

# 2014

## Global Talent Management and Rewards Study

### At a glance

#### Overview

The 2014 Global Talent Management and Rewards Study provides an in-depth look at the practices and concerns of organisations around the globe. It captures the perspective of over 1,600 organisations on attraction, retention and engagement issues that are essential to the development of an effective employment deal and total rewards strategy.

This report presents high-level findings on employers' increasing attraction and retention challenges, and examines the value of getting the employment deal right. In addition, we explore the disconnect between employer and employee views on what it takes to attract and retain a productive workforce, and identify the areas organisations should prioritise to bridge this gap.

#### Talent mobility creates attraction and retention challenges

Employers today face a more fluid labour market than in the recent past. Globally, nearly half of employers (48%) indicate hiring activity has increased compared to last year. For 15%, hiring has jumped significantly. In addition, more than one-third (35%) report that turnover is rising.

Our study shows that employers are finding it difficult to get and keep key talent, including top performers and high-potential employees. Nearly two in three respondents are experiencing problems attracting top performers (65%) and high-potential employees (64%), an increase from two years ago. Additionally, more than half report difficulty retaining high-potential employees (56%) and top performers (54%).

Not surprisingly, employers do not receive high marks from employees on their ability to get and keep talent. In our 2014 Global Workforce Study, a survey of over 32,000 employees worldwide, fewer than half of respondents report that their company does a good job when it comes to attracting and retaining the right workers. Only 46% say their organisation hires highly qualified employees, while 42% say their employer does a good job of retaining talented employees.

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Yet to achieve their business objectives, employers need to attract and retain critical talent and ensure that employees are highly engaged, which, in turn, will support increased productivity. To foster sustainable engagement, organisations must get the employment deal right — that is, they must offer and deliver an employment deal that is formally articulated, is tailored to different workforce segments and sets an organisation apart from its competitors.

## The value of getting the employment deal right

Our findings show that there is much to be gained from getting the employment deal right. Organisations with a highly evolved employment deal (one that is formally articulated, well executed, customised for different employee segments and differentiated from those of competitors) are more effective than organisations offering a deal that is tactical (not formally articulated and lacking an integrated strategy for rewards and talent management). Specifically, companies with a highly evolved deal are three times as likely to report their employees are highly engaged and 1.5 times as likely to report achieving financial performance significantly above their peers (Figure 01).

Companies with a highly evolved employment deal have less difficulty attracting and retaining employees than those offering an employment deal that is tactical. The biggest effects of a highly evolved employment deal are seen in developing economies, where workers generally, and employees with critical skills in particular, are in short supply.

When it comes to critical-skill employees who directly impact strategic goals and the bottom line, any reduction in retention risk and turnover or attrition is valuable. In developing economies, 74% of organisations with a tactical employment deal are having difficulty retaining employees with critical skills, compared with 58% of organisations with a highly evolved employment deal, a 22% reduction. In developed economies, these numbers are 42% and 36%, respectively, a 14% reduction (Figure 02).

A highly evolved employment deal delivers even greater value through its impact on an organisation's ability to attract employees with the critical skills needed to replace those who leave or supplement the ranks of those with these same critical skills who stay.

**Figure 02. Organisations with highly evolved deals have less difficulty retaining critical-skill employees**



In developing economies, 79% of organisations with a tactical employment deal are having difficulty attracting employees with critical skills, compared with 66% of organisations with a highly evolved employment deal. In developed economies, these numbers are 63% and 56%, respectively. Organisations in developing economies with a highly evolved employment deal not only have a competitive advantage over tactical organisations in their market, they are nearly at par with tactical organisations in developed economies in their ability to attract employees with critical skills.

However, a highly evolved and differentiated employment deal remains an elusive goal for most organisations. Only 45% of employees globally say their employer lives up to their employment deal. Less than one-third (32%) of employers report that their organisation has a formally articulated employment deal, and a mere 25% say their organisation has done a good job of delivering their deal over the past three years. The data suggest that many organisations lack a good understanding of what it takes to get and keep employees in 2014.

**Figure 01. Companies with a highly evolved employment deal outperform organisations without a formally articulated deal**

*Strong financial performance* represents the percentage of organisations with financial performance substantially better than their industry peers last year. *High sustainable engagement* represents the percentage of organisations that report their employees are highly engaged.

Employment deal groups	Financial performance		Sustainable engagement		Overall	
	Developed	Developing	Developed	Developing	Financial performance	Sustainable engagement
Highly evolved*	25.9%	16.2%	20.0%	28.2%	20.1%	24.8%
Tactical**	15.5%	9.4%	6.9%	8.2%	13.0%	7.4%
Ratio of highly evolved to tactical	1.7	1.7	2.9	3.4	1.5	3.3

\*Organisations with a formally articulated, well-executed employment deal that is customised for different employee segments and differentiated from their competitors

\*\*Organisations without a formally articulated employment deal and accompanying total rewards strategy

## Critical employer/employee disconnects

Attraction and retention drivers among employees have remained fairly steady over the past two years, with base pay and career advancement continuing to be top priorities. However, employers do not always understand the rewards workers value most, which can make it difficult to develop a winning employment deal.

While it is encouraging that employers and employees agree on six of the seven key attraction drivers, employers underestimate the value of job security. For employees, job security is the second-most frequently cited reason for joining an organisation, while it ranks seventh for employers (Figure 03).

When it comes to retaining workers, employers recognise the importance of fair and competitive base pay and opportunities for career advancement. But once again, they underestimate the value of job security, which does not even appear on the employers' list of key retention drivers (Figure 04).

Employers also fall short when they underestimate the role senior leadership plays in helping retain employees. While employees cite trust and confidence in senior leadership among their top three reasons for staying with an organisation, it is not in the top seven for employers. This finding is worrisome given that leadership is also the top driver of sustainable engagement.

## The right priorities seal the deal

Our research indicates that to succeed in attracting, retaining and engaging a productive workforce, employers need to prioritise the following drivers: competitive base pay, career advancement opportunities, effective leaders and managers, and job security. Companies can begin by addressing the challenges and pain points in each of these areas.

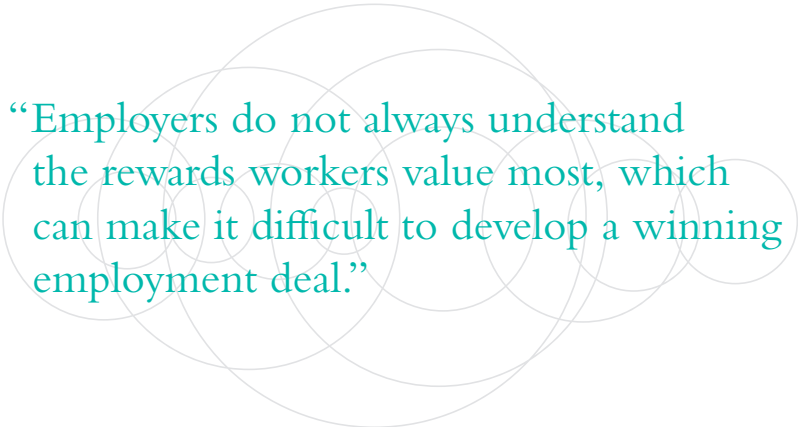


Figure 03. Top attraction drivers — employer versus employee view

	Employer view — Talent Management and Rewards Study 	Employee view — Global Workforce Study 
1	Career advancement opportunities	Base pay/salary
2	Base pay/salary	Job security
3	Challenging work	Career advancement opportunities
4	Organisation's reputation as good employer	Learning and development opportunities
5	Organisation's mission/vision/values	Challenging work
6	Learning and development opportunities	Organisation's reputation as good employer
7	Job security	Vacation/paid time off

Figure 04. Top retention drivers — employer versus employee view

	Employer view — Talent Management and Rewards Study 	Employee view — Global Workforce Study 
1	Base pay/salary	Base pay/salary
2	Career advancement opportunities	Career advancement opportunities
3	Relationship with supervisor/manager	Trust/confidence in senior leadership
4	Manage/limit work-related stress	Job security
5	Learning and development opportunities	Length of commute
6	Short-term incentives	Relationship with supervisor/manager
7	Challenging work	Manage/limit work-related stress

## Base pay, annual incentives and pay-for-performance differentiation

Many employees tell us they understand how base pay is determined, but only 53% of participating companies report that employees understand how this is done. This figure rises among companies that segment and differentiate their employment deal, but clearly, there is room for improvement.

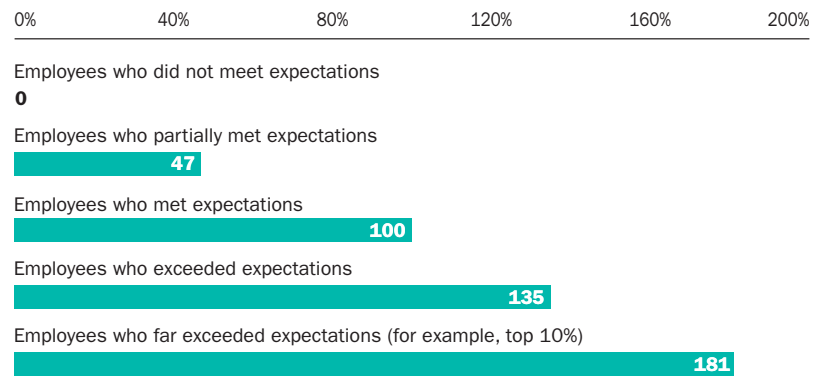
- Communication plays a key role in helping employees understand the competitive positioning of their base pay. Yet only 52% of employees say their company does a good job of explaining their pay programmes.
- The role of the manager in communicating and executing base pay programmes and in the performance management process is critical. Managers need to explain how employee objectives link to overall strategic objectives and how their pay links not just to individual performance, but also to work unit and company performance.
- Some employers simply do not have a compelling story to communicate because they do not sufficiently differentiate rewards for top performers. In terms of merit increases, the typical organisation is doing less differentiation based on individual performance than we have found in previous years. In 2010, top performers received twice as large a merit increase as average performers and more than five times as much as those who only partially met expectations. In 2014, both of these ratios are substantially lower (**Figure 05**).

Many employers are also failing to differentiate their broad-based employee annual incentive programmes. Across the 31 markets included in this year's survey, average funding is reported at 90%. There is a clear need for employers to optimise their short-term funding. Yet fewer than half of employers differentiate their programmes substantially. In fact, similar to merit increases, the extent of differentiation has diminished compared to 2012. Bonuses for employees who exceeded or far exceeded expectations relative to bonuses for average performers have decreased, while the relative payout to those who partially met expectations has increased (**Figure 06**). This is a missed opportunity not just for recognising top performers and improving the employment deal for this key workforce segment, but also for creating incentives for improved productivity across the whole workforce.

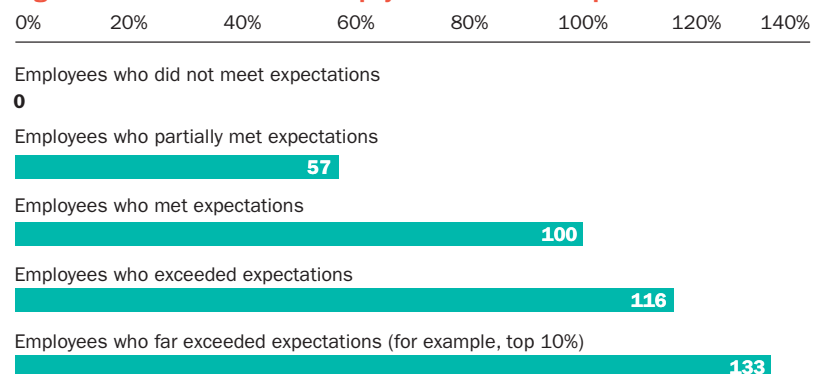
To be able to differentiate merit pay and awards from annual incentive programmes, companies require the following:

- *The right infrastructure* — job architecture, job leveling and scaled competencies that in combination serve as the foundation for reward programme design and delivery, starting with base pay and annual incentives
- *A performance management process* that links employee goals to company and business unit strategic priorities and base pay increases, and incentive awards to goal achievement and competencies
- *Managers with the ability to communicate* how base pay and incentive decisions are made — linking reward programmes to a common job architecture makes it easier to determine and communicate these pay decisions

**Figure 05. 2014 merit increase ratios relative to expectations met**



**Figure 06. Short-term incentive payouts relative to expectations met**



## Career development and management

Opportunity for career advancement is a key driver of attraction and retention globally. High-potential employees also say it is a top reason (number two) for joining a company.

Career opportunities appear to be improving. Thirty-five percent of participating companies say that compared with 12 months ago, career advancement opportunities for most of their employees have improved, compared to only 9% that say they have become worse. Despite these improvements, organisations are still missing the mark: Less than half (49%) of organisations report being effective at providing traditional career advancement opportunities to employees. An even lower percentage (38%) report being effective at providing career development opportunities beyond traditional concepts.

Many employees feel blocked in their current positions: 41% of employees overall report that they would have to leave their organisation in order to advance to a job at a higher level. Almost 40% of workers who have been identified by their company as high-potential employees report that they would have to leave their organisation to advance. And 72% of 'leavers', that is, those who prefer not to remain in their current organisation and intend to leave in the next two years, also concur.

Why are employers falling short?

- **Career architecture and career paths are poorly defined.** Fewer than half of employers (48%) report that their organisations have career architectures and levels in place. And a mere 43% say their companies have defined vertical career paths.
- **Technology is not effectively leveraged for career management.** Two-thirds (67%) of participants report that their organisations use technology effectively to deliver learning and development opportunities. However, less than half (45%) say their companies make effective use of technology to deliver programmes to help employees advance their careers.
- **Managers are ill equipped to handle key aspects of career management.** Only 33% of employers say managers are effective at conducting career development discussions as part of the performance management process.
- **Most organisations do not know if their career management programmes are working.** A very low 27% say their organisations monitor the effectiveness of their career management programmes.

This situation leads many employees to conclude that they are on their own when it comes to career management. Almost half (48%) think their organisation wants them to take ownership of their careers, while most employers (57%) say managers and employees should have joint ownership.

To improve career management programmes, employers can take the following steps:

- Ensure their career architecture and career maps not only reflect HR and business strategies but also provide a framework for communicating with employees.
- Train managers to identify and communicate career opportunities tailored to each employee's skills and experience.
- Use technology to improve career management tools and resources.
- Track and measure the effectiveness of career management programmes.

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## Leadership

Despite the fact that employees cite trust in senior leadership as a key retention driver and leadership is the top driver of sustainable engagement, only 62% of employers have a formal leadership development programme in place. These programmes are more prevalent in global companies (74%). Yet only 39% of employees agree senior management in their organisation is doing a good or very good job of developing future leaders.

To develop effective leaders and manage the talent supply chain, organisations must formalise their leadership development process and ensure their leadership programme's goals are aligned with their business strategy. For example, an organisation pursuing an innovation strategy may want to develop leaders who foster creativity and risk taking.

In addition, companies looking to improve their leadership initiatives should take the following steps:

- Develop and implement a leadership model that incorporates desired competencies that support the business strategy.
- Link job architecture to required competencies.
- Integrate leadership development across all talent management programmes (for example, succession planning, performance management and career management).
- Develop breadth of experience among future leaders by encouraging the sharing of talent across teams.
- Enhance leaders' international experience through talent mobility programmes.

An effective leadership development programme can be a source of competitive advantage by helping organisations retain and engage key employees as they develop leadership competencies. This is one way in which organisations can achieve a better return on their talent investments.

Of course, these are general solutions. It is up to each organisation to apply these recommendations to develop the specific leadership competencies that their business strategy requires.

### Job security

Many employees are still focused on job security. Even among high-potential employees – who presumably should not have to worry about this issue – job security ranks among the top reasons to join or leave an organisation. By underestimating the value employees place on job security, companies are missing an opportunity to engage key talent.

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For employers, the challenge is how to respond to this employee need without making a promise to provide job security in the traditional sense (that is, lifetime employment). Employers can start by providing an environment that fosters a long-term focus. For example, companies can provide employees with skill development and career management programmes that will increase employee productivity and value in both current and future roles, whether within their current organisation or in a new company. Other levers that employers can pull include enabling workers to understand how they contribute to their organisation's success through more effective communication of business strategy and goals, instilling confidence in the future of the organisation through effective leaders and managers, and empowering employees by soliciting their opinions and acting on their suggestions. Line manager communication plays an important role, too. Performance discussions can be used to provide feedback to employees to help them see how they are and will be valued now and into the future. Moreover, organisations can provide rewards that meet current employee needs and provide value and opportunities for the future. In summary, organisations that set the right priorities based on what employees value can go a long way toward providing workers with a greater sense of control over their careers, thereby enhancing the perception of security.

“Organisations can provide rewards that meet current employee needs and provide value and opportunities for the future.”



## Key takeaways from the 2014 Global Talent Management and Rewards Study

- The key drivers of attraction and retention have remained fairly steady over the past two years and continue to reflect the fundamentals – base pay, career advancement opportunities and job security.
- Diverging views between employers and employees remain as to what it takes to attract and, particularly, to retain talent in 2014.
- Given the importance of competitive compensation and ongoing limited resources for rewards, it is imperative for companies to better differentiate both base salary increases and annual incentives.
- Given the low marks employees give their companies on career advancement opportunities – a top driver of both attraction and retention – employers should redouble their efforts to deliver an effective career management programme.
- To cultivate trust in senior leadership, which drives retention and sustainable engagement, organisations should institute formal leadership development programmes aligned with their business strategy and take other actions to improve leadership effectiveness.
- An employment deal aligned with a company's strategic priorities is essential to attracting, retaining and engaging employees in general, and key talent in particular.

base pay

job security

career advancement  
opportunities

## About the study

The Towers Watson Global Talent Management and Rewards Study was fielded from April to June 2014 in 31 markets. It includes responses from 1,637 participating organisations, including 337 companies from the US. The participants represent a wide range of industries and geographic regions.

The Towers Watson Global Workforce Study covers more than 32,000 employees selected from research panels that represent the populations of full-time employees working in large and midsize organisations across a range of industries in 26 markets around the world. It was fielded online during April and May 2014.

For more information, please visit:  
[www.towerswatson.com/2014GWS-TMR](http://www.towerswatson.com/2014GWS-TMR)

## The final participation results

**Global Workforce Study (GWS):** More than 32,000 responses across 26 markets

**Global Talent Management and Rewards Study (TM&R):** A total of 1,637 organisations across 31 markets

North America	GWS	TM&R
Canada	✓	✓
US	✓	✓

Latin America	GWS	TM&R
Argentina		✓
Brazil	✓	✓
Chile		✓
Mexico	✓	✓

EMEA	GWS	TM&R
Belgium	✓	✓
France	✓	✓
Germany	✓	✓
Ireland	✓	✓
Italy	✓	✓
Middle East	✓	✓
Netherlands	✓	✓
Russia		✓
Spain	✓	✓
Sweden		✓
Switzerland	✓	✓
Turkey	✓	✓
UK	✓	✓

APAC	GWS	TM&R
Australia	✓	✓
China	✓	✓
Hong Kong	✓	✓
India	✓	✓
Indonesia	✓	✓
Japan	✓	✓
Korea	✓	✓
Malaysia	✓	✓
Philippines	✓	✓
Singapore	✓	✓
Taiwan	✓	✓
Thailand		✓

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