

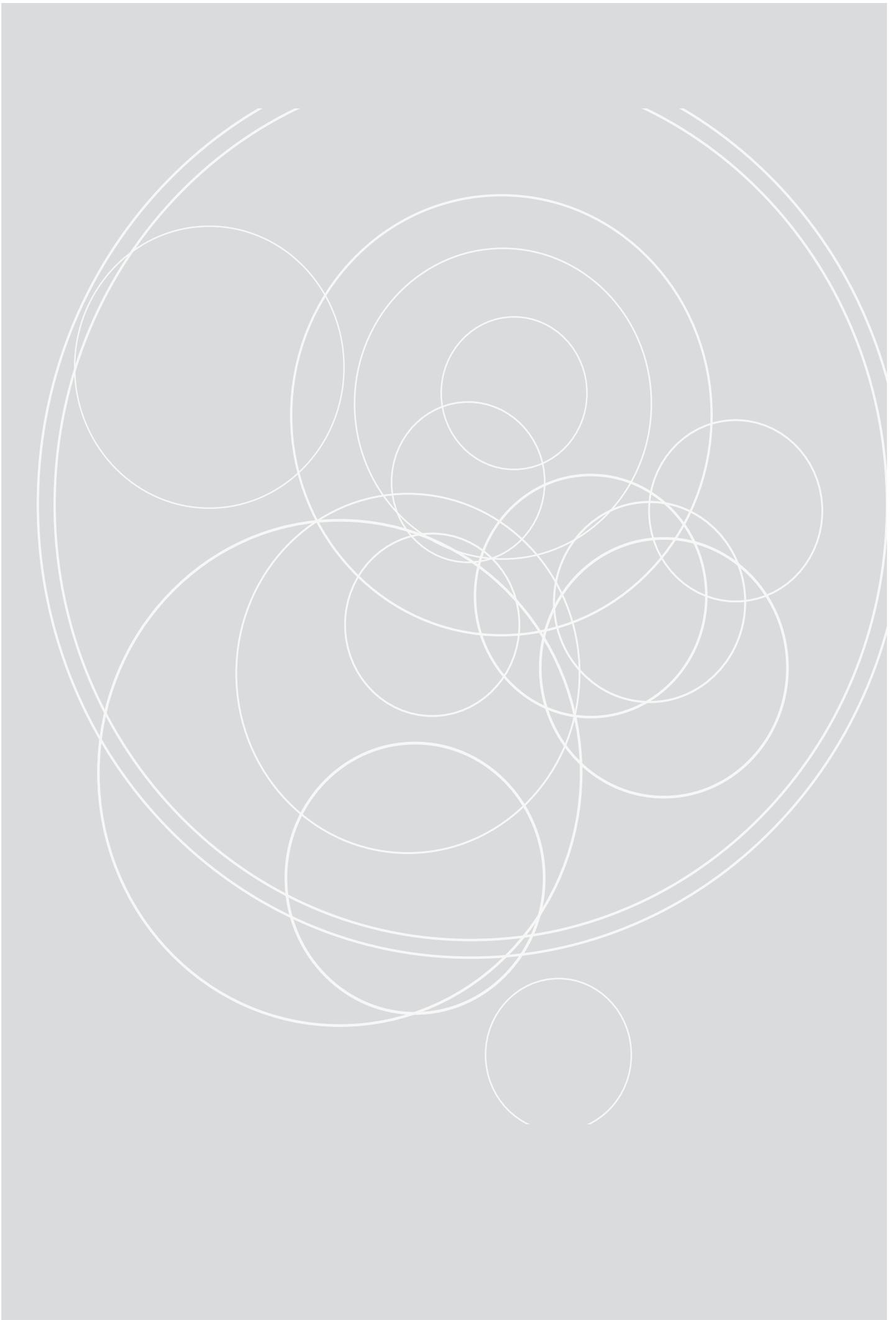
# Perspectives

## Professional service firms

### Re-engaging and retaining employees

#### **Re-engaging and retaining employees in professional service firms**

An engaged workforce – one that is firing on all cylinders and performing at its very best – is perhaps the greatest source of competitive advantage for any organisation. And as professional service firms seek an edge climbing out of the recession, maximising the engagement and retention of its employees could spell the difference between a firm experiencing a sluggish recovery or a strong return to growth.



“Whatever cost control measures were taken, employees in professional service firms are weary of change, and feel that their efforts to help their firms pull through the recession should now be rewarded.”

### Recession takes its toll

Professional service firms have demanded a huge amount from their people in the past two years. While the situation was not as dire in Australia as in other parts of the world, and we did not experience a technical recession, many firms had to reorganise and reduce headcount; and the call on employees to go the extra mile for clients has been more urgent than ever, in the effort to attract and retain business in a depressed market. An early reaction to the recession among the law firms (particularly those with international operations) was to offer seats in other practice areas or countries where the recession was not as severe (for example, Central and Eastern Europe or Asia). More latterly, however, headcount reduction has been the favoured route for controlling costs – a move that may have medium to long-term implications. Amongst the accounting firms, however, a more measured approach that offered employees sabbaticals, unpaid time-off, reduced working weeks, part time status, was more the norm – fostering a ‘we are in this together’ culture among its workforce.

Again, cost control measures were not as stringent in Australia but whatever such measures were taken, employees in professional service firms are weary of

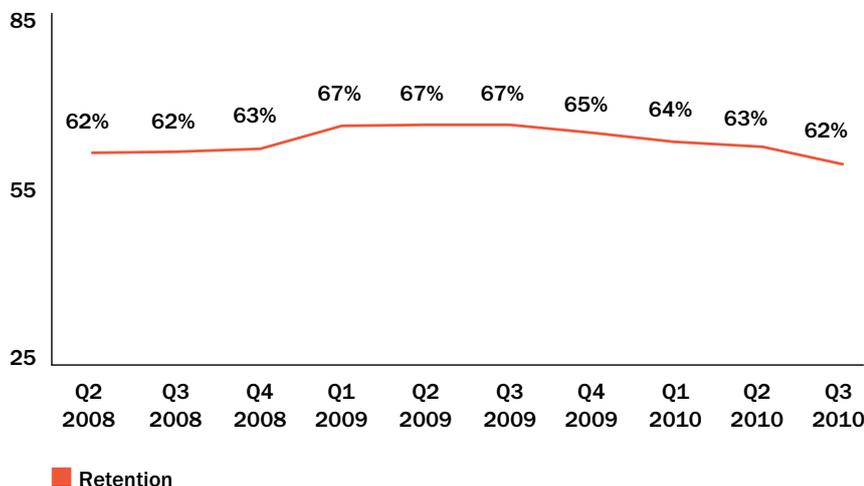
change, and feel that their efforts to help their firms pull through the recession should now be rewarded. They also know that the best firms are always looking to hire the best talent – meaning that the loss of key talent is a very real and imminent risk. Our research suggests that by Q3 2010 employees were just as likely to remain with their current employer as they were before the recession (see **Figure 01**), meaning that the reduction in attrition seen during the recession is now coming to an end.

### What drives engagement and retention in professional service firms?

Towers Watson’s ongoing research among employees in professional services firms demonstrates that a mix of factors contribute most to the engagement and retention of employees in this sector (**Figure 02**). Our recent research looked at employee survey data from 116,600 employees across 20 professional service firms. These surveys covered a range of issues, including leadership, communication, reputation, reward, personal development and performance management. Our analysis identified those issues that had the greatest impact on employee engagement, and on their plans to stay or leave their firm.

In short, the research highlights the danger of believing that ‘it’s all about the money’. While getting reward right is part of the solution to higher levels of engagement and retention, non-financial aspects of organisational culture and the broader ‘deal’ are just as, if not more, important in driving employees’ engagement and retention. Broader thinking is critical in an environment where reward budgets remain constrained, with firms needing to look at other means to improve the engagement and retention levels of their key talent.

**Figure 01. Retention falling back to pre-recession levels**



Source: Towers Watson global employee opinion database

**Figure 02. Drivers of retention and engagement in business/professional services firms**

Retention drivers*	Engagement drivers**
Pay and rewards	Leadership
Career development	Career development
Leadership	Firm image and reputation
Empowerment	Empowerment
Stress, balance, and workload	Living the firm values

\* Source: Towers Watson 2010 Global Workforce Study – Global Business/Professional Services

\*\*Source: Towers Watson Norm Database – Global Business/Professional Services Norm

“Engagement reflects the bond or attachment between employee and employer. It incorporates willingness to give discretionary effort, and buy-in to company values and objectives.”

## Engagement defined

Engagement reflects the bond or attachment between employee and employer. It incorporates willingness to give discretionary effort, and buy-in to company values and objectives.

Towers Watson defines engagement as consisting of:

- **The rational component (Think):** Employees’ support and alignment with the organisation’s strategy, goals, culture and values.
- **The emotional component (Feel):** The degree to which employees feel an emotional sense of belonging, attachment and pride towards their organisation; includes a willingness to recommend it to others as a place to work.
- **The motivational component (Act):** Employees’ willingness to exert extra effort and go above and beyond their normal job responsibilities in order to help their organisation succeed.

A major Towers Watson study of engagement levels across over 50 global organisations found:

- Operating income in high-engagement companies improved 19.2% over a 12 month period, while in low-engagement companies it declined 32.7%.
- A 13.7 percent improvement in net income growth in high-engagement companies over 12 months, against a 3.8 percent decline over the same period for low-engagement companies.

## What can today’s professional service firms do to engage and retain talent?

Our analysis pinpoints four areas in which we believe professional service firms need to centre their efforts to maximise their potential to improve engagement and to minimise the post-recession risks of higher attrition among key talent.

### 1. Rethinking Leadership

**Foster trust and confidence in leadership through: decisions designed to build a competitive business with a strong brand/reputation, consistency and fairness in decision-making on issues related to employees, open and honest communication on plans and progress, and creating a culture where people are treated with respect, regardless of their role.**

Strong leadership continues to play a pivotal role in driving employee engagement, and is particularly critical during times of economic uncertainty.

Our research found that employees in professional service firms are most engaged when they experience a leadership that:

- Encourages people to give their best.
- Fosters and models a culture where people are treated with respect, regardless of their role.
- Demonstrates clear adherence to high ethical standards, and builds a strong brand/reputation among clients and employees alike.
- Gives people a sense of involvement in decisions that affect their work, creating an environment where people are encouraged to speak up and express their views.

The climate of uncertainty that prevailed during the recession has sharpened the call for leaders to ‘connect’ with their employees. The profile of the successful leader in the post-recession world is someone who can not only manage the organisation, but can lead people as well. Firms need to look hard at how they shape the next generation of leaders who can inspire and engage people, and unlock the enormous performance potential of the workforce.

## 2. Personal and career development: back on the employee agenda

### Respond to renewed aspirations for personal/career development, especially as external opportunities increase for talent to move elsewhere in search of advancement.

Our research is clear on the impact that career development opportunities have on engagement and retention in the professional service sector. Employees look for clear signals from their firm that it is being serious and proactive about the need for talent retention. According to our data, only just over half of employees believe their firms do this well.

Firms need to offer clear career pathing, strong, development-oriented performance management and meaningful rewards for their top talent. Currently 40% of employees see their senior management encouraging the development of talent in their business (**Figure 03**). Immediate managers have a critical role to play, through career planning discussions with their employees. Opportunities to network internally, and the availability of mentoring programs, will also enable employees to better manage their career.

## 3. Getting recognition right

### Stay up-to-speed on reward trends in the sector; consider greater use of performance-related reward practice, and don't underestimate the impact of the manager recognising good performance from his/her people.

Our research finds that reward policy and practice is the number one driver of intent to stay among professional service sector employees.

Professional services firms are always working in a competitive pay environment, but the last few years has seen some shifts and trends in the reward strategies being adopted, and the legal sector has been increasingly active in this regard.

More firms are embracing variable pay as a way of rewarding individuals for their contribution to the firm's success, with a discernible move away

from typical profit-sharing schemes (where all employees receive similar amounts regardless of their input) to schemes which measure and reward the different levels of contribution.

Performance management techniques have had to develop further to facilitate this process but again are being used as a means of differentiating and rewarding contribution.

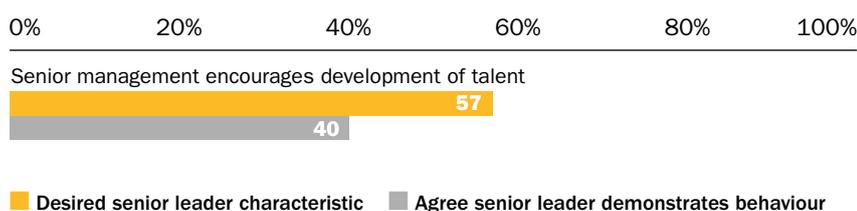
Lastly, and perhaps the most dramatic change of all, is the increasing momentum to move away from traditional lock-step models. The accounting firms moved away from this approach to reward management about a decade ago – particularly for the more senior employee levels, focusing more on the contribution and delivery of a role, than on the years of experience that should be required. Law firms are now starting to embrace these methods and adopting pay, performance and career development mechanisms that reward contribution to a greater degree, rather than the traditional time-served approaches. We expect this to continue.

### The power of getting non-monetary recognition right

In an environment of no or limited pay increases and lower bonuses, many firms are also looking hard at the potential impact of non-monetary recognition to enhance motivation and to reward performance. In another recent study, we found that companies in which managers are effective in recognising employee performance saw between 20% and 60% higher engagement levels than in those with ineffective managers. The majority of employees reported that their best experience of recognition had occurred within their teams or work groups. These are, of course, the manager's home turf, the place where he or she has the greatest impact as a leader and as a source of appreciation. These are the venues where a pat on the back, a word of praise in front of the team or the presentation of a commendation has great power to increase employee engagement.

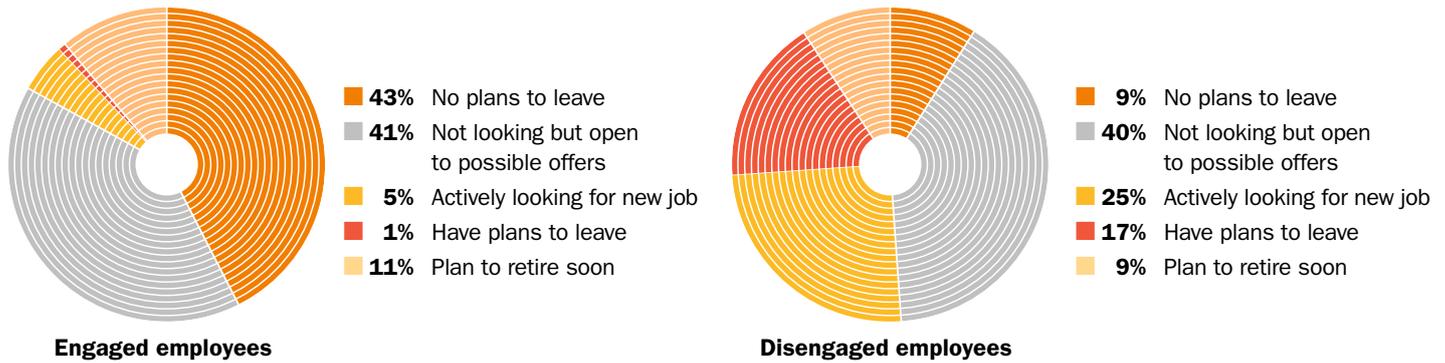
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**Figure 03. Senior management commitment to talent development**



Source: Towers Watson Global Workforce Study 2010

**Figure 04. Engaging employees significantly increases retention**



#### 4. Increased self-reliance and empowerment:

**Involve employees where possible in shaping the future of the business, seek their innovative ideas and feedback, and empower them to be more self-reliant.**

We know that employees are more engaged where they have a sense of involvement in decisions that affect their work, and work in an environment where people are encouraged to speak up and express their views. Employees also understand the trend – in most mature western economies at least – towards a larger share of the responsibility for their careers and future financial security being borne by employees rather than employers or government. Their response to being given greater responsibility is to seek greater empowerment and control over their work environment (for example, more flexible work patterns), and greater autonomy and involvement in ideas-generation and decision-making. All employers must respond to this significant shift in mindset, if they are to retain and engage the best talent of this generation and the next.

#### Conclusion

Organisations who do not address potential issues in the four areas may pay a heavy price, as a growing proportion of their most talented employees become disengaged and move onto new opportunities as they arise. There is a stark difference in retention levels between engaged and disengaged employees, with only 9% of disengaged employees having no plans to leave their organisation, compared to 43% of engaged employees (**Figure 04**).

Senior leaders need to be equipped to clearly communicate their firm’s goals and direction, provide persuasive rationale for their decisions, and gain the trust of employees. This will happen as they instil confidence in the firm’s external image—its brand promise, its market position, and its direction, as well as championing and role-modelling a strong internal culture of integrity and respect.

Firms need to get reward strategy right, and this can be in many areas. Variable pay, performance management and career management are all ways in which professional services firms are making a difference, and differentiating themselves from the competition in the market place.

Employees require an explicit understanding of where they are headed next in their career. At the same time, managers need to have career discussions with their employees, and to recognise employees who put in a great performance. Strong performance management and goal-setting are key to keeping employees fulfilled over the long-term.

Finally, in line with the growing trend towards employee self-reliance, organisations need to open up their channels of communication and feedback, and to provide employees with a stronger sense of flexibility, involvement and empowerment in their jobs.

#### Further information

For further information please contact your Towers Watson consultant or telephone:

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