

# Workforce Segmentation and Differentiation: Focusing on Key Talent to Achieve Superior Results

*In today's challenging business environment, companies have an opportunity to maximize their investments in people and improve their business results by focusing on fostering the engagement of their key employees.*

*By: Teryluz Andreu*

Many business executives are familiar with the 80/20 Principle (also called the “Pareto Principle” or the “Rule of the Vital Few”), which states that a minority of causes, inputs or effort usually leads to a majority of the results, outputs or rewards.<sup>1</sup> This principle is at the heart of commonly used business practices — from quality and process improvement methodologies, which rely on identifying and addressing the few issues that cause most quality problems, to market segmentation, or identifying and meeting the needs, wants and desires of the vital few customers that provide the most revenue and profit.

In principle, most executives also agree that there are a vital few employees that have a major, dominant impact on their organization's business results. These are usually the employees who excel at what they do and do the things that make the most money for the company. In practice, however, many organizations fall short on identifying and then acting on differentiating the way they manage, reward and foster the engagement of these employees. During these challenging economic times, the level of engagement of your employees could represent a

significant competitive advantage. For example, consider the following:

- How much can your monthly sales increase if your star sales employees felt more motivated to give the extra mile?
- How much can client retention and cross-selling revenue grow if your key account managers gave their best to anticipate and satisfy the needs of your top 20 clients?
- How much can your productivity increase if your best employees stay with the company for at least five years?

If your answer to these questions is “a lot,” you may be looking at an untapped source of revenue and profitability, and identifying, understanding and then taking targeted actions to promote high levels of employee engagement — especially among the key employees who really make a difference to your business — should be at the top of your priority list.

<sup>1</sup> See “The 80/20 Principle,” Richard Koch, Double Day, 1998.

## What is Employee Engagement?

*Employee engagement is the state of emotional and intellectual commitment to an organization producing behavior that will help fulfill an organization's promises to customers — and in so doing, improve business results. In other words, is the extent to which a company captures the hearts and minds of its employees, and motivates them to give their best.*

*Studies conducted by Hewitt Associates have consistently shown the direct link between employee engagement and important business performance indicators, such as customer satisfaction and retention, total shareholder return, sales per employee, productivity and employee retention.*

Source: Impact of Engaged Employees on Business Outcomes; Ongoing Employee Engagement Research, Hewitt Associates, 2005

## Segmentation: Identifying the “Vital Few”

Your starting point for improving the engagement of your key employee segments is to identify who they are. Your key workforce segments should be tied to what you need to achieve as a business — for example, is your business strategy centered on providing a superior customer experience? Innovation? Tight control of processes and operational costs? Each of these strategies require different sets of skills, and therefore, different kinds of people.

Then you will need to identify which employees make the difference and can provide the company a competitive advantage, as well as what kind of employees you will need to be successful in the short and long-term. Usually, these key employee segments include the following:

- **Top performers** — these are employees who consistently exceed their goals and make a disproportionate contribution to your organization's results. Top performers, those who makeup about 15% to 20% of your

workforce, are the backbone of your organization. They are the ones assigned to critical projects and consistently produce exceptional value. By understanding and increasing the engagement of your top performers, you will be impacting their productivity by enhancing their desire to contribute their best.

- **High potentials** — these are employees who demonstrate the capability to become next generation leaders and show strong leadership characteristics, such as in-depth business knowledge, functional leadership, ability to build networks and inspire others, and a high level of self-awareness, discipline and personal accountability. Your high potentials are your winning card for the future, as they will determine the organization's strategic direction and growth capability.
- **Employees in critical positions** — employees in these positions may or may not be top performers or high potentials, but they have a disproportionate importance to a company's ability to execute some part of its strategy and a large variance in their performance can represent a significant upside or downside

potential that can be turned into a competitive advantage. In other words, these are the employees that can make or break your business strategy with their every day actions.

If your company hasn't formally identified these key employees, it is worth investing some time defining the particular characteristics and profiles applicable to your company and assessing your employees against the profiles. This should be an important building block for your talent management, rewards and workforce planning strategies.

### Differentiation: Taking Targeted Actions

Once you have defined your key employee segments, you will need to understand what matters the most to them and what are the top factors that will drive their engagement. While some factors, such as good communication and meaningful work, are important among all employees, there may be some particular factors that make these employees tick. For example, a research conducted by Hewitt Associates among high potential employees revealed that challenging work, total compensation, opportunities for advancement and good work/life balance ranked among the top factors that drive their motivation and engagement.<sup>2</sup> Some of these are potential areas that a company can address without making costly investments.

The only way to truly understand the factors that drive the engagement of your key segments is to ask employees for their opinions and involve them in the process. This is when a sound employee engagement study can make a significant difference, and why, during particularly challenging times, companies need to continue their employee listening and research efforts.

A successful employee engagement action plan should include both broad-based actions to help sustain or increase the overall employee engagement level, and targeted, differentiated actions for key employee segments. The idea is to make all employees feel motivated to give their best, your solid performers (those who consistently meet expectations) feel motivated and successful, and your key employees (those who have a dominant impact on your business results) feel motivated, successful and special.

Many companies still struggle to differentiate — the fear of creating high expectations among key employees or resentment among those who are not in the key segments may overshadow their good intentions. In fact, recent studies conducted by Hewitt Associates among Latin American employers revealed that in light of the global economic crisis, few companies are planning to take differentiated action beyond salary increases to reward their top performers<sup>3</sup> and most companies in the region are still hesitant to communicate to employees whether they have been identified as high potentials.<sup>4</sup>

Traditionally, differentiation has been relegated to compensation — the idea of giving higher merit increases or bonuses to those who perform their best is not new. However, differentiation has not permeated to other areas that may be as or more important to drive the engagement of your key employee segments, such as opportunities for development and growth, work/life balance arrangements or even more frequent communication and interaction with senior leaders.

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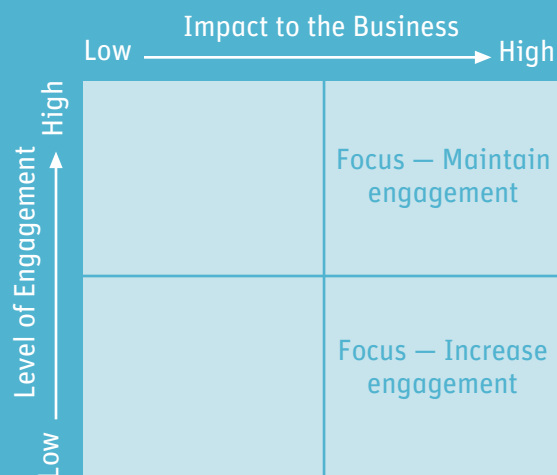
<sup>2</sup> "Taking Your Talent Pulse: How Motivated Is Your Top Talent to Deliver Top Performance?" Hewitt Associates, 2006.

<sup>3</sup> Hewitt Associates, *Impact of the 2008/09 Economic Conditions on Compensation Costs Survey*, 2008.

<sup>4</sup> Hewitt Associates *Top Companies for Leaders Study*, 2007.

### Identifying Priorities for Action

Once you pinpoint your key employee segments and their level of engagement, you will be able to place them in the matrix depicted to the right. Your action plans should focus on the employee segments that will have the highest impact on the business: both the ones that are highly engaged, as you will need to continue to foster their level of engagement, and the ones that have low engagement levels, as their disengagement represent a threat to your business and lost opportunity.



### Making Employee Segmentation and Differentiation Work

There are two key factors that will ensure that your employee segmentation and differentiation efforts translate into higher employee engagement and better business results:

- **Leadership buy-in:** Even without sophisticated talent management programs, most executives intuitively know who are the employees that make the difference and how much is at stake if they walk out the door. However, some leaders may be resistant to change and you'll need to actively challenge the long-held notion that all employees have the same impact on the business and should be treated the same.
- **On-going review:** Employee segments are dynamic and concentrate on their potential impact to the business, which can change quickly and can be reshaped by internal and external factors, such as organizational changes, increased competition and market conditions. In today's business environment, these factors are evolving and changing continuously.

Therefore, workforce segmentation and differentiation efforts are not a one-time deal — companies need to pay close attention to ensure that their initiatives are hitting the mark and that they are investing their time and resources on the right employee segments.

In summary, employee segmentation and differentiation can have a high positive impact on your business and a relatively low impact on your overall expenditure. It is a clear win-win situation for the company and employees — key employees will feel more engaged and motivated to stay and give their best, and the company will see increased productivity of their “vital few,” which translates into improved business results.

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