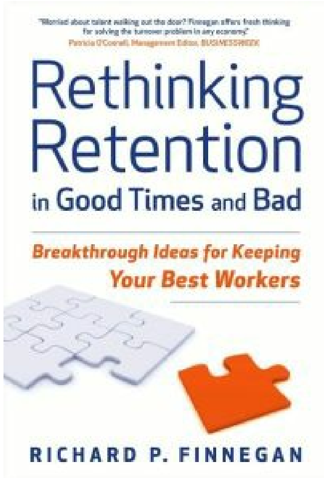

Book Rethinking Retention in Good Times and Bad

Breakthrough Ideas for Keeping Your Best Workers

Richard P. Finnegan
Davies-Black, 2009
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Recommendation

You might think that a recession is exactly the time when good employees batten down their hatches and cling to their jobs, even if they do not like them. Think again. Really talented employees can find work during any economic period. Indeed, they change jobs all the time. Such turnover cuts productivity, making operations less efficient, and burdens companies with heavy employee replacement costs. Although the tariff can be staggering, most organizations do not have a formal – or even an informal – turnover abatement process. Instead, they relegate retention to a sideline human resources department activity. To correct this operational oversight, retention consultant Richard P. Finnegan provides the “Rethinking Retention Model,” a robust best-practices program you can use to cut down on expensive employee churn. In his heavily researched and sourced book, Finnegan thoroughly details the exact steps organizations should implement to increase retention. He offers numerous case studies that illustrate how companies hold on to their best employees. *BooksInShort* highly recommends this comprehensive, logical, thoughtful guide as an ideal resource for CEOs, managers and HR executives who need to close the revolving door.

Take-Aways

- //A depressed economy limits turnover, but good employees still leave their jobs during recessions. Such turnover is hugely expensive for your company.
- Senior managers should focus as much on retention as they do on sales and service.
- Use the “Rethinking Retention Model,” a proactive business process, to improve retention.
- The quality of your supervisors has more of an effect on your turnover rate than any other factor. To reduce turnover, set meaningful retention goals for managers.
- Supervisors should become closer to their staffers and earn their trust to maximize their positive feelings about their jobs.
- Demote or fire bad supervisors who drive good employees away from the company.
- Employees leave “because they can,” because they want more growth and, yes, because they want more money.
- Bind your employees to your firm with “glues,” like benefits, opportunities and rewards.
- Screen more applicants to get recruits who will stay. Monitor their first 90 days carefully.
- Due to labor demographics, turnover will become an even bigger problem.

Summary

Turnover Hurts

The turnover ratio in the hotel industry is a staggering 75%-150%. Such turnover is incredibly expensive and eats directly into profits. Hotelier Harris Rosen of Rosen Hotels and Resorts has been able to reduce turnover at his seven Orlando, Florida, properties to a remarkably low 15%-20%. His pivotal decision was to provide superior health care to his 5,000 employees. He opened a company health clinic, with "two doctors and two nurse practitioners...as well as a part-time podiatrist and nutritionist." The cost: employees pay $14.75 per week and they can add "two family members" for an additional $48.25 weekly. Costs are approximately half of typical insurance expenses and have "stayed about flat" over time.

> "Until now, employee retention strategies have been based on instincts rather than research."

Even during recessionary periods when firms slash jobs, employee turnover remains an expensive problem. Good employees don't leave their positions because of a weak economy. They leave because they're not happy. Usually they find and secure new jobs before walking out on their old ones. When firms lose their best people, they are shedding vital lifeblood. Replacing top staffers as the door slams behind them is hugely expensive. Executives know what is at stake. In fall 2008, "a high time for media frenzy about the economy, bailouts and layoffs," a survey of the 1,000 biggest U.S. firms found that even during bad economic times, retention is the most important "staffing concern." A PricewaterhouseCoopers study indicates that "turnover costs organizations more than 12% of pretax income, all the way up to 40% for some."

> "By doubling a job's average length of service, you've cut turnover in half."

To cut back on costly turnover, companies must elevate retention, making it equal to "sales, service, quality" and "safety." Keeping good staffers can no longer be just one of the human resources department's many concerns. Senior management must create or improve the retention process as an important C-suite initiative. Companies that don't make retaining employees one of their "staples of performance" will continue to suffer turnover's costs and inefficiencies. To implement a professional retention process, use the "Rethinking Retention Model," which is based on three principles and seven strategic initiatives. The three principles are:

First Principle: "Employees Quit Jobs Because They Can"

Employees have numerous alternative opportunities, even during recessions. Nearly 50 million U.S. workers change jobs annually, according to a survey taken after the 2001 recession started. Finding new job opportunities is remarkably easy. The internet hosts 50,000 job sites for North America and just as many for "other parts of the world." Certainly, substandard employees try to hold on to their jobs during recessions, but strong staff members can confidently move to other posts if they are unhappy. Such transitions hurt organizations. Less capable people take over integral positions formerly held by top performers. If your good employees are leaving, use exit interviews to find out why. Make sure supervisors see the results and adjust their activities accordingly so other ace employees don't feel the need to depart.

> "People don't leave companies, they leave managers."

Second Principle: "Employees Stay for Things They Get Uniquely from You" Your unique retention advantages could be the relationships staffers have with their supervisors and colleagues, flexible schedules, career development opportunities, great benefits, discounts on the company's products or services, and so on. These "glues" bind employees to your organization. What are your firm's most effective binders? The best way to find out is to ask your staff members, but be aware that other companies can offer the same type of perks. A good salary is a crucial binder, but money isn't everything if your workers aren't happy in their jobs.

> "Creative executives find ways to teach their managers the real cost of turnover so they know turnover is important."

Whatever your glues are, extend them as broadly as possible throughout your organization, that is, "leverage them to the hilt." Develop an "Employee Value Proposition" (EVP) that showcases the most attractive qualities of your firm, what makes it special and what it provides to its employees. Broadcast your EVP to people inside and outside your organization. Include this information on your website. Also, leverage your organizational brand so it reaches out in a meaningful way to include your employees. Publix Supermarkets' slogan is "Where shopping is a pleasure." The company embraces employees in this branding message by touting, "If you think shopping at Publix is a pleasure, try working here!"

Third Principle: "Supervisors Build Unique Relationships that Drive Retention"

Good supervisors have low staff turnover rates; bad supervisors have high staff turnover rates. It's that simple. Gallup research says that the length of time "talented" people stay in their jobs primarily depends on their relationships with their supervisors. Good managers are in the best position to create the glues your company needs to hold on to its employees, but people flee bad bosses. A 2008 Yahoo HotJobs survey indicates that upward of 70% of employees would change jobs if they could; their primary reason is dislike of their supervisors.

> "Every organization, regardless of size, should always know which employees are most important to retain."

To retain workers, improve the quality of your supervisors' performance. They should connect well with their staff members, treat them with respect, appreciate them and give them "unconditional support." Good managers astutely observe their staffers so they can match them to the most appropriate tasks and challenges. They should provide access to the critical knowledge their people need to do their jobs. Top bosses make their employees feel like winners.

> "Employees leave for pay, no advancement or development, and lack of recognition, but the clear reason they stay is for relationships."

The seven business strategies that make up the "Rethinking Retention" process are:

1. **"Hold supervisors accountable"** – Only 11%-14% of organizations establish "retention goals" for their supervisors. That is a miniscule showing. Assigning retention responsibility and targets to all supervisors makes great sense. These mid-level managers can have a fast, notably positive effect on turnover and retention, just by being friendly and considerate with their staffers. Establish a "companywide retention goal," and break it down supervisor by supervisor. Employee retention within the first 90 days of employment, the most critical turnover period, is an effective metric. So is average "length of service." Set simple, achievable targets, and stress "retention accountability" in staff meetings. Once you set retention goals, remove supervisors who routinely push good employees out the door. Conversely, reward those who attain their retention targets. Make sure supervisors understand that promotion depends on meeting these objectives.
2. **"Develop supervisors to build trust with their teams"** – Workers who don't trust their supervisors are always inclined to leave. In a TalentKeepers study,

100,000 employees reported that they prioritize personal trust in their supervisors. That makes trust "the most important supervisory skill." Employees' relationships with their managers are "as important or more than pay [and] benefits." Human resources and training professionals should jointly develop ways to ensure that potential future supervisors are trustworthy, such as educational programs that help them increase their trustworthiness. Have management trainees discuss how trust has affected their relationships with their supervisors. Get them to discuss instances where supervisors treated them unfairly so they develop insights about their own actions. Make trust a core management skill.

3. **"Narrow the front door to close the back door"** – To hire workers who won't quit prematurely, "increase your applicant-to-hire ratio." Do exhaustive checks of all references. Carefully investigate applicants who have jumped from job to job to find out why. You have a problem if your entry-level workers last only 90 days or less, and if professional employees leave within their first year of employment. Carefully track these rates. Set up an "employee committee" for interviewing and hiring, and reward staff members who make successful job-candidate referrals. Research shows that candidates referred by other employees stay longer, because they're joining firms they know about, they have a friend already employed there and they are confident they will fit in. Therefore, do your best to increase the number of employee referrals you hire. Studies also illustrate that older employees, "rehires, refugees and people with disabilities" stay in their jobs longer than other workers. Use "realistic job previews" to present the most accurate picture possible of what working at your organization will be like. That may encourage applicants who won't fit into your corporate culture to remove themselves from the hiring process.
4. **"Script employees' first 90 days"** – In "high-turnover organizations," more people leave during their first few months on the job. Think of the first three months as the most important "glue-building period." If you can improve an employee's first three months, he or she is liable to stay longer. This works well for low-level employees and for people with top skills. Have your HR professionals and trainers script this period as part of your proactive retention process. Include activities the employee will find compelling. Ask the marketing department to help develop creative "glue-building and engaging" activities for new hires. Plug newcomers into appealing team projects so they quickly become part of the action. Introduce them to senior executives. Invite them for dinner at your home. Treat them with courtesy and respect. Make sure new people are able to register some meaningful "early wins." However, don't hesitate to get rid of malcontents before they poison the environment for other workers.
5. **"Challenge policies to ensure they drive retention"** – Poor pay, inflexible work schedules and lack of health care benefits thwart retention. Remuneration is the most important factor. Salary.com's study of 11,000 individuals indicates that most would stay at their firms for an extra year if they received a 10%-15% pay raise. Try to develop enlightened pay, benefits (particularly health care) and work flexibility policies for employees. Give leading employees extra financial rewards when they attain or exceed their goals. Routinely showcase your top performers so they understand that you appreciate them. Ask your workforce for retention ideas. You'll find that the most promising concepts will emanate from the lowest organizational level. One good idea, for example, is to make stock purchase ownership options widely available.
6. **"Calculate turnover's cost to galvanize retention as a business issue"** – Turnover sparks numerous costs, including "lost productivity," separation expenses (like "payroll processing costs"), vacancy expenses (such as the cost of hiring temporary help or outside contractors to complete projects), hiring costs (advertising, relocation expenses) and onboarding expenses (training, new equipment). When you discuss turnover within your organization, use costs, not percentages. The reason is simple: "Dollars is the most important word in U.S. business." Get senior managers to agree on a typical cost-per-turnover, for example, $10,000 or $15,000, and use this figure as the basis for establishing total annual turnover costs.
7. **"Drive retention from the top"** – The C-suite, not HR, must own the retention initiative and make sure it receives the support it needs at every level. The CEO and senior executives should be fully on board regarding your retention program and plans. Some companies compensate their CEOs on the basis of their retention rates. For example, the Penske Automotive Group pegged 8% of CEO Roger Penske's bonus to a specific "employee retention goal." Pep Boys, an auto parts retailer, uses the same approach for the bonuses of three of its most important executives, focusing specifically on "turnover of middle managers."

Get Moving

Do you have a retention problem today? If so, it will only get worse tomorrow if you don't heal it quickly. Indeed, when it comes to retention, the situation is about to get a lot stickier. For one thing, employees who replace retiring baby boomers are not likely to have the same high work standards. That will lead to increased future turnover. As fuel costs rise, workers will increasingly choose firms that offer flexible work schedules, such as four-day workweeks, and will leave firms that do not. The U.S. Securities and Exchange Commission will require that companies provide "turnover data in annual reports" for the benefit of investors. Given that turnover is almost sure to increase, it's past time to protect your organization against the expense of exiting employees.

About the Author

Richard P. Finnegan heads Finnegan Mackenzie, a retention consultancy. His articles on employee retention routinely appear in the business and professional media.