Retention of Key Talent and the Role of Rewards

A report by WorldatWork,
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Retention of Key Talent and the Role of Rewards

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Introduction

Retention of key talent — those employees who are the strongest performers, have high potential or are in critical jobs — is even more important during economic recoveries when organizations compete aggressively for market share and talent. Key talent disproportionally contributes to current organization performance and to future performance since key employees often become organization leaders. Losing key talent costs considerably more since these employees’ impact and contribution are greater than that of typical employees. Estimates suggest that the cost of employee turnover often ranges from 50% to 200% of the employee’s annual salary based on the type and level of job he/she holds. These costs are substantial for even medium-sized organizations that have moderate rates of turnover (e.g., Allen 2008, Cascio 2010, O’Connell & Kung 2007).

Even though unemployment is still relatively high in many parts of the world, the United States and other industrial countries are already experiencing talent shortages in a number of labor markets. The U.S. Bureau of Labor Statistics (BLS) reports an increasing trend in voluntary terminations, and the rate of unemployment for people with college degrees is about half of the national unemployment rate and is decreasing (BLS, 2011). Finally, even when there are high unemployment rates, key talent is always in demand, and an improving economy will exacerbate the challenge of holding the most capable employees who have unique or critical skills.

Gordon (2009) predicts that talent shortages are going to increase well into the next decade, limiting the ability of companies to expand and, in fact, jeopardizing their chances of survival as global competition becomes more intense. These long-term shortages are the result of Baby Boomers retiring, the increasing specialization and technical demands of jobs, global competition for talent and education systems not keeping up with the demands of businesses.

Not only is competition for employees going to increase, Hay Group employee opinion norms indicate that 20% of employees plan to look for a new job in the next two years — and another 20% plan to leave their employers within the next five years. These trends suggest discontent in the workforce, which is not surprising since employees are working harder as a result of recent downsizing, there were limited base salary increases and incentive payouts awarded in recent years, and there has been increased pressure to perform. But the trends may also highlight that the social contract surrounding the employment relationship is changing. Because individuals and organizations have become more tenuously attached to each other, turnover has become a more prominent aspect of organizational life.
It is clear that the foremost challenge for management today is how to retain its key talent. Turnover is costly and directly impacts business performance, particularly during an economic recovery. As a result, rewards professionals will be under increased pressure to make counteroffers, increase new-hire offers, make more frequent exceptions to rewards policies and programs, and offer special deals to retain key employees. Furthermore, given the unique position that rewards professionals hold, they can offer unique insights into how organizations can retain key talent. Consequently, we surveyed rewards professionals to learn what strategies they are using to retain key talent and to learn how effectively these strategies are working. Our findings have been framed to answer some fundamental questions:

- Is retaining key talent a significant challenge in organizations today?
- Do organizations make a special effort to retain key employees?
- Why does key talent quit?
- What is done to retain key talent and are these efforts effective?
- What role do counteroffers have in retaining key talent?
- Do organization differences determine how key talent retention efforts are managed?
- What are the “best practices” for retaining key talent?

Data collection and sample characteristics

Five thousand WorldatWork members, primarily midlevel to senior-level rewards professionals, were invited to participate in a survey that focused on key talent retention practices. The survey was open for approximately a month, from Dec. 15, 2011, through Jan. 15, 2012. A reminder to complete the survey was sent halfway through the period and again just before the survey closed. The survey required approximately 15 minutes to complete. Five hundred and twenty-six WorldatWork members responded. The 11% response rate is considered good for a survey of this type and length.

Since rewards professionals are accountable for the design and execution of rewards programs and they are often involved in assessing the cause of employee turnover, they have one of the best vantage points within the organization on how rewards programs impact retention of key talent.

Figures 1 through 3 indicate that this research sampled a wide variety of organizations. Respondents represented organizations that ranged in size from less than 100 to more than 40,000 employees. As shown in Figure 1, approximately 13% of organizations had less than 999 employees, 34% had 1,000 to 9,999 employees, 28% had 10,000 to 19,999 employees, 12% had 20,000 to 39,999 employees and 13% had 40,000 or more employees.
Figure 2 shows the diverse range of industries represented by the respondents. The largest representations were from finance, insurance and real estate (16%); manufacturing (14%); health care and social services (11%); utilities, oil and gas (10%); consulting, professional and technical services (8%); and information (5%). The “other” designation was assigned to the 37% of respondents who were from industries that made up less than 5% of the total.
Figure 3 indicates how different types of organizations are represented, that is, public sector (local, state, federal government) (13%), private sector — publicly traded (47%), private sector — privately held (26%) and not-for-profit (education/academic organizations, charitable organizations) (13%).

Findings and implications

Is retaining key talent a significant challenge for organizations today?

The survey findings shown in Table 1 point to the challenges organizations are facing in retaining key talent. Specifically, among rewards professionals responding to the survey:

- Only 51% are confident that their organization can retain key talent as the economy improves.
- 56% said that “Retention of key talent has become more difficult in recent months.”
- 56% said that they expect a substantial number of key employees to search for a better job as the economy improves.
- 65% percent reported that “...retention of key talent is a major concern of senior management right now.”
- 69% reported that “Retaining managerial and professional employees who are high performers or have critical skills is a significant challenge.”
- Finally, 83% agree or strongly agree that turnover of key talent is very expensive.
Table 1: The Challenge of Retaining Key Employees

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean (Standard Deviation)</th>
<th>Strongly Disagree (1)</th>
<th>Disagree (2)</th>
<th>Neither Agree nor Disagree (3)</th>
<th>Agree (4)</th>
<th>Strongly Agree (5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I am confident in my organization’s ability to retain key talent as the economy improves.</td>
<td>3.25 (1.01)</td>
<td>2%</td>
<td>27%</td>
<td>21%</td>
<td>44%</td>
<td>7%</td>
</tr>
<tr>
<td>Retention of key talent has become more difficult in recent months.</td>
<td>3.45 (.95)</td>
<td>1%</td>
<td>20%</td>
<td>23%</td>
<td>46%</td>
<td>10%</td>
</tr>
<tr>
<td>I expect turnover among key talent to increase substantially when the economy improves.</td>
<td>3.54 (.91)</td>
<td>1%</td>
<td>16%</td>
<td>22%</td>
<td>51%</td>
<td>10%</td>
</tr>
<tr>
<td>Employee retention of key talent is a major concern of senior management right now.</td>
<td>3.70 (1.00)</td>
<td>1%</td>
<td>15%</td>
<td>18%</td>
<td>44%</td>
<td>21%</td>
</tr>
<tr>
<td>I expect a substantial number of key employees to search for a better job as the economy improves.</td>
<td>3.47 (.93)</td>
<td>1%</td>
<td>16%</td>
<td>26%</td>
<td>46%</td>
<td>10%</td>
</tr>
<tr>
<td>I expect a substantial number of key employees to retire during the next three years.</td>
<td>2.89 (1.13)</td>
<td>9%</td>
<td>35%</td>
<td>21%</td>
<td>28%</td>
<td>7%</td>
</tr>
<tr>
<td>Retaining managerial and professional employees who are high performers or have critical skills is a significant challenge.</td>
<td>3.67 (.84)</td>
<td>1%</td>
<td>11%</td>
<td>19%</td>
<td>59%</td>
<td>10%</td>
</tr>
<tr>
<td>Turnover of key employees is very costly for our organization.</td>
<td>4.06 (.73)</td>
<td>.5%</td>
<td>2%</td>
<td>14%</td>
<td>57%</td>
<td>26%</td>
</tr>
</tbody>
</table>

Discussions we have had with senior rewards and human resources professionals indicate that retention of key talent is one of their top challenges and that they worry about having the people needed to win market share when the economy improves. These professionals fear that key employees are becoming increasingly frustrated in their organizations due to layoffs, the resultant expansion of job accountabilities and constraints on reward programs — primarily limited base salary increases, lower incentives and fewer advancement opportunities. These comments reinforce the message from survey respondents that retention is a dominant organizational concern during the recovery. Table 2 reports employee turnover rates for key talent, managerial and professional employees and all employees. Key talent has the lowest average turnover rates, followed by managerial and professional employees and all employees with the highest rate. These differences in turnover rates suggest that organizations, up to this point, have been reasonably successful in their key talent retention programs. This leads us to the next question examined by this research: “Do organizations make a special effort to retain key talent?”
Table 2: Turnover Rate for Key Employees, Managerial/Professional Employees and All Employees

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean (Standard Deviation)</th>
<th>0-5% (1)</th>
<th>6-10% (2)</th>
<th>11-15% (3)</th>
<th>16-20% (4)</th>
<th>21-26% (5)</th>
<th>27-40% (6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key Employees</td>
<td>1.75 (1.09)</td>
<td>56%</td>
<td>28%</td>
<td>7%</td>
<td>5%</td>
<td>4%</td>
<td>.4%</td>
</tr>
<tr>
<td>Managerial &amp; Professional</td>
<td>2.02 (.99)</td>
<td>36%</td>
<td>35%</td>
<td>24%</td>
<td>3%</td>
<td>2%</td>
<td>.4%</td>
</tr>
<tr>
<td>Employees</td>
<td>All Employees</td>
<td>2.29 (1.19)</td>
<td>28%</td>
<td>37%</td>
<td>23%</td>
<td>6%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Do organizations make a special effort to retain key talent?

According to the findings in Table 3, more than half (53%) of the organizations have a clear definition of key talent, and 60% of the organizations have identified who those individuals are. More than 75% of respondents say that they define key talent to include employees who are top performers, have high potential or are in critical jobs. Although we know from other questions in the survey (not included in Table 3) that 9% of respondents say that their organizations restrict their focus on key employees to top executives, the vast majority (77%) identify key talent below the executive level. A total of 16% of organizations say they focus retention efforts on key talent from all levels across the organization, while 37% focus retention efforts on key talent among management, supervisors and professionals. Regardless of the differences in the definitions used, most respondents (55%) say that their retention efforts are focused on key talent rather than on the broader employee base.

Table 3: Identification and Focus of Key Employee Retention

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean (Standard Deviation)</th>
<th>Strongly Disagree (1)</th>
<th>Disagree (2)</th>
<th>Neither Agree nor Disagree (3)</th>
<th>Agree (4)</th>
<th>Strongly Agree (5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>We have a clear definition of key talent.</td>
<td>3.31 (1.07)</td>
<td>3%</td>
<td>26%</td>
<td>18%</td>
<td>42%</td>
<td>11%</td>
</tr>
<tr>
<td>We have identified the key talent in our organization.</td>
<td>3.49 (1.05)</td>
<td>3%</td>
<td>19%</td>
<td>18%</td>
<td>46%</td>
<td>14%</td>
</tr>
<tr>
<td>Our definition of key talent includes employees who are top performers.</td>
<td>3.89 (.79)</td>
<td>1%</td>
<td>5%</td>
<td>17%</td>
<td>59%</td>
<td>19%</td>
</tr>
<tr>
<td>Our definition of key talent includes employees who are high potential.</td>
<td>3.97 (.75)</td>
<td>1%</td>
<td>3%</td>
<td>14%</td>
<td>62%</td>
<td>20%</td>
</tr>
<tr>
<td>Our definition of key talent includes employees who are in critical jobs.</td>
<td>3.90 (.81)</td>
<td>1%</td>
<td>6%</td>
<td>17%</td>
<td>56%</td>
<td>21%</td>
</tr>
<tr>
<td>Our identification of key talent goes below the executive level.</td>
<td>3.91 (.93)</td>
<td>1%</td>
<td>9%</td>
<td>12%</td>
<td>52%</td>
<td>25%</td>
</tr>
<tr>
<td>Our retention efforts are focused primarily on key talent (versus retention of our broader employee base).</td>
<td>3.44 (.90)</td>
<td>1%</td>
<td>20%</td>
<td>23%</td>
<td>43%</td>
<td>12%</td>
</tr>
</tbody>
</table>
An analysis of bivariate correlations found that organizations that were more confident in their ability to retain key talent during an economic recovery were more likely to “have a clear definition of key talent” \((r = .33, \text{ } \infty = .00)\), “have identified the key talent” \((r = .35, \text{ } \infty = .00)\), to include in their definition of key talent employees who are "top performers, have high potential and are in critical positions" \((r = .27, \text{ } \infty = .00, r = .24, \text{ } \infty = .00, r = .19, \text{ } \infty = .00, \text{ respectively})\), and to "focus on key employees below the executive level" \((r = .28, \text{ } \infty = .00)\). Organizations that report that they are more confident in their ability to retain employees believe that their retention rate is above the average for their industry \((r = .33, \text{ } \infty = .00)\). These data indicate that a best practice is to clarify the meaning of the term “key talent,” define it to include a range of employee groups and develop retention programs targeted specifically for these groups.

**Why does key talent quit?**

Table 4 indicates the reasons why rewards professionals believe that key talent leaves their organizations. The primary reason, which far exceeds all the other reasons for quitting, is an “opportunity to earn more pay elsewhere” \((x = 3.13, \text{ } \text{s.d.} = .88)\). The next most-cited reason is “lack of promotional opportunities” \((x = 2.87, \text{ } \text{s.d.} = .94)\), followed closely by “feelings that pay levels are unfair relative to others outside the organization” \((x = 2.74, \text{ } \text{s.d.} = .99)\). Tied for fourth place are “dissatisfaction with job or work responsibilities” \((x = 2.65, \text{ } \text{s.d.} = .85)\) and “feelings that pay levels are unfair relative to employee’s performance and contribution” \((x = 2.65, \text{ } \text{s.d.} = .93)\).

**Table 4: Why Key Employees Quit**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean (Standard Deviation)</th>
<th>Strongly Disagree (1)</th>
<th>Disagree (2)</th>
<th>Neither Agree nor Disagree (3)</th>
<th>Agree (4)</th>
<th>Strongly Agree (5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retired</td>
<td>2.37 (1.00)</td>
<td>19%</td>
<td>43%</td>
<td>25%</td>
<td>11%</td>
<td>3%</td>
</tr>
<tr>
<td>Dissatisfaction with job or work responsibilities</td>
<td>2.65 (.85)</td>
<td>9%</td>
<td>32%</td>
<td>45%</td>
<td>12%</td>
<td>1%</td>
</tr>
<tr>
<td>Inadequate use of employee’s skills and abilities</td>
<td>2.49 (.88)</td>
<td>11%</td>
<td>41%</td>
<td>35%</td>
<td>11%</td>
<td>1%</td>
</tr>
<tr>
<td>Workloads are too heavy</td>
<td>2.62 (1.04)</td>
<td>16%</td>
<td>29%</td>
<td>35%</td>
<td>16%</td>
<td>3%</td>
</tr>
<tr>
<td>Work-life balance issues</td>
<td>2.61 (2.61)</td>
<td>15%</td>
<td>32%</td>
<td>33%</td>
<td>15%</td>
<td>4%</td>
</tr>
<tr>
<td>Conflicts or problems with immediate supervisor</td>
<td>2.56 (.98)</td>
<td>14%</td>
<td>36%</td>
<td>34%</td>
<td>13%</td>
<td>3%</td>
</tr>
<tr>
<td>Job insecurity, fear of job loss</td>
<td>2.00 (1.04)</td>
<td>40%</td>
<td>31%</td>
<td>19%</td>
<td>8%</td>
<td>2%</td>
</tr>
<tr>
<td>Lack of promotional opportunities</td>
<td>2.87 (.94)</td>
<td>7%</td>
<td>26%</td>
<td>43%</td>
<td>20%</td>
<td>4%</td>
</tr>
<tr>
<td>Lack of training and developmental opportunities</td>
<td>2.49 (1.03)</td>
<td>18%</td>
<td>33%</td>
<td>31%</td>
<td>14%</td>
<td>3%</td>
</tr>
<tr>
<td>Feelings that pay levels are unfair relative to others within the organization</td>
<td>2.40 (.95)</td>
<td>17%</td>
<td>41%</td>
<td>30%</td>
<td>10%</td>
<td>2%</td>
</tr>
<tr>
<td>Feelings that pay levels are unfair relative to employee’s performance and contribution</td>
<td>2.65 (.93)</td>
<td>10%</td>
<td>34%</td>
<td>39%</td>
<td>15%</td>
<td>2%</td>
</tr>
</tbody>
</table>
According to respondents the least likely reasons for key talent to quit are for an opportunity for a better health-care package ($x = 1.71, \text{s.d.} = .84$) or better retirement/saving benefit package ($x = 1.71, \text{s.d.} = .87$). Likewise, even during a significant downturn in the economy, rewards professionals indicate that job security for key talent remains high. Seventy-one percent of respondents thought that fear of job loss and job insecurity was either not an issue or only to a minor extent ($x = 2.00, \text{s.d.} = 1.04$) in turnover decisions. Both “another job closer to home or easier commute” and “nonjob-related factors” also scored low as reasons why a key employee might quit ($x = 2.22, \text{s.d.} = .86; x = 2.18, \text{s.d.} = .77$, respectively).

Knowing which factors may lead key talent to quit and which don’t provides important insights for crafting methods for retaining these employees.

**What is done to retain key talent and are these efforts effective?**

Table 5 focuses on the types of programs organizations use to retain key talent and the perceived effectiveness of these efforts. Consistent with responses to other questions, key talent identification is a core attribute in terms of programs that are deemed as effective in retention of key employees (88%). Seventy-four percent of respondents indicate that this strategy is either “effective” or “very effective.” The other methods reported most often used to enhance retention of key employees include “discussed … their future opportunities within the organization” (84%), “paid key employees above the labor market” (83%), “provided tuition reimbursement and other educational opportunities” (83%) and “created a succession plan to replace individuals critical to success” (82%). All of these programs were perceived to be “effective or “very effective” in a majority of cases (more than 50% of the time).
Table 5: Key Employee Retention Methods Used and Rated Effectiveness

<table>
<thead>
<tr>
<th>Statement</th>
<th>Percent Have Program</th>
<th>Mean (Standard Deviation)</th>
<th>Ineffective (1)</th>
<th>Marginally Effective (2)</th>
<th>Effective (3)</th>
<th>Very Effective (4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identified key employees who are essential to the business</td>
<td>88%</td>
<td>2.90 (.74)</td>
<td>3%</td>
<td>24%</td>
<td>54%</td>
<td>20%</td>
</tr>
<tr>
<td>Monitored satisfaction of key employees concerning their pay and work situation</td>
<td>75%</td>
<td>2.60 (.82)</td>
<td>8%</td>
<td>37%</td>
<td>41%</td>
<td>14%</td>
</tr>
<tr>
<td>Discussed with key employees their future opportunities within the organization</td>
<td>84%</td>
<td>2.82 (.80)</td>
<td>5%</td>
<td>28%</td>
<td>48%</td>
<td>19%</td>
</tr>
<tr>
<td>Provided mentors for key employees</td>
<td>69%</td>
<td>2.66 (.82)</td>
<td>7%</td>
<td>34%</td>
<td>44%</td>
<td>15%</td>
</tr>
<tr>
<td>Provided meaningful and enriching job designs for key employees</td>
<td>76%</td>
<td>2.77 (.78)</td>
<td>6%</td>
<td>25%</td>
<td>54%</td>
<td>15%</td>
</tr>
<tr>
<td>Provided meaningful pay communications, including total compensation statements</td>
<td>77%</td>
<td>2.70 (.90)</td>
<td>10%</td>
<td>32%</td>
<td>38%</td>
<td>20%</td>
</tr>
<tr>
<td>Paid key employees above the labor market</td>
<td>83%</td>
<td>2.94 (.82)</td>
<td>5%</td>
<td>22%</td>
<td>47%</td>
<td>26%</td>
</tr>
<tr>
<td>Provided a rich (i.e., extensive) benefit package</td>
<td>74%</td>
<td>2.75 (.84)</td>
<td>9%</td>
<td>24%</td>
<td>51%</td>
<td>16%</td>
</tr>
<tr>
<td>Allowed flexible hours or telecommuting</td>
<td>80%</td>
<td>2.86 (.80)</td>
<td>4%</td>
<td>26%</td>
<td>48%</td>
<td>21%</td>
</tr>
<tr>
<td>Provided key employees with stock options or equity awards</td>
<td>71%</td>
<td>2.77 (.95)</td>
<td>12%</td>
<td>24%</td>
<td>39%</td>
<td>24%</td>
</tr>
<tr>
<td>Provided increased incentive or bonus opportunity to key employees</td>
<td>68%</td>
<td>2.91 (.96)</td>
<td>9%</td>
<td>22%</td>
<td>36%</td>
<td>32%</td>
</tr>
<tr>
<td>Provided cash bonuses for retaining key employees</td>
<td>74%</td>
<td>2.81 (.94)</td>
<td>10%</td>
<td>26%</td>
<td>38%</td>
<td>26%</td>
</tr>
<tr>
<td>Developed employees who may replace key employees who leave</td>
<td>80%</td>
<td>2.70 (.78)</td>
<td>6%</td>
<td>32%</td>
<td>48%</td>
<td>14%</td>
</tr>
<tr>
<td>Created a succession plan to replace individuals critical to success</td>
<td>82%</td>
<td>2.84 (.80)</td>
<td>4%</td>
<td>29%</td>
<td>46%</td>
<td>21%</td>
</tr>
<tr>
<td>Provided tuition reimbursement and other educational opportunities</td>
<td>83%</td>
<td>2.56 (.79)</td>
<td>8%</td>
<td>38%</td>
<td>43%</td>
<td>10%</td>
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Although more than two-thirds of respondents indicated that they use each of the methods listed in the survey as a means to enhance key talent retention, those that were least likely to be used were “provided increased incentive or bonus opportunity to key employees” (68%), “provided mentors for key employees” (69%) and “provided key employees with stock options or equity awards” (71%). The methods deemed to be least effective in retaining key talent were “provided tuition reimbursement and other educational opportunities” (x = 2.56, s.d. = .79) and “monitored satisfaction of key employees concerning their pay and work situation” (x = 2.60, s.d. = .82). Although “paid key employees above the labor market” was considered to be the most effective method for retaining key talent, it is interesting to note that both
“provided a rich (i.e., extensive) benefit package” and “provided key employees with stock options or equity awards” were deemed less effective. Thus, the emphasis appears to be on paying above the labor market, primarily in cash programs.

To determine if there were methods for retaining key talent that we overlooked, rewards professionals were asked to respond to an open-ended question: “In terms of retention of key talent, what is your organization doing that works particularly well?” We found that cash compensation was most often identified as being the best method for retaining key employees. Listed in Table 6 are the qualitative responses to this question.

Table 6: Categorized Responses\(^1\) to Open-Ended Question — In Terms of Retention of Key Talent, What Is Your Organization Doing That Works Particularly Well?

**BONUSES**
- Providing higher bonus targets and LTIP when necessary
- I’ve been here 5 years and I would say the one thing that seems to aid in retention is our bonus program, which is somewhat ‘rich’ and goes down to all levels in the organization. Our targets are somewhat high compared to other organizations.
- Retention Bonus Agreements
- Retention bonuses lasting one year
- Identification of key employees and salary and bonus treatment.

**COMPETITIVE COMPENSATION PLAN**
- In process of implementing pay for performance across all divisions.
- Overpay to keep the person
- Long-term cash incentive plan for senior executives
- We analyze the total comp of our key talent and have developed strategies to provide equity and cash so they are paid at a higher % market rate.
- Our organization has adopted a compensation policy which is very competitive in regard to base compensation (75th - 85th percentile of market); and medium to high competitiveness in regard to benefit offerings.

\(^1\) Where respondents indicated more than one method used to retain high potentials, their response was split and put into the appropriate category.
- Twice yearly performance reviews and “calibration” of employees into 3 performance categories. Significant focus on the top 20% of calibrated employees re: job, promotion, size of bonus/merit/equity

COMMUNICATION
- Dialogue at management level
- Explain the retention guideline and give some advice to managers.

COUNTEROFFERS
- None other than counteroffers.
HIGH-POTENTIAL PLANS
- Systematically assessing key talents, identifying high potentials and developing a pipeline in order to ensure succession
- Specific programs targeted at High Potential employees that expose them to others across the organization and provide real work learning opportunities that have senior management visibility

JOB ROTATION
- Intentional moves to positions in different businesses, special projects or assignments and recognition
- Job rotation

MENTORING
- Mentoring

RETENTION AGREEMENTS
- Long term retention agreements

STOCK
- Just implement a Key Talent RSU program.

SUCCESSION PLANNING
- Succession mapping and communication to key talent.
- Developing a pipeline in order to ensure succession

TRAINING/DEVELOPMENT
- Offering personal development classes.
- Career path/Staff development/Job evaluation
- Additional training opportunities

WORK-LIFE BALANCE
- Our employees especially appreciate flex scheduling opportunities and the family-oriented culture of our organization.

Rewards professionals definitely have opinions as to the effectiveness of different methods for retention of key talent, but do they formally evaluate the effectiveness of these methods? The answer is mixed; 21% say they do not evaluate their key talent retention programs, and 31% say they rely on only informal feedback from employees and managers. However, 26% examine formal attitude surveys, 31% examine turnover data and 7% conduct a return-on-investment (ROI) analysis on the subject.
What role do counteroffers play in retaining key employees?

Consistent with our earlier counteroffer study (Scott, McMullen and Nolan 2005), few organizations have a formal policy on counteroffers. Eighty-three percent said that “We do not have a counteroffer policy; each situation is decided on a case-by-case basis.” Fourteen percent said that they have “an informal policy (or practice) that provides general guidance.” Only 3% said they have a written formal policy. For those organizations that have either a formal or informal policy, we found that counteroffers are typically provided “only for employees who are both in key positions and outstanding performers” (39%) and “At the request of the employee’s supervisor or manager” (36%). The other possible scenarios received few responses: “Only for employees who are key positions” (12%), “Only for employees who are outstanding performers” (7%) and “We routinely make counteroffers for employees who receive job offers” (5%). Only 32% of respondents who said their organization had formal or informal counteroffer policies evaluated these policies as effective or very effective. Respondents said that extending a counteroffer either “seldom creates a problem” or “has created some problems,” 47% and 46%, respectively. The majority of respondents indicated that the HR/compensation function and management are jointly involved in extending counteroffers (47%) or the “HR/compensation function may provide some input, but management primarily determines who receives a counteroffer and the nature of that counteroffer” (38%). Seldom does the HR/compensation function primarily make the decision (4%) or have no role in the decision (11%).

Do organization differences determine how key talent retention efforts are managed?

One question that is commonly asked is how context influences the degree to which key talent retention is considered a problem or what methods are more effective in retaining key employees. In this study we found that organization size, industry and sector had little impact on the retention of key employees. The only systematic impact was found across economic sectors. The private-sector respondents (i.e., both privately held and publicly traded organizations) were more likely to identify and provide a definition of key talent than respondents in the public sector or nonprofit sector. The public-sector respondents also were less confident that they could retain key employees during an economic recovery than respondents from other sectors.

What are the “best practices” for retaining key talent?

To define certain organizations as having “best practices,” we compared organizations that were more confident in their ability to retain key talent during an economic recovery with those that were less confident. We also examined those respondents who indicated that their turnover rate for managerial and professional employees was lower than other organizations within their industry. Although these two variables are correlated \( r = .32, \, p = .00 \), they are not consistently related to other variables we examine in this study. For example, the correlation of “Turnover of key talent is very costly for our organization” with “Compared to other organizations in your industry, the turnover rate … ” is significant \( r = -.22, \, p = .00 \), whereas it is not
significantly related to “I am confident in my organization’s ability to retain key talent as the economy improves” ($r = -.08, \infty = .11$).

For rewards professionals who report that they were more confident that they could retain key talent and believed that they had higher retention rates than others in their industry, we found:

- These organizations focus on retaining key employees at lower levels in the organization ($r = .20, \infty = .00$) and ($r = 1.82, \infty = .00$).
- Employees were less likely to leave because pay was unfair or because key employees had an opportunity to earn more elsewhere, ($r = -2.69, \infty = .00$) and ($r = -.10, \infty = \text{not significant}$), respectively.
- These organizations used more methods to retain key employees than organizations that were less confident ($r = 2.57, \infty = .00$ and $r = -2.69, \infty = .00$, respectively).

**Conclusions and recommendations**

Several conclusions can be drawn from this study. First, rewards professionals are concerned about their organization’s ability to retain key employees. More than 50% believe that key talent retention will be challenging in the future. Second, there is considerable variation in how organizations define key talent and how far down into the organization they actively manage this group. However, we found that organizations that identify, define and manage key talent deeper into the organization are more confident that they will be able to retain these individuals. Additionally, key employees quit for a variety of reasons, but they are more likely to leave for rewards-related reasons than other work-related issues. Finally, although most organizations used many different methods for retaining key talent, the effectiveness of these methods varies substantially. We also found that the organizations that used a broader toolkit of retention methods believed they were in less danger of having key talent quit.
This study reaffirms that rewards programs are important for retaining key talent. Based on these findings we recommend that management:

- Develop a clear definition of what is considered key talent and then make sure those individuals are identified and managed as such.
- Ensure that key employees perceive the rewards system as relevant and fair, and confirm that they are paid consistently with relevant external markets.
- Consider paying key talent above the median of relevant labor markets to lessen the chances that competitors can lure them away.
- Make sure that key employees perceive that they have opportunity for development and advancement; have a process in place to ensure that they are kept apprised of their development and advancement opportunities.
- Make sure that the organization gives particular attention to the employment experience of key talent by using multiple retention methods and managing those methods effectively.
- Carefully monitor voluntary turnover among key employees; make sure that you understand why they leave so more effective strategies for retaining key employees can be developed.
- Recognize that key employees are in high demand and will be lured away by increased pay and job opportunities; as such, succession plans and counteroffer policies should be established.
- Recognize that organization size, industry and sector do not play a substantial role in the retention of key employees; as such, be willing to experiment with ideas for retaining key employees from any source.

References

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