PERSONNEL NOTEBOOK

For Your Most Important Resource—The Human Resource

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EMPLOYEE RETENTION AND TURNOVER !

Two Sides Of The Same Coin

Turnover may be your most expensive problem! The process of replacing lost employees is actually putting some companies out of business. Currently the focus has been more centered on the opposite side of the "turnover" coin. When you turn that coin over, you find "retention" the solution to turnover. So, first let's review turnover and then let's talk about retention.

I. TURNOVER

A few years ago, a Vice President of Operations for a manufacturing company asked us to take on a project. "I submit to you," he said, "that high employee turnover is a good thing. It keeps our wage costs lower by employing a lot of entry level people who leave before their wages get too high; new employees tend to work harder to prove themselves; we don't have to have as many promotions and it weeds out a lot of people we probably didn't want anyhow. I want you to prove me right or wrong. I want you to start by telling me the dollar cost of our turnover."

To perform this project, we measured the:

Cost of recruiting: Newspaper ads, agency fees, related travel expenses, even the time it took to post the jobs and make out all the related paperwork.

Selection costs: Interview costs, the hourly wages of those doing the interviewing and of the secretary who typed the offer letters, the interview lunches, testing, reference checking, physicals and the related paperwork.

On the job costs: Creating the employee file, orientation, training, extra monitoring, extra inspections, increased material waste and a measurement of the learning curve (the slowly increasing rate of productivity until the job is learned).

Separation costs: Time spent on grievance procedures, employee counseling, warning notices, exit interviews and the separation process.

What we did not measure was the loss of profits that might have been generated by a productive employee, the effect on the work of other employees who did not receive the needed support, or the effect of lower morale in supervisors and employees frustrated by the lack of qualified workers. Also not measured was the cost of court cases and equal employment opportunity (EEO) charges related to terminations. If these had been measured, the costs may have doubled.

The results of the study were reported at an off-site meeting. In this company of approximately 2,000 employees, the turnover rate was 18% annually. The total dollar cost of this turnover was slightly under $1 million per year! Coincidentally, at that same meeting it was also reported that the company had missed their annual profit target by $1 million!

With the current labor shortages of trained workers in the work force, it seems likely that some companies could go under from the effect of turnover. In this workers' market, you can't always buy your talent on the street, you're going to have to grow some of your own. You will have to control and reduce the turnover of employees. Once you have recruited them, trained them and managed to get them working efficiently, you don't want to lose them.

WHAT IS TURNOVER?

Turnover is the process of employees leaving the company's workforce and the intended replacement of those employees. Turnover is calculated in the following manner: The number of employees who terminated during the month divided by the average number of employees on the payroll that month and multiplied by 100. (# of terminations divided by the # of employees x 100 = rate.) So a company that employed 156 employees (on average) during the month and lost 19 of them, (19 divided by 156 x 100 = 12.2) has a turnover rate of 12.2% per month. This is how the Department of Labor calculates turnover by industry. For an annual figure add the total terminations for the year and divide by the average number of employees for the year and multiply by 100. If our company in the example above lost 19 employees every month and the average number of employees stayed the same for the year, we would have lost 228 employees out of an average of 156 employees (228 divided by 156 x 100 = 146) for an annual turnover rate of 146%. Another good way to calculate the annual rate is to simply add up each monthly percentage rate. The total for each month will equal the annual rate.

Probation

Management is always on probation with the workforce.

WHY CALCULATE TURNOVER?

Turnover should be calculated regularly so that you can determine why it's occurring and what to do about it. Do your calculation not only for the total company but by department. Which department is losing the most employees?

Further, measure turnover for other comparisons, such as age groups, sex, job type, supervisor, pay level, length of service, work shifts, etc.

A railroad client, some years ago, determined that their turnover rate was highest among employees during their fifth year of employment. They responded by allowing every employee one bonus week of vacation after their fifth year, only for that one year. Turnover rates improved dramatically. By using specific measurements you can pinpoint the problem and respond accordingly.

WHAT CAUSES TURNOVER?

First let's recognize that not all turnover is caused by employment problems. Some turnover is caused by retirements, military service or death. Some turnover is good and may be part of the weeding out process and some may create opportunities for promotion of other employees. But we want to concentrate on what we can do to improve turnover.

Certainly part of the reason for turnover may be that you're hiring the wrong people. This may be caused by:

- hiring under-qualified people
- hiring over-qualified people
- hiring people without determining qualifications sufficiently
- mismatching employees to jobs

If you hire people who cannot perform the work, be prepared to train them properly. And remember the old craftsman's warning, ''You can't make a profit from a training program, but everyone tries.'' Don't try to perform a job with

50% of the people in training. Either the training or the job will suffer.

If you hire those workers with the best education, best grades, best records and best test scores, be sure you have the kind of job that will keep them challenged and developing. Fast trackers need a fast track.

If you just hire bodies without matching the job characteristics to the applicants' characteristics, you will certainly lose more people.

A study by General Electric showed that turnover in non-exempt employees is highest during the first 90 days of employment. They cited three reasons for this:

1. feelings of isolation from the work group and social groups at work
2. discouragement in learning new tasks
3. employee did not adjust to physical surroundings.

Certain groups show higher turnover rates than others. Turnover rates are <u>highest</u> in:

- younger workers
- women
- recent students with high absenteeism in school
- high-tech workers, all levels.

Turnover rates are <u>lowest</u> in:

- older workers
- immigrants
- workers re-hired after leaving.

Keep in mind that older workers are motivated by different things than younger workers. People over 50 tend to be motivated by security, steady pay and the likelihood of continued employment. People in their 20s are more motivated by bonuses, training, development and higher pay for better work. Everyone is motivated by praise and respect, especially from the boss.

A review of exit interviews over many years indicates that employees often give the following reasons for quitting:

- **Bad supervision**. An Illinois study showed that 40% of all terminations were related to the supervisor.

Praise from the boss may be the strongest motivating force in the civilized world. A congratulatory note or call takes 30 seconds. The employee who receives it will remember it forever.

- **"I'm going nowhere here."** No training or development.
- **Pay inequities**. Hiring new, untrained employees at the same rates as existing, experienced employees. Employees are *very* sensitive to pay and promotion inequities.
- **More money**. Generally speaking, no one leaves for less money, but a common occurrence is for companies to pay a competitive salary to start but after employees are experienced and trained, the pay doesn't keep up with competitive rates. That's when other companies steal them now that they're experienced. "You grow them, they pick them."
- **Retirement plans** are often designed to encourage early retirement.
- **Stress** and burnout.

WHAT IMPROVES TURNOVER?

People tend to stay longer where they feel a sense of partnership with the boss instead of subordination. If layoffs are necessary, you might negotiate a shared work week where all employees work 30 or 32 hours a week until things pick up.

Creative employees need variety, while some employees crave a non-changing stability. Identify those differences.

When the big rush is over, allow employees (particularly non-overtime paid exempts) a break instead of a continuous string of stress-inducing rushes.

Conduct performance reviews of your employees. Let them know the good and the bad of their performance. Work with them to improve. Allow more employee decisions and freedom to act. Delegate authority not just jobs.

OBSERVATIONS ON TURNOVER

- Turnover often means that ambitious employees leave, average employees stay, bad employees are improved or removed.
- You can seldom buy back an employee who has decided to quit. Most employees who quit and are convinced to change their minds and stay, will still quit within six months.
- Absenteeism is a good predictor of turnover. When absenteeism increases, turnover will usually begin increasing.
- Although many entry level jobs pay $5.15 per hour to $7.00 per hour, the Federal poverty level for a family of four is approximately $12.50 per hour. Workers with families won't work at that level for long.
- People want to work to the full extent of their ability. A University of Chicago survey showed that more than 50% of workers would not stop working if they became independently wealthy.
- Early retirement is on the rise. The average retirement is now at age 61. However, 1/3 of all retirees return to a full-time job within 18 months, often with your competitors!
- Women and men are willing to work for less money if the job is flexible enough to accommodate a personal and family life. A survey at Dupont showed that half of all the women and one quarter of all the men who have children would change jobs for one that paid less if it would allow them to spend more time with their families.
- A common mistake is that employers don't believe that their employees can be trained or developed, but do believe that the next stranger they hire will walk on water and wave magic wands. That's why they don't keep their employees' wages competitive, but are willing to overpay the new employee.
- One interesting study indicated that turnover may be affected by the source used to recruit the employee. Accordingly:

  Turnover is highest among recruits coming from:

  - Newspapers
  - State employment agency
  - All other employment agencies

  Turnover is lowest among recruits coming from:

  - Employee referrals
  - High school or college referrals
  - Walk ins
  - Re-hire of former employees.

    AND:
  - Older workers
  - Immigrants

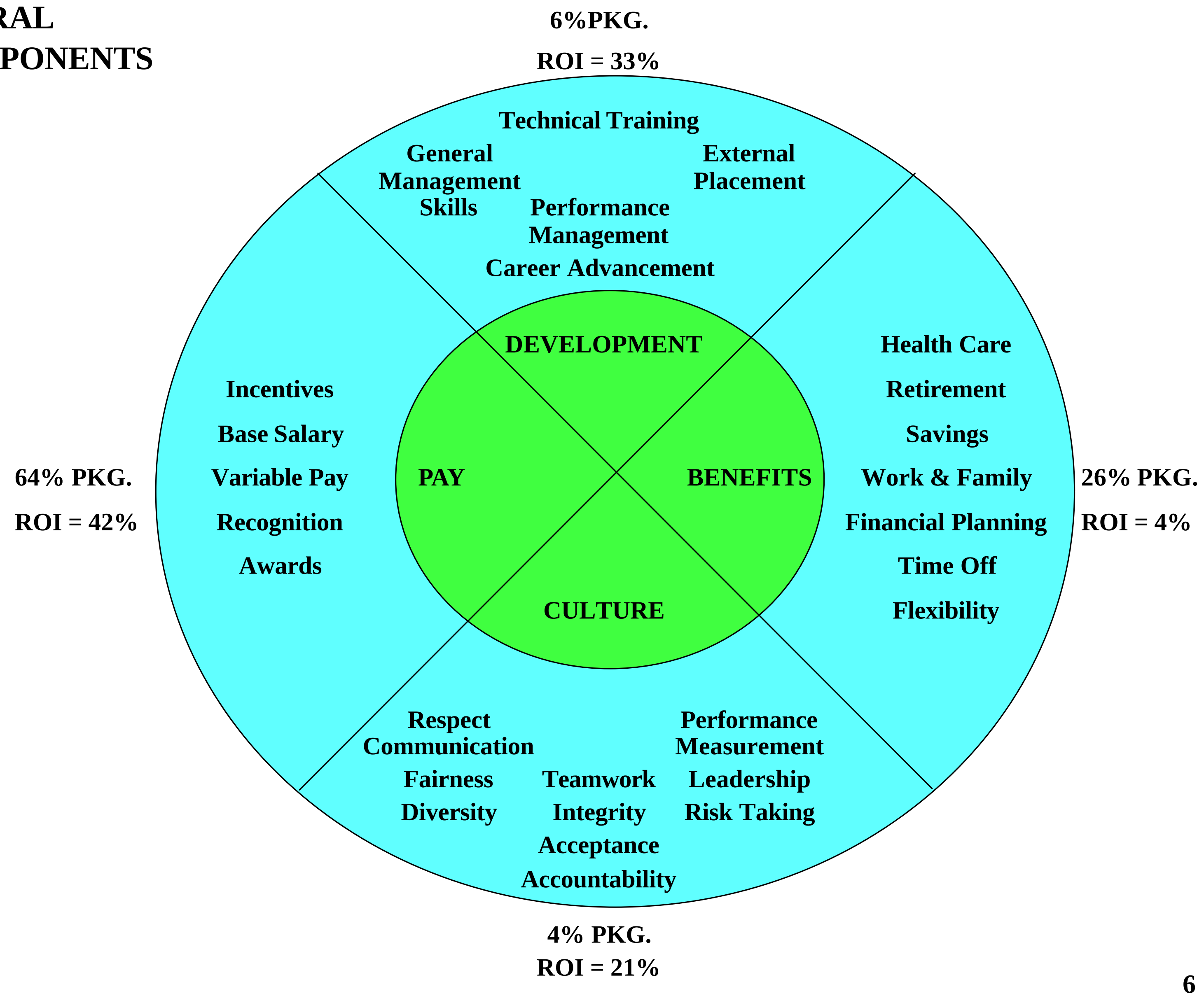
TOP 10 THINGS PEOPLE WANT IN THEIR JOBS

1. WORK WITH PEOPLE WHO TREAT ME WITH RESPECT.
2. INTERESTING WORK.
3. RECOGNITION FOR GOOD WORK.
4. FAMILY TIME CONSIDERATION.
5. CHANCE TO DEVELOP SKILLS AND CAREER.
6. WORKING FOR PEOPLE WHO LISTEN TO MY IDEAS ABOUT HOW TO DO THINGS BETTER.
7. SEEING THE END RESULT OF MY WORK.
8. WORKING FOR EFFICIENT, SUCCESSFUL MANAGERS.
9. A JOB THAT IS NOT TOO EASY.
10. FEEL WELL INFORMED ABOUT WHAT'S GOING ON.

PUBLIC AGENDA FOUNDATION

TOTAL REWARDS

A GOOD BALANCE AMONG SEVERAL REWARD COMPONENTS



Companies are reporting that the following items have successfully improved their turnover rates. Some may apply to your company.

- Employee stock plans
- Savings plans/401(k)s
- Employee purchase plans
- Supervisory training (in management and human relations skills)
- Orientation programs for new employees
- Employee recognition programs
- Quality circles (small groups given more freedom and authority in job decisions)
- Training and development programs.
- Day care assistance
- Flex-time
- Credit Unions.
- Regular social functions
- Supervisor clubs
- Better benefits
- Bonuses/incentives/gainsharing
- Grievance procedures.
- Open door policy
- Good employee handbooks
- Job rotation
- Training courses on stress
- Personal finance and money management training.

<u>Training</u>

If you think education is expensive, try ignorance.

<u>II. RETENTION</u>

The current myth is that employers, through their merging, downsizing, rightsizing and tightsizing, have destroyed the "unwritten contract" between employer and employee. They have ignored the "loyalty bond" that produced "the adhesive" holding the company together. In fact, that's not what happened.

Here is a first-hand account of what happened.

In the late '70s and early '80s, when IBM mainframes were flooding the market and PCs were just monitors and myths, IBM trained people to perform a specific level and type of work and then placed them in companies that contracted for that specific level and type of mainframe computer. If later the company advanced up to a higher level machine, then IBM would train, upgrade or recruit someone for that higher level equipment. It didn't take employees long to figure out that their loyalty was not with the company, but had to be to IBM. It was not you, the employer, who paved the way to the employees' future, it was IBM. So, if another company needed a newer advanced type of equipment, IBM would install it for them and then, often recruited your employees to that new company. The motivation was, "You're becoming stagnant, you've got to move up to a higher level of technology or die in your career!" This was a very successful strategy. But soon other computer companies began recruiting the same way. Then independent recruiters moved onto the scene. Thus the immense explosion of the modern day "headhunter" industry. High-tech employees then became loyal to the technology. And even now the mainframe technical masters as well as the medium tech knowledgeable person, follows the technology.

Employees will have no interest in the company's future if they feel that the company has no interest in their future.

Beyond that, employees have learned that quitting your job to pursue more money can be the way to riches, now that the stigma that short-term employment used to signify is erased. Employees can gain a standard 15% to 20% increase every time they change jobs as opposed to the 3% to 4% offered by most companies to stay. So one key way to retain employees (though not the best) is to keep pace with the technology. Employees are loyal to the technology.

The most clear messages in improving retention are:

1. Analyze the problem. Target the solution!
2. Use as many different ways to deal with the problem as necessary.
3. Don't just outbid or out pay all problems. Consider the Return on Investment (ROI) of your compensation dollars.

1. As in turnover, examine all the facts, all the data. Why are employees leaving? Check your exit interviews. Where are they going? From which departments, which salary levels, how long have they been here? Look for anything that matches and analyze that. Is something drawing them to somewhere else? What is it? Is something here driving them away? What is it? Remedy those conditions.

2. Sometimes it truly is just one problem needing one solution. But it may be many problems requiring different solutions. Try more than one. Where should you look? Start with this list of "Top 10 Things Employees Want In Their Jobs" on page five. A few surprises show up in the list. For example, No. 9, "A job that is not too easy." Good people are not excited with easy, no-challenge jobs. Also look at No. 4, "family time consideration." This modern day mantra needs to be considered but don't cave in here. Everyone wants more time off. Less work and more pay. We now know that not only do employees with no children feel resentful that they carry an unfair share of the company burden, but when employees are given more time off to spend with their families, they don't spend their time with their families. They just do more stuff! The kids stay in day care while Mom or Dad just do more stuff.

3. And where is pay? It was No. 14 on the list. There are other things that mean more to people than money. You can steal people with money, but the good ones won't stay just for money. Use a total compensation strategy. Consider this:

You pay your employees compensation in more ways than one. As a rule, you pay them in four different categories:

1. Pay. This includes base salary, variable pay, incentives, bonuses, recognition awards.
2. Benefits. This includes health care, retirement savings, work and family , financial planning, time off, flexibility.
3. Development. This includes technical training, general management skills, performance management (coaching), career advancement.
4. Culture. This includes respect, communication, fairness, diversity, teamwork, integrity, acceptance, accountability, performance management, leadership, risk taking.

How much you pay them (in each category) varies, but the amounts shown on our chart are typical:

1.Pay usually accounts for 64% of the total package

2. Benefits usually account for 26% of the total package

3. Development usually accounts for 6% of the total package

4. Culture usually accounts for about 4% of the total package.

Some good research now is telling us that we don't get back in productivity, efficiency and loyalty an amount equal to what we pay.

For example: While we might normally spend 64% of our total compensation in pay, we will get back approximately 42% return on that investment (ROI). Let's look at the circle on page 6. It shows:

If you spend:		You will get an ROI of:
Pay	64%	42%
Benefits	26%	4%
Development	6%	33%
Culture	4%	21%
	100%	100%

So, let's interpret this. If you spend 64% of your total compensation package on pay, you will get back approximately 42% return on that investment (ROI). Employees respond to pay, but not in equal proportion to what they get. This mostly means that the effect of a pay increase usually wears off soon and little direct motivation will continue.

If 26% of your compensation package is going to benefits, then you are getting about 4% ROI. This means that employees are not highly motivated and do not respond to benefits increases with higher productivity, efficiency or morale. Employees tend to take benefits for granted as freebies. Most employees can't tell you what their benefits are.

However, if your total compensation package has 6% going to development, you will see about 33% ROI. So, for a little investment (6%) in development, you should see much greater return (ROI) of productivity, efficiency and morale. That's because employees don't normally expect to see a lot of concentration here but it relates so close to the top 10 things employees say they want. It also includes things that mean career advancement and future potential.

Further, if your total compensation package has about 4% going to culture, you should see about 21% ROI. Another great investment. Employees want to stay and work in this kind of environment. It must include responsibilities, accountability, as well as the respect inherent in such a culture.

So should you cut wages to the bone and pack money into culture and development? Of course you'll go out of business if you do, but you do want to invest some of your total compensation package into those areas, not just pay.

12 THINGS YOU SHOULD DO NOW

1. Prepare a strategic plan or a workforce plan that will forecast the number of people you will need to hire for the next year. Consider how much turnover you will have to replace, new jobs you will have to fill and growth you expect to experience.

2. Do an exit interview on every employee leaving the company. Do them on a preprinted form and file them. The results of one exit interview are seldom a reason to react with changes, but over a longer period certain trends will develop that you should analyze.

3. Do employee surveys to identify and understand employee attitudes and concerns. Always let employees know the results of the survey and what your response is going to be.

4. Identify the personal characteristics as well as the technical qualifications of the job to be filled. Does this job have to motivate people or solve people problems? Then look for a people person. Does this job require a loner, a single individual thinking and solving problems?, Then don't look for a people person, look for an analytical loner. Identify the important characteristics of the job. Then identify the characteristics of each candidate and match them up.

5. Target your actions to the results of your findings. What is the main cause of your turnover? What other problems are causing significant turnover to which you can respond?

6. Review your retirement programs. Are you encouraging or leading employees to retire early? Someone is likely to hire them after they retire from you. Can you use them? Retrain them? Use them as trainers?

7. Train your supervisors in good management skills, people-motivating skills and employment regulations. Your first line supervisor is your main representative. He/she can make or break your company.

8. Don't be too quick to terminate an employee. These are the men and women you have chosen to work with. Try to be a mentor to them. Help to identify the problem, listen to what they have to say. Decide how to help them adjust. Be a coach, not a cop!

9. Use an employee grievance procedure. Allow employees an open ear and an opportunity to air their problems or misunderstandings. Don't combat them; work with them for a solution.

10. Try to create a workplace where employees want to work, where they can be part of a partnership. Give them decision-making opportunities and freedom to act.

11. Recognize employee success; let everyone know when someone does well. Discuss in confidence any problems. Praise employees when appropriate. Issue certificates of accomplishment. Present awards for achievement.

12. Improve communications. Use an employee orientation program the first day on the job. Give your employees an employee policy handbook. Talk openly and freely to employees. Let them know what's going on. Accept the fact that it's their company, too.

Studies in 1999 show that employees respond more favorably (with loyalty and productivity) to cultural and environmental rewards than they do to benefits or even pay! Dollar for dollar, you get far more return on your employee investment when you offer development, training, freedom to act, respect, authority, recognition, participation, etc., than you do for improvements in benefits and pay.

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