



EMPLOYMENT SYSTEMS, INC.
RETENTION STRATEGY WHITE PAPER
(May 2000)

EXECUTIVE SUMMARY

There are numerous publications, training resources and seminars directed at how to retain employees in the current labor market. ESI suggests that, whether developed with existing staff or through an outside consultant, an employer develop a retention strategy. That strategy should include some or all of the following ten ideas that are discussed in this paper:

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Measure the effectiveness of the strategy by keeping and analyzing retention metrics, and gather information through surveys and exit/post-exit interviews. As a supplement to this review of retention, ESI has also provided a guideline to exit interviews and a sample form for your use.

INTRODUCTION

The unemployment rate continues to hover near historic low levels. The phrase "tight labor market" is heard again and again across the U.S., from Wall Street to Main Street. Finding the right new employee in a "tight labor market" has become such a challenge for recruiting specialists that the traditional human resources work of selection and placement has been called a "war for talent." It is an expensive war, at that.



The cost of filling a vacant job ranges widely, depending on the nature of the job and its position in the structure of a company. Consultant Beverly Kaye & Associates, Inc., suggest that the cost can be from 70% to 200% of an employee's salary. Dr. Jac Fitz-Enz, an expert in human resources metrics, gives a range of between \$96,000 to \$131,000 as the cost of having a professional level vacancy in a technology company.

Not only are the costs high, but companies have to bear them more frequently during the past few years. Employees seem to change jobs faster than in the past. A new generation of skilled, professional and managerial employees have entered the workforce with an ethic that is career centered, not employer centered. The Bureau of Labor Statistics reports that the average 34-year-old employee has held 9 jobs during their working life. The average tenure for an IT worker is down to 13 months. Even older workers, according to the BLS, stay on a job only an average of 12 years now, rather than the 17 years of a decade ago.

What is important to a new generation of workers is their "portfolio" of job skills and projects completed, not their chances for a career in one employment center. One argument says that this is a natural consequence of the free market and that talent will flow to where the rewards are best and the needs the greatest. Peter Capelli suggests that the goal of human resources policy in such a market should not be to foster long term loyalty, but to identify committed employees and retain them for as long as is mutually profitable. The object is to manage who goes, who stays, and for how long.

In a volatile, but tight, job market, the need for a well thought out retention strategy should be obvious. Employers that have actively focused on retaining employees and reducing turnover do not take the market-based approach, but rather embrace a pro-employee philosophy that looks at not only their super performers, but at all employees. The goal is to foster retention by becoming an employer-of-choice where employees want to stay (for a while anyway) because they can achieve their personal and professional goals within the company's four walls (or URL address).

Retention relies on a belief that it is cheaper to put money into programs that encourage employees to stay than it is to put more money into the never-ending recruitment/replacement process. Retention is also a broader philosophy than simply "managing turnover" because it takes a strategic approach to maintaining the company's human capital and motivating it to a commitment to achieve business and financial goals.



What follows are ten ideas from Employment Systems, Inc. on what should be in a company's retention strategy. Remember that an effective retention strategy will have to be customized to fit the industry, geography and the types of jobs involved. Also, remember that employees are individuals and that a customized approach should account for the employees' experience (is the employee new to the labor market, are they at mid-career, or are they experienced employees), and their culture (Gen Xers, Boomers, Mature Employees).

RETENTION BEGINS WITH RECRUITMENT (1)

The focus of recruitment should be to seek out and hire only the right people for the organization. Remember that turnover costs money. One estimate is that a bad hire in a sales position can cost a company \$300,000 by time its undone. Look at every vacancy and determine if it truly needs to be filled. Ask if there are other ways to accomplish the same work. Only hire when absolutely necessary. When recruitment occurs, bring in both the skills and the commitment that are needed to achieve the company's goals.

If you do not already have a standard and consistent recruitment and interview process in place, the Employment Management Association has offered an eight point checklist that is useful to follow:

1. Know your organizational goals and make them part of recruitment.
2. Create a strong connection between Human Resources and the management of the hiring departments.
3. Analyze and diagram the recruitment process and improve it continuously.
4. Create a comprehensive recruitment plan that includes:
 - a) Needs Assessment
 - b) Job Requisition System
 - c) Qualifications Profile
 - d) Internal Job Posting Process
 - e) External Posting Process (use company website)
 - f) Designated Recruitment Staff
 - g) External Sourcing
 - h) Creative Sourcing (referral program, networking, etc.)
 - i) Realistic Budget
 - j) Track Applicants and Record Data
 - k) A Screening Process
 - l) Testing (if necessary)
 - m) Consistent Interview and Selection Process
 - n) References and Credentials Check

- o) Orchestrated Job Offer (use top management if possible)
- 5. Measure recruitment efforts
- 6. Use technology
- 7. Make retention part of the recruitment strategy.
- 8. Keep up with the changing legal requirements.

In order to recruit for retention (rather than just fill a vacancy at any cost), the company needs to know the fundamentals of the job, through analysis and assessment. The company should also know what the success factors, the competencies required, are for the job. Along with developing job and success factor information, the company should improve the interviewing skills of anyone who is involved in the recruitment and selection process. The whole team should be making hiring decisions that are professional and that are consistent with the company's values, culture and long range economic goals.

Also, focus on finding candidates from the right places. Most companies have used internal, employee referral programs. One belief is that some of the money a company would spend on outside recruiters should be given to employees through an effective referral program. Employees hired through effective internal referrals seem to stay longer, perform better, and generally fit.

Of course, don't forget the Internet recruiting sources, job boards, virtual job fairs and so forth. A current edition of CareerXRoads may be the best reference for Internet recruitment sites. Finally, don't forget to develop a dynamite employment center at the company's own website.

RETENTION REQUIRES ASSIMILATION NOT JUST ORIENTATION (2)

A company's opportunity to retain an employee begins the day the employee starts work. Assimilate the employee into the organization, don't just provide them with a standard, new employee orientation. Have the employee's workstation, tools and equipment prepared when they show up the first day, and have projects and tasks ready to go. Some employers provide a welcome-aboard gift, t-shirt, coffee cup, or other commemorative item. Do what it takes to make the employee feel comfortable from the start. Get them into a team project or group assignment as fast as possible. Make sure that the CEO or other top executive calls, e-mails, or, best, drops by to personally welcome them to the company.

One effective tool for a retention strategy is the use of mentors. This tool fits in with several aspects of retention, but can be very important for assimilating the new employee into the organization, for getting the new hire to buy into the



company from the start. Assign another employee, a peer or otherwise, that can provide the new hire with advice and information, someone who can be a trusted ear to listen to the new employee's concerns. Make the mentor someone that the new employee can trust without feeling self-conscious about going outside of the formal department structure and supervisor.

A typical new employee orientation process consists of the following:

- 1) An overview of the company, a tour of facilities, introduction to co-workers, an explanation of the handbook, a discussion of the organization's mission.
- 2) Completion of all new hire paperwork, a discussion of benefits, and of pay cycles and forms to be used (if any).
- 3) Repeat various fundamentals, such as the Organizational Chart, where telephone numbers are located, how to use equipment and phone systems.
- 4) A discussion of the new job, the expectations, how the assessment process works, who will provide OJT, and so forth.
- 5) Workplace orientation in terms of hours of work, how to adopt a flex time schedule, training opportunities, career paths, and so forth.
- 6) Incorporate some fun into it, through giving out the t-shirt, coffee cup or other items, discussing the company's work/life programs, and maybe lunch.
- 7) Evaluation of the program and feedback from the new employee.

Remember that orientation is also a time to sell the new employee on the value of the company as an employer-of-choice. Turnover tends to be high among new employees (within the first year) because the job does not turn out to be what was expected, or the working environment is not as had been described in recruitment. Use orientation and assimilation to clear up any miscommunications that may have already happened between employer and employee.

DON'T OVER-ESTIMATE OR UNDER-ESTIMATE THE VALUE OF COMPENSATION AND BENEFITS (3)

A recent survey by Beverly Kay & Associates of some 2,200 employees found that "fair pay and benefits" ranked fourth in a list of ten items that caused them to stay with their current company. Although managers generally believe that employees leave because they can get more pay somewhere else (and many employees do leave for that reason, especially in IT), pay is not usually the main cause of turnover. Nonetheless, competitive pay and benefits are important elements in attracting and retaining employees.

The attractive power of money is usually most important in the recruitment process. Compensation (whether cash, stock options, or other) continues to be



very important, especially in high tech recruitment. Dr. Jac Fitz-Enz recently noted that many workers in technology industries have a job-hopper mentality. While they want a positive work environment, they also want "as much money as they can get." But high initial compensation only goes so far after the employee is on-board. A fair, equitable, and understandable pay system is also as important as competitive salaries in the long run.

After an employee has been with the company for a period of time, many companies (about 30% of companies in a recent survey) use some form of retention bonus as part of the over all strategy to keep them. This applies mostly to professional and managerial employees, and can range between 1% and 10% of annual salary paid out on, for example, an anniversary date as a lump sum.

Compensation also includes the value of the benefits package as well. Flexibility is the key to effective retention practices in many areas, including benefits. Not all employees need the same benefit package, but they all want a competitive package, both in the critical area of medical insurance and in retirement savings accounts. The WorldatWork organization recently found that 78% of the employees it polled placed a very high value on employer provided or sponsored health insurance plans, and a high percentage considered the retirement plan a critical reason for staying.

COMMUNICATE EARLY, OFTEN AND THOROUGHLY (4)

Modern employees want to know a lot about everything that effects their working lives. Sharing information with employees about the company, its products, its sales and marketing strategies and plans, even its finances, is one of the most effective and powerful retention tools available.

The emergence of e-mail and intranets allows for greater communications and employers need to take advantage of this communications technology. Company-oriented E-zines, broadcast e-mails, and one-to-one e-mail messages are powerful communications devices. So too is the more traditional device of group oral communications. Use team meetings, monthly group meetings, and ad-hoc sessions to tell employees about the company, and to get feedback from the employees on what is important to them. Incorporate the managers, supervisors and even key employees into this process, and train them to give information and to dynamically listen to those that they work with. Some companies use a formal 50/50 meeting where a manager spends half the meeting providing information, and employees use the other half asking questions or passing along ideas. Some meetings should have agendas, such as quarterly, divisional or company-wide sessions, and some should be informal,

with lunch or breakfast brought in. Remember, too, that open doors encourage communications, and closed doors do not.

One key to retention is to know why employees stay and why they leave. Use attitude surveys or pre-exit interviews as part of the communications mix in order to gather information about what employees are thinking, what they like and dislike about the company, and what are the internal barriers to their achieving their professional goals. These surveys are usually questionnaires that are given to all employees, or to groups of employees in specific business units. The information can help in improving a variety of internal processes. But don't forget to implement the good ideas and use the information that employees provide. A company's actions are important, and acting on employee ideas shows that the communications process is real, and that it is two-way.

Any company that has an effective retention plan in place is a company that communicates with, not to, employees. It keeps employees in the loop, which reinforces the assimilation process mentioned earlier.

DEVELOP LEADERSHIP SKILLS AT ALL LEVELS (5)

Managers must play a pivotal role in the implementation of any successful retention program. It is said that managers control 75% of the reasons why employees leave. Practicing effective management skills and providing positive leadership can lower turnover.

How does a company get managers to practice effective management and positive leadership? Some techniques that can be used are:

- 1) Set high standards for what is expected of a manager and identify the high quality managers that meet those standards; use them as mentors for new managers or managers with deficiencies; if a manager is causing high turnover, rethink their stay with the company.
- 2) Develop a rewards system that includes a management effectiveness element; for example, make 10% of the manager's pay dependent on managerial effectiveness (including retention), and use a tool like 360° feedback to measure the effectiveness element.
- 3) Provide managers with management skills training in ways that address the individual managers needs; sometimes bringing in an outside coach is an effective tool for this purpose.
- 4) Define in writing what the company considers to be effective management, and incorporate it into the orientation process; for example, tell new employees in your company that they should expect their managers to:

- a) provide good two way communications
- b) shows respect for the employee
- c) give employees some control over their working conditions
- d) develop the employee's skills
- e) provide challenging work assignments
- f) provide recognition for the employee's good work, and reward it.

It is the lack of these qualities, after all, that are most frequently cited as reasons why employees move elsewhere to find better working conditions.

What, then, is effective leadership? A model that you can use has the following qualities:

- trust of subordinates
- has a vision of where they and the company are going
- maintains poise and character when problems occur
- encourages employees to take risks, and allows for failures
- serves as an expert, a source of knowledge
- allow for, and even invites, dissenting points of view
- simplifies communications so that everyone understands.

A company's retention strategy should include methods for developing such leadership qualities and reinforcing positive management practices.

CHANGE THE JOB TO FIT THE TALENT (6)

When employees leave, sometimes it is because the job they were initially hired to perform is no longer a challenge. They get bored. This is especially true in creative fields, software development, and engineering. In situations where the employer knows that the employee has begun to get disenchanted with his or her position, where repetition has led to boredom, it is useful to apply the principle of "prevention." Prevent the turnover; or stated differently, proactively retain the employee by enhancing the job, stepping up the challenge, moving the employee into another area, or simply restructuring the job to fit the talent.

As part of the overall retention strategy, a company will know which employees are "superstars" that they want to retain, or what teams they want to keep together. If the communications process is working well, and there is a two-way dialogue between managers and employees, then the managers or supervisors



will detect the signs of boredom in an employee or dissatisfaction with work assignments in a team. Use that information to make the work more interesting.

Another retention-prevention technique is to use the human resources staff to analyze the work content and flow of a job, and to devise a solution that will create more challenging or varied activities. It may mean rewriting the job description, it may mean assigning the employee to a critical, long term project, or it may mean using the employee outside their normal job for other activities.

One company developed an internal "fellowship" program in an attempt to retain key scientific and engineering employees. Using a degree of competitiveness in the selection process, the company's CEO created special projects to develop cutting edge methods, techniques, prototypes and discoveries which could be used in the company's next generation products. The team that worked with the CEO on the projects included top engineers and scientists from the company, and also included talented performers whom the company did not want to lose because of boredom with their regular work. Whether this is an example of training and growth, job restructuring, or recognition and reward, it is a tool that can work well with a bright younger employee whose loyalty may be to their profession and career rather than to the company itself.

RECOGNIZE, REWARD, RESPECT, REJOICE (7)

For some retention experts, the four items heading this section are the heart and soul of an effective retention strategy. Employees who leave often say that their contributions to the organization were not recognized, that they were not rewarded for their work efforts (not just in salary), that they did not receive the respect they expected, and that it was no longer fun working there. When it was noted that managers control 75% of the reasons why people leave, these four elements make up the bulk of that percentage.

Most companies have some sort of program to "recognize" employee contributions and performance. In a retention strategy, the recognition program is on-going, is constructed in a way that meets employees' needs for recognition, is multifaceted, and is part of the retention-oriented communications process. It includes letting other employees know when one of their colleagues completes a project on time, or comes up with a creative solution, or has reached a service milestone. Recognition can be delivered at group meetings, through broadcast e-mails or newsletters, in one-on-one meetings, through postings, or in company advertising. The point is to customize the recognition program to meet the needs and values of different employee groups.

Of course, reward is part of recognition as well. Some companies let managers use a spot cash or bonus reward as a way to thank an employee for putting in the hours to complete a project, or for filling in during a time of labor shortage, or for completing a project in a creative, cost effective or constructive way. Non-cash rewards can also be used to reinforce recognition and make the employee feel good for working at the company. Author Bob Nelson has several books that identify "1001" ways to reward and motivate employees. An effective rewards program is timely, personal, visible when possible, and thoughtful.

Recognition and reward also come in the formal performance evaluation, pay increase or bonus processes. One point to remember is to make sure that high performers have the opportunity to receive a bonus or pay increase that is commensurate with their contribution. Providing the same general reward to everyone will work against your retention program in the long run.

Recognition and reward are critical elements in a retention strategy, but they should rest on a foundation of respect for employees, for their skills and talents, for their unique contributions to the organization. Often when employees leave, one of their complaints is that they did not believe that there was respect for employees by supervisors, managers, or the company in general. Respect for employees as human beings has to be a core value of the company in order to be a meaningful part of the retention strategy. It is something that has to be practiced and demonstrated in the normal course of management and supervision in terms of how employees are treated and how decisions about employees are made. Dr. Jac Fitz-Enz states that companies that become an "employer of choice" for job seekers are those who have a reputation for fair treatment and respect for employees. He summarizes this by noting that these companies "honestly believe and act as though people are not hard-to-manage expense items, but rather are value-adding assets."

"Employers-of-choice" are places where people want to work. They are places where retention works. They are also places where employees can rejoice their accomplishments and relax in their behaviors from time to time. These are places where it is fun to work. Information technology trade publications, such as [ComputerWorld](#), often discuss the element of "fun" in software, dot coms, and IT work environments. They also justifiably caution against too much exuberance in the workplace. A company should encourage employees to have "fun", but within the bounds of its culture and values, including respect for all employees.

Having said that, why not have a pizza party after a major project is completed, or keep ice cream in the freezer of the company refrigerator for celebrations, or sponsor contests with prizes from time to time. Let people dress up for

Halloween, or have egg hunts at Easter time. In the book Love 'Em or Lose 'Em , Beverly Kaye and Sharon Jordan-Evans make the point that fun does not have to mean putting "toys" into the workplace, and fun is not inconsistent with professionalism. Their assessment is that fun breeds creativity and creativity, in turn, increases productivity.

TRAIN, GROW, STRETCH (8)

Retention involves providing opportunities for training and professional development. Although most companies provide job specific training as a routine, retention-oriented training is more. Training should focus on how it serves the needs of the company, and how it fits into employees' career interests. Employees, more specifically those who are developing careers, want training that increases their employability, training that fits into their portfolio, training that keeps them on the cutting edge. This is notably true in high tech companies where engineers, software developers, IT professionals, and other knowledge workers want their skills to be up to date, and want their knowledge base to grow beyond the narrow confines of their specific job. Whether they stay with one company or move to many, they want their knowledge and skills to keep up with the ever changing dimensions of technology.

Career growth and enhancement opportunities are obviously important to employees who are developing their career or are at a mid-career juncture. They are apt to remain with a company that recognizes their needs and shows them how their careers can grow within the company. This may mean having a tuition reimbursement program, it may mean sending employees at all levels to off-site training, it may mean subsidizing technical training by giving employees paid time off to get desired certifications, it may mean instituting internal development programs whether classroom oriented or delivered through web-based technology, or it may mean paying for the annual membership fee in a professional organization or paying for a professional publication.

Employees also want the chance to apply their technical skills and knowledge. They want to grow and stretch in the work assignments they are given. Sometimes, the only way to find the right individual to do the work necessary to complete a project is to challenge an existing employee to expand their abilities and take on the larger or enhanced responsibility involved. Part of your retention strategy should be to identify those high performers who can grow with each assignment and make sure they get the challenges they need.

Finally, use your internal training program as a way to reward or enhance the work of your experienced employees. If an employee is reaching a plateau in



their day to day work, find out if they have training abilities and let them help develop other employees by serving as trainers.

HELP EMPLOYEES DEVELOP A WORK/LIFE BALANCE (9)

At times a company needs employees to work extremely long hours over a sustained period. Start-up or emergent companies, or even established companies with new product launches, short time-to-market schedules, or other production deadlines can place enormous strains on employees by requiring extra work. Employers who intend to retain their valued employees and keep their workforce in tact will also try to balance these demands with a demonstrated appreciation for the lives that employees lead outside of the workplace. They will help or encourage the employees to develop a balance between work and life. They will do this to increase the wellness of their employees and to maintain long term productivity. They will do it mainly out of the respect for their employees that earned them a reputation for being an employer-of-choice.

Work/life balance strategies come in many forms. Some employers use flexible schedules as a way to help employees achieve this balance. Allowing the employee to create a schedule that meets their personal needs and that is consistent with the company's operating environment can go a long way to relieving some of the stress that, for example, may come with outside responsibilities such as childcare or eldercare obligations. Telecommuting can also be a tool that allows some employees flexibility. Consider paying for or subsidizing an Internet connection as a perk that allows the employee to interact with the company from home.

As part of two-way communications, meet with employees and have a discussion about work/life issues. Without prying too deeply into their privacy, find out what they need, what matters the most to them, what may interfere with providing their maximum productivity at work. Then discuss what can be done to help. Experiment for a while, see if something works, do a test case or pilot program.

Some companies address the work/life balance issue by making an employee's outside life a little easier through work. The list of perks that have been implemented to ease some of the burdens of daily life is a long one. It includes providing dry-cleaning services, on-site car washes, concierge services, subsidized fitness programs, or on-site meals for late shifts or during intense, short-term projects. This approach can be very useful when working with employees who are single or do not have children and may have more flexibility in their ability to work long hours or complicated schedules. If they give up some



of their leisure time to help the company meet its goals, the company can reciprocate by taking some day to day burdens away.

Many companies develop family-friendly HR policies to address the work/life balance issue. Some companies are able to develop on-site child-care facilities or assist employees in finding proper child-care support. Others use their flex-time programs for this purpose. Family-friendly can also mean helping employees with elder care problems, or simply being supportive when a personal problem arises.

Balance in life and work may become the most sought after benefit of the new century. Employees want respect, and what better way to show it than to recognize them as human beings who need to support families, sustain relationships, and develop personal interests.

WHEN THEY LEAVE, WISH THEM WELL (10)

A final part of a retention strategy that may be overlooked is when the employee does decide to leave, what does the company do? There may be times when a counteroffer is necessary to try to keep an employee to complete a project or for a specific business reason. But not usually. Counteroffers can be counter-productive by giving the departing employee, and those who were not leaving, the wrong message. An employee generally leaves anyway within a relatively short period of time.

If the employee has accepted another offer and is giving notice, wish them well and let them leave. The key here is to know who is leaving and why. If it is an employee that you would like to come back, start creating the new bond when they tell you they are departing. They probably have given you a week or two notice. Leave the door open as they depart. Be pleasant and supportive. Get any feedback you can through interviews. Make certain that their benefits issues are resolved. If it truly is an employee you would like to retain or rehire, bend over backwards to make the transition as uncomplicated as possible so that they leave with a positive image of the company. Remember, things may not work out in the new environment. The new conditions may be no better or different for the employee than those they left behind. A merger or other business process may interfere with the employee's career plans. Whatever happens, be prepared to welcome them back as if they had never left.

When employees leave, a company has a good opportunity to collect information about their experience working there and the reasons why they are leaving, and what it is about the new employer that attracted them away. Exit interviews are



given by most employers for this reason. Post-exit interviews have been touted as the most effective way to get real information from former employees. Human Resources should identify employees who would be likely to provide good information, or employees with whom the company wants to maintain contact, and call them after three to six months and ask them the tough questions they may not have wanted to answer when they left. Questions include those about supervision, company policy, pay, benefits, management quality, training and opportunity.

But whether you use an exit interview or post-exit survey or both, when the employee decides to leave, they have broken their commitment to the company and so let them go. But leave the door open for the high achievers. And be willing to pay more to hire them back at a later day.

RETENTION SUMMARY

Employment Systems, Inc. suggests that the following ten ideas form the foundation of a creative, pro-active, and energetic retention strategy and plan:

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3. Don't Over- Or Under-Estimate Compensation/Benefits
4. Communicate Early And Often
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How an employer uses these ideas will depend on the unique details of the company's mission, economic goals, and corporate culture. Employment Systems, Inc. can assist in this process through its employment services and consultative support.