ISRC *Notes* - November 1998

Peopleware: Strategies to Win
in the Competitive IT Market
Based on a presentation by Linda M. Pittenger

A near-capacity group of members heard an excellent presentation by Linda Pittenger the CEO of the GartnerGroup's newest affiliated company, People [3], Inc. Ms. Pittenger's topic spurred the interests of the many guests in attendance addressing major points of concern for ISRC members around IT human resources strategy. Developing strategies to hire and retain the best IT professionals is an important goal but doing it under today's extremely tight labor market supply conditions makes it critical to the effectiveness of the IT organization. Ms. Pittenger discussed both the drivers and the success factors discovered through her many years in the business and further proven through research in a variety of large IT organizations.

Introduction and Overview

IT's mission as Linda sees it is "to ensure enterprise superiority through the timely application of information technology". The role of IT has evolved over the last forty years from clerical punched-card operations to a distributed processing, e-commerce environment. Today's factors that are driving the evolution in IT include:

- CEOs being fed up with the big expense, little return on investment
- Understanding the total cost of ownership, running IT like a business
- Alignment of business and IT strategies along with a people strategy to make it work
- The need to support rapidly changing business needs
- Real time data needed to create customer centricity and support electronic commerce
- Y2K and EMU compliance issues
- The demand for Enterprise-wide solutions

Despite its increased importance to the business IT still faces enormous challenges. As Pittenger noted:

- 75 percent of all large systems are operating failures
- Less than 16 percent of application development projects meet expectations
- Half of all applications have budget overruns of 189% and time overruns of 222% of plan
- 41 percent of all business capital is spent on IT; it is projected that world-wide annual expenditures will reach $1.6 trillion by the year 2005

College of Business Administration
University of Houston, Houston, Texas, 77204-6283
Phone: 713-743-4691 Fax: 713-743-4693 E-mail: isrc@uh.edu

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- In any given year IT organizations will spend $81 billion on projects that soon will be cancelled or fail.

How can these problems be overcome? Having a better people strategy that ties your business and IT strategies together is one important element. Hiring and retaining the best people is a key factor in the equation. Firms that can accomplish this task can bring stability to their organization and continuity to the attainment of their goals.

IT Human Capital Drivers

The current imbalance in the supply and demand for IT labor is evidenced by a number of factors:

- Currently there are between 190,000 and 340,000 IT openings in the US
- US companies will need 1 million new IT workers by 2005
- US educational system is not turning out professionals fast enough
- The strong economy and Y2K has fueled the problem

As a consequence it is expected that:
- Turnover rate is approximately 20%
- Demand for hot skills will outpace supply through at least 2003
- Worldwide volume of IT activities will increase 50% between now and 2003
- IT executives state that 50% of their current staff will never have the qualities required of the new IT professional
- Nearly 70% of corporations are re-examining salary structures for IT professionals
- New hires are commanding 15-45% premiums while compensation for existing staff is increasing 10-20% annually

Building a Successful Strategy

One of the more revealing studies presented by Ms. Pittenger concerned retention success factors. These studies are not only of interest relative to retention but provide a window as to what recruits are looking for in the organizations that they go to work for. The first four factors were statistically profound and are in order of importance. The remaining factors are not ordered but were found to be significant.

1. Market pay
2. Career development

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3. Fit with job
4. Leadership vision for IT

Additional important factors included:

- Recognition and acknowledgment
- An invigorating technology environment
- Work culture
- Enterprise stability and financial health
- Funding and time off for learning
- Bonuses and stock options
- Managers skilled in managing people

The quality of work life factors, such as flexible hours and telecommuting were found to be employee satisfiers but not drivers of turnover.

To make use of this information it is important to think about separate strategies for hiring and for retention. They have different drivers and the strategies for dealing with them are also different. Recruiting success factors start with a well-defined recruitment process. Decision-making should be swift and local. The organization must present a good enterprise and IT image. Have a defined orientation and mentor program. Make a commitment to learning and professional development. Tell recruits of your IT successes, challenging IT technologies, and "cool" projects. Make sure to emphasize clear IT leadership and direction along with Management support. The pay scales need to be competitive and flexible with benefit programs that satisfy diverse needs. Ms. Pittenger also recommends using incentives with outside recruiters.

Strategies for dealing with retention, need as a minimum, to address the four most significant factors listed above: market pay, career development, fit with job, and leadership vision.

Market Pay

A compensation program based on multiple pay types is the preferred approach rather than having a single high level of base pay. Separate scales should be defined for retention pay, hot skills pay, project milestones, skill level, and behavioral competence. Hot skills come and go and the organization shouldn't be stuck at high levels of base pay for skills that are no longer at a premium in the marketplace.
Managing expectations around salary is also important. Communicating pay scales to employees and showing them that the firm has the current statistics is an important step. Aligning business successes to pay through profit sharing plans has also been shown to be

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an effective retention tactic. Pittenger recommends addressing the top performers and hottest skills because these are the people you want to retain the most and Managers who are reluctant to foot the bill should be reminded of the total cost of turnover. The cost of replacing an employee could be 100 to 250 percent of the departing salary. Money spent wisely on retention projects can be cost saving in the long term.

Career Development

Retention can be enhanced with career development programs that include:
- Offering career development opportunities that align with individual capability and interests
- Increasing awareness of career paths
- Ensuring the integrity of performance reviews and compensation processes
- Establishing a protocol that fosters development of hard and soft skills
- Assuring an objective and open development and advancement process
- Developing management processes that encourage movement of employees and motivate managers to use internal resources
- Establishing metrics that demonstrate the impact of the development plan
- Creating accelerated career paths for targeted employees
- Giving career development the same sense of urgency as compensation
- Developing individual plans for each employee
- Providing ongoing training
- Developing a multi-faceted career path – technical, management, and business

Fit with Job

Matching the right employee with the right job begins with differentiating between an individual's skills and their competencies. The skills are the tip of the iceberg and should not be confused with the more significant and harder to determine competencies. These hidden characteristics include motivations, personality traits, and concept of self (e.g., team player versus individual achiever). Lack of "fit" becomes a problem when the hidden competencies do not fit the job rather than when there is a mismatch of skills.

Leadership Vision for IT

A lack of direction for the IT organization either through weaknesses within IT management or problems from outside can have an unsettling effect on employees. This

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type of environment was cited as a significant reason for employee turnover in the Hay Group and GartnerGroup studies.

Summary

Ms. Pittenger recommends that the IT organization needs to develop a people investment strategy for all employees. This involves determining if the position is basically generic skill intensive (i.e. independent of enterprise, transferable, programming language, operating systems, general business knowledge) or contextual skill intensive (i.e. specific to company environment, unique characteristics, long learning curve). The generic skills positions could be outsourced or at least looked upon as needing less long-term investment. The contextual skill positions require a higher investment and retention effort.

For Additional Information:

http://gartner3.gartnerweb.com/public/static/consulting/p3_home.html
People [3] web page

http://www.jobweb.com/
National Association of Colleges & Employers job matching web page

http://www.psrinc.com.salary.htm/
PSR, Inc. salary surveys

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