an EVP may have the greatest return on investment.

While all five EVP elements are important to employees, Sibson’s research and experience in serving clients indicates that there are considerable differences in the value that different employees place in these elements of the EVP. While it is not possible for an organization to tailor an EVP to each individual employee, knowing how cross sections of employees (by age, gender, function, geography) perceive these elements will help an organization tailor its EVP for optimal impact.

² The *ROW Study* team determined that using the scale point 4 as the criterion for defining each quadrant was appropriate because it filtered out neutral responses and captured only those respondents who provided favorable ratings for each engagement dimension (i.e., selected a scale score of either 4 or 5 on knowing what to do at work and wanting to do the work).

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Graph 5: Percentage of Respondents who Indicated Each EVP Element Was Important or Very Important in Motivating their Best Performance, by Age Groups



To discuss specific strategies for improving your EVP and getting the most out of your human capital or about customizing the ROW Study to capture confidential information about what your employees value most about their jobs and the strength of their attachment to your organization, contact one of the following experts:

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Without advocating the creation of *unique* EVPs and reward vehicles for different age groups in a workforce, Sibson Consulting believes that an EVP that allows *flexibility* to adapt to the needs of employees in different age groups is more effective at motivating and retaining employees than a rigid, “one-size-fits-all” EVP. Any insights an organization can gain in terms of what rewards EVP elements matter most to specific age groups will be advantageous when developing a total rewards strategy. In practice, this may be as simple as providing young and mid-career workers an opportunity to improve their work content through an expanded or rotational work assignment and ensuring the organization’s compensation and benefits programs provide employees with an adequate degree of choices in terms of how they are able to use their rewards based on where they are in their life cycle.

Finally, the *ROW Study* research program has highlighted the link between an employee’s satisfaction with the EVP and engagement.³ The data in this report extends this finding by identifying that normative levels of engagement vary across employees from different age groups.

Given the differences in the relationship among EVP, retention and engagement levels across age groups, as the boomers begin to retire and shift the demographics of a company’s workforce, consideration should be given to whether the current EVP needs to shift as well.

³ For a detailed discussion of engagement, see the second report of the *ROW Study* results, “Insights into Employee Engagement,” which is available on the following Web page: <http://www.sibson.com/publications/surveysandstudies/2006ROWho2.pdf>
All reports of the *ROW Study* results can be accessed from the following page on Sibson’s Web site: <http://www.sibson.com/practices/row.html>

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