Engaging and Retaining Key Talent: The Role of Rewards
Hay Group Presenters

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Hay Group has consulted with 9,000 clients worldwide in a wide variety of areas, including:

- Organizational effectiveness
- Managerial and executive assessment
- Compensation and benefits
- Performance management
- Executive remuneration and corporate governance
- Employee and customer attitude research

**Office Locations**
- 88 Offices in 47 countries

**Employee Count**
- 2600 Employees worldwide

**Client Base**
- 9000 International clients
Agenda

1. Why this topic?
2. Research initiative
3. Findings and Discussion
4. Recommendations
Why this topic?
Why this topic?

- Economy starting to recover
- Unemployment down to 7.5%; 3.9% for college graduates
- An increasing number of Americans are quitting their jobs
- 20% of employees intend to quit in the next 2 years
- Number of job changes are increasing
Scary talent shortages coming

U.S. Talent Shortages 2010-2020

<table>
<thead>
<tr>
<th>Categories</th>
<th>Shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineers</td>
<td>50M – 250M</td>
</tr>
<tr>
<td>Doctors</td>
<td>55M – 200M</td>
</tr>
<tr>
<td>Scientists</td>
<td>100M – 200M</td>
</tr>
<tr>
<td>Health Technicians</td>
<td>200M – 400M</td>
</tr>
<tr>
<td>Nurses</td>
<td>340M – 1MM</td>
</tr>
<tr>
<td>Information Technology</td>
<td>500M – 1MM</td>
</tr>
<tr>
<td>Teachers</td>
<td>500M – 1MM</td>
</tr>
</tbody>
</table>

Sources: Bureau of Labor Statistics & Professional Associations
Serious skills shortfall by sector

Source: Manufacturing Industry Survey by Deloitte, Oracle, & Manufacturing Institute
Is retaining key employees a significant challenge?

- Turnover of key employees is very costly for our organization (81%)
- Employee retention of key talent is a major concern of senior management right now (68%)
- I expect turnover of key talent to increase substantially when the economy improves (60%)
- Retention of key talent has become more difficult in recent months (58%)
- Confident in my organization's ability to retain key talent as the economy improves (57%)
- I expect a substantial number of key employees to search for a better job as… (54%)
Key predictors of employee retention

<table>
<thead>
<tr>
<th>Factor</th>
<th>Employees planning to stay for &gt;2 years</th>
<th>Employees planning to leave within 2 years</th>
<th>Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Confidence in ability to achieve career objectives</td>
<td>64%</td>
<td>31%</td>
<td>33%</td>
</tr>
<tr>
<td>Trust and confidence in company senior management</td>
<td>60%</td>
<td>35%</td>
<td>25%</td>
</tr>
<tr>
<td>Opportunities for learning and development</td>
<td>71%</td>
<td>45%</td>
<td>25%</td>
</tr>
<tr>
<td>Benefit that meet employee needs</td>
<td>68%</td>
<td>45%</td>
<td>23%</td>
</tr>
<tr>
<td>Company demonstrates care &amp; concern for employees</td>
<td>62%</td>
<td>39%</td>
<td>23%</td>
</tr>
<tr>
<td>Company is effectively managed and run well</td>
<td>73%</td>
<td>51%</td>
<td>23%</td>
</tr>
<tr>
<td>Adequately authority to do job</td>
<td>73%</td>
<td>51%</td>
<td>23%</td>
</tr>
<tr>
<td>Employees paid fairly for the work they do</td>
<td>53%</td>
<td>31%</td>
<td>22%</td>
</tr>
<tr>
<td>Supervisory coaching for development</td>
<td>67%</td>
<td>45%</td>
<td>22%</td>
</tr>
<tr>
<td>Support for employee creativity and innovation</td>
<td>70%</td>
<td>48%</td>
<td>22%</td>
</tr>
<tr>
<td>Cross-work unit collaboration and support</td>
<td>63%</td>
<td>41%</td>
<td>22%</td>
</tr>
<tr>
<td>Direction and goals are the right ones for the company</td>
<td>73%</td>
<td>51%</td>
<td>22%</td>
</tr>
</tbody>
</table>

Source: Hay Group Employee Opinion Norms (2013)
Easy for key talent to leave

- Key talent always scarce especially during economic recovery
- You can’t hide key talent; Linked-in and social media promote their capabilities and accomplishments
- Top talent can compare their “deal” with everyone else’s on salary.com, vault.com, and O’net.gov, etc.
- Your company reputation is always on the line; a disgruntled employee has an audience of millions

Whole Foods employee’s rant goes viral

Workplace experts weigh in on a commentary by departing Goldman Sachs executive Greg Smith

Feds: Trashing an Employer on Facebook is Protected Speech
<table>
<thead>
<tr>
<th>Job Type/Category</th>
<th>Turnover cost ranges (% of annual wages)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entry Level – Hourly, Non Skilled (e.g. Fast Food Worker)</td>
<td>30% - 50%</td>
</tr>
<tr>
<td>Service/Production Workers - Hourly (e.g. Courier)</td>
<td>40% - 70%</td>
</tr>
<tr>
<td>Skilled Hourly (e.g. Machinist)</td>
<td>75% - 100%</td>
</tr>
<tr>
<td>Clerical/Administrative (e.g. Scheduler)</td>
<td>50% - 80%</td>
</tr>
<tr>
<td>Professional (e.g. Sales Representative, Nurse, Accountant)</td>
<td>75% - 125%</td>
</tr>
<tr>
<td>Technical (e.g. Computer Technician)</td>
<td>100% - 150%</td>
</tr>
<tr>
<td>Engineers (e.g. Chemical Engineer)</td>
<td>200% - 300%</td>
</tr>
<tr>
<td>Specialists (e.g. Computer Software Designer)</td>
<td>200% - 400%</td>
</tr>
<tr>
<td>Supervisors/Team Leaders (e.g. Section Supervisor)</td>
<td>100% - 150%</td>
</tr>
<tr>
<td>Middle Managers (e.g. Department Manager)</td>
<td>125% - 200%</td>
</tr>
</tbody>
</table>

*Source: ROI Institute*
Turnover cost components

- Exit cost of previous employee
- Lost productivity
- Temporary worker cost
- Recruiting cost
- On-boarding costs
- Training costs

- Supervisor’s/coworkers’ time managing turnover
- Loss of expertise/knowledge
- Quality problems
- Customer dissatisfaction
A look at the cost of turnover

Company with 10,000 Employees

70% Entry Level

20% Mid-mgmt

10% Senior mgmt

Entry Level:
- Average Annual Salaries: $30K
- Cost to Replace (@75% of salary): $22.5K
- Annual Loss of Talent (@11% turnover): 770 people = $17.3MM

Mid-mgmt:
- Average Annual Salaries: $70K
- Cost to Replace (@75% of salary): $52.5K
- Annual Loss of Talent (@11% turnover): 220 people = $11.6MM

Senior mgmt:
- Average Annual Salaries: $150K
- Cost to Replace (@75% of salary): $112.5K
- Annual Loss of Talent (@11% turnover): 110 people = $12.4MM

$41.3MM in bottom line turnover costs
Engaging and enabling employees to drive performance

Work environments have to turn motivation into productivity

Engagement

Employee effectiveness

Enablement

Strategic intent

Business results
The business case for engaging and enabling employees

<table>
<thead>
<tr>
<th></th>
<th>Employee performance</th>
<th>Employee retention</th>
<th>Customer satisfaction</th>
<th>Financial success</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in employees above</td>
<td>10%</td>
<td>-40%</td>
<td>71%</td>
<td>x2.5</td>
</tr>
<tr>
<td>performance expectations</td>
<td></td>
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<tr>
<td>Reduction in turnover rates</td>
<td></td>
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<tr>
<td>Customer satisfaction rates</td>
<td></td>
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<tr>
<td>Revenue growth</td>
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**Based on linkage case studies using Hay Group’s global normative database**
Research Initiative
Research objectives

- Our objectives were to find answer to these questions:
  - Is the economic recovery creating significant challenges in retaining key talent?
  - What are organizations doing to retain key employees
  - How effective are these effort?
  - Are counter-offers a viable strategy for retaining key talent?
Research scope

Perspective of reward professionals

Organizations from diverse industries and sizes

Focus on managerial and professional population

Primarily respondents represent N.A. organizations
Survey methodology

Survey of 682 Reward Professionals globally

- Method of analysis
  - Descriptive analysis (e.g., means and frequencies)
  - Quantitative and qualitative analysis
  - Organization size and sector of the economy considered
Representative survey participants
Participant demographics

Number of employees
- 0 to 999: 15.7%
- 1,000 to 9,999: 19.1%
- 10,000 to 19,999: 10.5%
- 20,000 to 39,999: 4.5%
- 40,000 or more: 9.5%

Economic Sector
- Public Sector: 8.2%
- Publicly Traded: 36.7%
- Privately Traded: 45.3%
- Non-Profit: 9.9%
Participant demographics (continued)

Industry Affiliation

- Finance, Ins & Real Estate: 29.6%
- Manufacturing: 16.6%
- Healthcare & Social Svcs: 18.3%
- Utilities, Oil & Gas: 5.5%
- Consulting, Prof & Tech Svcs: 7.5%
- Information: 8.8%
- Other: 13.6%
Findings and Discussion
Engagement: The impact of financial rewards

- Base salary level: 41%
- Base salary increase: 42%
- Benefits and perquisites programs: 48%
- Short-term incentives/bonus programs: 54%
- Long-term incentives/bonus programs: 32%
Engagement: The impact of non-financial rewards

The nature of the job/quality of work: 69%
Work environment/climate: 61%
Career development opportunities: 59%
Work-life balance: 55%

% agree high impact on engagement
Identifying key talent

Key talent defined as top performers, high potentials, empl.s in critical jobs

Our identification of key talent goes below the executive level

We have actually identified key talent

We have a clear definition of key talent

Retirement efforts focuses primarily on key talent versus all employee base
Most likely reasons why key talent quits

- Opportunity to earn more elsewhere: 77%
- Lack of promotional opportunities: 67%
- Pay levels viewed as unfair vs outside org: 58%
- Dissatisfaction with job responsibilities: 56%
- Pay levels perceived as unfair vs. employee: 53%
- Workloads are too heavy: 52%
- Work-life balance issues: 50%
- Conflicts with immediate supervisor: 49%
- Inadequate use of employee's skills: 47%
- Lack or training/development opportunities: 46%
- Lack of job empowerment/influence: 45%

Percent who responded “to some extent,” “to a great extent,” and “to a very great extent.”
Methods most often used to retain key talent

- Identified key employees who are essential to the business: 85% effective or very effective
- Discussed future opportunities within the organization: 80% effective or very effective
- Pay employees above the labor market: 75% effective or very effective
- Created a succession plan to replace individuals: 74% effective or very effective
- Developed employees who may replace key employees who leave: 73% effective or very effective
- Provided tuition reimbursement/other educational opportunities: 73% effective or very effective
- Allowed for flexible hours or telecommuting: 68% effective or very effective
- Provided meaningful pay communications: 65% effective or very effective

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Counter-offers

1. Only 14% of organizations have a counter-offer policy; 4% had a documented policy

2. For those with a policy, it applied only to key employees (10%) or at the request of a manager (34%)

3. Respondents said counter-offers seldom create a problem (33%) or have created some problems (25%)

4. HR/compensation jointly decides counter-offer cases with management (57%) or provides input (26%)

5. Consistent with previous research (2005)
Employee involvement in reward programs

- Design: 4% % Always, 16% % Often, 40% % Seldom, 40% % Never
- Implementation: 4% % Always, 17% % Often, 42% % Seldom, 37% % Never
- Evaluation: 3% % Always, 18% % Often, 39% % Seldom, 40% % Never
Manager involvement in reward programs

Design:
- 8% Always
- 29% Often
- 40% Seldom
- 23% Never

Implementation:
- 12% Always
- 31% Often
- 35% Seldom
- 22% Never

Evaluation:
- 6% Always
- 27% Often
- 37% Seldom
- 39% Never
Employees understand & appreciate that rewards consist of tangibles and intangibles.

We regularly reinforce our reward philosophy in communications with employees.
Recommendations
Our top seven list

1. Make a business case for engaging and retaining employees
2. Get to a total rewards mindset
3. Clarify key talent management program
4. Develop a differentiated reward strategy for key talent
5. Develop a counter-offer strategy
6. Leverage critical jobs
7. Monitor program effectiveness
Make a business case for engaging and retaining employees

- Educate management about the correlation between high engagement and hard business metrics
- Educate management about cost of turnover to the company
- Continually measure engagement and retention at your company
Get to a total rewards mindset

- Educate managers and employees about the total value proposition of working at your company
- Develop tools for managers so they can effectively reward employees beyond the confines of compensation and benefits
- Continually communicate the non-financial benefits of working at your company
Clarify key talent management program

- Develop clarity around what defines “key talent” and around the definition of “high potential”, specifically “potential for what?”

- Identify governance structure and roles of corporate, BU and function leadership in key talent management processes

- Ensure transparency in talent reviews and ensure a substantive role of functions to:
  - Minimize sense of talent ownership by business
  - Improve collaboration and calibration processes

- Articulate top talent communications strategy
  - Do we communicate status? Why? Why not?
  - Identify the benefit and risks of communication
  - Identify messages, messengers and mediums of communications
Develop a differentiated reward strategy for key talent

- Clarify reward strategy for key talent
  - Determine degree of variation, if any, vs. other employee groups
  - Include principles, design and communications
  - Common programs include more aggressive base salary positioning, off-cycle pay increase and restricted stock grants

- Monitor performance and reward differentials for top talent vs. others to ensure appropriate differentiation
  - Differentials across all cash reward elements
  - Differentials in treatment across non-financial reward programs
  - On a current year and multi-year (i.e., career income) basis
Develop a counter-offer strategy

- Develop a counter-offer strategy that consists of clarifying:
  - The types of people/jobs that are eligible for counter-offers
  - The role HR, management and senior management play
  - The information to collect to formulate a counter-offer
  - How to structure and communicate the counter-offer
  - How to respond to other employees who may learn about the counter-offer
  - How to limit the need for making counter-offers in the future

- Recognize that work climate issues often trigger a search for a new job

- Nonetheless, many counter-offer and retention strategies focus on pay increases, retention bonuses, and stock options

- Ensure you have a good understanding of the real issues and take action on them
Leverage critical jobs

- Leverage the notion of a “critical job” or “accelerator experiences”
  - Clarify purposes, application and process of a critical job
  - Align top talent management with management of critical job post; clarifying eligibility requirement on who can assume a critical job
  - Develop principles around job evaluation “lean forward” or “grandfather” situations (e.g., eligibility, decision rights, time windows, communications)
Monitor program effectiveness

- Measure program effectiveness
- Develop criteria for program effectiveness assessment
- Involve top talent in developing the strategy and evaluation of top talent
- Common measures include:
  - Velocity of key talent through the pipeline
  - Growing the amount of key talent in the organization
  - Retention rate of top talent
- Active involvement of CEO and C-suite is a key program enabler
Questions?

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