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Talent Management in the 21st Century: Attracting, Retaining and Engaging Employees of Choice



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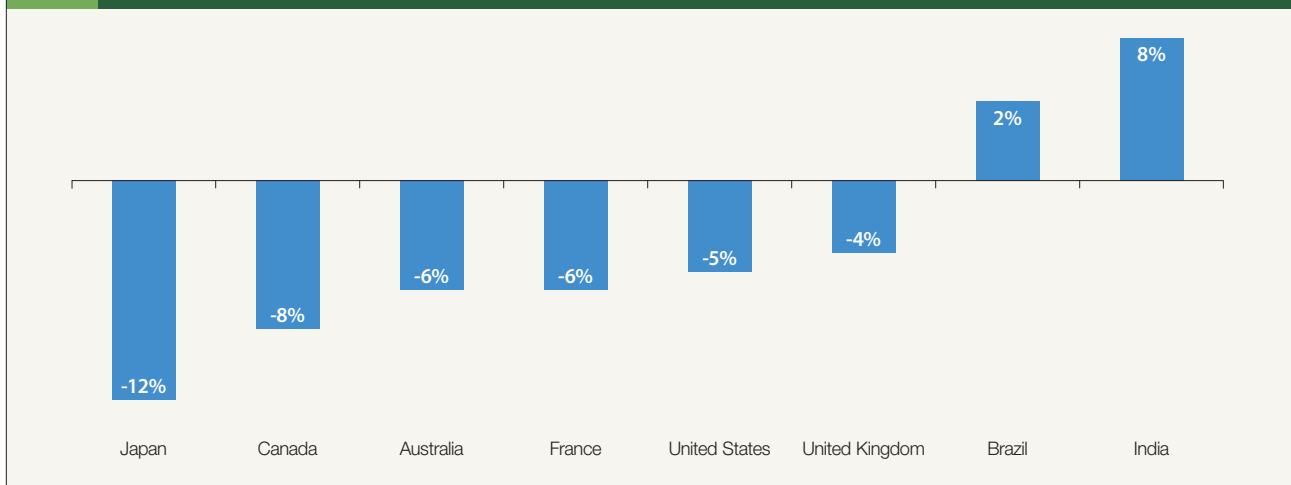
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This is a period of radical business change. Vibrant companies exist in businesses that were unknown before the advent of the Internet. Multinational companies — once dominated by American and European parent organizations — now have diverse geographic ownership. And more businesses, regardless of size or industry, have begun to outsource and offshore.

At the same time, broad demographic changes are occurring. There are increasing retirements in the developed nations and greater numbers of young workers in developing nations. The percentage of the population between the ages of 15 years old and 64 years old in North America is decreasing while Brazil and India are showing increases (See Figure 1 on page 7). This demographic is creating global movements of jobs and population, as companies seek to fill skill and labor needs for their varied operations. These changes are contributing to shortages in certain professions that will grow in scope and impact. Skilled and educated workers will be in demand everywhere.

The notion of the workplace is changing as well, to include many settings outside of a traditional office, plant or other physical structure. And work itself increasingly extends well beyond the traditional eight-hour boundaries, bleeding into other aspects of life.

FIGURE 1 Percentage Change in the Working-age Population (Aged 15 to 64), 2005 to 2025



Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, *World Population Prospects: The 2004 Revision and World Urbanization Prospects: The 2003 Revision*, <http://esa.un.org/unpp>, June 28, 2005.

Together, these developments are creating workforces and workplaces that are as varied and geographically dispersed as the businesses themselves. For organizations — whether domestic or global — this revolution in business and labor practices brings enormous, new challenges in managing a radically different workforce and workplace. Past models and approaches are insufficient. While most companies have long recognized it's no longer a "one-size-fits-all" world and brought far more customization to their total rewards programs during the last decade, it's becoming clear that few advanced far enough. We are at the earliest stage of understanding the challenges of finding, keeping and engaging talent in a genuinely global and intensely competitive business environment. What will it take to meet that challenge?

In part to answer that question, Towers Perrin completed one of the largest single surveys of full-time workers worldwide. The goal was to understand, from employees themselves, "what matters and why" in gaining their focus, dedication, energy, brainpower and full commitment. The study was designed to uncover the elements of the work experience that make a difference in attracting, retaining and motivating people in diverse cultures and widely differing economic

conditions. Understanding these elements would, by extension, inform an emerging set of HR and reward practices appropriate to the "new age" of global work.

Research Methodology

The Towers Perrin global workforce study was fielded in the summer of 2005, using a standard questionnaire administered via the Web, in local languages, to approximately 86,000 employees. These respondents work full-time for mid- and large-size companies in 16 countries across four continents. The sample covered the United States, Canada, Mexico and Brazil, eight European countries (the United Kingdom, France, Germany, the Netherlands, Italy, Spain, Belgium and Ireland) and four Asian countries (China, Korea, Japan and India).

The researchers focused on a comprehensive set of workplace practices that influence employee motivation, commitment and willingness and desire to achieve at work. They identified these practices based on prior research and a deep understanding of typical organizational programs to ensure that the questionnaire covered the broadest spectrum of tangible and intangible aspects of the work environment. As a result, the final questionnaire included items about the full range of rewards practices, leadership and management

effectiveness, communication, culture and attributes related to these tangible and intangible aspects.

Respondents came from a range of industries, including telecommunications and technology, financial services, education, health care, energy, retail, transportation, consumer products and manufacturing. Sixty-five percent were male and 35 percent were female. Thirty-three percent work for companies with more than 10,000 employees. Thirty-two percent are in supervisory or management positions and another 32 percent are professional and/or technical “knowledge workers” (i.e., workers with specific skills or technical knowledge required for their jobs). The remainder is nonmanagement salary or hourly workers. Employees’ average tenure with their employers was slightly more than nine years.

The survey sample represents a statistically valid cross-section of a critical “slice” of the global workforce: people employed full-time in the larger company market in the countries studied. Key findings follow.

Key Highlight from the Research

Only Moderately Engaged

Only 14 percent of the total global sample is “highly engaged” (See Figure 2 on page 9). *Engagement* is defined as *the willingness and ability to contribute to*

the organization’s success, and it is measured with a set of nine items that capture the way employees connect to their jobs, both emotionally and rationally. Employees’ scores across the nine items determine the extent of their engagement and how willing they are to give discretionary effort and “go the extra mile” on the job. Across the 16 countries, employee engagement levels differ considerably and somewhat surprisingly. For example, engagement is highest in the two studied Latin American countries and lowest in the four Asian countries.

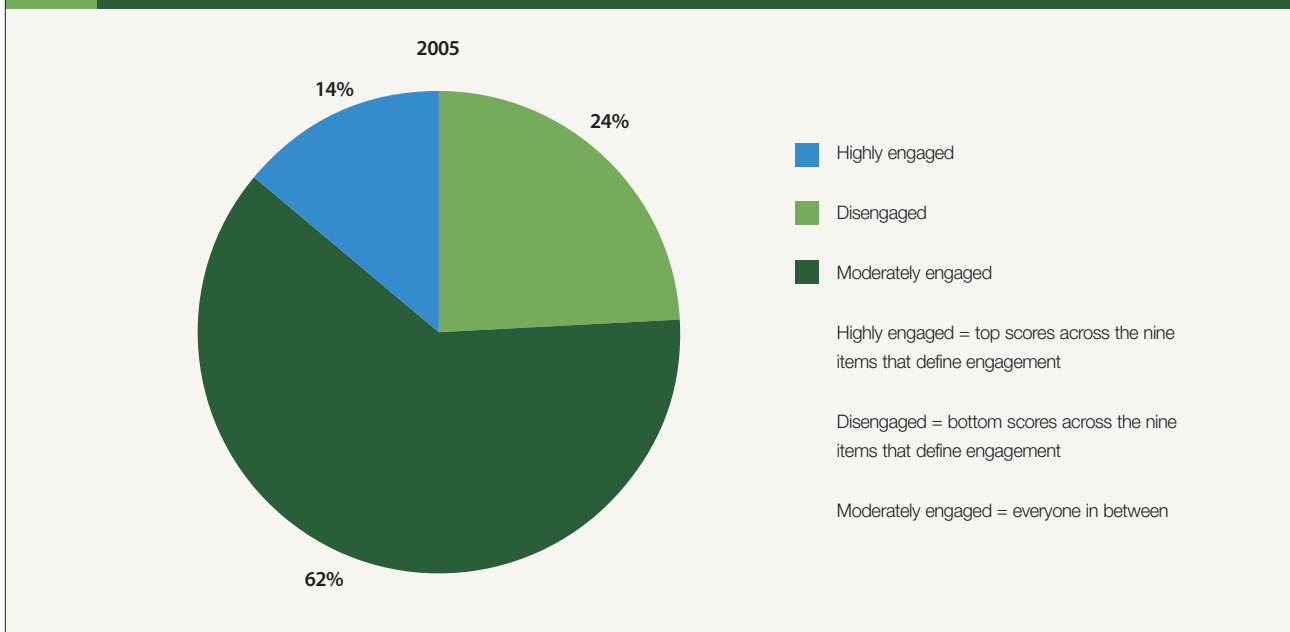
In most countries, the vast majority of workers (typically, between one-half and three-quarters) are only moderately engaged. They represent an opportunity and a threat for their employers. The opportunity is to increase their level of engagement and improve their focus and contribution to results. The threat is that they will slide in the other direction, further disengaging, and not only deliver lesser performance themselves, but possibly spread their disaffection more widely. Understanding how to influence their level of engagement is one of the most critical steps a company and its HR team can take.

Varying Elements Affect Engagement

Through statistical analysis, we also identified the components in the work environment that drive engagement. Globally, these elements or “drivers”

In most countries, the vast majority of workers (typically, between one-half and three-quarters) are only moderately engaged.

FIGURE 2 Global Employee Engagement Levels



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vary considerably. Across the sample as a whole, for example, the most important element influencing engagement is the possession of sufficient opportunities to learn and develop new skills. In the U.S. and the U.K., by contrast, the most important element involves senior management's actions and behaviors. In Japan, it's the opportunity to provide input into decisions affecting a person's job.

Overall, these findings confirm what most of us in the HR profession have known intuitively: that engagement is a complex equation resting on the interplay of many factors that vary by country, industry and age group, among other things. In fact, the data confirm that engagement doesn't necessarily track the economic conditions in the country where the employees work. High engagement exists in depressed economies and low engagement in high-growth economies. This underscores the importance of understanding the factors driving engagement for different employee groups in different places and the importance of appropriately customizing practices and programs.

Skepticism about Leadership

Leadership, unsurprisingly, is one of the critical elements in the engagement equation. Employees express a fair amount of skepticism about leadership, especially in terms of senior management's vision, ability to inspire, commitment to open communication and interest in employee well-being. Nonetheless, senior leaders still have the power to inspire, and middle managers have the responsibility to coach and guide people.

Customizing Rewards: A "Must Do"

Reward programs remain a critical area of focus, although the emphasis that employees place on various rewards differs significantly across countries and cultures. This underscores why customizing rewards has moved from a "nice to do" to a "must do."

While there is a great deal of commonality in the rewards attracting people to a job and a company, far more variation occurs in the rewards influencing retention and engagement. In some countries, for example, employees focus on incentives and the extent those incentives reflect individual performance.

In other countries, employees put more emphasis on fairness and consistency in both pay policies and pay determination. And in still other places, benefits adequacy or ease of access to benefits counts highly in people’s decisions to stay in a position and to fully engage in their work. Broadly, there is more focus on rewards in countries like the U.S. (where Towers Perrin has conducted this research before), which puts more pressure on companies to build reward programs that target the right people with the right mix of rewards in the right locations.

Understanding Attraction, Retention and Engagement

This paper’s next three sections examine some findings about attraction, retention and engagement, both at the global level and for four particular countries: the U.S., the U.K., Mexico and China.

Elements Driving Attraction

The study identifies the elements influencing individuals to choose a job, based on a ranking of 30 items covering both the monetary and nonmonetary aspects of work. Significantly, strong uniformity exists in what people identified as key attraction drivers across the countries in the study (See Figure 3).

As expected, competitive pay is the top attraction driver. Pay occupies two slots in the top five list globally, highlighting not only the importance of providing competitive base pay, but also the emphasis employees place on true pay differentiation. This theme — the desire to see differentiation in pay relative to performance and contribution — resounds throughout the findings and is an area where real opportunities exist for improved use and improved results.

Work-life balance, challenging work and opportunities for advancement round out the list of top five global attraction drivers. While the importance of work-life balance initially seemed surprising, both the data and anecdotal evidence confirm that working hours are increasing everywhere in the world, making it more difficult for people to maintain balance in their lives. Globally, 57 percent of people work more than 40 hours a week. In the U.S., that percentage is 55 percent, and in China, it is higher, at 69 percent. In our work with companies, we frequently see the negative impact of poor work-life balance, not only in higher medical claims but also in increased turnover and absenteeism. On the flip side, companies succeeding in helping employees achieve work-life balance often see significant declines in these “markers,” especially absenteeism and unwanted turnover.

FIGURE 3 Top Five Drivers of Attraction Globally					
	Global Overall	U.S.	U.K.	Mexico	China
▶ Competitive base pay	1	1	1	2	2
▶ Work-life balance	2	3	2	–	–
▶ Challenging work	3	–	4	–	–
▶ Career advancement opportunities	4	4	3	1	3
▶ Salary increases linked to individual performance	5	5	–	4	4
▶ Learning and development opportunities	–	–	5	3	1
▶ Competitive retirement benefits	–	–	–	–	5
▶ Competitive health-care benefits	–	2	–	–	–
▶ Coaching/mentoring	–	–	–	5	–

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Looking at the four highlighted countries, distinctions emerge in the attraction area. In the U.S., competitive pay also takes the top position. This differs slightly from the results of prior versions of this research conducted in the U.S. in 2003 and 2001. At that time, managed care was not the solution many hoped it would be, and health-care costs were beginning to rise sharply again. As a result, health-care issues took “center stage” for most people and made competitive health benefits the most important element for U.S. employees in choosing a job. Pay fell to second place.

Today, those positions have reversed again, suggesting employees are accepting new health-care models and have less immediate concern about this issue. In fact, responses to several health-care questions in the current study from U.S. employees suggest workers have come to terms with some perceived restrictions and frustrations of current health-care plans and have turned their attention to other workplace issues.

It’s also interesting — and perhaps counterintuitive — that competitive base pay takes second place in at least two developing economies where pay scales arguably remain low. Instead, employees in both Mexico and China, at least in the large-company market we studied, are focused on development, albeit in slightly different ways. For those in Mexico, career advancement is most important. In China, by contrast, learning and development opportunities top employees’ wish lists, presumably to help them grow as the business model changes and state-owned businesses privatize, creating needs for new skills and competencies. Indeed, skill development — tied directly or indirectly to advancement on the job — is one of the strongest themes throughout the data in all countries studied.

Elements Driving Retention

This research affirms a key finding in a range of studies we’ve conducted during the last five years. The finding is that the aspects of work that attract people are quite different from the aspects that keep people and those

that engage them to give discretionary effort on the job (that is, freely choosing to devote more time and effort than required to ensure the best-possible work product).

Retention drivers were identified through statistical analysis. This is important because this is not self-reported data, as is the case with attraction drivers. Rather, the use of regression analysis identifies the elements of the work experience and environment that help keep people at their companies.

The fascinating result is that, both globally and in the U.S. and the U.K., retention strongly correlates with an organizational culture that values and nurtures talented employees and seeks to find and keep high-caliber people who have the skills needed for the organization to succeed (See Figure 4 on page 12). People want to work for companies that approach talent in this way and view people as critical to their success.

The vast majority of the global retention drivers have more to do with an organization’s culture than its specific programs. This is an important consideration for both line and HR executives to understand as these executives evaluate decisions affecting turnover and retention. The No. 2 driver — satisfaction with people decisions — underscores the importance of having fair processes and ensuring that employees recognize that hiring, promotion and related decisions are made appropriately. The more people believe their organizations make fair decisions in these areas, the more likely they are to stay with the organization. The No. 3 driver — having a manager who understands what motivates the employee — speaks to another key cultural theme in the study: the importance of effective and inspiring management. The No. 4 driver comes back to the work-life balance issue that also affects the recruiting process. The No. 5 driver — the organization’s reputation as a good employer — is also more of an intangible, and arguably the sum of many other practices and policies. Significantly, it is the only element of the work environment that influences

FIGURE 4 Top Five Drivers of Retention Globally					
	Global Overall	U.S.	U.K.	Mexico	China
▶ Organization retains people with needed skills	1	1	1	3	–
▶ Satisfaction with organization's people decisions	2	–	–	–	1
▶ My manager understands what motivates me	3	5	–	–	–
▶ Ability to balance my work/personal life	4	–	–	–	–
▶ Reputation of organization as a good employer	5	3	–	–	–
▶ Low- or no-stress work environment	–	–	–	5	3
▶ Opportunities to learn and develop new skills	–	2	2	2	–
▶ Senior management makes an effort to be visible and accessible to employees	–	–	–	–	2
▶ Organization effectively communicates career opportunities	–	–	–	1	–
▶ Clarity in what my organization expects of me and what I in return can expect	–	–	–	–	5
▶ Fairly compensated compared to others doing similar work in my organization	–	4	–	–	–
▶ Salary criteria are fair and consistent	–	–	3	4	–
▶ Overall quality of supervision	–	–	4	–	–
▶ Satisfaction with organization's business decisions	–	–	–	–	4
▶ Savings/pension will provide sufficient income in retirement to meet my needs	–	–	5	–	–

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attraction, retention and engagement on a global basis (showing up among the top five drivers of retention and engagement and among the top 10 drivers of attraction).

Building such a reputation can be an important component of competitive advantage for companies with strong “employee brands.” With only one-half (52 percent) of the global respondents willing to recommend their organization as a good place to work, there is clearly room for improvement in this area.

Organizational reputation often is tied to views about senior management. And as noted, respondents have “mixed to negative” views about leadership effectiveness in their organizations. Only 51 percent agreed that senior management acted in customers’ best interests, and only 49 percent felt senior management was taking the necessary steps to ensure their organization’s long-term success. Even more disturbing, only 37 percent felt that senior management made an effort to be visible and accessible. Fewer (33 percent) indicated senior management communicated openly and honestly with employees.

In conclusion, employees want to look to leaders for vision and inspiration. They want to follow men

and women who live the organization’s values, who adapt that organization to changing needs and who are interested in employee welfare.

Elements Driving Engagement

A core part of the research methodology involves measuring employees’ level of engagement and the elements of the work environment driving engagement. As previously discussed, *engagement* is defined as *the willingness and ability to contribute to the organization’s success*, and it is measured by using a set of nine items that captures the way employees connect to their jobs both emotionally and rationally. Employees’ scores across the nine items determine the extent that they are engaged and willing to “go the extra mile” on the job. As noted, engagement levels vary significantly across the studied countries (See Figure 5 on page 13). In the U.S., for example, 21 percent are highly engaged — down a percentage point from the U.S. engagement score in our 2003 North American study.

Mexico has the largest group of engaged employees (40 percent), with Brazil close behind. Engagement

FIGURE 5 Employee Engagement by Country			
	Highly Engaged	Moderately Engaged	Disengaged
Mexico	40%	51%	9%
Brazil	31	62	7
U.S.	21	63	16
Belgium	18	67	15
Canada	17	66	17
Germany	15	70	15
Ireland	15	70	15
U.K.	12	65	23
Spain	11	64	25
Korea	9	71	20
France	9	68	23
China	8	67	25
Netherlands	8	73	19
Italy	7	64	29
India	7	37	56
Japan	2	57	41

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is lowest in the Asian countries, despite the economic growth much of that region has experienced. India, today's favored site for outsourcing operations according to other recent Towers Perrin research on HR outsourcing, has the single largest group of disengaged workers (56 percent). And in Japan, where both employment traditions and the economy have taken a battering of late, only 2 percent of the respondents are highly engaged.

Understanding levels of engagement, though critical, presents only one concern for an HR professional. More importantly, from a company's perspective, is the process of influencing engagement and shifting more of the "moderately engaged" employees to a state of "high engagement." On both a global basis and across our four example countries, skill development is paramount and is reflected both in having opportunities for learning and acting on those opportunities (See Figure 6 on page 14). This surge of interest in self-improvement and skills acquisition appears to be a global phenomenon evidenced,

to some degree, from respondents in every country in the study. However, its relative importance as a driver of engagement differs geographically. Still, there's no question that workers place a high premium on knowledge, skills and opportunity, across cultures, age groups and job levels.

The top global engagement drivers, like the retention drivers, are about culture, not programs. Employees feel more engaged when they have opportunities to provide input and can contribute actively in the workplace. Significantly, they not only want to work for an organization that's a good employer, but that's customer-centric as well. This may well show that company efforts to develop a brand linking employees and customers and standing for a core set of values inside and outside the company are paying off.

Management also has an important role to play in building and sustaining engagement. Our experience working with companies confirms the importance of the managers' role, especially front-line managers, in connecting with employees. The front-line managers represent the "glue" in the organization that helps bind the individual to the broader entity in practical ways. Many work-environment practices that are most important to employees — such as access to skill-building or possessing a clear understanding of pay, promotion and other policies — come through interactions with immediate supervisors. Both our data and practical experience show that effective managers focus on coaching and mentoring far more than administrative responsibilities. Fortunately for many employers, the advent of technology-driven self-service for both employees and managers now equips managers to make this transition far more readily.

Still, in many companies, managers themselves don't have the skills, interest or ability to play this performance-coach role. The reasons that employees are promoted to supervisory positions often have more to do with technical ability than with the empathic and

FIGURE 6 Top Five Drivers of Engagement Globally					
	Global Overall	U.S.	U.K.	Mexico	China
▶ Opportunities to learn and develop new skills	1	–	–	–	–
▶ Improved my skills and capabilities over the last year	2	2	2	1	1
▶ Reputation of organization as a good employer	3	3	3	4	–
▶ Input into decision-making in my department	4	–	4	3	4
▶ Organization focuses on customer satisfaction	5	–	–	–	–
▶ Senior management interest in employee well-being	–	1	1	–	–
▶ Appropriate amount of decision-making authority to do my job well	–	4	–	5	–
▶ Salary criteria are fair and consistent	–	5	–	–	5
▶ In combination with government programs, benefit programs generally meet my needs	–	–	5	–	–
▶ Organization effectively maintains staffing levels	–	–	–	2	–
▶ Senior management's actions are consistent with our values	–	–	–	–	2
▶ Good collaboration across units	–	–	–	–	3

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interpersonal qualities needed to work well with employees. For HR leaders, helping define or redefine the managerial role and developing more focused recruiting and training programs for managers will be vital to improving performance across the board.

The Bottom-Line Value of Engagement

Few companies question the value of an engaged workforce, especially in terms of the value of securing *discretionary effort*. But for those who need proof, our data offer some critical distinctions in both performance and retention between engaged and disengaged employees.

In general, the more engaged an employee is, the more likely he or she is to focus on what we might term “value-enhancing” behaviors. For instance, 84 percent of the study’s highly engaged employees believe they can positively impact their work product’s quality, compared with 31 percent of disengaged employees and 62 percent of moderately engaged employees. A similar pattern is reflected in respondents’ views about helping manage job-related costs and positively influencing customer interactions: highly engaged employees are, generally, two to three times more likely to agree they have such influence, compared with their disengaged peers. In short, highly

engaged employees feel essential and important and, in turn, are willing and eager to contribute.

Engagement is also significant in the ability to retain employees. In our global sample as a whole, only 36 percent indicated that they have no plans to leave their current employer, putting close to two-thirds of the total workforce at risk for departure to “greener pastures.” However, among engaged employees, the percentage committed to staying with their current employer rises to 59 percent. Among the disengaged, by contrast, that percentage drops to 24 percent.

Given the large numbers of employees in the U.S. (and other developed nations) poised to retire and leave the workforce during the next five to 10 years, there’s little doubt that competition for people and skills will intensify. While companies obviously must focus on recruiting new talent (taking into account the key attraction drivers discussed earlier), the savvy ones also recognize that ensuring engagement among their existing pool of top contributors will help ensure that talent doesn’t depart for a competitor.

Managing in a Global Environment

Understanding the elements that attract, retain and engage employees is important and valuable. It reaffirms

that employees have different needs at different points in the employment cycle, and that wise companies will take that finding into account in practical ways. The data also provide a yardstick so a company can look more closely at its own unique population and determine where differences and similarities exist vis-à-vis the broader sample, and this investigation process could impact the investments it makes in its HR practices and programs.

However, from a look at the broad data set on its own, immediate actions come to the fore. While these are common-sense steps, they have been historically difficult to take. That's why they bear repeating, and why they require constant focus and vigilance on the part of HR and line managers:

- ▶ Know the workforce.
- ▶ Get the basics right.
- ▶ Develop a culture of learning and growing.
- ▶ Support accountable leadership.
- ▶ Communicate and listen.

Know the Workforce

Powerful analytics are available that can help a company examine its workforce by function, service, location, age and pay grade, creating a picture quite different from the traditional analytics. These tools help a company evaluate its own demography to understand:

*Learning and
development programs
have never been
more important.*

- ▶ what percentage of people in what job categories are leaving during what time frame
- ▶ where replacements can, or cannot, be found
- ▶ what the impact will be on labor costs and business strategy
- ▶ where skill or labor shortages will emerge and so on.

When combined with employee data on issues like attraction, retention and engagement, a company can build a clear, actionable plan to ensure its *people planning* tracks with its *strategic planning*.

Get the Basics Right

There is a considerable need to improve employees' understanding of the rules governing pay and promotion and to ensure people perceive that those rules are fairly applied. Employees want and expect to be rewarded for organizational results and their contributions to those results.

Ensuring pay programs are built on a solid foundation gives an organization an advantage in recruiting. This advantage will become increasingly important. Of equal importance, benefits issues demand considerable attention and will present special challenges in:

- ▶ managing soaring costs
- ▶ helping employees take more responsibility for both their retirement planning and financing and
- ▶ in the U.S., managing health care.

Emphasis needs to be placed not only on innovative plan designs and savings mechanisms, but also on communication, training and self-service decision-support tools.

Develop a Culture of Learning and Growing

Learning and development programs have never been more important. As we've seen, employees want to know more and be able to do more, regardless of where they work or what they do. Workforce cutbacks during the last two decades have made it clear that employees

are responsible for their employability. They get it. Now, they want their employer to help them stay employable and remain productive both on the job today and in the future. As author Tom Friedman wrote: "If there is a new social contract implicit between employers and employees today, it should be this: You give me your labor, and I will guarantee that as long as you work here, I will give you every opportunity — through either career advancement or training — to become more employable, more versatile" (Friedman 2005).


Support Accountable Leadership

Leadership matters at every level. Therefore, leadership development programs also matter. Manager training in people processes and the behaviors that lead to employee engagement are not only good for business today, but are going to be more important tomorrow. Controlling costs by cutting training is shortsighted and, on balance, can produce some highly undesirable results. Executive coaching can provide appropriate direction through times of change.

Communicate and Listen

An *engaged* employee is an *informed* employee. This informed employee would feel valued and critical to success. Organizations that put a premium on enhancing employee engagement will need to take a close look at the particular attitudes and needs of their existing workforce and develop customized solutions for varying segments within their overall population.

A Competitive Advantage

The Towers Perrin survey results indicate a change in the way employees want to be managed and what employees expect of an employer. Employees have become a source of sustainable competitive advantage to an extent unseen before. Businesses will compete for these people in every region of the world to innovate new products and services and open new markets. The successful organizations in this new talent struggle will be successful because they know how to attract, retain and engage people differently in different parts of the world, while presenting a common vision and set of values for their employees worldwide. 

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Gebauer is a frequent speaker on total rewards and workforce issues for such organizations as The Conference Board. She is also frequently quoted as an expert regarding the latest trends and developments in benefits and has appeared on CNN-FN as an expert on retirement issues. Her clients include Avon, Citigroup and Time Warner. She has worked with organizations such as D&B, IBM, Nortel, Prudential, The New York Times Company and Unilever. Before joining Towers Perrin in 1986, she was with another major HR consulting firm.

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