



Retaining Talent:
A Benchmarking
Study

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About the HR Benchmark Group

Development Dimensions International (DDI) understands how difficult it is to keep up with the changing face of human resources. That's why we keep track of new trends in order to keep our clients as well as the industry in general informed. Our clients, in particular, frequently ask us for benchmarking data and thought leadership on issues such as leader development, advanced learning technology, performance enhancement, workforce effectiveness, selection, promotion, and succession management.

In addition to our established methods for tracking such trends, we began the DDI HR Benchmark Group. The group is an alliance of organizations committed to sharing information and benchmarking current HR practices. These organizations, an international mix of DDI clients and non-clients, have agreed to respond to periodic surveys in order to provide current information in various areas of human resources. The organizations represent a geographical and industry cross section.

Participation allows organizations in this alliance to provide current data through our surveys, to receive the results, and to help us choose future survey topics. The approach is systematic and easy, and response and interest have been outstanding.

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Purpose

Today's growing "war for talent" is making it more difficult for organizations to keep current employees and to find qualified replacements. This study examines the challenges that organizations face with employee retention in an increasingly competitive labor market.

The objectives of this study were to:

- Benchmark retention rates, costs, and outcomes.
- Identify the reasons that employees leave.
- Determine which practices for improving retention are most effective.
- Understand how retention affects organizational outcomes.

This report is based on 745 employee responses to a retention survey submitted to 118 organizational members of the DDI HR Benchmark Group. In addition, participating organizations provided data from one HR contact. (Demographics for the sample can be found at the end of this report.)

Definition

Simply stated, retention refers to an organization's ability to keep the employees it has already hired. The opposite of retention—turnover—is another way to understand and analyze retention. Many factors can cause turnover, which makes it especially hard to benchmark.

Organizations track turnover in several ways. In its simplest form turnover can be calculated using the following equation:

$$\text{Turnover} = \frac{\text{Number of employee separations during the month}}{\text{Total number of employees at mid-month}}$$

*This equation is used by
The United States Bureau of Labor Statistics*

Employee separation occurs when an employee permanently leaves the organization for any reason. For example, an organization with 75 employee separations during the month of July and 500 employees as of July 15 (mid-month) has a monthly turnover rate of 15 percent ($75/500=15\%$). Turnover also can be calculated excluding the number of employee separations that were not under the organization's control (for example, deaths, marriages, return to school).

The causes of retention and practices to improve retention can vary dramatically over time and across jobs, geographic locations, and industries. Depending on the organization, a high retention rate can be positive or negative. For example, a low retention rate can be desirable for organizations that want to keep only their best employees, not necessarily those they consider poor hiring choices. A lower retention rate also might be acceptable if the organization is downsizing or redefining job roles that would ultimately require new talent.

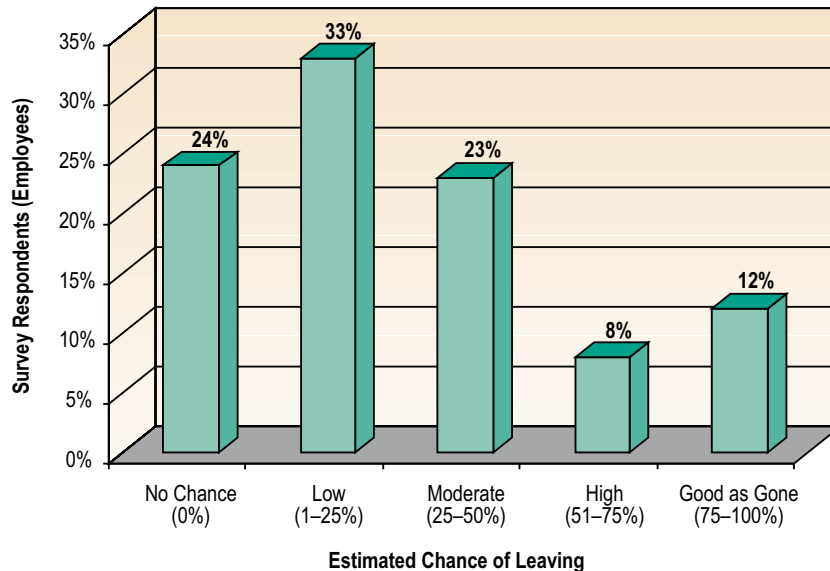
Retention Rates

We wanted to see if employees plan to leave their place of employment for another job within the next year (0%=no chance of leaving, 100%=will definitely leave). Indeed, approximately one-third (32%) of our survey respondents, on average, expect to leave in the next year (see Figure 1). Employees who estimate their chances of leaving to be 75 percent or greater (12%) are probably as “good as gone.” Gender and organizational level (managers vs. non-managers) made no significant difference regarding an employee’s intent to leave.

FINDING 1: Almost one-third of all employees surveyed expect to leave for another job within the next year. About 20 percent estimate their chances of leaving to be greater than 50 percent.

While it might not be possible to completely stop turnover, organizations can take preventive measures. If organizations identify the causes of turnover that they can control, they then can target those areas for change.

Figure 1: Employees estimated chances of leaving their organization within the next year.



On average, 36 percent of our survey respondents feel neutral about or dissatisfied with their jobs (see Figure 2). These employees have serious issues with some aspect of their job or work environment. We found a moderate but significant correlation between job satisfaction and intent to leave.¹ Employees who feel neutral about or dissatisfied with their jobs are approximately two to three times as likely to leave the organization (see Figure 3). Gender, age, and organizational level made no significant difference in terms of job satisfaction.

Figure 2: Level of job satisfaction reported by employees.

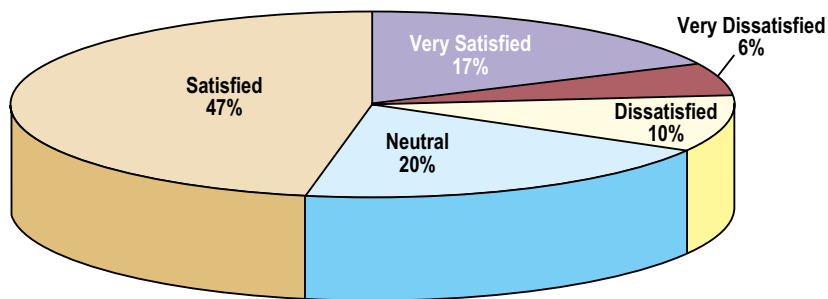
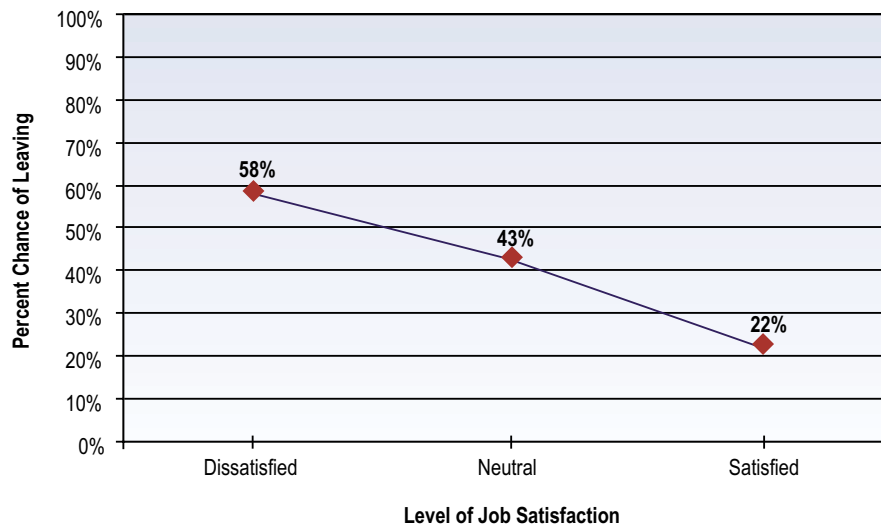


Figure 3: Correlation between level of job satisfaction and the percent chance of leaving the organization.



How much does it cost an organization when a crucial position is left vacant? What value can we place on an employee? Granted, some positions are more closely related to actual revenue figures than others. However, organizations do not run themselves; people bring in the revenue. We determined the total revenue per employee for 75 of the publicly held organizations in our sample using the following equation:

FINDING 2: One employee represents \$239,888 of an organization's revenue during a one-year period.

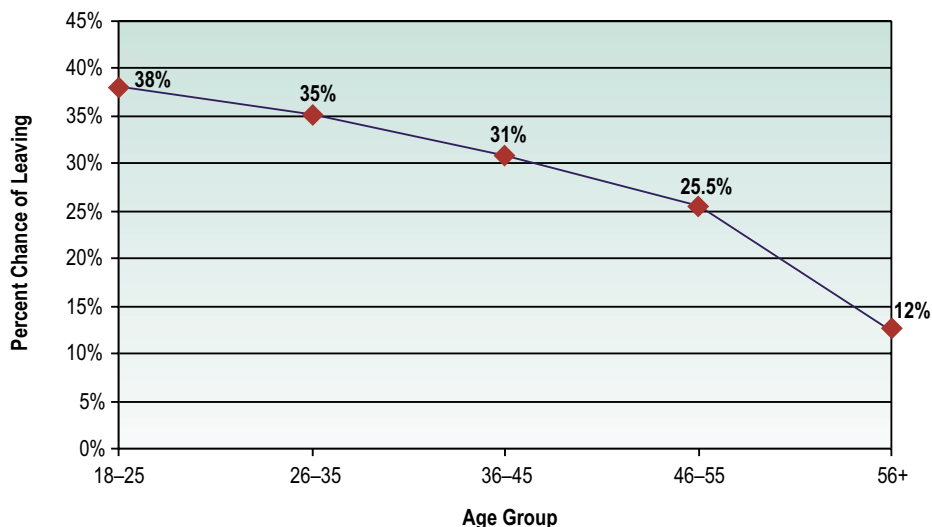
$$\text{Revenue per employee} = \frac{\text{Total revenue}}{\text{Total number of employees}}$$

Our calculations revealed that, on average, the revenue accounted for by one employee in one year is \$239,888—a significant amount. Thus, losing employees to turnover and having open positions can affect total company revenue. Every time a position becomes vacant, the organization becomes somewhat less capable of meeting its goals.

Many claim that today's younger workers have different priorities and expectations for their careers than older workers and thus are more likely to change jobs. We compared age groups and found that a greater percentage of younger respondents are indeed more likely to leave their jobs (see Figure 4). These employees might be more willing to change jobs because they seek opportunities for growth and advancement. Older workers, on the other hand, especially those closer to retirement, are more likely to stay with an organization.

FINDING 3: Organizations are more likely to lose younger employees than older employees.

Figure 4: Correlation between age and the percent chance of leaving the organization.



Organizations have a difficult time retaining their frontline and professional workers. Compared to management roles, these non-management positions typically have higher turnover rates. Assuming that managers constitute 30 percent of the workforce, the average voluntary turnover rate, for our sample, is about 13 percent. The Bureau of National Affairs maintains average turnover statistics in the United States. Their most recent reports indicate that turnover is approximately 15 percent.² Although this is not an estimate of voluntary turnover, it is very similar to the results of this study.

FINDING 4: Voluntary turnover rates are almost twice as high for non-management positions (19.3%) as for management positions (10.3%). Non-management hires also are more likely to have a lower overall tenure rate.

We found significant differences in turnover based on industry. Turnover rates for manufacturing organizations were about twice as high as other organizations (management: 12.5% vs. 6.5%; non-management: 23.9% vs. 11%). Company size, revenue, and public/private status did not appear to make a difference in turnover.

In addition to having a higher turnover rate, non-management employees have lower tenure rates overall (see Table 1). Their low tenure might be driven in part by their willingness to change jobs more often. Also, non-management positions tend to be filled by younger workers, who are associated with lower tenure.

Table 1: Tenure in management and non-management positions.		
	Management Positions	Non-Management Positions
Less than 1 year	0.9%	3.7%
1–2 years	4.5%	13%
3–5 years	30%	39.8%
6–10 years	38.2%	25.9%
11–15 years	16.4%	7.4%
More than 15 years	10%	10.2%

Last year, the number of organizations reporting an increase in turnover was greater than the number reporting a decrease: Organizations predict the same pattern of results for the coming year (see Figures 5a and 5b). This means that organizations might continue to experience a steady increase in turnover over time. Though turnover levels might eventually stabilize, they could reach a point that is high enough to place great strain on organizational resources.

FINDING 5: Turnover rates have increased in the past year and will continue to increase next year.

Figure 5a: Respondents reported changes in last year's turnover rates.

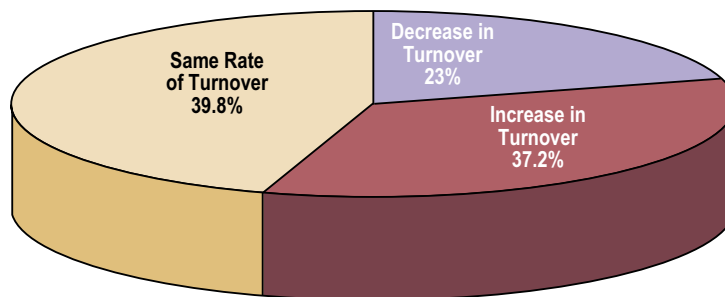
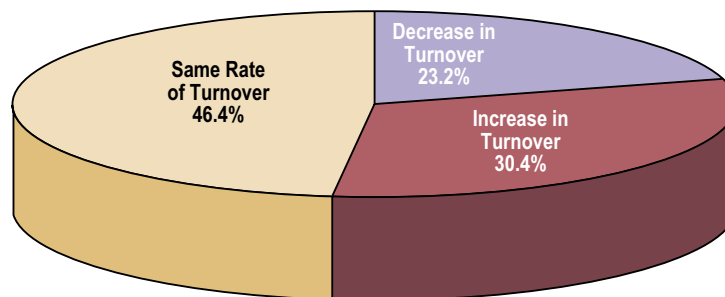


Figure 5b: Respondents predictions for next year's changes in turnover rates.



HR professionals identified information systems/technology and sales as the most problematic turnover areas (see Table 2). With technological advancements becoming more commonplace in organizations, positions in these job categories are in high demand.

FINDING 6: Turnover is greatest for IS/technology and sales positions.

Table 2: Job categories ranked by highest rate of turnover.

- | |
|-----------------------------------|
| 1. Information Systems/Technology |
| 2. Sales |
| 3. Accounting/Finance |
| 4. Other |
| 5. Service Support |
| 6. Administration |
| 7. Manufacturing |
| 8. Marketing |
| 9. Engineering |
| 10. Human Resources/Personnel |
| 11. Distribution |
| 12. Research/Development |
| 13. Purchasing |
| 14. Quality Assurance |
| 15. Publications/Graphic Design |

HR professionals were asked to estimate the cost of replacing employees in management and non-management positions. Their estimates included the cost of advertising, interviewing time (spent by management), travel, lost productivity (due to the vacant position), and other associated expenses. Table 3 shows that, on average, the cost of replacing a manager is three times the cost of replacing a non-manager. Replacement costs did not vary based on company size, revenue, or public/private status.

FINDING 7: The cost of replacing an employee ranges from 29 to 46 percent of the person’s annual salary.³ Turnover costs the average organization more than \$27 million per year.

Table 3: Cost of replacing an employee.			
Type of Hire	Percent of Salary ⁴	Average Cost ⁵	Standard Deviation
Management	46%	\$30,417	\$26,436
Non-management	29%	\$9,341	\$8,740

Although it’s less expensive to replace a non-management employee, non-management positions are more plentiful, and they must be replaced twice as often. Thus, actual yearly costs for replacing frontline and professional employees add to a sizeable figure. Using our estimates, we can determine the average yearly cost of turnover for organizations in our sample: The turnover cost for an organization with almost 13,000 employees would exceed \$27 million per year (see Table 4).

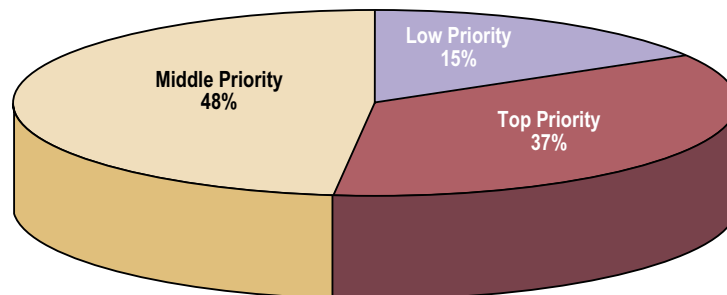
Table 4: Yearly turnover cost for an average organization.				
Position	Number	Turnover	Cost to Replace	Total Cost
Managers	3,853	10.3%	\$30,417	\$11,225,363
Non-managers	8,990	19.3%	\$9,341	\$16,207,289
TOTAL				\$27,432,652

Retention as a Business Priority

It can be easy for organizations to lose sight of the importance of long-term employee retention amid other priorities. Some organizations simply accept their current turnover levels and focus on other business needs. More than one-third (36.5%) of HR professionals view retention as one of their most pressing issues (see Figure 6). For other organizations retention is merely one of the many complex HR issues demanding attention.

FINDING 8: Retention is a top business priority for more than one-third of the respondent organizations.

Figure 6: Priority level given to retention by HR professionals.



Retention is difficult to focus on because so many factors affect it, and organizations cannot easily change all of them. Even so, a well-conceived plan of action can greatly enhance progress toward long-term retention improvements. Unfortunately, many organizations have failed to make a concerted effort to implement changes. They might be unaware of what factors to consider or how to change them. In addition, the other demands of running an organization can supersede most efforts to promote retention.

FINDING 9: Almost half (49%) of the participating organizations have no formal strategy for addressing retention.

Approximately 45 percent of organizations that do have a formal retention strategy tend to focus on individuals with specialized skills (e.g., programmers or engineers) because this group tends to be at high risk for turnover. Other groups, such as minorities, women, managers, and senior managers or executives, are much less likely to be specifically targeted in retention plans (only 22% to 25% of all formal retention plans).

It's not enough to measure retention/turnover statistics. By the time employees decide to leave the organization, little can be done to change their mind. Turnover rate is an outcome or lag measure with many precursors. If organizations can track lead indicators that predict the likelihood of turnover, they can stop turnover before it happens. Ideally, organizations should track the predictors of turnover for their employees and monitor changes over time.

FINDING 10:
Two-thirds of organizations track the success of retention efforts.

Two-thirds (67%) of organizations have formal measures in place to determine the effectiveness of retention efforts. In 72 percent of the cases, organizations track turnover, but other measures such as promotions (43%) and employee job satisfaction (42%) are popular indicators of success. Less popular measures include employee morale (32%) and grievances (19%).

Why Employees Leave

Organizations spend a lot of time trying to understand what makes a workplace desirable. It can be difficult to determine. Many employees seem to be interested in compensation or benefits, while others just want to have a job that is mentally and emotionally rewarding. We asked both HR professionals and employees to rate and rank the factors that they believe make employees want to stay with or leave their organization. The results showed that the two groups have very different perspectives.

We started by reviewing literature on employee retention and developed a list of 20 potential reasons why employees might stay with or leave their job (not including an "other" category for an undefined factor). The list appears in Table 5 on page 13. Both employees and HR professionals were asked to indicate which factors they felt were most influential to an employee's decision. Using factor analytic techniques, we identified six major classifications for these factors.

The Major Influences

Motivational Fit: *challenge, meaning, autonomy, organizational fit, manager relationship, job clarity*

By far, factors associated with motivational fit were the driving force behind employees wanting to stay at their job. Motivational fit exists when employees feel there is a good match between their needs and what the organization and job requires them to do. Research has demonstrated the importance of matching employees' motivational needs with job requirements.⁶ Managers play a critical role in determining employee responsibilities and span of control; thus, employees' working relationships with their managers also can affect motivational fit.

External Rewards: *recognition, growth/advancement, compensation, pay vs. contributions, company responsiveness*

Aside from the subjective benefits derived from good motivational fit, employees need the objective outcomes associated with external rewards. Factors such as pay, advancement, and recognition are the practical drivers determining employees' willingness to stay or leave.

Cooperation and Trust: *cooperation with coworkers, level of trust in workplace*

On a day-to-day basis, many employees rely on coworkers to succeed in their jobs. The relationship with these coworkers can affect their desire to stay with their organization. Few people are willing to work with highly competitive and deceptive coworkers. On the other hand, highly rewarding relationships with coworkers can overcome other problems that might lead to employee separation. Studies have shown that factors such as trust and communication often play a large part in employee job satisfaction.⁷

Company Direction: *clear vision and strategy, appropriate selection practices*

When a company has a clear vision and strategy, employees are more likely to understand the rationale behind decisions, and they can link their work to long-term outcomes. Selecting the right people to carry out the vision and strategy plays a significant role in an organization's success. High retention is more likely when employees believe a company knows what it is doing and has the right people to carry out its plans.

Home Life: *geographic location, work-life balance*

Some jobs are very demanding in terms of travel, work schedules, and location. If employees are expected to live in a generally undesirable location and/or must give up important aspects of their personal lives to do their jobs, they will be more likely to leave the organization. Therefore, a good match between employees' lifestyle preferences and work demands is crucial to high retention.

Workplace Discord: *internal politics, stress, workplace volatility*

Organizations can differ dramatically in their level of workplace discord. In some organizations it's hard to accomplish anything without the right connections and an understanding of hidden agendas. Other companies are stress laden and are characterized by unexpected changes that sometimes completely redefine employees' work. While these kinds of work environments might be appealing for some, employees can be overwhelmed by the level of effort it takes to get through the workday. For these employees the likelihood of leaving an organization is great.

What Employees Value

An employee's relationship with his or her supervisor or manager and work-life balance are the most important determinants for staying with an organization.

Motivational fit and cooperation and trust play a large role in determining employee retention. Employees want to work in a supportive environment that gives them an opportunity to make meaningful contributions. The top five factors affecting an employee's decision to stay or leave are listed below (also see Table 5 on page 13). The percentage of employees who rated the factor as "very important for retention" is listed in parentheses along with the classification of the factor.

1. Quality of relationship with supervisor or manager (78%, Motivational Fit)
2. Ability to balance work and home life (78%, Home Life)
3. Amount of meaningful work—the feeling of making a difference (76%, Motivational Fit)
4. Level of cooperation with coworkers (74%, Cooperation and Trust)
5. Level of trust in the workplace (71%, Cooperation and Trust)

Several differences exist when comparing employee ratings based on gender, management vs. non-management, and employee age. Refer to Appendix A for a quick summary of these findings.

HR professionals have an unclear picture of the factors that employees consider important for staying at their jobs.

HR professionals agree on the importance of employees' highest-rated factors for retention. Quality of relationship with supervisor or manager and work-life balance rank 4th and 5th respectively on the HR list. Even the factors ranked 1st and 2nd by HR are within the top seven factors for employees. However, employees' 3rd, 4th, and 5th most important reasons affecting retention are ranked 19th, 20th, and 21st on the HR list. This dramatic difference shows that HR professionals severely discount the importance of cooperation and trust as well as motivational fit.

The top five factors HR professionals believe affect an employee's decision to stay or leave are listed below (also see Table 5). The percentage of HR professionals who rated the factor as "one of the top five reasons why employees leave" is listed in parentheses along with the classification of the factor.

1. Opportunities for growth and advancement (70%, External Rewards)
2. Quality of compensation package (57%, External Rewards)
3. Amount of job stress (45%, Workplace Discord)
4. Quality of relationship with supervisor or manager (39%, Motivational Fit)
5. Ability to balance work and home life (33%, Home Life)

Employees agree that these five factors are important, with the exception of job stress. However, the list reveals that HR professionals are missing an important part of the picture.

Table 5: Retention factors ranked in order of importance by HR professionals and employees (EE).

HR Rank	EE Rank	Retention Factors
4	1	Quality of relationship with supervisor or manager (Motivational Fit)
5	2	Ability to balance work and home life (Home Life)
19	3	Amount of meaningful work—the feeling of making a difference (Motivational Fit)
20	4	Level of cooperation with coworkers (Cooperation and Trust)
21	5	Level of trust in the workplace (Cooperation and Trust)
2	6	Quality of compensation package (External Rewards)
1	7	Opportunities for growth and advancement (External Rewards)
15	8	Clear understanding of work objectives (Motivational Fit)
11	9	Link between pay and individual contributions (External Rewards)
8	10	Other (Undefined)
16	11	Company responsiveness to needs/requests (External Rewards)
7	12	Level of challenge in work (Motivational Fit)
18	13	Autonomy—freedom to direct work (Motivational Fit)
6	14	Amount of recognition for work (External Rewards)
14	15	Quality of vision and strategy from senior management (Company Direction)
12	16	Ability of the organization’s selection practices to choose the right employees (Company Direction)
9	17	How well individual goals and style match the organization’s (Motivational Fit)
3	18	Amount of job stress (Workplace Discord)
10	19	Desirability of the company’s geographic location (Home Life)
13	20	Volatility of work environment, such as downsizing, mergers, etc. (Workplace Discord)
17	21	Amount of internal politics/bureaucracy (Workplace Discord)

Where to Focus Change

The factors affecting employee retention can be difficult to change. Take, for example, the fact that employees desire meaningful work. How do you add personal meaning to a manual labor job? It can be done, but organizations can take improvements only so far. By focusing change efforts on the factors that make the biggest difference, organizations can maximize their retention rates. In some cases it's a good idea to capitalize on strengths and make a good situation even better. In other cases organizations need to focus on problem areas that will make the biggest difference for their employees.

We conducted an analysis to see where change efforts should be focused to get the maximum impact on retention. Employee ratings were combined with the ratings of current company performance (Low, Medium, High). Tables 6 and 7 (below and on page 15) list important retention factors and the percentage of employees who rated the factor a strength for their company.

Remedy Weaknesses

Weaknesses—Retention factors that are important but are not performance strengths for the organization.

The most obvious way to improve retention is to fix the problems associated with important retention factors. Many of the top 10 retention factors fail to receive high strength ratings. Approximately 75 percent of employees gave their companies lower strength ratings on these factors. Introducing programs that add meaning to work, promote trust, and improve the quality of compensation could produce a significant impact on retention rates.

Rank*	Strength**	Retention Factors
3	33%	Amount of meaningful work—the feeling of making a difference
5	30%	Level of trust in the workplace
6	24%	Quality of compensation package
7	26%	Opportunities for growth and advancement
9	17%	Link between pay and individual contributions
10	21%	Company responsiveness to needs/requests
13	21%	Amount of recognition for work

* Rank indicates the importance of the factor in determining employee retention.
** Strength indicates the percentage of employees who rated their company's performance as "high" in that factor.

Leverage Strengths

Strengths—Retention factors that are important and are performance strengths for the organization.

If an organization already has high ratings for some factors, it can take action to make its performance even stronger in these factors. In our sample the quality of relationships with managers and work-life balance are already reasonably high. These top two factors received above-average ratings for current company strength in performance. Because these are important factors for retention, companies could try to make them even stronger.

Table 7: Retention factors given high strength ratings by employees.

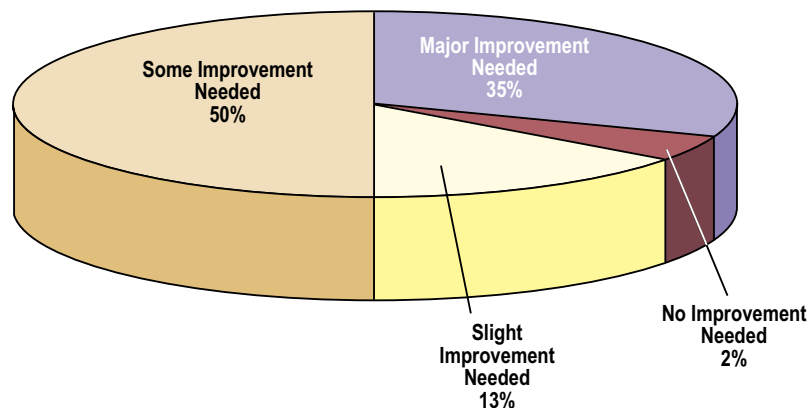
Rank*	Strength**	Retention Factors
1	50%	Quality of relationship with supervisor or manager
2	38%	Ability to balance work and home life
4	42%	Level of cooperation with coworkers
8	40%	Clear understanding of work objectives
11	45%	Level of challenge in work
12	42%	Autonomy—freedom to direct work

* Rank indicates the importance of the factor in determining employee retention.
 ** Strength indicates the percentage of employees who rated their company's performance as "high" in that factor.

Tactics for Improving Retention

Most HR professionals are dissatisfied with their current retention efforts. Figure 7 shows that a full 98 percent of HR professionals feel that their retention efforts could be improved.

Figure 7: Need for improvement in retention efforts as seen by HR professionals.



Most retention strategies have room for improvement, but they are especially difficult to formulate. We asked HR professionals to rate their experiences with a wide range of actions and interventions. Each retention tactic was met with a varying degree of success. They are categorized as follows:

- ▶ **Gathering Information**—The first step in improving retention is to understand its causes. Organizations need to talk to employees and measure their opinions to see why turnover is happening. In addition, talking to other organizations and benchmarking their practices can provide direction for creating a strategy.
- ▶ **Compensation and Benefits**—Earlier in this report we identified external rewards as an important retention factor. Based on this data, organizations could consider improving the quality of compensation, benefits, and special perks as a means for improving retention.
- ▶ **Employee Development**—In response to employees’ desire for growth and advancement opportunities, organizations can introduce enhanced training and development programs, succession management systems, and other approaches for investing in their employees.
- ▶ **Rewards and Recognition**—Employees want recognition for a job well done. Special bonuses or rewards can help employees feel proud of their work and let them know that their efforts are acknowledged. It helps if pay and recognition are linked in some way to performance because employees know there are consequences for their actions.
- ▶ **Work Environment**—Several aspects of the work environment are directly linked to employees’ motivational fit. For example, high-involvement workplaces help employees experience a sense of control or meaning in their work. Also, enhancing open lines of communication between managers and employees can improve the overall quality of working relationships. Many interventions designed to make the workplace more hospitable can lead to improved retention.
- ▶ **Systems**—Organizational systems linked to retention (other than development-oriented programs) include selection and performance management. Both of these programs have an especially strong relationship to retention factors associated with company direction.
- ▶ **Retention-Specific Programs**—Once a plan has been created that addresses the most important retention drivers, organizations need to communicate the retention strategy to employees. Part of this approach also requires the orientation of new employees on interventions that address their needs.
- ▶ **Nature of Work**—Organizations can change the nature of the work to make it more flexible and appealing to employees. For example, organizations can introduce relaxed dress codes, telecommuting options, and flexible work schedules to promote retention.

Retention Tactics Valued by HR

Based on HR professionals' ratings, we identified the five most-valued retention tactics. These five tactics represent a wide range of practices from four different categories (Table 8 on page 18 shows all tactics and categories).

1. Conducted internal studies (surveys, focus groups) to understand why employees leave/stay
2. Improved selection practices
3. Conducted exit interviews
4. Improved communication between management and employees
5. Expanded or improved training and development opportunities

Although valued by HR, these five tactics, as a group, do not necessarily represent the best strategy for improving retention. They are simply the practices that worked well in most organizations.

Two retention tactics come from the "Gathering Information" category. This finding shows that organizations must spend time understanding their unique configuration of retention drivers. By learning about employees' needs and motivations, organizations learn where they should introduce changes.

The other three tactics show the importance of selecting the right employees, communicating with them, and investing in their skills over time. Interestingly, these top five retention tactics also were among the most commonly used. Only the most highly valued practice, *conducting internal studies*, was not used with high frequency in 63 percent of the organizations.

We also asked HR professionals to describe a program or change that had the greatest impact on retention overall or for a specific group of employees. Most programs (23%) involved alterations in compensation or benefits. Many HR professionals described a configuration of multiple programs (15%). Other changes included improving the work environment (14%) and increasing the quality of employee development programs (11%). A sampling of written comments from the HR professionals can be found in Appendix B.

Table 8: Retention tactics rated by HR professionals.

Did Not Use	Not Valuable	Somewhat Valuable	Very Valuable	Average Value	
3%	3%	49%	44%	2.42	Gathering Information
47%	2%	39%	11%	2.18	Conducted exit interviews
37%	1%	20%	42%	2.65	Benchmarked with other organization to assess retention strategies
					Conducted internal studies (surveys, focus groups) to understand why employees stay/leave
Did Not Use	Not	Somewhat	Very	Avg.	Compensation and Benefits
12%	3%	58%	28%	2.28	Increased salaries
51%	8%	29%	12%	2.09	Offered stock options
30%	5%	46%	19%	2.20	Improved benefits packages (e.g., health/child care, retirement, vacation)
56%	9%	30%	5%	1.92	Offered special employee services (e.g., gym, dry cleaning, catering)
Did Not Use	Not	Somewhat	Very	Avg.	Employee Development
45%	3%	36%	17%	2.25	Offered career-planning services
29%	6%	44%	21%	2.21	Created a succession management plan
11%	3%	52%	35%	2.36	Expanded or improved training and development opportunities
54%	6%	27%	13%	2.15	Assigned mentors/coaches for new hires
Did Not Use	Not	Somewhat	Very	Avg.	Rewards and Recognition
16%	5%	52%	27%	2.26	Provided non-monetary rewards and recognition
21%	3%	53%	23%	2.24	Used monetary reward and recognition programs (e.g., spot cash awards, special bonuses, retention bonuses)
21%	5%	41%	33%	2.35	Improved the link between pay and performance
Did Not Use	Not	Somewhat	Very	Avg.	Work Environment
20%	5%	44%	31%	2.32	Increased employee involvement in decision making
20%	10%	49%	22%	2.15	Used team-building activities (e.g., picnics, outings, social hours)
10%	7%	42%	41%	2.38	Improved communication between management and employees
15%	11%	39%	34%	2.27	Clarified or enhanced the organization's vision/mission
Did Not Use	Not	Somewhat	Very	Avg.	Systems
13%	1%	45%	41%	2.46	Improved selection practices
23%	5%	47%	25%	2.26	Improved the performance management system
Did Not Use	Not	Somewhat	Very	Avg.	Retention-Specific Programs
44%	7%	23%	25%	2.33	Created specialized retention plans for high-retention-risk employees
56%	9%	26%	10%	2.02	Increased manager's accountability for retaining employees
51%	7%	34%	8%	2.02	Educated managers on how to retain employees
15%	7%	47%	31%	2.29	Used a new-hire orientation program
Did Not Use	Not	Somewhat	Very	Avg.	Nature of Work
13%	10%	46%	31%	2.24	Relaxed dress code (every day or occasional)
53%	10%	32%	5%	1.89	Offered job sharing (one job is shared between more than one person)
53%	9%	31%	8%	1.98	Offered rotational assignments
50%	12%	31%	7%	1.90	Encouraged virtual office/telecommuting
23%	9%	47%	21%	2.16	Allowed flexible work schedules

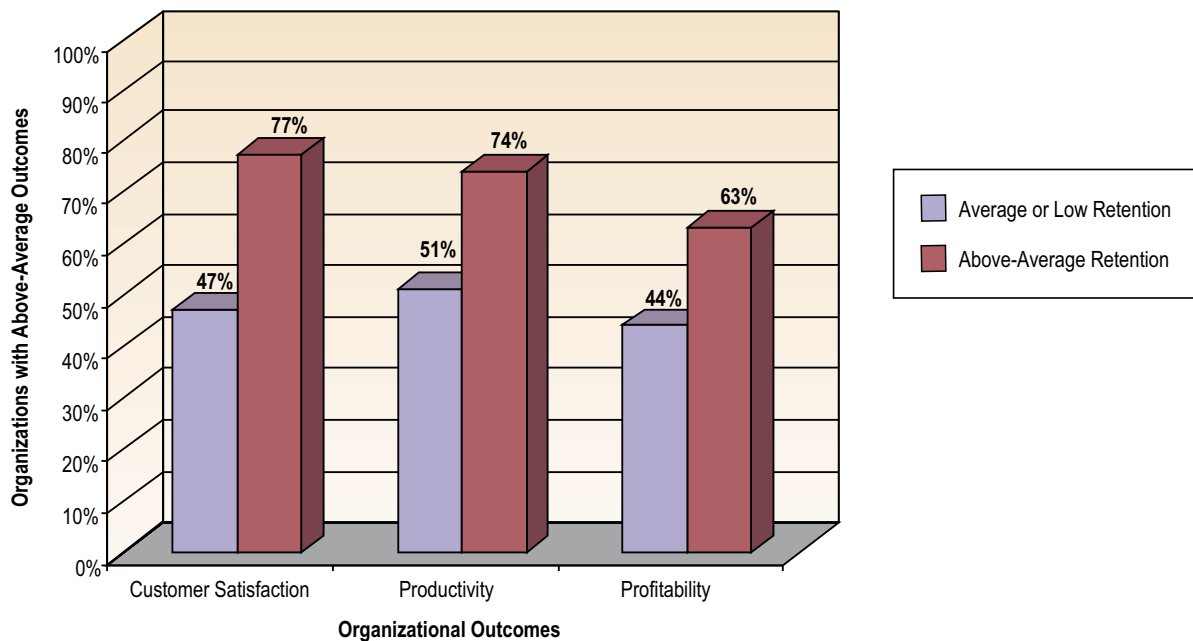
The Bottom Line

When retention is above average, customer satisfaction, productivity, and profitability also tend to be above average.

HR professionals were asked to estimate several organizational outcomes during the past year. All estimates were made relative to comparable organizations. Research has found that measures of perceived organizational performance correlate positively (with moderate to strong associations) with objective measures of firm performance.⁸

The results shown in Figure 8 reveal the positive relationship between retention rates and three critical organizational outcomes: customer satisfaction, productivity, and profitability. When retention is above average in comparison to the competition, organizations tend to perform well in these areas. Organizations hoping to improve these organizational outcomes should consider that retention plays a role in long-term success.

Figure 8: Correlation between retention rate and organizational performance in customer satisfaction, productivity, and profitability.



Conclusions

1. Turnover is prevalent and will probably increase.

On average organizations expect turnover to increase in coming years. Turnover is currently much more common for frontline and professional (i.e., non-management) workers. An increasingly competitive labor market will make finding qualified candidates more difficult in the future. Organizations that understand retention and its causes will experience a competitive advantage.

2. Turnover is a costly drain on company resources.

People are the backbone of an organization, and the value of an individual can be quantified. In terms of total company revenue, the average employee is worth about a quarter of a million dollars, and the cost of replacing one employee ranges from 29 to 46 percent of the person's salary. An organization's ability to retain employees has been linked to long-term customer satisfaction, employee productivity, and profitability.

3. Young employees, especially in IS/technology and sales, are at a high risk for turnover.

Today's workers have different priorities. Young people are less likely to spend their entire careers at one organization. With the implementation of new technologies, certain positions have become very difficult to fill. Some candidates can choose from among the best offers that a number of organizations can muster.

4. Organizations have failed to give retention high priority.

Retention does not show its impact on an organization for months or even years. Organizations are more likely to focus their attention on more immediate needs instead of the long-term retention of employees. Only half of the organizations surveyed are making formal attempts to improve retention; many do not consider it a high priority. This approach might backfire later when the labor market tightens even further and filling new positions becomes more difficult.

5. Motivational fit, cooperation, and trust are primary drivers of retention.

Although compensation matters, employees are more concerned with the level of fulfillment they get from their jobs. They also feel that working with an understanding supervisor or manager in a cooperative and trusting work environment is important. Employees care about their work and how it fits into their lives. Organizations should focus on making sure that the people they hire are a good match for the job and the work culture.

6. HR professionals fail to adequately understand the causes of retention.

Although HR professionals recognize some of the most important retention drivers, they miss these factors more than they understand them. They especially are likely to ignore the importance of a cooperative and trusting work environment. They also fail to see how much employees value the meaning of the work they do. HR professionals need to make sure they understand the retention drivers in their organizations before they take action to make things better.

7. Gathering information about the causes of retention and addressing system issues have been the most effective interventions.

HR professionals greatly value the information gathered from internal studies of retention and exit interviews. Before action can be taken, however, they must develop an understanding of why employees leave. Other successful interventions include improving organizational systems such as training and development and the selection system.

A Final Word

Organizations that understand employee retention and its causes will ultimately have a competitive advantage. However, HR professionals might not be using the best approach to introducing changes that will improve retention. In fact, the consensus is that turnover in organizations will increase. To avoid the damage and costly effects of increased turnover, organizations need to act now to improve their retention efforts.

Appendix A

Statistically significant differences in retention factors based on employee characteristics.

<p>Women are more likely to value these factors:</p> <ul style="list-style-type: none"> • Desirability of geographic location • Level of cooperation with coworkers • Clear understanding of work objectives • Level of trust in workplace • Quality of relationship with supervisor or manager 	<p>Men are more likely to value these factors:</p> <ul style="list-style-type: none"> • Quality of vision/strategy from senior management
<p>Non-managers are more likely to value these factors:</p> <ul style="list-style-type: none"> • Company responsiveness to individual needs • Quality of compensation package • Link between pay and individual contributions 	<p>Managers are more likely to value these factors:</p> <ul style="list-style-type: none"> • Autonomy—freedom to direct work
<p>Younger workers are more likely to value these factors:</p> <ul style="list-style-type: none"> • Clear understanding of work objectives • Amount of recognition for work • Company responsiveness to individual needs • Opportunities for growth and advancement 	<p>Mature workers are more likely to value these factors:</p> <ul style="list-style-type: none"> • (No significant differences)

Appendix B

High-Impact Retention Changes

Listed below are selected responses to the following question:

Describe a program or change your organization has made that has had the greatest impact on retention (overall or for a specific group of employees).

Compensation and Benefits

- “Retention bonuses for managers.”
- “Stock options for key executives.”
- “Did market adjustments in salaries for engineers and maintenance technicians.”
- “Introduced three gain-sharing plans that replaced an end-of-the-year discretionary bonus program. The gain-sharing plans pay out on a quarterly basis and are based on productivity, quality, attendance, and profitability.”
- “Greater link between pay and personal/company performance.”

Multiple Programs

- “Management market pay review, enhanced communication efforts, enhanced learning programs, and flexibility commitment.”
- “Job reclassification to align salary levels with industry standards. We are in the first stages of competency and learning map development.”
- “Enhanced benefits since last year and promoting from within. More flexible job changes from one area to another. More market adjustments given.”

Employee Development

- “Management development program for high potential staff of all levels. Training programs for all levels of employees.”
- “New succession planning process to formally identify high potentials and give opportunities for job enrichment, professional growth, and promotion.”
- “Offering all-expenses paid in-house MBA through recognized universities taught on company premises.”

Nature of Work

- "Health club membership/dress down. Telecommuting."
- "Employee opinion survey and the formation of a cross-functional team to implement recommendations from the survey."
- "Introduced a flexible work schedule that allows employees a half day off during the work week. Increased communication of work/family programs available to employees."

Work Environment

- "A more open management style."
- "Employee inclusion in direction and decision making."

Appendix C

Company Demographics

Number of participating organizations= 118

Table 1: Employee Information				
Employee Information	Mean	Median	Maximum	Minimum
Number of employees at respondent's location	1,770	500	35,000	2
Number of employees at all locations	12,843	4503	130,000	60
Exempt	55.5	40	100	6
Non-Exempt	45.1	60	94	0

Table 2: Geographic Information	
Region/Country	Number of Organizations
Latin & South America	3
Europe	3
Asia & Pacific Rim	12
Australia & New Zealand	15
Canada	6
United States	79

Table 3: Contact Information	
Contact's Position	Overall Sample Percent
HR manager or director	48
HR vice president	26
Other	25

Table 4: Industries	
Industry Type	Overall Sample Percent
Agriculture/Forestry/Fishing	0.8
Mining	1.7
Manufacturing	35.6
Transportation/Communication/Utilities	11.0
Wholesale Trade	4.2
Retail Trade	5.1
Finance/Insurance/Real Estate	10.2
Services	16.9
Government	0.8
Unknown/Multiple Industries	13.6

Table 5: Industry Revenue	
Revenue (previous fiscal year)	Overall Sample Percent
\$25 billion or more	1.7
\$10 billion–\$25 billion	1.7
\$5 billion–\$10 billion	4.2
\$1 billion–\$5 billion	21.2
\$500 million–\$1 billion	11.0
\$100 million–\$500 million	18.6
\$50 million–\$100 million	6.8
\$1 million up to \$50 million	8.5
Less than \$1 million	0.8
Information not provided	9.3
No response	16.1

Note: Due to rounding, numbers might not total 100%.

Table 6: Stock Information	
Stock Information	Overall Sample Percent
Organization's stock is publicly traded in the United States	42.4
Organization's stock is traded in a non-United States market	11.9
Organization is not publicly owned	30.5
Unknown	15.3

Employee Demographics

Number of participating employees=745 (from 20 organizations)

Organizational Level

31% Management

69% Non-management

Gender

44% Male

56% Female

Age

9.4% 18–25 years

37.4% 26–35 years

33.5% 36–45 years

16.4% 46–55 years

3.3% 56 years or older

Notes

1. Statistics: $r = .45$, $p < .001$, $N = 735$
2. Taken from a Bureau of National Affairs' report dated September 21, 2000.
3. These findings are similar to estimates by The Bureau of Labor Statistics that the base cost of replacing a worker is 30 percent of that person's annual earnings.
4. According to The Bureau of Labor Statistics, the 1998 average hourly wage for a management-level position in the United States was \$31.73. For all positions (including management), the average hourly wage was \$15.72. Because the latter figure includes manager-level wages, the estimate in Table 3 is a conservative one. Actual costs might be a higher percentage of salary.
5. To ensure accuracy and reduce the impact of extreme estimates, outlier estimates (unusually high or low scores) were not included in the averages.
6. Research sources include the following:
 - Adigun, I.O., and Stephenson, G.M. (1992). Sources of job motivation and satisfaction among British and Nigerian employees. *Journal of Social Psychology*, 132(3), 369–376.
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 - Orpen, C. (1994). Interactive effects of work motivation and personal control on employee job performance and satisfaction. *Journal of Social Psychology*, 134(6), 855–856.
7. Study sources include www.greatplacetowork.com and www.gallup.com.
8. Research sources include the following:
 - Dollinger, M.J., and Golden P.A. (1992). Interorganizational and collective strategies in small firms: Environmental effects and performance. *Journal of Management*, 18, 695–715.
 - Powell, T.C. (1992). Organizational alignment as a competitive advantage. *Strategic Management Journal*, 13, 119–134.

Participating Organizations

United States & Canada

Ace Cash Express
Alaska Airlines
Apotex Inc.
Baptist Health Systems of
South Florida
Bayer Corporation
Beiersdorf Jobst Inc.
Bic Corporation
Boise Cascade Office
Products Corporation
Bristol-Myers Squibb Company
Caraustar Industries, Inc.
Cessna Aircraft Company—
Single Engine
Chiquita Brands International
Cidera, Inc.
Colgate-Palmolive Company
DaimlerChrysler Rail Systems
(North America), Inc. Adtranz
Duke-Weeks Realty Corporation
Dun & Bradstreet
East Kentucky Power
Cooperative, Inc.
Eastman Chemical Company
Ellsworth Corporation
Emplifi
Energy West, Inc.
Ernst and Young
Essilor Laboratories of America
First Financial Corporation
Fort James Corporation
G & K Services
GATX Corporation
Hallmark Canada
HCR ManorCare
Hotel Inter-Continental Toronto
Hunter Douglas, Inc., Window
Fashions Division
IMS HEALTH, Canada
Ingham Intermediate School District
In-Sink-Erator, Division of
Emerson Electronic
J. Crew Group, Inc.
Kenan Transport Company
Leapsource, Inc.
Legacy Health System
MacMillan Publishing, USA and
Pearson Technology Group
Mead Corporation

Mortgage Guaranty Insurance
Corporation
Nabisco, Inc.
Navistar Financial Corporation
Okuma America Corporation
Orlando Utilities Commission
Pancho's Mexican Buffet, Inc.
Pennsylvania Power and
Light Company
PGA Tour, Inc.
Physio-Control Corporation
Pilkington
Pitt County Memorial Hospital
Porsche Cars North America, Inc.
Pratt and Whitney Canada
Premera Blue Cross of
Washington & Alaska
Pueblo International
QUALCOMM, Inc.
Red Lobster Restaurants
Res-Care, Inc.
Research Triangle Institute
Rosemount, Inc.
Samsung Electronics America
Sandvik Coromant Company
Sandvik Steel Company
SEH America
Shands at AGH
SouthTrust Bank of Northeast
Florida, N.A.
Standard and Pool's (a division of
the McGraw Hill Companies)
Star Tribune
State Department of Connecticut,
Department of Administrative
Services Strategic Leadership Center
Steelcase Canada Ltd.
Stepan Company
Subaru of America, Inc.
TCF Financial Corporation
Tech Data Corporation
Texaco, Inc.
Transamerica Corporation
Union Pacific Railroad
University of Michigan Health System
U.S. Bancorp
Van Kampen Investor Services Inc.
Vanity Fair Playwear
Weirton Steel Corporation
Wyeth Lederle Vaccines & Pediatrics

Australia & New Zealand

Australia Broadcasting Corporation
Bunnings Building Supplies Pty. Ltd.
Castlemaine Perkins Pty. Limited
ConnecTel Limited
Cussons Pty. Ltd.
Hallmark Cards Australia Ltd.
Hastings Deering (Australia) Ltd.
Johnson & Johnson Medical Pty. Ltd.
Kellogg's
Kimberly-Clark Australia Pty. Limited
Master Foods of Australia
Riverina Wood Combing
Tricon Restaurants International
University of Southern Queensland
Worsley Alumina Pty. Ltd.

Asia & Pacific Rim

Centrepoint Properties Ltd.
Federal Auto Cars Sdn Bhd
HAVI Food Service (Thailand) Ltd.
Hicom Holdings Berhad
Malaysia Airports (Niaga) Sdn Bhd
MCMS Sdn Bhd
Nestle Philippines, Inc.
SGS Philippines, Inc.
Siam Guardian Glass
(Rayong) Co., Ltd.
Siam Guardian Glass Company, Ltd.
Sonoco Asia
Total Access Communication Public
Company Limited

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Bethpage Great Britain
BMW Group
Cummins Engine Company Ltd.

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