GETTING IN, GETTING AHEAD, AND GETTING OUT—GRACEFULLY
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Getting In, Getting Ahead, and Getting Out—Gracefully

A generation ago, employees never had to worry much about managing their careers; their companies did it for them. As anyone knows who has been in the workforce for the last decade, times have changed. Companies don't hesitate to announce massive layoffs; managers don't think twice about changing jobs every few years, seeking out the mentors and training they need to move on; and, in many cases, companies are simply choosing not to invest significant time or resources in employees who no longer feel much loyalty to the organization. While that's the general picture, it gets more complicated depending on what skills employees have, what industry they work in, whether they are men or women, management fast-trackers or dedicated plodders, baby boomers heading for retirement or Gen-Xers. As the following *Knowledge@Wharton* articles show, about the only common denominator in today's marketplace is the need for employees to take charge of their own career.

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While the Internet allows us to generate and share information more quickly than ever, it has also led to increased job hopping among employees, many of whom feel little allegiance to a particular company. But with high-tech employers increasingly concerned about protecting "intellectual property," some of these employees may find it's harder to move on than they thought.

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The alchemy of promotion—who gets it, when, and why—animated a recent conference at Wharton organized by the School's Center for Human Resources. Labor economists and human resources specialists attending the conference, entitled "Careers and Career Transitions: New Evidence for a New Economy," tackled a number of issues, including whether or not a "fast track" really exists, the effect of corporate restructurings on professional advancement, and the likelihood of promotion for insiders vs. recent outside hires.

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Testifying in a Delaware court in December 2004, Stanley P. Gold, a former Walt Disney Co. director, joined a long list of company executives who had dirty laundry to air regarding the 1995 hiring of Michael Ovitz as Disney's president and his subsequent firing in 1996. "These were two, big volatile egos banging against each other, and they just didn't get along," Gold testified, referring to Eisner and Ovitz. While the Eisner/Ovitz scenario presents an extreme case of management dysfunction, it contains all the elements of what companies seeking to build successful management teams should avoid, say Wharton professors and executive coaches.

'One for All' or 'One for One'? The Tradeoff Between Talent and Disruptive Behavior 14

The talk of the National Football League in 2005 was Terrell Owens, the talented wide receiver who was let go by the Philadelphia Eagles because of repeated disruptive behavior that alienated teammates, coaches, and fans alike. Although the saga of T.O.—as he is familiarly known—dominated the sports pages for days on end, coverage of his relationship with the Eagles' organization could just as easily have found a home between the covers of an academic management journal. Faculty members at Wharton and other experts say Owens is a classic case of a star employee who, because of his immense talent, was given wide latitude even though he engaged in eccentric (at best) and abusive (at worst) behavior. How employers view the tradeoff between talent and disruptive behavior sends a powerful message about teamwork in an organization's culture, they say.

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The demographics of today's workforce, employee expectations about retirement, and the types of retirement options offered are all in a state of flux, making retirement policy a moving target for those charged with researching and administering pension plans. That was the message at a Wharton conference entitled "Reinventing the Retirement Paradigm," co-hosted by Wharton's The Pension Research Council. Experts from academia, government, and industry debated what's ahead for the baby boomers, and those coming up behind them.

Got a New Job? Better Check That Non-Compete Clause

FEW WOULD DISPUTE the ability of the Internet to generate and spread information instantly and on a global basis. And few would deny that the Internet has helped to redefine such concepts as "workplace," "marketplace," and "intellectual property."

What is up for debate—and indeed has been the subject of recent court cases—is the Internet's impact on an individual's ability to change jobs without interference from a previous employer.

On the surface, it doesn't sound like there should even be a conflict. Individuals who are not covered by an employment contract are generally governed by the "employment-at-will" doctrine, which presumes that the employee is employed for an indefinite period rather than for a fixed term and that both employer and employee have the ability to end the employment relationship at any time and for any reason. While some activity on the part of an employer is prohibited (such as termination based on discrimination or the violation of other "public policy" as defined by state and federal law), the legal theory has also traditionally meant that an at-will employee can leave one employer for another without any barriers.

But recent court cases, driven in part by high-tech concerns, seem to be eating away at the concept of employee mobility, thereby giving employers the right to dictate what company an ex-employee may or may not join.

Some of the legal activity appears to be no more threatening than an application of traditional non-compete clauses that are recognized by most states. But other cases indicate that the courts are closing the noose around the practice of job-hopping and, in seeking to protect legitimate trade secrets, may hinder technological progress.

Consider the case of Ciena Corp., a Linthicum, MD-based provider of intelligent optical networking systems. According to a recent *Wall Street Journal* article, Ciena won a court order last year enforcing the company's standard employment contract that bars employees from working for a rival for a year after leaving. In this case, the ruling forced a former Ciena manufacturing director to cease working for Chromatis Networks, Inc., a manufacturer of optical networking and related products. In addition to losing his job, the former Ciena employee lost out on "millions of dollars in potential stock profits when Lucent Technologies, Inc., bought Chromatis for $4.5 billion in May," according to the *Journal*.

Traditionally, these employment contracts, often referred to as non-compete agreements, were aimed at protecting an employer's trade secrets or customer lists. So a salesperson or stock broker, for example, might be prohibited from soliciting former clients for a reasonable period of time, or a pharmacist-employee might be prohibited from opening his or her own practice in the same town as the ex-employer for a limited time. Courts would often honor a "covenant-not-to-compete" if it was reasonable in nature and did not prevent the former employee from making a living.

But the principles behind non-compete clauses get a bit more tangled when the issues concern the Internet, where there are no geographic limits and where trade secrets are made up of applications of thought instead of processes or tangible property.

"Contractual limitations have been common for a long time, but in today's high-tech economy, they've become more newsworthy," observes Wharton Legal Studies Professor Richard Shell. "In today's market, the most valuable component of many high-tech companies is the human, or intellectual capital, which means a firm's main asset can now simply walk out the door."

The problem, says Shell, is that the efforts of a company to protect that intellectual capital with a non-compete clause can unreasonably restrict a person's mobility. "A covenant not to compete is only enforceable for a limited time, but it can still be a problem when you have companies like Microsoft, for example, that use the law to aggressively quiet competition in industries where there is not enough competition to begin with."

Inevitable Disclosure

Non-compete agreements, which are common for high-tech companies as a condition of employment, can be tough. But at least the employee is aware of the restriction on subsequent employment. What happens, however, when an employee who never even signed a non-compete agreement is barred from joining a competitor?

That happens and it's not infrequent, says Christopher Wells, a Seattle-based partner with Lane Powell Spears Lubersky LLP, a multi-specialty law firm. He notes that the doctrine is known as "inevitable disclosure" and was demonstrated in 1997 in a New York court case involving DoubleClick, Inc.

In the case, Kevin Ryan, president of Internet advertising company DoubleClick, Inc., discovered that two of his executives planned to leave. Fearing they would use confidential information about DoubleClick's business to start a competing venture, the employees' lap-top computers were confiscated, and the company asked the New York State Court to issue an injunction preventing the two from working in the Internet advertising industry for 6 months.

The court granted the requested injunction based upon "evidence of actual misappropriation" of DoubleClick's trade secrets. That part of the decision was not controversial. But in a move that was chilling for employees across the nation, the court also found that the actual misappropriation claim was "bolstered by the fact that there is a high probability of inevitable disclosure of trade secrets in this case."

Based upon these findings, and despite the fact that neither employee had a non-compete agreement or even a valid confidentiality agreement with DoubleClick, the court entered an order that prohibited the defendants from starting a competing business for at least 6 months.

"The inevitable disclosure doctrine seeks to prevent a former employee from working for a competitor under the theory that an individual cannot help but exploit knowledge from his previous employer and put it to work for a competitor," says Wells. "There's no 'Chinese wall' to segregate information in your head."

He observes that courts are more likely to apply inevitable disclosure, or enforce a non-compete agreement, if the former employee takes a position that's is similar to his or her previous job, particularly if the position pays considerably more than the old one, even though the responsibilities are not very different.

"If an employee leaves company A where she was northeast regional sales manager and goes to company B as a regional sales manager in the southwest, a court might say she's not subject to a non-compete covenant or the inevitable disclosure doctrine," says Wells. "She might also be safe if she works for a company that's in a different kind of business. But if she's in a similar line of work, the court may be suspicious."

He said concerns over that kind of outcome probably fueled a recent decision by Redmond, WA-based Crossgain Corp. to ax about 25 percent of its employees, including the startup's two founders and chief executive officer, in response to pressure from Microsoft. Crossgain develops Internet-based standards and tools for software developers and, according to a recent report in the *Wall Street Journal*, the terminated individuals were all ex-Microsoft employees who had previously signed non-compete agreements with the Redmond-based giant.

The inevitable disclosure doctrine is at the heart of a court case currently being argued by an attorney in a Philadelphia-based law firm in which Wharton legal studies lecturer Bob Borghese is a principal.

The firm is representing a seller of specialized medical products that hired two salespeople who formerly worked for a competitor. Alleging misappropriation of trade secrets, the former employer says the two ex-employees improperly left with customer lists and should be enjoined from contacting the customers.

"Even though there were no restrictive covenants preventing the employees from joining the new firm, the former employer is utilizing the doctrine of inevitable disclosure in its argument," says Borghese. "It's like a warning shot aimed at all of the company's competitors. While it may not dissuade employees from leaving their company, it can certainly give them, as well as a prospective employer, pause."

Recent court cases, driven in part by high-tech concerns, seem to be eating away at the concept of employee mobility, thereby giving employers the right to dictate what company an ex-employee may or may not join.

In this instance, notes Borghese, a key concern is whether the customer list really constituted a trade secret. "The ex-employer has rights, since it incurred the costs of developing the customer list," he says. "But the real question is whether the list was maintained as a trade secret."

In this case, at least, Borghese predicts that the former employer will not prevail because it failed to maintain adequate safeguards to protect the information as a trade secret. "The customer list was maintained on an open network where it was easily accessible," he says. "If a company wants to maintain the information as a trade secret, then it needs to properly safeguard the asset to maintain its secrecy."

Meanwhile, Wells says that courts are walking a tightrope as they weigh a company's right to protect its trade secrets against an individual's right to work. And he thinks the courts may be coming down too hard against the individual. "Courts are striving for balance, but there are other options," he says. "For example, a court could permit an ex-employee to work for a competing firm, but the new employer would pay monetary damages to the former employer."

Under the Uniform Trade Secrets Act, which has been adopted by most states, an injunction may "condition future use upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited." So why don't courts sack the inevitable disclosure doctrine and instead levy monetary sanctions?

Maybe because it's easier to tell a person he or she can't take on a new job than it is to gain enough of an understanding of a company's business to equitably award monetary damages or a royalty—especially when the companies are involved in high-tech ventures where today's cutting-edge solution can be rendered obsolete in a heartbeat.

Ian N. Feinberg, an attorney in the Palo Alto office of Gray Cary Ware & Freidenrich LLP, calls the doctrine of inevitable disclosure a "seductive" one that "permits the overburdened and nontechnically trained judge to avoid the seemingly impossible task of understanding asserted technical trade secrets, or worse, determining which of them are actually secret and have been misappropriated or are threatened with misappropriation."

A court that applies the inevitable disclosure doctrine, he adds, can prevent an employee from "performing specified duties without having to identify precisely what trade secrets are threatened with disclosure by the performance of those duties. In addition, of course, it is much easier to monitor compliance with an injunction which prohibits specified work than an injunction which prohibits use or disclosure of specific trade secrets."

Pepsi vs. Redmond

Interestingly enough, the roots of the inevitable disclosure doctrine did not spring from a high-tech court battle. Instead, the guiding case, PepsiCo v. Redmond (1995), involved a defendant, Redmond, who had worked for PepsiCo for 10 years, rising through the ranks to become the general manager of the business segment covering California that generated annual revenues in excess of $500 million and provided 20 percent of Pepsi's U.S. profits.

In the course of his employment, the general manager had gained access to PepsiCo's annual operating and 3-year strategic plans containing financial goals and strategies for manufacturing, production, marketing, packaging, and distribution. This included especially vital pricing models and marketing plans for particular beverages in various markets.

In 1994, Redmond left PepsiCo to join Quaker Oats (which at the time sold such products as Gatorade and Snapple) as chief operating officer. PepsiCo sued and won a preliminary injunction preventing Redmond from marketing Snapple and Gatorade for a specific period. The new position, PepsiCo claimed, required him to anticipate and respond to PepsiCo's trade secret marketing plan, a plan which Redmond had helped create while at the company. The injunction was upheld on appeal.

While the court emphasized that the mere fact that a person assumes a similar position at a competitor does not make it "inevitable that he will use or disclose trade secret information," it went on to rule that "[a] plaintiff may prove a claim of trade secret misappropriation by demonstrating that the defendant's new employment will inevitably lead him to rely on the plaintiff's trade secrets." The court cited the "fierce competition" between PepsiCo and Quaker Oats, particularly in the "sports beverage" (Gatorade) and "new age beverage" (Snapple) product lines.

Could the court have ruled differently?

Wells says yes. He cites another case in which a limited injunction was crafted by a court in AllisChalmers Manufacturing Co. v. Continental Aviation & Engineering Corp. That court also found that it was impossible for a former developer of fuel injection pumps not to use the former employer's trade secret information. However, in an attempt to maintain the employee's "right to pursue his chosen vocation," the injunction was designed to be "as restricted as possible to protect the secrets involved without undue restraint."

"This goal was accomplished by permitting the engineer to perform any work except development of the particular type of engine pump he had been working on at AllisChalmers," says Wells. "It was a truly balanced opinion."

It's easier [for the courts] to tell a person he or she can't take on a new job than it is to gain enough of an understanding of a company's business to equitably award monetary damages or a royalty—especially when the companies are involved in high-tech ventures.

Feinberg argues that courts should be using scalpels, not clubs, when "the mere threat of an 'inevitable disclosure' injunction can result in a decision not to hire an employee of a competitor, chilling employee mobility," he says. "For the same reason, widespread application of the doctrine could adversely affect the creation of new companies by people who are disenchanted with their present employer or who think they have invented a better mousetrap."

So will America's technology drive sputter, a victim of its own anti-theft devices? Perhaps not. Because even as the noose appears to tighten around employee rights in some states, it is being loosened in others, like California, where Feinberg says the courts "have historically recognized the fundamental right of an employee to earn a living and have denied injunctive relief that interfered with this right."

Quoting from a California Supreme Court decision, Continental Car-Na-Var Corp. v. Moseley, Feinberg notes the decision stated that "...equity will to the fullest extent protect the property rights of employers in their trade secrets and otherwise, but public policy and natural justice require also that" the right of people to follow any of the "common occupations" of life should be respected as well. Every individual, the opinion added, "possesses as a form of property, the right to pursue any calling, business, or profession he may choose." That last phrase echoes a similar one made a long time ago concerning Life, Liberty, and the pursuit of Happiness. ■

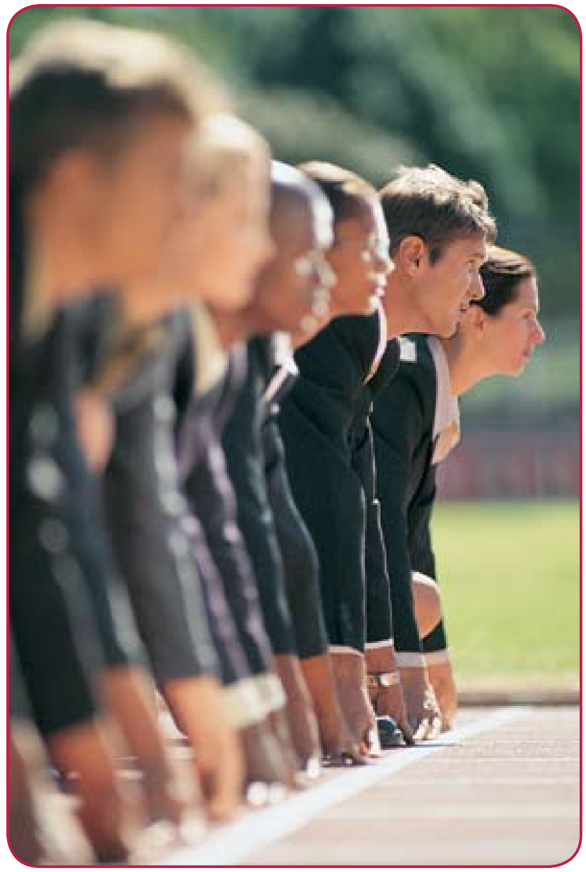
Heading for the Fast Track? New Studies Examine Who Gets Promoted and Why

MAYBE OPRAH WINFREY knew something about workplace dynamics that other people didn't.

Winfrey, of course, is the multimillionaire founder of a media empire that includes not only her syndicated talk show but also *O* magazine, a members-only website, books, and even weight-loss camps. By choosing self-employment over working for a TV station or network—she began her career as a news anchor in Nashville—Winfrey may have avoided a pitfall for many black women in the workplace, namely, being stuck in their jobs. Black women are less likely to be promoted than males and white women, according to a group of labor economists and human resources specialists who recently gathered at Wharton.

Even as two big labor unions decided in August 2005 to defect from the AFL-CIO, claiming that it had failed to stop declining union membership or push hard enough for labor reform, participants in a conference entitled "Careers and Career Transitions: New Evidence for a New Economy" debated the alchemy of promotion—who gets it, when, and why. The conference was organized by Wharton's Center for Human Resources and sponsored by career transitions firm DBM. Scholars presented evidence from different places—Fortune 500 companies, call centers, Canadian firms—and parsed it in various ways. But two findings arose repeatedly: Minority females are less likely than others to win promotions, and white males are more likely to.

Other studies probed the dynamics of promotion—including the concept of the "fast track," the effect of corporate restructurings on professional advancement, and the likelihood of promotion for insiders vs. recent outside hires, among other things. The goal of the conference was to understand how modern labor markets operate—nearly everyone agreed that today's economy appears to allow for more employee mobility among firms—and what this means for workers.



"An overarching theme was thinking about what determines career ladders within firms," said Wharton Professor of Business and Public Policy Justin Wolfers. "There's room for a number of different views here. Some scholars believe managerial policies matter. Some think demographic differences do. And if you think about types of managerial policies, some firms have what academics call internal labor markets, and some regard employees as, in effect, being bought and sold on the spot market."

The Fast Track and the "Peter Principle"

Pablo Acosta, a doctoral candidate at the University of Illinois at Urbana-Champaign, presented research based on the personnel records of a single U.S. corporation. Like several of his colleagues, he found that whites, males, and more educated workers had a higher probability of being promoted.

Nothing radical there, but as he sifted through the data, he was able to test two pieces of conventional workplace wisdom. The first was the "fast track," the idea that companies often have an accelerated evaluation and promotion path for people who have been designated as stars early in their careers. The second was the famed "Peter Principle," which says that workers rise to the level of their incompetence and then stall. It was formulated by Laurence J. Peter, an education professor who taught at the University of Southern California.

In a paper entitled "Promotions, State Dependence and Intrafirm Job Mobility: Insiders vs. New Hires," Acosta found that fast tracks didn't seem to exist in any systematic or firm-wide way. If they did, previous promotions should lead to a higher probability of future promotion, but that wasn't the case.

> "Some firms have what academics call internal labor markets, and some regard employees as, in effect, being bought and sold on the spot market," says Business and Public Policy Professor Justin Wolfers.

In contrast, his analysis suggested that the Peter Principle did exist. He discovered that outsiders had an advantage over insiders when competing for a higher position. In theory, if an insider had risen to his or her level of incompetence, he or she would then be less likely to get promoted. Of course, an equally likely explanation would be "the grass is always greener" phenomenon—or, put in the corporate context, companies like newer hires not because their longtime employees are incompetent but because people have a tendency to overvalue unfamiliar candidates and undervalue known ones. That might explain the tendency of companies to seek out savior CEOs from the outside, as, for example, Hewlett-Packard did—with little success—when it hired Carly Fiorina, or as IBM did, with much better results, when it brought in Lou Gerstner.

Like Acosta, John Dencker of the University of Illinois Urbana-Champaign investigated promotions within a single large U.S. firm. His research was aimed at determining what happened to employees after restructurings. The company he examined, a manufacturer, experienced major layoffs in the mid-1980s, reworked its means of employee evaluation in the late '80s, and underwent another round of layoffs in the early '90s. Dencker, in a paper entitled "Organizational Structure, Gender, and the Influence of Corporate Reorganization on Employee Promotion Patterns," focused on white-collar employees because he says that they were disproportionately targeted in layoffs in the '90s. During that time, middle managers accounted for 20 percent of job losses but only 10 percent of the workforce.

The first round of layoffs at the firm studied by Dencker appeared to turbocharge the careers of managers who survived it: their promotion rates increased. And that makes sense. A firm would want to try to keep its best people, and thus it effectively signals that layoff survivors are top performers.

But promotion rates decreased after the firm reformed its means of employee evaluation. Specifically, the firm moved from a system based mainly on seniority to one based mainly on performance. Interestingly, though, the promotion rate for female employees rose after the change. Dencker couldn't explain this. Despite doing followup interviews with executives, he could find little evidence of a concerted effort to advance women. What's more, "a search for legal rulings failed to uncover any evidence that the firm had engaged in blatant discriminatory practices in the past," he says.

After the second layoff, promotion rates also dipped. This drop suggests that the firm may have moved from a closed employment relationship, where it relied on promotions to reward good performance, to an open one, where, for example, it might rely on "short-term, market-driven rewards such as bonuses," Dencker says.

The Influence of Race and Gender

A pair of papers presented at the conference took direct aim at the influence of race and gender on promotions. In one, Margaret Yap, a professor at Ryerson University in Canada, explored promotions at a large Canadian company. In the second, Nancy DiTomaso, a professor at Rutgers University, and four co-authors investigated the same issues among scientists and engineers at multiple firms.

Before digging into any statistical analysis, Yap examined simple percentages and found that, in her selected company, whites were more likely to be promoted than nonwhites, men were more likely than women, and white males were more likely than white females or minorities of either gender. "This simple comparison of gross promotion rates indicates...that minority females seem to suffer a double whammy in their prospect for career advancement," she writes. White males also earned more on average—$68,000—compared with $64,000 for minority men and $54,300 for women.

White men were the most likely to receive promotions, even when other workers appeared equally or even more qualified. "Systemic barriers must have existed in the company's policies, programs, and practices," Yap concluded.

Yap then split the firm's employees, looking separately at lower-level employees and senior managers. At the lower level, white males had the highest promotion rate. But at the senior level, white and minority females beat them, while minority males still lagged. Yap applied a variety of statistical tests to her findings, and the results held: White men were the most likely to receive promotions, even when other workers appeared equally or even more qualified. This led her to conclude that "systemic barriers must have existed in the company's policies, programs, and practices."

Many would feel that Yap's conclusion is tentative; after all, she examined a single firm. And one doesn't need to look far to find examples of individual firms that have discriminated against one group of employees or another—or at least have been accused of it. Earlier this month, a male violinist sued the New York Philharmonic Orchestra, accusing it of favoring female violinists. And an arbitration panel ruled that Merrill Lynch had to rehire a female financial consultant against whom it had discriminated. Last year, the panel ruled that Merrill had exhibited a pattern of gender discrimination. Another New York investment bank and brokerage, Morgan Stanley, paid $54 million last year to settle accusations that it, too, had discriminated against women.

DiTomaso and her co-authors tried to overcome what researchers call the "small-sample problem" by examining promotions of scientists and engineers at 24 firms. Like Yap, they found an advantage for white males. White male scientists had greater control over the content of their work, which the authors regard as a key driver of professional satisfaction among scientists and engineers, and received higher performance ratings. Interestingly, "[white males] receive greater access to favorable work experiences and higher performance ratings no matter who is rating them," the authors note. In other words, they are well rated by fellow white males and by minority females.

The authors found no evidence that firms knew they were favoring white males. In fact, interviews and focus groups revealed that white males themselves tended to feel "disadvantaged vis-a-vis other groups, owing to what they perceive as their employers' emphasis on workplace diversity."

The only group whom the authors found to be consistently disadvantaged was U.S.-born black females. All other groups experienced what the authors call "the absence of advantage," that is, no special advantage or, for that matter, disadvantage.

"The process by which U.S.-born white men accrue advantage—by receiving favorable treatment in the workplace that then helps them become more competent and worthy, which then reinforces the belief that people like them are competent in these kinds of jobs—has important consequences," the authors conclude. "Since no one is ostensibly guilty of discrimination, ill will, or intentional unfairness, without attention to favoritism as well as discrimination, there is no remedy for those who either lack favor or suffer disfavor." ■

Clash of the Titans: When Top Executives Don't Get Along With the Team

TESTIFYING IN A DELAWARE COURT in December 2004, Stanley P. Gold, a former Walt Disney Co. director, joined a long list of company executives who had dirty laundry to air regarding the 1995 hiring of Michael Ovitz as Disney's president and his subsequent firing in 1996. Gold and others detailed how Ovitz had clashed with Disney CEO Michael Eisner and other executives, how he had tried to cut deals the company didn't want, and how he had failed to fit into the Disney culture. The situation eventually deteriorated to the point where the only way to refocus the company and end the disputes, said Gold, was to fire Ovitz.

"These were two, big volatile egos banging against each other, and they just didn't get along," Gold testified, referring to Eisner and Ovitz. Terminating Ovitz, the once-mighty talent agent, just 14 months after hiring him cost the company a $140 million severance package, not to mention ensuing legal fees and distractions brought on by a shareholder suit against the company's board for failing to properly scrutinize Ovitz's contract.

"The severity of the clash at Disney is unique," says Michael Useem, head of Wharton's Center for Leadership and Change Management, which is planning a conference on leadership in San Francisco. "At that level, the executive search firms and internal company procedures are so exacting that it would be unlikely such different styles would enter a top executive suite. Having said that, executives do come in, and sometimes they just don't work out with those who are already there."

The dysfunctional Disney team may have been an aberration—both in scale and cost. Yet while the Eisner/Ovitz scenario presents an extreme case, it contains all the elements of what companies seeking to build successful management teams should avoid.

The Root of Executive Team Clashes

Other major companies over the past decade have had their share of dysfunctional executive teams, says Useem. He cites AT&T's hiring and firing in the mid-1990s of John Walters as CEO Robert Allen's heir apparent. Walters lasted just 9 months on the job, most of which was spent butting heads with Allen and his closest allies.

When companies face the awkward situation of having two people on one team mired in bitter dispute, they normally chalk up the tension to a personality clash. There is a tendency, according to management experts, to think that personality is the cause of organizational discord rather than perhaps an effect of it.

For example, Ben Dattner, an associate at Dattner Consulting executive coaching firm, believes that personality conflict might be a symptom of a larger organizational issue. "When I work with my clients, I often try to get them to see how it is not just a conflict between two people. I try to get them to see that it is also potentially a conflict between two visions, two agendas, two constituencies, or two visions for the future." Dattner adds, however, that there is a reciprocal relationship: If trust breaks down and people do not collaborate as conflicts begin to emerge, the tension can take on a life of its own and spill into the personal realm.

Peter Cappelli, director of Wharton's Center for Human Resources, believes that when such personal animosity stalls a company's performance, the leadership is usually to blame. "In many ways, it is the failure of the leadership to get disparate people to work together. The leadership has not offered the right kind of incentives...to [encourage] people to play along and get things done."

Cappelli maintains that team members don't need to like each other personally to be effective, but they do need to be working toward a common goal. Internal battles, he says, are linked to clashing priorities as each team member pushes his or her separate agenda. This is common in organizations where the leadership has failed to articulate its goals. "A common problem in an organization is that it is rewarding something different than it says it is. For example, the overall goal of this organization might be to maximize shareholder value. But then when you look at how people get promoted, they get promoted by meeting their own targets rather than contributing to the overall organization's targets."

Adding to the tensions caused by murky goals is an unclear leadership hierarchy, says Wharton Management Professor Katherine J. Klein. "When one person is clearly in power and the other is not, these matters can be solved relatively easily," says Klein referring to a boss and subordinate. "But when you have two people on the team who share power, it further complicates matters." In such cases, management needs to delineate the line of power even if it means the person who loses clout eventually leaves the organization.

Executive Coaching

A growing number of companies are hiring coaches to teach executives and management teams to overcome internal rivalries, conflicts, and personality clashes. The phenomenon has been around since the 1950s but faded until the past decade. Previously, coaching was seen as a way of overcoming problems at work and receiving "acceptable" psychological counseling. Now coaching is common enough that it is almost expected—especially as organizations have trimmed down or eliminated the divisions that offered such developmental programs. "Most companies don't have time or a systematic way of guiding their management teams in a sophisticated way," says Cappelli. "So they hire coaches to help people figure out what is going on in their job and what they ought to be doing."

Dattner, an executive coach based in New York City, says that when he is asked to intervene, he first tries to find out the real causes of the conflict. To what extent is it different divisions, different strategies, or different agendas? "Then you bring this to the attention of your clients so maybe they will stop taking things so personally or at least realize that their conflict is representative of larger organizational issues," says Dattner. "When people realize that such issues are at play, they can take things less personally."

Dattner tries to reestablish trust among the team members even if they continue to dislike each other. "It is important for them to trust and respect each other, but liking the other person is not a necessary ingredient for an effective team."

Maggie Craddock, president of Workplace Relationships, a New York-based executive coaching firm, notes that there are times when the management team might be better off shedding a few of its members to bring back a unified vision or goal. This includes situations where trust has broken down beyond repair or where some people with strong personalities have refused to acknowledge the need to change.

While coaching to repair or build relationships on management teams at an early stage is wise, Useem notes that executives such as Jack Welch and Louis Gerstner have said their only regrets as managers have been taking too long to drop someone from a team as opposed to doing it quickly. "This is not a damning of the individual, but a realization that there is a poor fit between the executive and the rest of the management team," says Useem. "Many people get fired and go on to do great things elsewhere."

Cappelli, however, believes that breaking up a team is rarely the solution, especially if you have a group of people who are competent and who have the right skills. "If you are effectively managing the team from above, then you shouldn't really have to rotate people out. And if you do rotate people out, there is absolutely no reason to think that the new group of people is going to be any different."

Getting It Right in the First Place

Teams in which people have worked together for a long time eventually face the reality of needing to bring a new person on board. Such teams, however, have developed specific cultural norms and values, according to Klein. These norms vary from how team members dress and how they communicate with each other to whether meetings start on time or as people trickle in. "Whenever you bring someone brand new onto a team," says Klein, "unless they come in resigned to just conform, or unless current management is truly seeking a change of culture, there is a tremendous potential for conflict." The potential for trouble is even stronger in smaller firms that might have only a dozen employees, with just one or two personalities controlling the culture, she adds.

The first step is often the hardest in building an efficient team. Management experts believe that most executives simply do not have the judgment or insight to hire effectively. During the interview process, the hiring executives often latch on to particular qualities that they like in a person and are willing to overlook other telling traits that signal the candidate will simply not fit in. "Everyone thinks they can tell who is going to be good, but they tend to be biased toward people who are like them, who look like them, and who have similar experiences," says Cappelli. "The predictive validity of these kinds of interviews is pretty much zero."

Often, the hiring executives are busier making themselves look good during an interview then getting to know a candidate. They boast that their company has a particular culture, but often this is simply an aspiration. "My experience is that people at the top often have very little sense of what their company's culture really is," says Cappelli. "Culture is about the informal rules—how things get done regardless of what the corporate credo says." In this respect, the top executives are often insulated from how things really work.

Executives frequently will talk about wanting to bring in fresh blood to change course dramatically. "'This will be great,' they think," says Klein, "but be careful what you wish for." In this case, the hiring executives may assume that they know what that new vision or course of action is, adds Klein. If they find that their assumptions were wrong, they are likely to become frustrated and even angry.

The more astute executive search firms are skilled at peeling away a hiring company's layers of wishful thinking. Management experts recommend that companies hire executive search firms that begin by uncovering the underlying company culture. The search firms should also clarify the exact role the hiring company wants a potential candidate to play and articulate the company's goals, vision, and strategy. "Most candidates will have all the required technical strengths," says Joseph Griesedieck, vice chairman and head of global CEO practice at executive search firm Korn/Ferry International. "The difficult part is to assess whether the person truly fits a company's culture and whether they share a vision and philosophy." That does not mean looking for someone who is malleable, Griesedieck adds. "You want someone who has the strength to stand up and say, 'I think this is not right,' but in a constructive way."

Wharton's Cappelli maintains that team members don't need to like each other personally to be effective, but they do need to be working toward a common goal.

Klein notes that the ideal candidate will bring both vision and an ability to work on a team, although finding such a prospective executive requires some digging. "It makes sense to look at people's past accomplishments and history to see if they have shown visionary leadership and if they have a similar vision for your business," says Klein. "The second part of the puzzle is to uncover their experience working on a team. Have they worked in a team setting with people who disagree with them? Has this person worked in a team setting where he or she didn't hire all the members of the team to be 'Yes men' and 'Yes women'"?

Disney and Eisner blundered on almost all counts. After all, Eisner personally hired his good friend Ovitz, bypassing standard executive hiring procedures. In making the hire, Eisner had no clear goals for his new president. There was also a power struggle from the very beginning as other Disney executives refused to report to Ovitz. Finally, the former talent agent's extravagant spending clashed with Disney's more frugal culture. Each clash was a recipe for management disaster.

"Losing an executive is a very expensive proposition," says Griesedieck. "Not just in terms of the money spent on executive search firms, but the opportunity cost and the time spent" trying to make the relationship work.

A lesson Disney learned the hard way. ■

‘One for All’ or ‘One for One’? The Tradeoff Between Talent and Disruptive Behavior

THE TALK OF THE NATIONAL FOOTBALL LEAGUE in 2005 was Terrell Owens, the talented wide receiver who was let go by the Philadelphia Eagles because of repeated disruptive behavior that alienated teammates, coaches, and fans alike.

Although the saga of T.O.—as he is familiarly known—dominated the sports pages for days on end, coverage of his relationship with the Eagles’ organization could just as easily have found a home between the covers of an academic management journal. Faculty members at Wharton and other experts say Owens is a classic case of a star employee who, because of his immense talent, was given wide latitude even though he engaged in eccentric (at best) and abusive (at worst) behavior. But even Owens’ ability to catch passes and score touchdowns could not save his job because his behavior reached the point that it was deemed detrimental to the successful functioning of the organization.

“In any organization, power is related to dependence,” says Wharton Management Professor Lawrence Hrebiniak. “If the organization depends on someone for skills and if that person’s expertise is rare, the power of that individual goes up. T.O. has greater skill than the normal player and more valuable expertise. When any individual has that type of influence, he becomes central to the organization and can break the rules more than a regular employee can. Because of his rare skill, you’re willing to take a chance on him. A team wouldn’t do that for the guy of average ability who’s on the practice squad.”

But Hrebiniak says Owens showed that even a highly talented employee “can go too far. T.O., even with his centrality and power, attacked the enterprise and broke the rules. The organization said, ‘If we let you go too far, other employees who might not be as central to our success as you are may pull the same stuff.’ ”

“How employers think about the tradeoff between talent and disruptive behavior

depends on how important they believe teamwork and morale are in the organization’s culture,” says Wharton Management Professor Peter Cappelli. “If you have a star sales person who’s difficult but works away from the office, you might be willing to tolerate a high level of difficulty with that guy because it doesn’t have much effect on the performance of the organization. But where teamwork matters, you want to tolerate less of that.”

Employees like Owens are found in almost any organization, but they can be more difficult to manage in cultures that demand top-flight results and, at the same time, place a premium on cooperation and harmony. Cappelli says the Eagles’ decision to cut Owens sends a signal through the organization about culture. “By letting T.O. go, the Eagles are saying, ‘We’re willing to pay a pretty high price to maintain teamwork. We will not tolerate people who are not contributing to the overall good of the organization.’ This is an exercise in refocusing the organization and getting people’s priorities clear.”

For those who have not followed Owens’ story, it is important to note that the athlete’s questionable actions were not limited to one or two isolated incidents and that they followed a pattern headed for self-destruction. Before the start of the 2005 season, Owens—who had a reputation for being a disruptive player with his previous team, the San Francisco 49ers—began making comments and engaging in actions that caused serious tension with his teammates and coaches.

During training camp over the summer, Owens criticized the team for not being willing to re-negotiate his contract to pay him more money, even though he had signed a multi-million-dollar, multi-year contract in 2004. He also openly criticized quarterback Donovan McNabb, the Eagles' franchise player and a fan favorite. Owens was sent home from training camp in August 2005 but later given a second chance and permitted to return. During the training-camp period, Owens refused to talk to the press and at one point engaged in bizarre behavior: doing calisthenics on the lawn of his New Jersey home and wearing headphones, while cameras whirred and reporters shouted questions that Owens ignored.

For the first few games of the current season, things seemed quiet. But Owens soon began to criticize the team and McNabb again. He complained that the Eagles did not "honor" him when he scored his 100th career touchdown and once again treated McNabb disrespectfully by agreeing with the comments of an interviewer who had suggested to Owens that the Eagles would be undefeated if Green Bay Packers' quarterback Brett Favre was the Eagles' QB instead of McNabb. Eagles coach Andy Reid at that point told Owens to apologize to McNabb and the rest of the Eagles, but Owens gave only a half-hearted apology to his teammates and refused to apologize specifically to McNabb. Reid then suspended Owens for four games and stated that Owens would not play for the Eagles the rest of the season. In effect, Owens was fired. Later, Owens and his agent held a press conference during which Owens apologized to all concerned, but it was too little, too late. The Eagles have no plans to reinstate Owens.

Much speculation about the Eagles' future without Owens was in evidence prior to their November 14 game against the Dallas Cowboys. The Eagles ended up losing that contest in its waning moments, by a score of 21-20, when McNabb threw an interception that was returned for a touchdown. The loss prompted Phil Sheridan, a sports columnist for *The Philadelphia Inquirer*, to write: "Somewhere, you imagine, Terrell Owens had a No. 5 [McNabb's number] voodoo doll. He waited until the perfect, most painful time to jam the pin in."

Corrupting the Organization

The Eagles cannot be faulted for taking a calculated risk in signing Owens to a multi-million-dollar contract prior to the 2004 season, according to the Wharton faculty members. Club officials figured he could help the Eagles reach the Super Bowl (which they did before losing to the New England Patriots), but these officials also knew that Owens and his antics could come back to bite them.

Thomas W. Dunfee, professor of legal studies and business ethics at Wharton and an ethics expert who follows professional football closely, says the Eagles cannot be faulted for recruiting Owens because there was a chance that he would mend his ways and try hard to fit in with a winning team noted for its no-nonsense approach to discipline.

"There have been any number of instances of pro players who have been with a team where they had problems but went to another team and got straightened out," Dunfee explains. "In those cases, it was probably a matter of the players just being a bad fit with a team but getting [undeserved] reputations for being troublemakers. I think the Eagles had something of a reputation of being able to handle difficult players. They probably thought, with reason, 'Here's a great talent and we can manage him.'"

The Owens case raises ethical issues because disruptive behavior by high performers, if left unchecked, can run counter to the values of organizations whose codes of conduct require employees to treat one another with respect. "For corporations, it's understood that if you have a double standard and look the other way for your star performers who are behaving poorly, you are corrupting the organization," Dunfee says. "The stars think ethical rules don't apply to them."

"Managing stars is difficult duty for even the most skilled managers," says Katherine A. Nelson, a suburban Philadelphia-based ethics consultant who teaches in Executive Education programs at Wharton. "It's challenging enough when you are managing a high performer who has good interpersonal skills. However, if you are managing a high performer with poor interpersonal skills, your job goes from challenging to nightmarish. Almost nothing can disrupt a workplace faster than a star performer who is arrogant or abusive or who demands special treatment. Not addressing the star's bad behavior is tantamount to lobbing a grenade into a conference room because resentment will ferment among other members of your team, and it will eventually—sometimes very quickly—undermine the performance of the entire team. The Eagles are a perfect example of this."

The most serious damage caused by the temperamental star is to the credibility of an organization, according to Nelson. "How can an organization claim that it stands for respect or that it cares about its people when abusive behavior is allowed to go unchecked? The result of publicly promoting noble values and at the same time neglecting to check an abusive personality is that soon your organization will have zero credibility. You say one thing and tolerate another. That is the beginning of a cancer that will devour an organization from the inside out."

But the experts also stress that not all difficult star performers are troublesome nails that need to be hammered down so that they behave like all other employees.

"True star performers in sales or even in organizations such as law firms—the big rainmakers—who misbehave or march to their own drum can be a huge challenge," says Linda Richardson, founder, president, and CEO of a sales and consulting firm in Philadelphia that bears her name. "As long as the star performer is producing and as long as the behaviors are not contrary to the true value system of the organization, an organization that is able to absorb diversity is usually stronger."

But, Richardson adds, when management "feels the behaviors are egregious" and are not "consistent with the values and principles of the organization, or if the behavior is completely unacceptable from a role-model perspective, then the person can be coached and given a clear warning with specific consequences, or the plug can be pulled. I have always been a believer in second chances, if at all possible. Often the egregious act is a buildup from a series of negative behaviors preceding it. I think many organizations that have problems with stars could benefit from bringing in an executive coach or counselor to help the management and the star work things out before the behaviors reach a breaking point."

Employees like Owens are found in almost any organization, but they can be more difficult to manage in cultures that demand top-flight results and, at the same time, place a premium on cooperation and harmony.

The bottom line, according to Richardson, who notes that she was not familiar with all the details of the Owens story, is that there is no one answer on when to oust a star employee. "The reality is, it is very, very hard to give up a star. Also, no one is irreplaceable, or at least almost no one. The more an organization can live with diversity and keep its 'must haves' to a few and catch and handle problems early with coaching and counseling...the better off it is, and the more likely it will keep its stars and create win-wins. The decision is a matter of weighing the factors—the value the star brings and the cost that comes with it. The cost is more than hard dollars. It is morale, public opinion, the role model that is set, the impact on standards and the value system."

High-producing prima donnas are one challenge faced by management. But also worrisome are the nonperformers. Nelson, the ethics consultant, says managers cannot afford to tolerate "nice" employees who do not rock the boat but also do not perform up to snuff either.

"Some people are great to work with but produce little or no results," she notes. "Both ends of the performance/values spectrum need to be managed carefully. Smart organizations try to reward employees for a range of behavior that includes producing results and exhibiting the organizational values by which the organization achieves those results. If, after careful goal-setting and coaching, the star can't learn to play well with others and the easygoing person can't learn to produce results, both should be shown the door."

Stars as Junk Bonds

In a broader sense, sports teams, because of their very nature, face a conundrum when it comes to dealing with unpredictable stars like Owens, according to Wharton's Cappelli. Players, and their agents, know that players are rewarded for individual achievement. Glowing statistics—yardage gained, passes caught, touchdowns scored, interceptions made—are what command lucrative salaries. How much money, by contrast, does a running back or a linebacker earn for being a team player? The same holds true for corporate employees—perhaps not so much staff people, whose efforts cannot be clearly translated to the bottom line, but certainly salespeople and CEOs, whose compensation is tied directly to performance.

"The real dilemma for sports teams is they can't figure out what the real contribution is of individuals as individuals as opposed to individuals as members of the team," Cappelli notes. "They can't pin down what is optimal. Is it better to have an individual player who's a superstar in terms of stats? Or is it better to have somebody who is giving up opportunities themselves in order to pursue team harmony and team success? You hear all the platitudes about teamwork, but teams also talk out of both sides of their mouths. They talk about teamwork but give money to individual stars."

Now that Owens is no longer an Eagle, will other teams try to sign him for the 2006 season? Absolutely, says Wharton's Hrebiniak. But should they? "It all depends on your propensity for risk. T.O. is like a junk bond: the potential return is high, but so is the risk. Will you buy that junk bond? What is your risk tolerance? How much money do you potentially have to waste? If I'm the coach of a team with a losing record, I'm going to try to sign T.O. But if I'm the New England Patriots or the Indianapolis Colts, strong teams with a culture of cooperation, I'm not going to bring in T.O." ■

Redefining Retirement in the 21st Century

THE DEMOGRAPHICS OF TODAY'S WORKFORCE, employee expectations about retirement, and the types of retirement options offered are all in a state of flux, making retirement policy a moving target for those charged with researching and administering pension plans. That was the message at a Wharton conference entitled "Reinventing the Retirement Paradigm," hosted by Olivia Mitchell, executive director of The Pension Research Council at Wharton, and Robert L. Clark, professor of business management and economics at North Carolina State University.

This article is the second of two; the first article, published in our last issue, covered retirement policy issues ranging from pension fund management to accounting reform to transparency. This article focuses on pension planning as it relates to employment trends among both younger and older workers.

One Option: "Phased Retirement"

According to Patrick Purcell, an economist with the Congressional Research Service of the Library of Congress, 27 percent of the population will be over 65 by 2035 compared to 17 percent now. Growth in the population aged 20 to 54 will accelerate briefly, then fall sharply, which will have implications for employers trying to fill jobs. Among men, 90 percent between the ages of 20 to 54 are employed, but it drops to 68 percent for men aged 55 to 64. For women aged 20 to 54, 75 percent are working, but after age 55 employment drops to 55 percent.

Overall, pension coverage has remained at 50 percent for more than 40 years, but there has been a substantial shift from defined benefit plans, which provide guaranteed lifetime benefits to employees, to defined contribution plans such as 401ks, which provide savings incentives but leave their management up to employees. In 2001, only one in five workers in the private sector were in a defined benefit plan, although Purcell said defined benefit plans tend to get more attention because they are offered at

larger, more visible firms. Many defined benefit plans subsidize early retirement, while defined contribution plans are generally age-neutral. "That's a vestige of another time when we needed to move older workers out," Purcell said.

He discussed the idea of "phased retirement," in which older workers continue with their employers on a part-time basis. To make that work financially, many workers need to unlock some early retirement benefits. That, however, is problematic; defined benefit plans often require an employee to stop working before receiving benefits. Meanwhile, legislation has been introduced that would allow phased retirement plans, but it has not generated much interest, Purcell said, asking the question: "Should tax subsidies that have been created to promote pensions be extended to include people who have not yet retired? Do we really want to make that fundamental change?" He expects that strong workforce participation levels among those aged 55 to 64 will continue, with health insurance coverage being a major driver.

Katharine G. Abraham, professor of survey methodology at the University of Maryland, suggested that changing workforce demographics have made companies more interested in employing older people. "Employers are concerned about the ability to recruit workers," said Abraham, adding that policymakers are worried about "the solvency of Medicare and the Social Security system." She also noted that while many employees say they would like to continue to work beyond retirement age, few actually end up doing so.

Looming Labor Shortages

According to research by Abraham and Susan Houseman, senior economist at the W. E. Upjohn Institute for Employment Research, only a quarter of older workers surveyed said they planned to stop working entirely at retirement age. Of the rest, 18 percent said they planned to work fewer hours, 5 percent said they wanted to change jobs, and the rest said they did not have plans. When interviewed 2 years later, two-thirds of the people who planned to stop work actually did so, but most of those who planned to work fewer hours had not followed through. Abraham said the disconnect may have to do with the employment that is available. "Most of them are doing exactly what they were doing before or stopped working altogether."

Houseman noted that perhaps those who reduced their hours were working more than 40 hours to begin with, so the reduction in hours did not reduce their salary. Other workers had been working two jobs and cut one out. "They are not fundamentally renegotiating their employment," she said.

The research also indicated that those with pension plans were more likely to plan to retire; within that group, workers with a defined benefit plan were more likely to quit than those with a defined contribution plan. "Becoming eligible to receive a defined benefit greatly increases the probability of retirement," said Houseman, adding that health insurance is also a factor. Those covered by a plan or through their spouse's employer were more likely to reduce hours, and those with medical plans covering them in retirement were more likely to stop working.

The self-employed were more likely than other workers to continue working and less likely to stop altogether, although Houseman said that could be because self-employment comes with inherent flexibility. Other factors that can influence retirement plans include a change in health status or assets, such as job loss and/or the decline in 401k portfolios.

Research also indicates that workers do not understand their finances or don't incorporate them into retirement planning until they are right up against the decision point, according to Houseman. She suggested that the gap between people who would like to continue to work, but work less in retirement, and those who actually do may indicate a need for new policies to help older workers transition to full retirement. "We already have programs to assist older workers who are unemployed or dislocated. There may be broader need for this kind of policy."

Anna Rappaport, a partner at Mercer Human Resource Consulting, noted that many companies have dropped prohibitions against rehiring retirees to fill gaps in their labor force. "The action is heavily around the rehiring of retirees. There is a lot of that happening out in the private sector."

She said that as the first wave of baby boomers begins to take early retirement, certain industries—like aerospace, utilities, and healthcare—are already facing severe labor shortages. "Phased retirement is important to workers and employers," said Rappaport, "and in the case of aerospace, to the national security of this country."

She advised employers to analyze the demographic makeup of their workforce and find out where they have gaps developing. Individuals, too, should evaluate their resources, financial options, and skills. "People work after retirement for very different reasons. There is a significant number of people who do it out of economic need, whether for healthcare or for money... We're in a situation where our policy actions can give people the opportunity to create their own future."

Impact of Baby Boomers

In a panel on "Managing the Retirement Promise," Janemarie Mulvey, assistant director of the Research Information Center at Watson Wyatt Worldwide, discussed strategies to retain older workers that balance the promise of retirement income with changing workforce demographics.

She pointed out that the Employee Retirement Income Security Act (ERISA) guarantees pension benefits that are already accrued but does not require employers to continue to provide pension benefits in the future. Employers offer pensions voluntarily to minimize turnover and receive certain tax benefits, she noted, but also pointed out that pensions are growing increasingly more costly to administer, with costs tripling since 1981. As a result, she said, 64 percent of companies with fewer than 1,000 workers dropped defined benefit plans between 1990 and 2002. For companies larger than that, 11 percent dropped their defined benefit plans.

Mulvey also noted that 21 percent of defined benefit participants are in hybrid plans that combine elements of defined benefit and defined contribution plans and that cater to a more mobile workforce. However, she said, many employers are not able to offer such plans because of regulatory constraints. A common criticism of hybrid plans is that they are a way for employers to cut employee benefits, but Watson Wyatt data indicates hybrid plans add costs to employers and protect older workers.

By 2020, all baby boomers will be over age 55, with strong implications for the labor markets, Mulvey said, adding that by 2010 the U.S. will experience a 6.6 percent shortfall of workers, which will grow to 13 percent in 2020. Meanwhile, many retirement plans encourage workers to leave before age 65. A study of data gathered from 50 large employers showed that women over age 55 with early retirement plans retired a year earlier than other female workers, while men with those plans left 8 months earlier. If a company offers medical benefits for early retirees, the numbers increase, with women retiring 2 years earlier and men 1.5 years sooner. In companies with more restrictive medical plans, such as caps on service, there is a smaller effect, said Mulvey.

Research indicates that workers do not understand their finances or don't incorporate them into retirement planning until they are right up against the decision point.

Still, even with a labor shortage looming, employers are reluctant to change their incentive plans, particularly for those closest to retirement. Rather than cut early retirement benefits, Mulvey suggested that employers consider two incentives—elder care programs to help assist with the care of older relatives, and phased retirement programs that allow older workers to cut back on their hours without losing benefits. Of those surveyed, 25 percent of the women who retired early were responsible for caring for an older relative, she noted. "These are the softer side of benefits, but they matter, and they're not too costly to implement." While men seemed less responsive to phased retirement programs, Mulvey said many men are retiring early and returning to their employers on a contract basis.

Comparing Pension Benefits

Workforce issues could have broader economic implications, according to Steven A. Nyce, senior retirement research associate with the Research and Information Center of Watson Wyatt Worldwide. "If we do not find enough workers and if productivity is not high enough, it's likely companies will not be able to meet the consumption in society, and the result will be higher inflation... For decades on end, we have enjoyed prosperous growth," he said. "What's going on in outsourcing is some of the reaction to the labor shortage, and it might mitigate some of the inflation down the road."

David McCarthy, a researcher and faculty member at Imperial College in London, studied the portfolio value of pension plan types. He said there are three economic perspectives at play in determining occupational pension type: labor market conditions, portfolio theory, and corporate finance, which is most relevant for defined benefit plans. Laws and taxes also play a role, but they add so much complexity he left them out of the model. "The optimal pension choice is influenced by all three areas," said McCarthy. "Companies need to take both the labor market effects and the employee portfolio effects into account when designing compensation strategies." For many people in the U.S. and other countries, their pension is an extremely important asset, up to 40 percent to 60 percent of their total assets, he added.

Economists have developed life-cycle models that indicate defined benefit plans are less desirable for younger workers than for older employees. McCarthy compared pension benefits to being paid in movie tickets. He said he usually goes to two movies a month, so the first two tickets would be worthwhile. The third ticket, and those paid to him after that, would have less value. The same would be true of pension benefits; at a certain point, they become less meaningful.

But where is that point? McCarthy developed a model to measure the effects of various pension plans, although he cautioned that his work does not take into account two large sources of pension risk in defined benefit plans—early separation and employer insolvency. "Results indicate that even for the most generous DB (defined benefit) pensions offered to younger workers, required productivity increases are small from the point of view of lifetime income, but large relative to the value of the pension. However, for older workers and less generous DB pensions, the required productivity increases are small relative to both the cost of the pension and lifetime income," McCarthy's paper states.

Donald Elbaum, director of actuarial studies in the treasurer's office of Ford Motor Co., said the idea of reducing early retirement subsidies is gaining ground in national pension plans around the world and in private schemes. The changes have been driven largely by cost as retirees live longer. "In the U.S., there are some regulatory obstacles that could present themselves in trying to reduce early retirement benefits already accrued. To some degree, your hands are tied." To change the packages for future employees would require that companies strike a balance between flexibility and the ability to select certain employees for the benefits without violating nondiscrimination rules.

Elbaum also said researchers may want to consider how the current boom in offshore employment may impact the economy and pensions, and he pointed out that the tightening of the labor pool will first manifest itself among younger workers. "When someone retires at Ford, we don't replace them with someone coming in the door. In some sense, the first battleground will be trying to find strategies for retention of employees in the early years when turnover is high."

According to Elbaum, defined benefit plans are not highly valued by younger workers. He said Ford took that into account when it closed its 50-plus early retirement program to new employees, replacing those benefits with a cash plan. Structuring employment to allow more part-time work might keep some people in the workforce, he said, but it might also provide incentives for people who would have worked full-time to cut back.

Mulvey suggested that employers who have been intent on reducing costs and cutting workers during the past years of slow economic growth need to look ahead and plan for a different future. "We try to know what's down the road," added Elbaum. "At the same time, it's hard to keep a bench workforce in waiting. We're measured against our competitors. We have to make sure we are staffed appropriately."

And if workers are not available in the U.S., Ford has options overseas. "As a global company, we do have alternate locations available," he said. "That's not to say this is our strategy, but it's something we grapple with." ■