Today’s Discussion

- Talent trends
- Staying Competitive
  - Turnover, Engagement, and Enablement
- Next Practices
- Implementation
Talent Management Challenges

Targeting top talent

Engagement is no longer optional

A new view on performance

The best system is not a substitute for management
Why is this important?

- Economy starting to recover
  - Real wages are increasing
- Unemployment down to 7.5%, and still falling
  - 3.9% for college graduates
- An increasing number of Americans are quitting their jobs
  - There is a “demographic hole”
- 20% of employees intend to quit in the next two years
- Number of job changes are increasing
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
Identifying key talent

Key talent defined as top performers, high potentials, empl.s in critical jobs 79%
Our identification of key talent goes below the executive level 75%
We have actually identified key talent 66%
We have a clear definition of key talent 57%
Retention efforts focuses primarily on key talent versus all employee base 55%

Source: Hay Group research
Is retaining key talent 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 the economy improves: 54%

Source: Hay Group research
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, 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
Most likely reasons why key talent quits

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

Percent who responded “to some extent,” “to a great extent,” and “to a very great extent.”
### Key predictors of employee retention

<table>
<thead>
<tr>
<th>Perception Area</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 at company</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>Benefits that meet employee needs</td>
<td>68%</td>
<td>45%</td>
<td>23%</td>
</tr>
<tr>
<td>Company demonstrates care and 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>Adequate 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)
Methods most often used to retain key talent

- Identified key employees who are essential to the business: 85% Effective or Very Effective, 75%
- Discussed future opportunities within the organization: 80%, 69%
- Pay employees above the labor market: 75%, 73%
- Created a succession plan to replace individuals: 74%, 63%
- Developed employees who may replace key employees who leave: 73%, 64%
- Provided tuition reimbursement/other educational opportunities: 73%, 53%
- Allowed for flexible hours or telecommuting: 68%, 67%
- Provided meaningful pay communications: 65%, 59%

% Use these methods

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## Cost of turnover estimates

<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

Entry Level
- 70%
  - Average Annual Salaries: $30K
  - Cost to Replace (75% of salary): $22.5K
  - Annual Loss of Talent (11% turnover): 770 people

Mid-mgmt
- 20%
  - Average Annual Salaries: $70K
  - Cost to Replace (75% of salary): $52.5K
  - Annual Loss of Talent (11% turnover): 220 people

Senior mgmt
- 10%
  - Average Annual Salaries: $150K
  - Cost to Replace (75% of salary): $112.5K
  - Annual Loss of Talent (11% turnover): 110 people

**Total:** $41.3MM in bottom line turnover costs
The current global economic environment has created a new landscape of how executives are thinking about reward program management.

- 2012 SHRM survey identified “retaining and rewarding the best employees as the number one challenge” of senior HR executives.

Dominant C-suite reward-related themes* are:
- Optimizing productivity and cost effectiveness
- Improving employee engagement
- Development and retention of key talent
- Improving performance management processes
- Aligning human capital and reward systems to business strategy

*Source: Hay Group research of various 2011-2013 studies
A positive intersection

- Work environments must turn motivation into productivity
Engagement and enablement are key to effectiveness

**DRIVERS**
- Clear & promising direction
- Confidence in leaders
- Quality & customer focus
- Respect & recognition
- Development opportunities
- Pay & benefits

**Employee engagement**
- Commitment
- Discretionary effort

**Employee enablement**
- Optimized roles
- Supportive environment

**EMPLOYEE EFFECTIVENESS**

**Drivers**:
- Performance management
- Authority & empowerment
- Resources
- Training
- Collaboration
- Work, structure & process

**Drivers of Employee Effectiveness**:
- Productivity
- Financial performance
- Attracting and retaining talent
- Customer loyalty
- Innovation
- Enhanced reputation

Engagement and enablement are key to effectiveness
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 performance expectations</td>
<td>10%</td>
<td>-40%</td>
<td>71%</td>
<td>x2.5</td>
</tr>
<tr>
<td>Reduction in turnover rates</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer satisfaction rates</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue growth</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High engagement only</td>
<td>50%</td>
<td>-54%</td>
<td>89%</td>
<td>x4.5</td>
</tr>
<tr>
<td>High engagement + high enablement</td>
<td>50%</td>
<td>-54%</td>
<td>89%</td>
<td>x4.5</td>
</tr>
</tbody>
</table>

Based on linkage case studies using Hay Group’s global normative database
Engagement and enablement: Implications for action

✓ Engagement and enablement are both important determinants of employee performance
✓ Organizations are unlikely to sustain one without the other
✓ Frustrated employees will break through barriers, disengage, or leave the organization
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%
Reward program questions

How has the economic collapse and recovery transformed reward strategies and programs?

How effective are current reward strategies, programs and processes?

How will reward strategies, programs and processes change over the next 2-3 years?
Examine rewards from four perspectives

- Characteristics of reward strategies
- Effectiveness of reward program design
- Implementation of reward programs
- Degree of reward program consistency
# Issues with reward practices today

## Strategy and design
- Lack of robust reward strategies
- Extreme focus on benchmarking for many, with little concern given to affordability of pay programs
- Reward components managed in isolation of each other
- Little input from employees on reward strategy and design
- Boards and CEOs concerned with risk and compliance

## Implementation
- Performance management processes often weak
- The value of “total rewards” is not understood by employees
- Line managers are not well engaged in reward implementation
- Little done in terms of reward ROI assessment
Is reward a cost or an investment?

Our organization regularly measures the ROI on its reward investment.

Why do we care?

- If pay is a cost, the obvious goal is to minimize it.
- If pay is an investment, the obvious goal is to optimize it.
If reward is viewed as an investment...

**Organizations focus on...**

- Aligning rewards with its business and human capital strategy
- Balancing employee and organization reward interests
- Reinforcing the link between rewards and performance
- Distilling down and sustaining key reward communications
- Leveraging senior leaders, managers and employees in reward implementation
Reward strategy trends

<table>
<thead>
<tr>
<th>FROM</th>
<th>TO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Externally competitive</td>
<td>Motivational</td>
</tr>
<tr>
<td>Inconsistent strategy and design</td>
<td>Consistent strategy and design</td>
</tr>
<tr>
<td>Short term performance orientation</td>
<td>Longer term performance orientation</td>
</tr>
<tr>
<td>Financial performance measures</td>
<td>Balanced performance measures</td>
</tr>
<tr>
<td>Cost orientation of reward</td>
<td>ROI orientation of reward</td>
</tr>
</tbody>
</table>
Core reward strategy objectives

Increased emphasis on motivational value of reward programs

- Is externally competitive: 64% current focus, 53% greater focus in future
- Is internally fair: 75% current focus, 41% greater focus in future
- Is motivational: 39% current focus, 67% greater focus in future
- Rewards at a reasonable cost: 74% current focus, 47% greater focus in future

Source: Hay Group/WaW Global Survey, 2012
Increased focus on drivers of financial performance and engagement

- Financial performance: 66% current focus, 39% greater focus in the future
- Customer satisfaction: 41% current focus, 39% greater focus in the future
- Human capital development: 15% current focus, 39% greater focus in the future
- A culture of innovation: 21% current focus, 42% greater focus in the future
- Employee engagement: 32% current focus, 56% greater focus in the future

Source: Hay Group/WaW Global Survey, 2012

“There are only three measurements that tell you nearly everything you need to know about your organization’s overall performance: employee engagement, customer satisfaction, and cash.”
Jack Welch, former CEO of GE
## Reward design trends

<table>
<thead>
<tr>
<th>FROM</th>
<th>TO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base pay program management</td>
<td>Variable pay program management</td>
</tr>
<tr>
<td>Paying for jobs/work</td>
<td>Paying for value/contribution</td>
</tr>
<tr>
<td>Flexible work arrangements</td>
<td>Career dev’lmt, culture, recognition</td>
</tr>
<tr>
<td>Defined benefit plans</td>
<td>Defined contribution plans</td>
</tr>
<tr>
<td>Siloed reward element orientation</td>
<td>Ttl remuneration/rewards orientation</td>
</tr>
</tbody>
</table>
Non-financial reward program effectiveness

Career/development opportunities primary focus in the future

- Education & training programs
  - Current focus: 50%
  - Greater focus in future: 54%

- Career/development opportunities
  - Current focus: 39%
  - Greater focus in future: 63%

- Flexible work arrangements
  - Current focus: 50%
  - Greater focus in future: 32%

- Nonfinancial recognition
  - Current focus: 38%
  - Greater focus in future: 43%

- Work climate/culture
  - Current focus: 57%
  - Greater focus in future: 48%

- Work-life balance
  - Current focus: 48%
  - Greater focus in future: 38%

- Meaningful job design
  - Current focus: 37%
  - Greater focus in future: 31%

Source: Hay Group/WaW Global Survey, 2012
## Reward implementation trends

<table>
<thead>
<tr>
<th>FROM</th>
<th>TO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reward program design</td>
<td>Reward program implementation</td>
</tr>
<tr>
<td>Consistent treatment in pay</td>
<td>Performance-based differentiation</td>
</tr>
<tr>
<td>HR-led implementation</td>
<td>Line manager-led implementation</td>
</tr>
<tr>
<td>Ad-hoc reward communications</td>
<td>Sustained senior leader messaging</td>
</tr>
</tbody>
</table>
Differentiation in pay

Difference in pay increases for TOP performers vs. average (all companies)

But Most Admired(s) find a way (companies w/ a 2x differential)

Source: Hay Group, Dow Scott, Ph.D., Loyola University Chicago, WorldatWork

“The A’s (the top 20%) should be getting raises that are two-to-three times the size given to the B’s. B’s should get solid increases recognizing their contributions every year. C’s (the bottom 10%) must get nothing.”

Jack Welch, former Chairman & CEO, GE
Role of line managers

Future focus for managers to effectively communicate total rewards

Managers effectively implement and communicate total rewards to employees

Managers effectively manage overall pay-for-performance relationship for employees

Source: Hay Group/WaW Global Survey, 2012
Implementation –
The 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
1. 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
2. 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
3. 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
4. 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
5. 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
6. 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)
7. 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
About Hay Group

Hay Group has consulted with 10,000 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

<table>
<thead>
<tr>
<th>89</th>
<th>2800+</th>
<th>10,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offices in 47 countries (10 in NA)</td>
<td>Employees worldwide</td>
<td>International clients</td>
</tr>
</tbody>
</table>

Offices in 47 countries (10 in NA)
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