

GORDON REPORT – Special Talent Alert
“How to Lose Business Talent?”

IBM is cutting the pay of certain workers in one of their divisions by 10 percent for a six-month period while they are enrolled in company-provided training to acquire new skills and expertise. In the current fight for business talent, this seems a peculiar move for a knowledge-based company!

At one time IBM led the IT industry in employee development. Their corporate motto was “THINK”. In fact, IBM University was an accredited educational entity that awarded college degrees to its workers. IBM also has been active in developing the P-TECH early college high school career academy in Brooklyn, New York. It is a public high school, open to all students, that enables students to graduate in six years or less with a high school diploma and an associate’s degree in either computer information systems or electromechanical engineering technology. IBM has put together a free guide for developing similar academies in other U.S. cities.

Why is a corporation that has long been known for its generous range of incentives for promoting employee education and training, seemingly without prior warning or consultation now begun penalizing some employees by deducting an arbitrary proportion of their salary for the time they will be receiving training that IBM judges necessary to address future needs? We can only speculate that this move is part of the prevailing short-sighted cost-cutting continuing across the U.S. business community. Company investment in plant and equipment and R&D is also stagnant. While the profits of U.S. publically traded companies generally remain high, what are they doing with these funds?

Stock repurchases today are running at record levels. Edward Luce of the *Financial Times* reports (9-22-14) that between 2003 and 2012 the top 449 businesses in the S&P 500 spent \$2.4 trillion, more than half their profits on stock buybacks.

Many executives today receive stock options or stock awards for meeting performance goals. These incentives encourage driving short-term value from the companies they manage. Creating future values by investing in equipment, R&D, or their human capital is not on the table.

Let’s hope that other wiser managers prevail at IBM and rescind this move that threatens to weaken its employee talent base and undermine morale. However, what can we expect if IBM’s short-sighted and regressive talent policy prevails and is adopted by other businesses as the new “wisdom on the street”? U.S. competitive advantage will decline as the current employee skills gap continues to grow.