Employee Retention in a Recovering Economy

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Does your organization have a retention strategy? Finding and hiring good workers is always a challenge — in good and tough economies. But the greatest challenge for many organizations is retaining their best workers, in whom they have invested time and resources.

Retention is important now

Although many employers understand why retention is a key factor for organizational success in a good economy, it is not seen as important in tough economic times when jobs are scarce. In this economy, no one is going to voluntarily leave — right? Not according to the data:

- 43 percent more employees were laid off in 2008 than in 2007
- Unemployment rose to 7.2 percent
- However, voluntary resignations in 2008 fell by only 11 percent, meaning an employer's chance of losing a good worker was still 89 percent as strong as it was in 2007 when the economy was robust

Good workers leave because they are able to leave — even in a tough economy. In 2008, organizations had three times the number of applicants for job openings than in 2007, so organizations could be very selective about whom they hired. Even in this highly competitive employment environment, workers with a strong work ethic and superior skills consistently found jobs.

Without a retention strategy, organizations can lose the very employees who keep their business strong and productive — in good and bad times. After layoffs, the remaining employees may be primarily average and below-average performers who — hang on for the pay and benefits and — and because they cannot go elsewhere — so organizations may be operating at lower profitability and productivity levels.

Recent data indicates that:

- Hiring is up on an annual basis for the fifth month in a row: 45.8 percent of manufacturing firms will be adding jobs and 51.7 percent of service firms will hire in March — the highest since July 2007
- Recruiting difficulty is on the rise — up from March 2009
- As the economy continues to improve, organizations must have a retention strategy to be competitive.

Key aspects of a retention strategy

As the economy improves, the best workers will be "courted" by organizations. Employers must rely on certain strategic HR practices and activities to retain their good workers. These include:

Data tracking and analysis

Companies need to know if they are retaining their best performers. It's important to measure turnover overall and by subgroups to determine which employees are leaving and the reasons why, and to target retention efforts.

Subgroups must include:

- Length of service
- Age
- Protected class status
- Performance appraisal rating

Understand why employees stay, using tools such as:

- Employee satisfaction surveys
- New hire or "onboarding" surveys
- "Stay" surveys

Strategic recruiting

Retention starts with hiring employees:

- With the right competencies
- Who are motivated to use those competencies
- Who fit the organization's culture

Companies using a person-organization fit strategy average 17.1 percent lower employee turnover, 7.5 percent higher revenue growth and 6.1 percent faster profit growth. Activities include:

- A recruitment "branding" strategy
- Competency-based selection practices
- Behavior-based interviewing

A structured new hire orientation

Companies with structured onboarding processes may realize a 31 percent improvement in new hire retention, a 24 percent decrease in time-to-productivity and a .4 percent increase in market value.

Two-way communication channels

Two-way communication between employees and management is a major source of job satisfaction and retention. Activities include:

- Open-door communications
- User-friendly employee handbooks
- Retention-focused policies and procedures
- A retention culture

Companies that provide a family work environment and support employee involvement average 15.1 percent lower employee turnover, 11.5 percent higher revenue growth and 3.9 percent faster profit growth. Activities include:

- Flexible work schedules
- Telecommuting
- Support of work-life balance

Strategic performance management

Strategic performance management practices improve retention and can add 4 percent to an organization's market value (Watson Wyatt). Avoid spreading salary increases evenly; raise the performance "bar." Activities include:

- Pay linked to performance
- Poor performers coached to improve
- Timely performance feedback and performance reviews

Strategic compensation and benefits

Surveys show that nine in 10 workers who voluntarily leave do not leave for pay. However, they may leave because of inequitable or non-competitive pay and benefits. Compensation and benefits need to be fair, competitive, consistent, clearly understood and based on up-to-date job descriptions. Activities include:

- Pay linked to business strategy
- Retention bonuses for excellent performers
- Supervisors' compensation linked to retention
- A choice in benefits
- Early eligibility for benefits

Employee development

Investments in employee career growth and training yield significant returns on employee retention. Activities include:

- Career counseling
- Rotational job assignments
- Succession planning

Supervisory training

Employees do not leave jobs, they leave supervisors. Effective, consistent supervisory feedback was among the five top predictors of retention.

No cost/low cost rewards

Thirty four percent of employees leave due to lack of recognition, resulting in low satisfaction. For every 2 percent increase in employee satisfaction, there is a 1 percent increase in retention. Rewarding all employees the same way alienates top performers. High employee satisfaction and rewarding top performers can add 2.1 percent to the market value of a company. Activities include:

- Telling employees "thank you" for a job well-done
- Spot awards to recognize good work
- Thank you e-mails from the president

Conclusion

A 2010 survey by Deloitte found that 69 percent of companies have no retention program for top talent. The 31 percent that do, will have a competitive advantage. Retention is an important strategic initiative in good and in tough economic times.