



# THE AYERS GROUP, CPI

## RETAINING VALUED EMPLOYEES WHITE PAPER

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## RETENTION IN PERSPECTIVE

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The issue of *retention* – retaining valued employees – evokes an understandable ambivalence in human resource professionals these days. With the recent dizzying succession of events, including the dot.com boom and bust, September 11 and its aftermath, the scandals in corporate America, and the current economic downturn, it is no surprise that many are unclear about what emphasis to place on retention.

### IMPLICATIONS FOR RETENTION

These extreme and unprecedented conditions do not invalidate accumulated wisdom on how to retain employees, but they do necessitate adjustments and creativity in its application. Traditional retention efforts may need to be redoubled and extended. Tentative measures are unlikely to succeed in the current environment. For example, efforts to reduce or eliminate sources of stress on the job should be receiving greater attention. Individuals with discernable problems should be receiving prompt, compassionate professional help through coaching or counseling. High turnover leads to increased stress among remaining staff, who have to bear the additional workload while living with the fear of losing their own jobs. The organization needs to let employees know – more clearly than ever – that it is there for them, caring and supportive. This may take the form of additional benefit options, socially oriented programs that create stronger bonds among team members, or enhanced recognition programs that reward excellence in performance. The increased loyalty such efforts generate will be reflected in greater commitment to the work and to customers, repaying the investment many times over.

### THE CASE FOR AND AGAINST AN OPPORTUNISTIC APPROACH

The dramatic swings in focus on retention, apparently tied to economic events and cycles, suggest a widespread misunderstanding of the concept. Retention should not be a changing goal or strategy, but rather a core element of human resource management on par with a performance management system or a team-based work structure.

When business is on a downswing and layoffs are rampant, it is tempting to reason that employees would be reluctant to trade what they have for uncertainty and that the growing pool of talent in the labor market offers hope suitable replacements can be found for employees who do leave. Under closer scrutiny, there is a strong case against such thinking. It is never simple or cheap to replace a top producer.

Competitors and headhunters are always stalking your top talent, regardless of economic conditions. Most executives these days look outside their organizations to fill key positions. They do whatever it takes to lure attractive candidates away, using signing bonuses, stock options, and generous compensation packages as inducements. Meanwhile, other companies are eyeing the poachers' top talent with the same goal. The line between hunter and hunted is thin and shifting. Open competition for other companies' talent, once rare, is now an accepted fact of business life.

Your best defense against poaching is an ongoing retention program. Your star performers – always vital to your business – are never more important than in a sagging economy, when you need every competitive edge. Yet in a slowing economy, priorities are more likely to center on reducing headcount than on sustaining it.

## RETENTION IN PERSPECTIVE

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The current buzz is all about profitability – the factor infamously ignored during the dot.com revolution. The backlash that has re-instated profit may be obscuring other basic values, such as the importance of key employees in achieving and maintaining profitability and the imperative of keeping them within the organization. Human resource planners should remain mindful of the investment in recruiting, hiring, and training, and the hope of eventually filling top positions in the organization with homegrown talent. This is placed at risk when retention slips out of focus. We argue for consistent efforts to retain top performers and key personnel – valued employees it would hurt to lose at any time.

## CONSEQUENCES OF UNWANTED DEPARTURES

The most obvious argument in favor of a strong retention program is that turnover is expensive. The full cost is rarely understood or taken fully into account. Beyond the obvious costs of severance packages and recruiting for replacements, you need to add in such intangibles as lost productivity and quality, lowered morale, lost customers and contacts, and the arduous process of bringing a replacement up to full productivity in a reasonable time. That is, of course, assuming you are not thwarted by a hiring freeze and can find a suitable replacement.

Analysts have estimated that an unplanned defection can cost as much as four times the departing person's annual salary. At larger firms, when the total costs of employee separation, replacement, and training are calculated, it often runs into millions of dollars a year, not counting the negative impact on the work environment and productivity. And, equally important, a major share of a company's wealth is its intellectual capital – the knowledge, skills, and abilities of its employees. The cost can be enormous when top talent leaves – especially, as often happens, to join a competitor's firm.

## NEW PARADIGM: SELECTIVE RETENTION

The current generation of employees has higher job expectations that go well beyond salary. These individuals want flexibility and a chance to demonstrate their talent through their work. And if they are not satisfied, they can and do move on. Generation-Xers (people born between 1965 and 1981), a major component of today's workforce, are characterized as having a unique set of job requirements:

- jobs that are exciting, engaging, and support a mission they believe in
- minimal layers of bureaucracy and a free flow of information
- supervisors who are interested in their work and communicate regularly how they are doing
- assurance that their ideas and values are reflected in the corporate culture and that they are making a contribution
- freedom to make quick decisions, to be accountable for them, and to try new things that can make a difference
- a work environment in which they can grow professionally and thrive intellectually

## RETENTION IN PERSPECTIVE

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The more friendships your valued employees develop and the more interpersonal support they feel, the more likely you are to retain them. The old goal of human resource management – to minimize overall employee turnover – is steadily being replaced by a new goal: to influence who leaves and when. An apt analogy might be a dam, which enables you to control the speed and direction of out-flowing water without stopping it.

A “market-driven” retention strategy begins with the assumption that long-term, across-the-board employee retention is neither possible nor desirable. The focus shifts from broad retention programs to efforts targeted to particular individuals or categories of employees. Prudential’s approach, for example, is to integrate recruiting, retention, and training efforts through a sophisticated planning model that projects its capability requirements and attrition rates. Such an approach enables a company to honestly assess how long it would like employees to stay and then apply variable retention efforts for different categories of employees (see “Retention Tools/Best Practices” on page 6).

Apply retention practices selectively to keep the best and most desirable employees while taking account of the level of demand in the marketplace for people with the skills they represent. But remember, no matter how pleasant and rewarding you make the work environment, attractive opportunities and aggressive recruiters will take their toll.

## WHY EMPLOYEES LEAVE OR STAY

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The notion of lifelong employment with one company no longer holds the appeal it once did. It is not uncommon for employees to change jobs and companies every few years. In reality, only a small fraction of turnover is truly undesirable: those cases involving your highly skilled, difficult-to-replace employees. While management may find it useful to classify employees as *must keep, like to keep, okay to lose*, factors such as unions, tenure, and morale may interfere with a strategy based on selective retention. There are many reasons for voluntary turnover, including the following:

- poor direct supervision
- uncompetitive compensation
- unpleasant physical working conditions
- unpleasant interpersonal working conditions
- high stress
- monotony

Such sources of job-related dissatisfaction can be used as powerful predictors of turnover, enabling you to head off problems in advance. Telling prospective employees about possible negative aspects of the job, for example, can eliminate some of the turnover caused by poor job fit.

### STRATEGY OPTIONS

Companies with the most enviable retention records create a work environment conducive to attracting and holding onto talent and motivating it to achieve high levels of productivity. Their retention strategies begin at the time of hiring and continue through termination. A comprehensive approach involves assessing the current situation, measuring turnover and retention costs, evaluating retention programs, and planning for expected turnover and a changing workforce culture.

It is important to recognize that yesterday's successful techniques may be outmoded today and disastrous tomorrow. One of the new, hard-learned lessons is that you cannot treat everyone the same. Every new employee brings a totally new set of expectations, needs, and problems, requiring more time and skill from managers.

### RETENTION TOOLS/BEST PRACTICES

Following is an overview of the most effective retention tools now in use. Any combination of these tools may support your retention efforts.

1. **Pay/Compensation:** Compensation is the retention tool considered first. Although most companies use "golden handcuffs," the countermeasure of "golden handshakes" keeps the game interesting. Paying these signing bonuses in stages rather than in a lump sum can keep top talent, especially executive-level hires, in place over the short run.

Compensation can be used as a lever to influence who leaves and when. Some companies are paying special "hot skills" premiums to keep key talent on board during critical periods. Of course, the premiums end as soon as the skills become readily available in the marketplace or cease to be as important to the employer's business.

## WHY EMPLOYEES LEAVE OR STAY

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Lincoln Electric creates partnerships with employees by giving them access to all corporate financial information and sharing the good and bad times through bonuses structured for every worker.

While a competitive salary is necessary to keep the stars, you have to be prepared to do more in the current environment. You need to be flexible, tailoring compensation packages to individuals. This demonstrates another company attribute prized by today's best workers: a clear recognition of employee value.

Compensation schemes that are at least partially tied to performance are an excellent way to motivate employees to achieve specific goals. Employees need to see a direct connection between their bonuses and their accomplishments and to believe that the standards by which they are judged are fair.

One benefit that almost everyone ranks highly is retirement savings plans (e.g., 401K plans), which serve as a powerful retention tool.

- 2. *Opportunities to Learn New Skills:*** Talented workers will leave if they do not see opportunity, recognition, and nurturing. Training, the chance to learn new skills and grow on the job, provides strong retention incentives. Employees want to make a real contribution with the work they do, and providing them with training in targeted skills enables them to do so. With well-planned training and development, employees are better able to influence decisions, work cross-functionally, and enjoy success. Developing employees' skills is vital.

Mentoring programs foster a learning environment and provide employees with confidantes and advisors. Employees with mentors may receive career guidance, project assistance, and corporate culture advice not easily obtained from a manager or other sources. This translates into increased satisfaction and productivity early in a new job and helps head off some key retention issues.

- 3. *Respectful Treatment:*** Employees who do not feel they are being treated respectfully or appropriately will leave. At Lincoln Electric, the president uses the same cafeteria and lavatory as employees, is accessible to them, and does not earn exorbitantly more than they do. The message is that each employee is as important as the president.
- 4. *Recognition for a Job Well Done:*** Research shows that a key reason people quit their jobs is lack of recognition and praise. Reward and recognition are critical components of the manager's toolkit. They are fundamental in creating a work environment in which people enjoy what they do and feel as if they have a worthwhile purpose and are reaching their potential. This requires time, skill, care, and willingness to try something different; it requires leadership. A recent study by Dr. Gerald Graham at Wichita State University of 1,500 employees found that the most powerful motivator was receiving personal congratulations from their bosses. Yet only 42 percent of the study's participants said their companies recognized them in this way. To the extent that this finding is representative, there is much room for improvement. Bob Nelson, author of

*1001 Ways to Reward Employees*, comments that recognition awards do not have to be expensive but they do have to be timely and appropriate. Examples include the following:

- a personal thank you note
- doing the employee's least favorite task for a week
- a day off
- lunch with a friend at the company's expense

### 5. *Type of Work:*

***Job Design.*** Jobs can be designed in such a way as to influence when people will leave. For example, junior analysts at one Wall Street firm were told they would have to leave after three years. The predictable timing made planning easier. In such cases, if people leave before their stints are over; it looks bad on their résumés.

***Job Customization.*** In addition to shaping jobs for particular categories of employees, companies can customize them to the needs of individuals. Prudential gives employees tools to examine their own interests, values, and skills. It encourages managers to tailor rewards, benefits, and assignments to individual requirements. A part-time arrangement might satisfy one employee's desire to pursue outside interests or meet a parenting need, while tuition reimbursement might be the key to satisfying another. Some companies use cafeteria-style programs to allocate benefits, often using credits based on how valuable the employee is to the company. Giving greater benefits to those with critical, difficult-to-replace skills is consistent with current practices. Flextime arrangements, which allow employees to design their own jobs, are increasingly popular.

***Location.*** Carefully selecting work sites for various groups of employees can also influence retention rates. You might choose a location where critical skills are not in high demand (e.g., a rural area). People may be reluctant to move to the new area at first, but may find it difficult, once settled, to pull up stakes and leave.

6. ***Social Relationships:*** Loyalty to companies may be disappearing, but loyalty to colleagues is still a potent force. By facilitating the development of social ties among employees, companies can significantly reduce turnover among those whose skills are in high demand. One company established golf leagues, investment clubs, and softball squads, creating a social community whose ties were difficult to break.

This strategy does have one major potential drawback: the trauma of any eventual restructuring becomes all the more intense and disruptive. Creating strong ties among employees who are likely to become less vital to a company in the near future may be unfair and inappropriate. You can achieve a similar bonding effect without the long-term complications through teams. By forming closely knit teams to carry out particular projects, companies can increase the likelihood that members will remain intact for the length of the initiatives. People who would not hesitate to abandon the company may find it very difficult to walk out on their teammates. Teams also increase members'

commitment to seeing the job done well. In fact, such short-term relationships often create a higher level of commitment than long-term relationships.

7. **Advancement:** Advancement opportunities are a basic ingredient for holding onto talented employees. Today's organizations are flatter, with even less room at the top than before. Companies must establish a variety of lateral career tracks, so employees can see there are attractive opportunities that do not require climbing a ladder.
8. **Job Fit:** When companies recruit, they often focus on attracting precisely those people who will be the most difficult to retain. By shifting their sights to workers who can do the job but are not in high demand, you may be able to create a buffer against market forces. One company hires about a third of its assemblers from high-risk applicants (e.g., welfare recipients, former drug addicts, and people with criminal records) and eases them into the discipline of factory routine. The result is a hardworking pool of employees who are grateful and loyal to the company for giving them a chance. By hiring less-gifted workers, this company has reduced conflict among high-powered individuals and gained a more committed workforce. Management must listen to wants and needs, and employees must be able to communicate what they require in a position if retention is a major issue.
9. **Work-Life Balance:** Most of today's employees refuse to let work dominate all their waking hours. As a result, many employers have developed programs that help employees achieve work-life balance, thereby reducing a potential source of job dissatisfaction. Following are some examples of these programs from a survey of 1,000 companies:
  - Many companies allow employees time off to attend school events.
  - Half allow employees to stay home with mildly ill children without requiring them to use vacation or sick days.
  - Two-thirds permit flextime, adjusting work hours daily.
  - Thirty-three percent offer maternity leave of more than 13 weeks.
  - Twenty-three percent offer elder-care resources and referral services.
  - Forty-four percent hold supervisors accountable for sensitivity to their employees' work-life needs.

Other work-life balance benefits companies offer include child-care assistance, convenience to home and ease of commute, household-chore assistance, wellness and fitness centers, sabbatical programs, telecommuting, and social events.
10. **Job Security:** Although it less important than in the past, job security remains a potent retention factor for many employees. A model in this regard, Lincoln Electric takes a long-term view of employment, with a no-layoffs policy and no base salary. Instead, the company uses pay for performance plus a profit-sharing bonus. This strategy has paid off in extraordinary loyalty, low turnover, and high productivity. Recently, when earnings fell sharply, the company shortened the workweek instead of resorting to lay-offs.

### MINIMIZING THE EFFECTS OF HIGH TURNOVERS

There are many ways for organizations to adapt to high turnover, including the following:

- Simplifying and standardizing jobs and cross-training employees make companies less dependent on any one individual or group.
- Periodic rotations to different areas or functions serve a similar purpose.
- Organizing work around short-term projects with clear end points can make turnover easier to manage.
- Companies that can focus retention efforts on keeping employees just until a project is completed find it much easier than building long-term loyalty.
- Information technology can also help employers cope with turnover by storing and preserving some of the institutional memory defecting employees would otherwise take with them.

## THE ROLES OF THE ORGANIZATION & THE MANAGER

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Viewed in its simplest terms, retention is the result of good, employee-centered management practices. You need to create a situation in which the value to the employee of staying outweighs the value of leaving. Job descriptions, recruitment, selection, and orientation are the foundations of retention, established and coordinated at the organizational level.

Beyond this, management must communicate the truth to employees no matter what. Communications should include announcements of employee achievement and individual or team successes.

An employee's relationship with his or her boss is often said to be the single most critical factor affecting retention, with ineffective managers being the biggest cause of high turnover, low attendance, and low morale. Most often, it is not the company that the employee quits but the manager. Employees will tolerate eccentricities in an excellent manager but flee from a poor one. You must take a long, hard look at what you may be doing to trigger unwanted turnover and how to avoid it.

It is critical to acknowledge and accept your accountability for managing the factors within your control to help retain your most valued employees. Managers often tend to abdicate their critical role in retaining top employees in the belief that the key retention strategies are money, benefits, and perks – corporate policies that are out of their hands. In addition, they often fail to recognize the link between employee and client retention, which has a direct impact on the bottom line.

The manager's ongoing goals should be to

- 1) understand why employees have joined the organization;
- 2) understand the main reasons employees stay;
- 3) remove irritations;
- 4) create a visible set of appealing career paths; and
- 5) use incentives and rewards tailored to the individual that support the organization's strategic objectives.

By gaining insight into the reasons why employees, in general, join the organization, as well as the motivations of individual employees, you will be able to guard against the erosion of these pivotal factors. Most managers think about retention only after they receive a resignation notice. Avoid the arrogance reflected in the attitude that "employees should be grateful to have a job at such a fine company."

The company can have the greatest impact on the situation when the employee first begins to think about leaving, but this point in time is rarely recognized early enough. It is critical to identify and address potential retention issues before they arise and to identify at-risk employees early enough to do something about it.

## THE ROLES OF THE ORGANIZATION & THE MANAGER

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Look for the symptoms. People at risk of leaving begin to withdraw from others and reduce participation with team members and fellow employees inside and outside of work activities. Productivity may begin to decrease, and work hours may begin to fluctuate or suffer. By taking proactive steps in response to these symptoms, you may reduce some turnover. Sometimes a simple gesture by the manager and some effective listening may be all that is needed to turn the situation around and head off the defection of a valued employee.

To find out why people are leaving or considering leaving, perhaps you simply need to ask them. One important question is, “What are you looking for that you’re not getting here?” If you can explain the employee’s value to the company, he or she might decide that the current position is actually the better one.

### ESTABLISH A MOTIVATING ENVIRONMENT

Managers have the primary responsibility for creating a motivating environment. Following are some useful techniques:

- Explain the “big picture.”
- Provide feedback on performance.
- Make sure employees understand the company’s expectations.
- Involve them in decision making.
- Listen to their ideas and suggestions.
- Give employees freedom to do the job without too many restrictions.
- Offer reimbursement or classes for new skills or improving on old ones.
- Provide coaching or mentoring.

Sometimes, despite a manager’s best, most sensitively devised efforts, outside factors intrude or totally overrun the situation, as happened on September 11, 2001.

### THE AFTERMATH OF SEPTEMBER 11

While the lingering threat of terrorism and its long-range impact on HR policy are still evolving, we can make a number of tentative observations.

1. The events of September 11 have apparently created new insecurities in people who were stable in their positions, as evidenced by people who have refused to return to jobs in downtown Manhattan or work in high-rise buildings. This phenomenon is probably being experienced more intensely in and around New York City, Washington, D.C., and Oklahoma City, but other urban areas are keenly aware of a new vulnerability.
2. It is also likely that the “9/11 syndrome” has exacerbated old or existing insecurities in others who were less stable in their jobs, including those who have never fully adapted to urban work environments, and promoted the feeling among some that there are no “safe havens.”

3. Work-life balance has become more of an issue. People, in growing numbers, are seeking to spend more time with family and demanding a clearer demarcation between work and personal pursuits.
4. People directly and indirectly affected by the events of September 11 are likely to experience a negative impact on work attitudes and productivity.
5. After its initial surge, and subsequent trailing off, telecommuting is now experiencing a resurgence of interest.
6. Increased security precautions take their toll in the form of depleted resources, lost time, and new inconveniences (e.g., check-in lines and logbooks, metal detectors, etc.).
7. More polarization of opinion on political and ethnic issues might be expected to create more contentious work environment dynamics.
8. The “reluctant economy” has left people reluctant to leave jobs they might have bolted from in a more forgiving economy. With downsized organizations the norm, “survivors” are having to pick up the workload of the departed without the recompense of raises or bonuses to ease the added burden. There is a spreading feeling of being taken for granted or – in the extreme – being taken advantage of. When the market finally does turn around, many of these “postponed” exits will take place, exacting a real toll on the companies that have not maintained a retention mindset and program.

***“Survivors can’t continue to do the work of multiple people over a long period of time”...***

**Dennis McCarthy, *The Loyalty Link***

## RETENTION IN A NUTSHELL

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Although it shifts back and forth in the priority spotlight, retention remains a major issue within corporations as employers perennially struggle to keep the best and the brightest of their employees and reduce costly turnover. Employees are increasingly demanding a better balance between work and personal or family life. They are not as willing to sacrifice everything for their careers and their employers as in days past. Lifelong employment with one company is no longer a desired or necessary option for many employees who are continually searching out the best benefits, culture, and work environment. Many of these trends have been magnified and reshuffled as a result of the events of September 11, the ongoing war on terrorism, and the cyclical fits and starts in the economy. While solutions, in most cases, need to be tailored to individual star performers, the broader imperative is to do more – and do it more effectively – using the retention strategies and tactics that have worked in the past.

With turnover costs running as much as four times a person's salary, corporations must make retention of top employees a priority and address the retention issues of employees in order to remain competitive in the marketplace. To retain top employees, companies must have an effective and comprehensive retention strategy that addresses four key components: effective management, career development opportunities, work-life balance, and compensation and recognition. The cultural value underlying these elements must be a palpable concern for each individual employee. Managers who accurately apprehend why their employees originally signed on and what keeps them engaged are well positioned to retain them. Organizations and managers that attend to these factors and make concerted efforts to address them with corporate programs and enlightened management will retain key employees, reduce costly turnover, and help themselves remain competitive in the marketplace.