CHAPTER

5

Human Resource Planning and Retention

After you have read this chapter, you should be able to:

- Define HR planning and outline the HR planning process.
- Describe the means for assessing the external and internal workforce in HR planning.
- Identify methods for forecasting HR supply and demand levels.
- Explain the nature of the psychological contract and how motivation is linked to individual performance.
- Describe different kinds of turnover and how turnover can be measured.
- Identify the six drivers of retention and ways retention measurement can occur.

HR Headline

Need More Workers?

(AP Photo/Toby Talbot)

As economic conditions have changed negatively for many organizations, they have had to cut jobs and workers. One industry that has made many reductions has been the automotive industry. Yet, employers in some other industries have had a continuing shortage of workers.

One illustration of such problems is in the milk producing industry as well as other agricultural employers. Many U.S. individuals, even if they are unemployed, do not want to work in jobs such as those in these industries, since they have relatively low pay rates and the working conditions tend to be outdoors or in warehouses. Therefore, U.S. dairy farmers have had to use immigrants from Latin countries to fill 40% of their jobs, but the use of immigrants has created HR issues due to state and federal laws regarding employment of illegal immigrants.

Employers in other industries also are needing workers. Some construction companies, health care organizations, and technology employers are facing shortages of qualified individuals. Attracting, recruiting, and retaining good employees are crucial. For instance, Google, the large technology employer, estimated that it could lose a significant number of employees to technology competitors such as Facebook, Twitter, or new firms. Whatever the industry, where more workers are needed, HR efforts should be expanded.

Employers in different industries face staffing issues emphasizing HR planning and retention. As industry and economic conditions continue to change, planning and retention will only increase in importance.[1]

Staffing an organization is an HR activity that is both strategic and operational in nature. As the HR Headline indicates, HR planning is important in a wide variety of industries and firms. HR planning affects what employers do when recruiting, selecting, and retaining people, and, of course these actions affect organizational results and success.

The challenges caused by changing economic conditions during recent years show why HR workforce planning should occur.[2] A study by Watson Wyatt that found that it does occur in more than 80% of organizations in more than 30 countries. However, only one-fourth of smaller U.S.-based companies had formal HR plans.[3] Planning in small firms is more informal, as shown below.

HUMAN RESOURCE PLANNING

Human resource planning is the process of analyzing and identifying the need for and availability of human resources so that the organization can meet its objectives. The focus of HR planning is to ensure the organization has the *right number of human resources,* with the *right capabilities,* at the *right times,* and in the *right places.* In HR planning, an organization must consider the availability and allocation of people to jobs over long periods of time, not just for the next month or even the next year.[4]

Additionally, as part of the analyses, HR plans can include several approaches. Actions may include shifting employees to other jobs in the organization, laying off employees or otherwise cutting back the number of employees, retraining present employees, and/or increasing the number of employees in certain areas. Factors to consider include the current employees' knowledge, skills, and abilities and the expected vacancies resulting from retirements, promotions, transfers, and discharges. To do this, HR planning requires efforts by HR professionals working with executives and managers. The HR Best Practices box illustrates how several firms have made HR planning important.

Organizational Size and HR Planning

The need for HR planning in larger organizations is especially important. For example, in a review, the U.S. government's Corps of Engineers, with a workforce of 35,000, was found to have an outdated strategic HR plan. Also, it had not done an organization-wide needs analysis for current and future workforce. If adjustments to foreseeable changes were not made, people or even entire divisions could be working at cross-purposes with the rest of the organization.[5]

An illustration of an effective HR planning emphasis can be seen in Walgreens, the large retail drugstore chain. This firm has had an aggressive business plan. Since each Walgreens store must be staffed with pharmacists, managers, and customer service employees, the firm's HR planning has involved identifying how and where to find enough pharmacists to fill openings caused by turnover and retirement, as well as how to staff new stores. Walgreens illustrates that part of HR planning is identifying the knowledge, skills, and abilities (KSAs), as well as experience and other capabilities, for current and future jobs.

Human resource planning Process of analyzing and identifying the need for and availability of human resources so that the organization can meet its objectives.

HR best practices

Effective HR Planning for the Workforce Future

Important HR functions in many organizations revolve around staffing: recruiting, employing, and retaining employees. More than half of the HR professionals in a Society for Human Resource Management (SHRM) survey identified efforts in those areas as the most important HR activities in their firms. Forecasting the need for employees and identifying how to retain them are components of these functions. Several examples illustrate their importance.

At Valero Energy, employee turnover was projected to increase significantly over a 5-year period. This forecast triggered an increase in HR planning. Within 2 years, Valero had established the means, linked to its strategic HR planning, to build its workforce for an additional 3 years.

Another firm that has used HR planning effectively is Corning, Inc., a worldwide technology firm with more than 25,000 employees. This firm used HR planning globally to identify that hiring more engineers in Taiwan instead of the United States would be better and less expensive, given the pay levels and the supply of potential U.S. engineering employees.

In a different industry, Chicago-based CNA Financial identified that it would have an insufficient number of underwriters in 2 years at its current turnover rate, and that more than 80% of its safety engineers were eligible to retire. To address these concerns, extensive planning was undertaken for reducing turnover in both occupations and identifying sources for possible recruits. As a result, the turnover rates at CNA in both groups dropped significantly, and relevant training and development efforts were expanded.

These examples reinforce how HR planning can help meet future workforce supply and demand in terms of employees. Also, increasing employee retention by reducing turnover can aid in enhancing organizational performance and effective HR management.[6]

Small Business HR Planning In a smaller business, even though the owner/manager knows on a daily basis what is happening and what should be done, planning is still important. One difficult area for HR planning in small businesses is family matters and succession. Particular difficulties arise when a growing business is passed from one generation to another, resulting in a mix of family and nonfamily employees.

Key to successful transition in a small business is having a clear HR plan. In small businesses, such a plan includes incorporating key nonfamily members in HR planning efforts because nonfamily members may have important capabilities and expertise that family members do not possess. Planning for the attraction and retention of these "outsiders" may be vital to the future success of smaller organizations.

Small businesses may use the HR planning process, which is discussed next. But in very small organizations, too often the process is much more intuitive and is done entirely by the top executives, who often are family members, which may eliminate nonfamily members from the process.

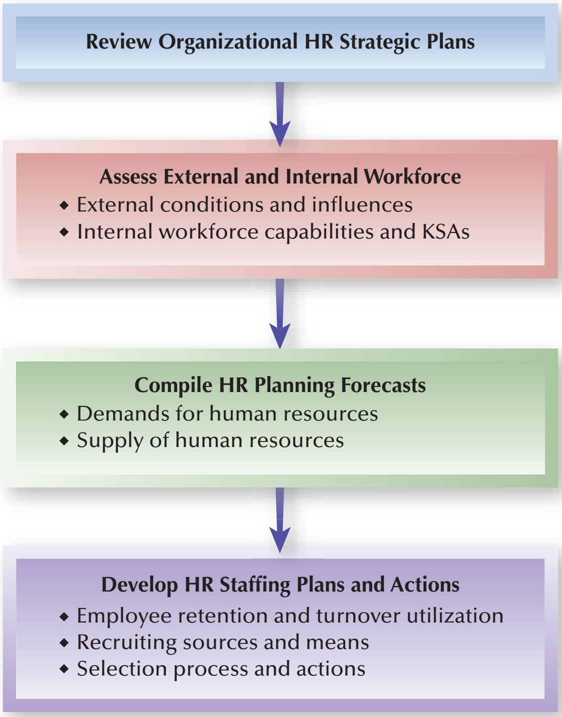
LOGGING ON

Human Resource Planning Society
Information and resources on building a strategic HR plan are available at www.hrps.org.

HR Planning Process

The steps in the HR planning process are shown in Figure 5-1. Notice that the process begins with considering the organizational strategic planning objectives.

FIGURE 5-1 **HR Planning Process**



Then the possible *available workforce* must be evaluated by identifying both the external and internal workforce.

Once those assessments are complete, forecasts must be developed to identify both the demand for and supply of human resources. Management then formulates HR staffing plans and actions to address imbalances, both short-term and long-term. One means of developing and measuring HR planning is use of a team of subject matter experts (SMEs) to increase the validity and reliability of the HR planning results.[7] Specific strategies may be developed to fill vacancies or deal with surplus employees. For example, a strategy might be to fill 50% of expected vacancies by training employees in lower-level jobs and promoting them into more advanced anticipated openings.

Finally, HR plans are developed to provide specific direction for the management of HR activities related to employee recruiting, selection, and retention. The most telling evidence of successful HR planning is a consistent alignment of the availabilities and capabilities of human resources with the needs of the organization over shorter or longer periods of time.

ASSESSING THE EXTERNAL WORKFORCE

The first stage of HR planning is to *examine organization objectives and plans*. If a network technology firm plans to double its number of client accounts from 100 to 200 in a 3-year period, that firm also must identify how many and what types of new employees will be needed to staff the expanded services, locations, and facilities. Several common external factors to be considered are highlighted next.

Economic and Governmental Factors

The general cycles of economic recession and economic boom in different businesses affect HR planning. Factors such as interest rates, inflation, and economic decline or growth affect the availability of workers and should figure into organizational and HR plans and objectives. There is a considerable difference between finding qualified applicants in a 4% unemployment market and in a 9% unemployment market. As the unemployment rate rises, the number of qualified people looking for work increases, often making it easier to fill some jobs. But those hired may receive lower pay and benefits than in their previous jobs.

A broad array of government regulations affects the labor supply and therefore HR planning. As a result, HR planning must be done by individuals who understand the legal requirements of various government regulations. In the United States and other countries, tax legislation at local, state, and federal levels affects HR planning. Pension provisions and Social Security legislation may change retirement patterns and funding options. Elimination or expansion of tax benefits for job-training expenses might alter some job-training activities associated with workforce expansions. In summary, an organization must consider a wide variety of government policies, regulations, and laws during the HR planning process.

Competitive Evaluations

When making HR plans, employers must consider a number of geographic and competitive concerns. The *net migration* into a particular region is important. For example, in the past decade, the populations of some U.S. cities in the South, Southwest, and West have grown rapidly and have provided sources of labor. However, areas in the Northeast and Midwest have experienced declining populations.

Direct competitors are another important external force in HR planning. Failure to consider the competitive labor market and to offer pay scales and benefits competitive with those of organizations in the same general industry and geographic location may cost a company dearly in the long run.

Finally, the impact of *international competition* must be considered as part of environmental scanning. Global competition for labor intensifies as global competitors shift jobs and workers around the world, as illustrated by the outsourcing of jobs from the United States to countries with cheaper labor.

Changing Workforce Considerations

As mentioned in the previous chapter, significant changes in the workforce, both in the United States and globally, must be considered when doing external assessments for HR planning. Shifts in the composition of the workforce, combined with the use of different work patterns, have created workplaces and organizations that are notably different from those of a decade ago.

Many organizations face major concerns about having sufficient workers with the necessary capabilities. When scanning the potential and future workforce, it is important to consider a number of variables, including:

- Aging of the workforce
- Growing diversity of workers
- Female workers and work-life balancing concerns
- Availability of contingent workers
- Outsourcing possibilities

When considering these factors, it is important to analyze how they affect the current and future availability of workers with specific capabilities and experience. For instance, in a number of industries, the median age of highly specialized professionals is over 50 years, and the supply of potential replacements with adequate education and experiences is not sufficient to replace such employees as they retire. One global study found that less than 15% of surveyed firms have planned for workforce shortages due to the "brain drain" created by the retirement of existing older workers.[8]

LOGGING ON

The Sloan Center on Aging and Work
For research and resources on managing the talents of the various generations in the workforce, visit this site at www.bc.edu/research/agingandwork.

ASSESSING THE INTERNAL WORKFORCE

Analyzing the jobs that will need to be done and the capabilities of people who are currently available in the organization to do them is the next part of HR planning. The needs of the organization must be compared against the labor supply available both inside and outside the organization.

Current and Future Jobs Audit

The starting point for evaluating internal workforce strengths and weaknesses is an audit of the jobs being done in the organization. A comprehensive analysis of all current jobs provides a basis for forecasting what jobs will need to be done in the future. Much of the data in the audit should be available from existing staffing and organizational databases. The following questions may be some key ones addressed during the internal assessment:

- What jobs exist now and how essential is each job?
- How many individuals are performing each job?
- What are the reporting relationships of jobs?
- What are the vital KSAs needed in the jobs?
- What jobs will be needed to implement future organizational strategies?
- What are the characteristics of those anticipated jobs?

Employee and Organizational Capabilities Inventory

As HR planners gain an understanding of the current and future jobs that will be necessary to carry out organizational plans, they can conduct a detailed audit of current employees and their capabilities. The basic source of data on employees is available in the HR records in the organization. The HR Online illustrates the growth of technology in obtaining such data.

An inventory of organizational skills and capabilities may consider a number of elements. The following ones are important:

Technology Expanding Employee Skills Databases

HR online

Both employers and employees are using the expansion of technology as part of workforce-related factors. Technological systems and software related to HR planning and talent management are growing about 15% a year. Some examples of the uses of such technology follow.

For employees, dramatic growth in information technology (IT) methods is occurring. Aon Corporation surveyed 800 employees using Web 2.0 social media. The study found that more than two-thirds of both younger and older workers were using technology for job-related purposes. Aon recommended that employees use technology means such as text-messaging, blogs, wikis, and twitters to identify and enhance their skills and productivity.

Skills databases are an increasingly popular tool being used to track employee talent. The concept is simple: Put employees' skills and technical expertise, prior jobs, training, coaching aptitude, certifications, geographical experience, languages, career aspirations, and other topics in a database, and then use analyses of this information as part of HR forecasting for individual capabilities. These databases also can be evaluated to fill jobs or can be analyzed to identify strengths and weaknesses of a division or even the whole company.

Some systems rely on managers to enter and update employee information in the database, but managers sometimes fail to do so or withhold information, fearing they might lose their most skilled employees to someone else in the company. Other approaches request employees to enter their skills and proficiency levels, and then managers review the reports. However, employees, because of either personal confidentiality concerns or being overworked, may not always enter their skills data accurately.

In spite of such difficulties, obtaining and utilizing IT data on employees' skills can aid both managers and employees in HR planning and forecasting. Then using those HR plans and forecasts may enhance the identification, engagement, and retention of both existing workers and potential employees.[9]

- Individual employee demographics (age, length of service in the organization, time in present job)
- Individual career progression (jobs held, time in each job, education and training levels, promotions or other job changes, pay rates)
- Individual performance data (work accomplishment, growth in skills, working relationships)

All the details on an individual employee's skills that go into a databank may affect that person's career. Therefore, the data and their use must meet the same standards of job-relatedness and nondiscrimination as those met when the employee was initially hired. Furthermore, security measures must ensure that sensitive information is available only to those who have a specific use for it.

Managers and HR staff members can gather data on individual employees and aggregate details into a profile of the current organizational workforce. This profile may reveal many of the current strengths and deficiencies of people in the organization. For instance, a skills mismatch may be identified in which some workers are either overqualified or underqualified for their jobs.[10] The profile also may highlight potential future problems. For example, if some specialized expertise, such as advanced technical skills, is absent in many workers, the organization may find it difficult to take advantage of its changing technological developments; or if a large group of experienced employees are all in the same age bracket, their eventual retirements about the same time might lead to future "gaps" in the organization.

FORECASTING HR SUPPLY AND DEMAND

The information gathered from scanning the external environment and assessing internal strengths and weaknesses is used to predict HR supply and demand in light of organizational objectives and strategies. **Forecasting** uses information from the past and the present to identify expected future conditions. Projections for the future are, of course, subject to error. Fortunately, experienced people usually are able to forecast with enough accuracy to positively affect long-range organizational planning.

Forecasting Using information from the past and the present to identify expected future conditions.

Forecasting Methods and Periods

Forecasting methods may be either judgmental or mathematical, as Figure 5-2 shows. Methods for forecasting human resources range from a manager's best

FIGURE 5-2 HR Forecasting Example Methods

Judgmental Methods

- *Estimates* can be either top-down or bottom-up, but essentially people who are in a position to know are asked, "How many people will you need next year?"
- The *rule of thumb* method relies on general guidelines applied to a specific situation within the organization. For example, a guideline of "one operations manager per five reporting supervisors" aids in forecasting the number of supervisors needed in a division. However, it is important to adapt the guideline to recognize widely varying departmental needs.
- The *Delphi technique* uses input from a group of experts whose opinions of forecasted situations are sought. These expert opinions are then combined and returned to the experts for a second anonymous opinion. The process continues through several rounds until the experts essentially agree on a judgment. For example, this approach is used to forecast effects of technology on HR management and staffing needs.
- *Nominal groups*, unlike the Delphi method, require experts to meet face to face. Their ideas may be cited independently at first, discussed as a group, and then compiled as a report.

Mathematical Methods

- *Statistical regression analysis* makes a statistical comparison of past relationships among various factors. For example, a statistical relationship between gross sales and number of employees in a retail chain may be useful in forecasting the number of employees that will be needed if the retailer's sales increase 15% or decrease 10%.
- *Simulation models* are representations of real situations in abstract form. For example, an econometric model of the growth in software usage would lead to forecasts of the need for software developers. Numerous simulation methods and techniques are available.
- *Productivity ratios* calculate the average number of units produced per employee. These averages can be applied to sales forecasts to determine the number of employees needed. For example, a firm could forecast the number of needed sales representatives using these ratios.
- *Staffing ratios* can be used to estimate indirect labor. For example, if the company usually uses one clerical person for every 25 production employees, that ratio can be used to estimate the need for clerical employees.

guess to a rigorous and complex computer simulation. Despite the availability of sophisticated judgmental and mathematical models and techniques, forecasting is still a combination of quantitative methods and subjective judgment. The facts must be evaluated and weighed by knowledgeable individuals, such as managers or HR planners, who use the mathematical models as tools and make judgments to arrive at decisions.

HR forecasting should be done over three planning periods: short range, intermediate range, and long range. The most commonly used planning period of six months to one year focuses on *short-range* forecasts for the immediate HR needs of an organization. Intermediate- and long-range forecasting are much more difficult processes. *Intermediate-range* plans usually project one to three years into the future, and *long-range* plans extend beyond three years.

Forecasting the Demand for Human Resources

The demand for employees can be calculated for an entire organization and/or for individual units in the organization. For example, a forecast might indicate that a firm needs 125 new employees next year, or that it needs 25 new people in sales and customer service, 45 in production, 20 in accounting and information systems, 2 in HR, and 33 in the warehouse. The unit breakdown obviously allows HR planners to better pinpoint the specific skills needed than does the aggregate method.

Demand for human resources can be forecast by considering specific openings that are likely to occur. The openings (or demands) are created when new jobs are being created or current jobs are being reduced. Additionally, forecasts must consider when employees leave positions because of promotions, transfers, turnovers, and terminations.

An analysis is used to develop decision rules (or "fill rates") for each job or level. For example, a decision rule for a financial institution might state that 50% of branch supervisor openings will be filled through promotions from customer service tellers, 25% through promotions from personal bankers, and 25% from new hires. Forecasters must be aware of multiple effects throughout the organization, because as people are promoted from within, their previous positions become available. Continuing the example, forecasts for the need for customer service tellers and personal bankers would also have to be developed. The overall purpose of the forecast is to identify the needs for human resources by number and type for the forecasting period.

Forecasting the Supply of Human Resources

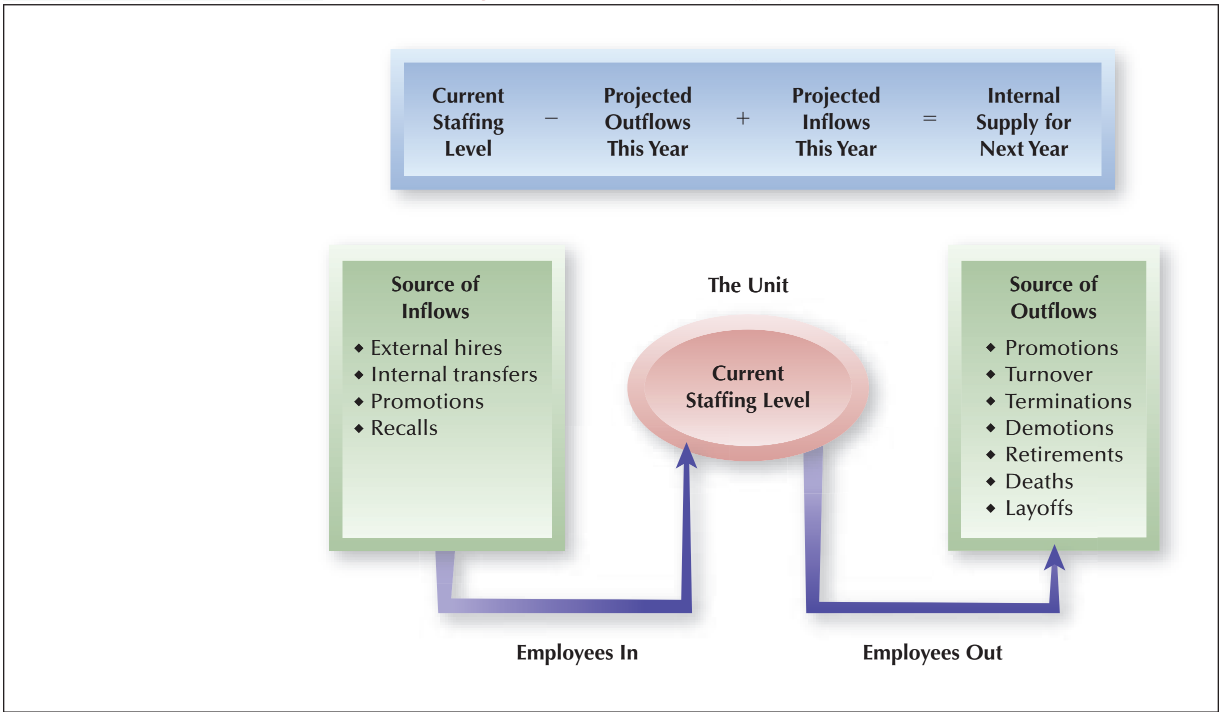
Once human resources needs have been forecast, then availability of qualified individuals must be identified. Forecasting availability considers both *external* and *internal* supplies. Although the internal supply may be somewhat easier to calculate, it is important to calculate the external supply as accurately as possible.

External Supply The external supply of potential employees available to the organization needs to be identified. Extensive use of government estimates of labor force populations, trends in the industry, and many more complex and interrelated factors must be considered. Such information is often available from state or regional economic development offices, including these items:

- Net migration into and out of the area
- Individuals entering and leaving the workforce
- Individuals graduating from schools and colleges
- Changing workforce composition and patterns
- Economic forecasts for the next few years
- Technological developments and shifts
- Actions of competing employers
- Government regulations and pressures
- Circumstances affecting persons entering and leaving the workforce

Internal Supply Figure 5-3 shows in general terms how the internal supply can be calculated for a specific employer. Estimating internal supply considers the number of external hires and the employees who move from their current jobs into others through promotions, lateral moves, and terminations. It also considers that the internal supply is influenced by training and development programs, transfer and promotion policies, and retirement policies, among other factors. In forecasting the internal supply, data from the replacement charts and succession planning efforts are used to project potential personnel changes, identify possible backup candidates, and keep track of attrition (resignations, retirements, etc.) for each department in an organization.

FIGURE 5-3 Estimating Internal Labor Supply for a Given Unit



INDIVIDUAL WORKERS AND ORGANIZATIONAL RELATIONSHIPS

Relationships between individuals and their employers can vary widely from favorable to unfavorable. The individual's performance is a major part of why the employer wants the individual to stay or go. Competent employees who are satisfied with their employers, who know what is expected, and who have reduced turnover potential are assets to the organization. But just as individuals in an organization can be a competitive advantage, they can also be a liability. When few employees are satisfied with their jobs, when people are constantly leaving, and when the employees who do remain work ineffectively, the organization faces a *competitive disadvantage*.

Understanding the relationships between individuals and organizations is more than just academically interesting. The economic health of most organizations depends on the efforts of employes with the ability and motivation to do their jobs well. The exchanges in the relationship between an employee and an employer affect both of them.[11] Two considerations in these relationships include the psychological contract and motivation, which can help with understanding employee retention.

Psychological Contract

A concept that has been useful in discussing individuals' relationships with their employers is that of a **psychological contract**, which refers to the unwritten expectations employees and employers have about the nature of their work relationships. The psychological contract can create either a positive or negative relationship between an employer and an individual. It is based on trust and commitment that leads to meeting both the employer's and employee's expectations and needs.[12]

Unwritten psychological contracts between employers and employees encompass expectations about both tangible items (e.g., wages, benefits, employee productivity, and attendance) and intangible items (e.g., loyalty, fair treatment, and job security). Employers may attempt to detail their expectations through handbooks and policy manuals, but those materials are only part of the total "contractual" relationship.

The Changing Psychological Contract Traditionally, employees expected to exchange their efforts and capabilities for secure jobs that offered competitive pay, a solid range of benefits, and career progression within an organization, among other factors. But as some organizations have changed in economic terms, they have had to address various organizational crises by downsizing and eliminating workers who had given long and loyal service. Consequently, in these firms, a growing number of remaining employees are questioning whether they should remain loyal to and stay with their employers.

Psychological contract
The unwritten expectations employees and employers have about the nature of their work relationships.

When individuals feel that they have some control and perceived rights in the organization, they are more likely to be committed to the organization and utilize their knowledge, skills, and abilities to accomplish performance results.[13] A psychological contract recognizes the following components:

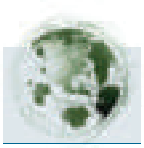
Employers Provide

- Competitive compensation and benefits
- Flexibility to balance work and home life
- Career development opportunities

Employees Contribute

- Continuous skill improvement and increased productivity
- Reasonable time with the organization
- Extra efforts and results when needed

Psychological contracts can be strengthened and employee commitment enhanced when the organization is involved in a cause the employee values highly. Conversely, psychological contracts can be violated, not only in reaction to personal mistreatment, but from a perception that the organization has abandoned an important principle or cause. For instance, when unethical or illegal behavior of upper management occurs, the psychological contract is violated. Thus, employees may feel anger, distrust, reduced loyalty and commitment, and increased willingness to leave. Also, social exchange relationships in organizations can be affected by psychological contract breaches and violations.[14]



Global Psychological Contract Concerns With many organizations having global operations, the psychological contract becomes more complicated. Employees in foreign countries and expatriate employees from the United States have varying psychological contract expectations. For expatriates, if the organizational expectations are not made clear prior to their relocation, more of them will be likely to quit within the first year or demand return to their home country.[15]

An additional concern for multinational firms is to meet the psychological contract expectations of individuals in different cultures and countries. Consider the number of jobs that have been shifted from the United States and Europe to China, India, Romania, Mexico, the Philippines, Brazil, and other countries with different global factors. Being aware of varying psychological contract issues with foreign employees is important if global HR efforts are to be successful.

Individual Employee Performance and Motivation

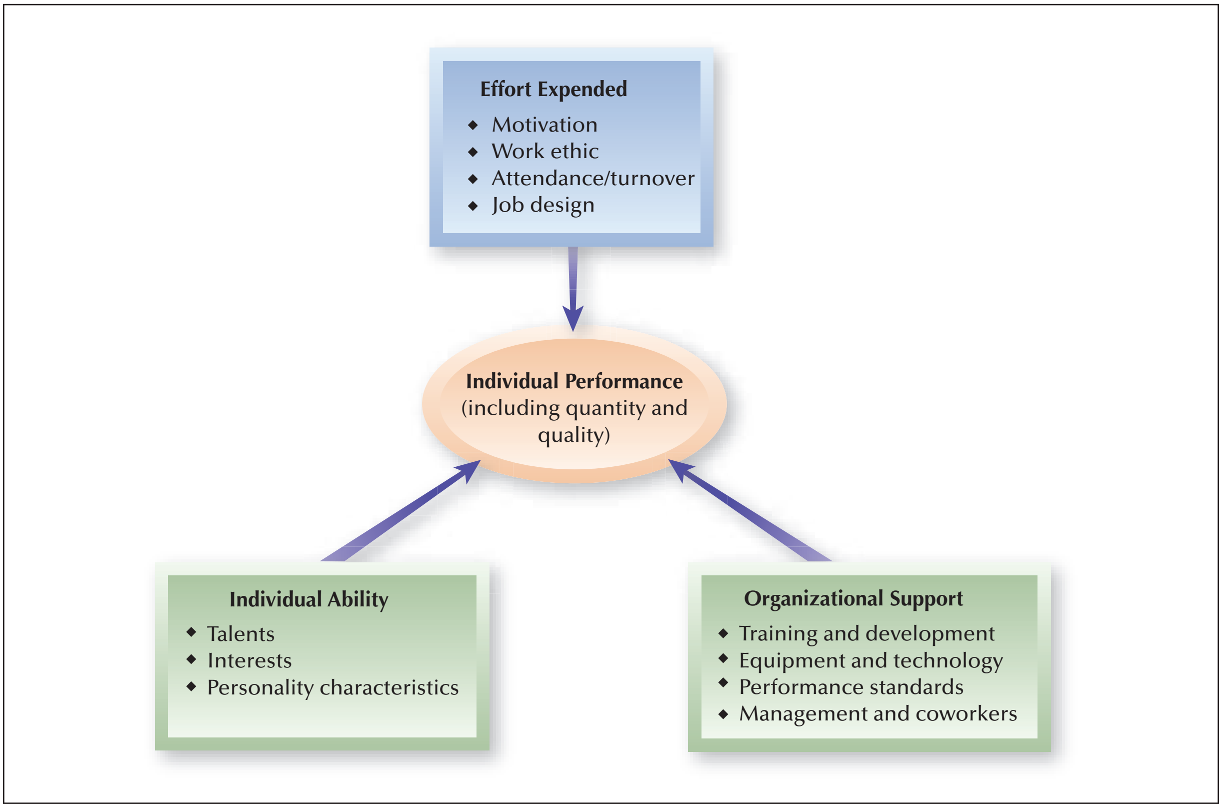
The idea of a psychological contract between the individual employee and the organization helps clarify why people might stay or leave a job. But for an employer to *want* to keep an employee, that person must be performing well. The HR unit in an organization exists in part to provide ways to analyze and address the performance and motivation of individual employees.

Individual Performance Factors The three major factors that affect how a given individual performs are illustrated in Figure 5-4. They are: (1) individual ability to do the work, (2) effort expended, and (3) organizational support. The relationship of those factors is widely acknowledged in management literature as follows:

$$\text{Performance } (P) = \text{Ability } (A) \times \text{Effort } (E) \times \text{Support } (S)$$

Individual performance is enhanced to the degree that all three components are present with an individual employee, and diminished if any of these factors is reduced or absent. For instance, if several production workers have the abilities to do their jobs and work hard, but the organization provides outmoded equipment

FIGURE 5-4 Components of Individual Performance



or the management style of supervisors causes negative reactions by the workers, the lack of organizational support may reduce individual performance.

An example of how this performance equation can work in a positive way is seen in the link between individual motivation and organizational support in the form of coworkers. Studies have shown that the motivation of poor-performing employees can be improved when these employees work more intensely with a group of better-performing workers. The link between individual motivation and organizational support has important HR management implications.[16]

Individual Motivation and Management Implications The desire within a person causing that person to act is called **motivation**. People usually act to reach a goal, which means that motivation is a goal-directed drive that seldom occurs in a void. The words *need*, *want*, *desire*, and *drive* are all similar to *motive*, from which the word *motivation* is derived. Approaches to understanding motivation vary because different theorists have developed their own views and models.[17] Each approach has contributed to the understanding of human motivation, and details on different approaches can be found in various organizational behavior textbooks.

Motivation is complex and individualized, and managerial strategies and tactics must be broad-based to address the motivation concerns of individuals at work. Factors that can inhibit motivation and work performance include a worker's capacities and determination to get work done regardless of difficulties.[18] For instance, with a poor-performing employee, managers must determine whether inadequate individual behavior is due to employee deficiencies, inconsistent reward policies, or low desire for the rewards offered.

Motivation The desire within a person causing that person to act.

By having supportive supervisors and managers who serve as mentors, concerns about motivations can be better addressed with employees.[19] Understanding motivation is important because employee engagement can affect both performance and retention. Fostering motivation can improve performance and can reduce turnover.

Many organizations spend a considerable amount of money to "motivate" their employees, using a wide range of tactics. For example, some firms hire motivational speakers to inspire employees, and "motivational coaches" command fees of up to $50,000 a speech. Other employers give employees items such as T-shirts, mugs, or books as motivators. However, such efforts may or may not be effective in improving employees' job satisfaction and loyalty.

Many employees rely on the unspoken psychological contract, and their hope that the employer will honor this "agreement" affects their job satisfaction and motivation. One survey found that 45% of the surveyed workers indicated that personal job satisfaction was their main motivation for job performance.[20]

Nature of Job Satisfaction

In its most basic sense, **job satisfaction** is a positive emotional state resulting from evaluating one's job experiences. Job *dissatisfaction* occurs when one's expectations are not met. For example, if an employee expects clean and safe working conditions, that employee is likely to be dissatisfied if the workplace is dirty and dangerous.

Dimensions of job satisfaction frequently mentioned include worker relationships, pay and benefits, performance recognition, and communications with managers and executives. Sometimes job satisfaction is called *morale,* which appears to have declined somewhat in recent years in some firms due to economic factors and changes in the elements of the employee-employer relationship. Frequently cited reasons for decline in morale include more demanding and stressful work, fewer relationships with management, and less confidence in compensation and other rewards.[21] Depending on the job, the work-life balancing mentioned earlier also can lead to either positive or negative effects in workers' job satisfaction.[22]

One way employers address job satisfaction, and ultimately retention, is by regularly surveying employees. One specific type of survey used by many organizations is an **attitude survey**, which focuses on employees' feelings and beliefs about their jobs and the organization. Once the survey results are compiled, management responds to the results. If the employer takes responsive actions, employees may view the employer more positively; however, if management ignores the survey results, their inaction can lead to less employee job satisfaction.[23]

Job satisfaction A positive emotional state resulting from evaluating one's job experiences.

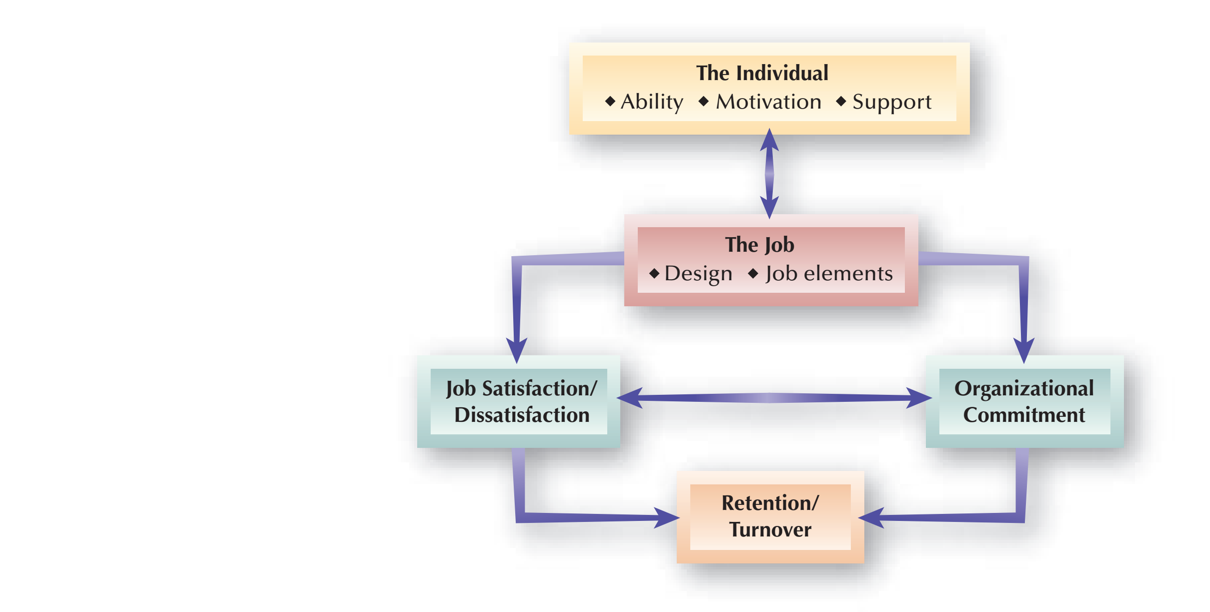
Attitude survey A survey that focuses on employees' feelings and beliefs about their jobs and the organization.

Organizational commitment The degree to which employees believe in and accept organizational goals and desire to remain with the organization.

Organizational Commitment and Job Satisfaction The degree to which employees believe in and accept organizational goals and want to remain with the organization is called **organizational commitment**. Job satisfaction influences organizational commitment, which in turn affects employee retention and turnover. As Figure 5-5 depicts, the interaction of the individual and the job determines levels of job satisfaction and organizational commitment.

Engagement and Loyalty A related idea is *employee engagement,* which is the extent to which an employee feels linked to organizational success. Surveys have shown that levels of employee engagement range from 15% to 45% for highly engaged workers, and 5% to 20% for disengaged ones.[24]

FIGURE 5-5 **Factors Affecting Job Satisfaction and Organizational Commitment**



Engaged employees may be seen as "loyal" employees who are more than just satisfied with their jobs; they are pleased with the relationships with their employers. In changing labor markets, employers find that turnover of key people occurs more frequently when employee loyalty is low. For example, the Federal Office of Personnel Management has used engagement efforts with retirement-eligible employees to defer their departures, which reduces turnover.[25] Excessive turnover makes clear the importance of having an engaged and committed workforce.

A logical extension of organizational engagement focuses more specifically on *continuance commitment* factors. These are the factors that influence decisions to remain with or leave an organization, and ultimately they are reflected in employee retention and turnover statistics. The relationships among satisfaction, commitment, and turnover have been affirmed across cultures, full- and part-time workers, genders, and occupations. Organizational engagement and commitment can be seen as essential in retaining employees in organizations. Individuals who are not as satisfied with their jobs or who are not as committed to the organization are more likely to withdraw from the organization. Understanding engagement and commitment in relation to turnover is one facet of retention efforts for managers.

LOGGING ON

Loyalty Research Center
This research center provides employee loyalty/employee engagement research and consulting services. Visit their site at www.loyaltyresearch.com.

EMPLOYEE TURNOVER

Turnover The process in which employees leave an organization and have to be replaced.

Turnover occurs when employees leave an organization and have to be replaced. Many organizations have found that turnover is a costly problem. For instance, health care firms experienced over 30% turnover annually in one state. Just in registered nurse jobs, the turnover cost in the state was more than $125 million per year, with individual nurse turnover costs being $32,000 per person.[26]

The extent to which employers face high turnover rates and costs varies by organization and industry. For higher-level executives and professionals, turnover costs can run as much as two times the departing employees' annual salaries, and rates often are linked to executive job expectations and needed skills changes.[27] In many service industries, the turnover rates and costs are frequently very high. In the retail industry, turnover in some companies averages more than 100% a year for part-time workers and around 75% a year for full-time workers. The U.S. supermarkets, fast-food restaurants, and other retail service industry firms spend billions of dollars each year to deal with worker turnover.

Types of Employee Turnover

Turnover is classified in a number of ways. One classification uses the following categories, although the two types are not mutually exclusive:

- **Involuntary Turnover**

  Employees are terminated for poor performance or work rule violations

- **Voluntary Turnover**

  Employees leave by choice

Involuntary turnover is triggered at all levels by employers terminating workers due to organizational policies and work rule violations, excessive absenteeism, performance standards that are not met by employees, and other issues. Voluntary turnover too can be caused by many factors, some of which are not employer controlled. Common voluntary turnover causes include job dissatisfaction, pay and benefits levels, supervision, geography, and personal/family reasons. Career opportunities in other firms, when employees receive unsolicited contacts, may lead to turnover for individuals, especially those in highly specialized jobs such as IT.[28] Voluntary turnover may increase with the size of the organization, most likely because larger firms are less effective in preventing turnover and have more employees who are inclined to move.

Another view of turnover classifies it based on whether it is good or bad for the organization:

- **Functional Turnover**

  Lower-performing or disruptive employees leave

- **Dysfunctional Turnover**

  Key individuals and high performers leave at critical times

Not all turnover is negative for organizations; on the contrary, functional turnover represents a positive change. Some workforce losses are desirable, especially if those who leave are lower-performing, less reliable, and/or disruptive individuals.[29] Of course, dysfunctional turnover also occurs. That happens when key individuals leave, often at crucial times. For example, a software project leader who leaves in the middle of a system upgrade in order to take a promotion at another firm could cause the system upgrade timeline to slip due to the difficulty of replacing the employee and could also lead other software specialists in the firm to seek out and accept jobs at competitive firms.

Employees quit for many reasons, only some of which can be controlled by the organization, so another classification uses the following terms to describe types of turnover:

- **Uncontrollable Turnover**

  Employees leave for reasons outside the control of the employer

- **Controllable Turnover**

  Employees leave for reasons that could be influenced by the employer

Some examples of reasons for turnover the employer cannot control include: (1) the employee moves out of the geographic area, (2) the employee decides to stay home with young children or an elder relative, (3) the employee's spouse is transferred, and (4) the employee is a student worker who graduates from college. Even though some turnover is inevitable, employers recognize that reducing turnover saves money, and that they must address the turnover that is controllable. Organizations are better able to keep employees if they deal with the concerns of those employees that might lead to the controllable turnover.

Turnover and "Churn" Hiring new workers while laying off others is called **churn**. This practice raises a paradox in which employers complain about not being able to find skilled workers while they are laying off others. As organizations face economic and financial problems that result in layoffs, the remaining employees are more likely to consider jobs at other firms.[30] In this situation, turnover is more likely to occur, and efforts are needed to keep existing employees. HR actions such as information sharing, opportunities for more training/learning, and emphasis on job significance can be helpful in lowering turnover intentions of individuals.[31]

Measuring Employee Turnover

The U.S. Department of Labor estimates that the cost of replacing an employee ranges from one-half to five times the person's annual salary.[32] The turnover rate for an organization can be computed as a monthly or yearly cost. The following formula, in which *separations* means departures from the organization, is widely used:

$$\frac{\text{Number of employee separations during the year}}{\text{Total number of employees at midyear}} \times 100$$

Common turnover rates range from almost 0% to more than 100% a year and vary among industries. As a part of HR management systems, turnover data can be gathered and analyzed in a number of different ways, including the following categories:

- Job and job level
- Department, unit, and location
- Reason for leaving
- Length of service
- Demographic characteristics
- Education and training
- Knowledge, skills, and abilities
- Performance ratings/levels

Two examples illustrate why detailed analyses of turnover are important. A manufacturing organization had a companywide turnover rate that was not severe, but 80% of the turnover occurred within one department. That imbalance indicated that some specific actions on training supervisors and revising pay levels were needed to resolve problems in that unit. In a different organization, a global shipping/delivery firm found ways to reduce turnover of sales and service employees. The actions of that firm reduced its turnover 29%, which contributed to an annual savings of more than $18 million in direct and indirect costs.[33] In both of these examples, the targeted turnover rates declined as a result of employer actions taken in response to the turnover analyses that were done.

Churn Hiring new workers while laying off others.

FIGURE 5-6 Model for Costing Lost Productivity

Job Title: ____________________

A. Typical annual pay for this job	_________
B. Percentage of pay for benefits multiplied by annual pay	_________
C. Total employee annual cost (add A + B)	_________
D. Number of employees who voluntarily quit the job in the past 12 months	_________
E. Number of months it takes for 1 employee to become fully productive	_________
F. Per person turnover cost (multiply [E ÷ 12] × C × 50%*)	_________
G. Annual turnover cost for this job (multiply F × D)	_________

*Assumes 50% productivity throughout the learning period (E).

HR Metrics: Determining Turnover Costs

A major step in reducing the expense of turnover is to decide how the organization is going to record employee departures and what calculations are necessary to maintain and benchmark the turnover rates. Determining turnover costs can be relatively simple or very complex, depending on the nature of the efforts made and the data used.

Figure 5-6 shows a model for calculating the cost of productivity lost to turnover. If a job pays (A) $20,000 and benefits cost (B) 40%, then the total annual cost for one employee (C) is $28,000. Assuming that 20 employees have quit in the previous year (D) and that it takes three months for 1 employee to be fully productive (E), the calculation results in a per person turnover cost (F) of $3,500. Overall, the annual lost productivity (G) would be $70,000 for the 20 individuals who have left. In spite of the conservative and simple nature of this model, it easily makes the point that turnover is costly. As another example, if 150 tellers in a large bank corporation leave in a year, calculations done according to this model produce turnover costs of more than $500,000 a year.

Detailing Turnover Costing Other areas to be included in calculating detailed turnover costs are also available.[34] Some of the most common areas considered include the following:

- *Separation costs:* HR staff and supervisory time, pay rates to prevent separations, exit interview time, unemployment expenses, legal fees for separations challenged, accrued vacation expenditures, continued health benefits, and others
- *Vacancy costs:* Temporary help, contract and consulting firm usage, existing employee overtime, and other costs until the person is replaced
- *Replacement costs:* Recruiting and advertising expenses, search fees, HR interviewer and staff time and salaries, employee referral fees, relocation and moving costs, supervisor and managerial time and salaries, employment testing costs, reference checking fees, preemployment medical expenses, relocation costs, and others

- *Training costs:* Paid orientation time, training staff time and pay, costs of training materials, supervisor and manager time and salaries, coworker "coaching" time and pay, and others
- *Hidden/indirect costs:* Costs that are not obvious, such as reduced productivity, decreased customer service, additional unexpected employee turnover, missed project deadlines, and others

These turnover metrics illustrate that turnover is a crucial HR and managerial issue that must be constantly evaluated and addressed.

Not all turnover is negative. Turnover of low performers should be considered positive. There may be an "optimal" amount of useful turnover in order to replace low performers and add part-time or contract workers with special capabilities to enhance workforce performance.[35] HR professionals should take actions to reduce negative turnover and to address the retention of key employees.

LOGGING ON

TalentKeepers
For Web-based employee retention solutions, visit www.talentkeepers.com.

RETENTION OF HUMAN RESOURCES

Retention of employees as human resources is part of HR staffing and planning efforts. Turnover, as the opposite of retention, often has been seen as a routine HR matter requiring records and reports. However, what was once a bothersome detail has become a substantial HR issue for many employers. Thus, organizations are being forced to study why employees leave and why they stay. Sometimes an individual in the HR area is assigned to specifically focus on retention to ensure that it receives high priority.

Myths and Realities about Retention

Keeping good employees is a challenge that all organizations share and that becomes even more difficult as labor markets change. Unfortunately, some myths have arisen about what it takes to retain employees. Some of the most prevalent myths and realities are as follows:

1. *Money is the main reason people leave*. Money certainly is a vital HR tool, and if people feel they are being paid inadequately, they may be more likely to leave. But if they are paid close to the competitive level they expect, other parts of the job become more important.
2. *Hiring has little to do with retention*. This is not true. Recruiting and selecting the people who fit the jobs and who are less likely to leave in the first place, and then orienting them to the company, can greatly increase retention. It is important to select for retention.
3. *If you train people, you are only training them for another employer.* Developing skills in employees may indeed make them more marketable, but it also tends to improve retention. When an employer provides employees with training and development assistance, job satisfaction may increase and employees are more likely to stay, particularly if they see more future opportunities internally.
4. *Do not be concerned about retention during organizational change.* That is exactly the time to worry about retention. Although some people's jobs may have to be cut because of economic organizational

factors, the remaining employees that the company would like to keep may have the most opportunity and reason to leave voluntarily. For example, during a merger or acquisition, most workers are concerned about job security and their employer's future. If they do not feel a part of the new organization early on, many may leave or evaluate alternatives.

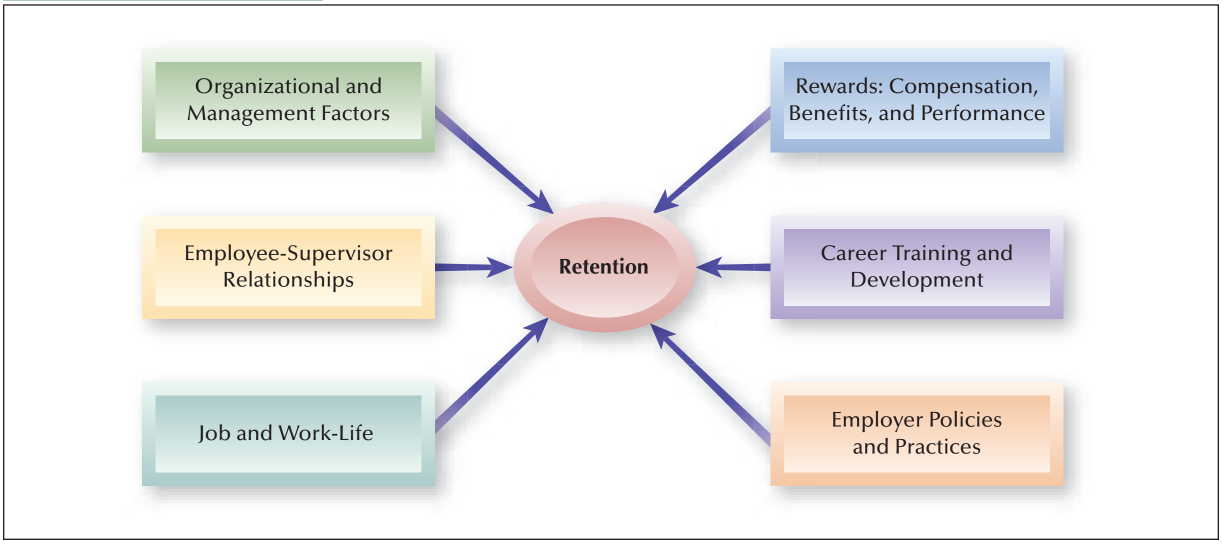
5. *If solid performers want to leave, the company cannot hold them.* Employees are best viewed as "free agents," who indeed can leave when they want. The key to keeping solidly performing employees is to create an environment in which they want to stay and grow.

Drivers of Retention

Because both people and jobs are so varied, managers and HR professionals need to realize that individuals may remain or leave their employment for both job-related and personal reasons. For instance, if employees choose to leave an organization for family reasons (e.g., because a spouse is transferring or to raise children), there may be a limited number of actions the employer can take to keep them on the job. However, there are significant actions that an employer can take to retain employees in many other circumstances. Figure 5-7 illustrates some of these "drivers" of retention, or areas in which employers can take action to strengthen the possibility of keeping employees.

The actual reasons that people stay or leave vary according to job groupings, industry and organizational issues, geographical global aspects, and other factors. For instance, a survey of executives by Robert Half International found that the most common factors that caused satisfactory employees to quit their jobs were unhappiness with management, limited career advancements and recognition, insufficient pay and benefits, and job boredom.[36] This survey illustrates that many of the factors involved in retention drivers are organizational and management factors within the employer's control.

FIGURE 5-7 Drivers of Retention



Organizational and Management Factors A number of organizational/management factors influence individuals in their decisions to stay with or leave their employers. Organizations that have clearly established goals and hold managers and employees accountable for accomplishing results are viewed as better places to work, especially by individuals wishing to progress both financially and career-wise. Further, effective management provides the resources necessary for employees to perform their jobs well.[37] These factors reflect workplace commitment by employees, which leads to more positive organizational views in the industry and communities.

Other organizational components that affect employee retention are related to the management of the organization. Some organizations see external events as threatening, whereas others see changes as challenges requiring responses.[38] The latter approach can be a source of competitive advantage, especially if an organization is in a growing, dynamic industry. Another organizational factor that can affect employee job performance and potential turnover intentions is "organizational politics."[39] This can include managerial favoritism, having to be involved in undesirable activities, taking credit for what others do, and other actions that occur in many departments and organizational settings.

A final factor affecting how employees view their organizations is the quality of organizational leadership. Often, leaders have an identified strategic plan that guides how the firm responds to changes. If a firm is not effectively managed, then employees may be disappointed by the ineffective responses and inefficiencies they deal with in their jobs. A survey of 700 workers identified that "bad bosses" who do not give employees recognition for accomplishments or who fail to keep promises can lead to almost 40% of the workers being dissatisfied and more likely to look for other jobs.[40]

Work Relationships Work relationships that affect employee retention include *supervisory/management support* and *coworker relations*. A supervisor or manager builds positive relationships and aids retention by being fair and nondiscriminatory, allowing work flexibility and work-family balancing, giving feedback that recognizes employee efforts and performance, and supporting career planning and development.

Additionally, many individuals build close relationships with coworkers. Such work-related friendships do not appear on employee records, but these relationships can be an important signal that a workplace is positive. Overall, what this means is that it is not just where people work, but also with whom they work, that affects employee retention. If individuals are not linked with or do not relate well to their coworkers, there is greater likelihood for turnover to occur.[41]

Job and Work-Life Many individuals have seen a decline in job security during the past decade. All the downsizings, layoffs, mergers and acquisitions, and organizational restructurings have affected employee loyalty and retention. As coworkers experience layoffs and job reductions, the anxiety levels of the remaining employees rise. Consequently, employees start thinking about leaving before they too get cut. Organizations in which job continuity and security are high tend to have higher retention rates.

Some jobs are considered "good" and others are thought to be "bad," but not all people agree on which jobs are which. As mentioned previously, the design of jobs and peoples' preferences can vary significantly. Job design factors that can impact retention include the following:

Global Retention

HR perspective

The same core elements that affect retention in the United States are important across the globe according to a McKinsey Global Institute study. Higher turnover and lower retention rates can be seen among expatriate employees working outside their home countries. Also, repatriating those who have been overseas only to return to less-than-ideal situations later in the United States is another source of international retention difficulties.[42]

Retention can also be a challenge in countries where national workers staff the firms. India with its large global economic market illustrates what kinds of difficulties can occur. Estimates are that service industries in India will encounter a shortfall in one year of 500,000 employees who are qualified for jobs in those industries, which include financial services, information technology, and retail, among others.

One would think that given the large Indian population, recruitment and retention would not be problems. But the need for individuals with special skills in cities such as Mumbai, Delhi, and others is creating major issues. Firms are giving 12% to 15% yearly pay increases to many key workers in order to retain them; in addition, they are using both yearly and longer-term incentives for more senior-level employees.

The retention situation in India is expected to expand to other countries as global economic conditions improve and change, and the global market continues to grow. For instance, a survey of 32,000 employers in 26 countries indicated that almost one-third of them would have hired more professional staff members if they had been available. So, global attraction and retention are growing HR concerns.[43]

- A knowledge, skills, and abilities mismatch, either through overqualification or underqualification, can lead to turnover.
- Job accomplishments and workload demands that are dissatisfying or stressful may impact performance and lead to turnover.
- Both timing of work schedules and geographic locations may contribute to burnout of some individuals but not others.
- The ability of employees to balance work and life requirements affects their job performance and retention.

Numerous examples could be given on how each of these items affect retention, but one example comes from a survey of chief financial officers on the impact of these issues in their firms. In this survey, work-life flexibility efforts were seen as creating significant retention, recruitment, and productivity results.[44] This study illustrates that how organizations address jobs can drive retention efforts, including global retention as discussed in the HR Perspective.

Rewards: Compensation, Benefits, and Performance The tangible rewards that people receive for working come in the form of pay, incentives, and benefits. Employees often cite better pay or benefits as the reason for leaving one employer for another. Employers do best if they offer *competitive pay and benefits,* which means they must be close to what other employers are providing and what individuals believe to be consistent with their capabilities, experience, and performance. If compensation is not close, often defined as within 10% to 15% of the "market" rate, turnover is likely to be higher.

However, the reality of compensation is a bit more complex than it seems at first glance. For instance, one study of public-sector employees identified that broad reward programs, not just pay and benefits, aided with workforce retention in difficult economic situations.[45] A number of employers have used a wide range of special benefits and perks to attract and retain employees. For example, Student Media Group in Delaware added work-related plasma television screens, videogame players, and free soda and snacks as part of a special rewards package to create more positive views to aid in retaining employees.[46]

Another part of rewards generally is that individuals need to be satisfied with both the actual levels of pay and the processes used to determine pay. That is why the performance management systems and performance appraisal processes in organizations must be designed so they are linked to compensation increases. To strengthen links between organizational and individual performance, an increasing number of fast-growing private-sector firms are using variable pay and incentives programs.[47] Some programs offer cash bonuses or lump-sum payments to reward extra performance, which also aids with retention efforts.

Another rewards aspect that affects retention is *employee recognition,* which can be both tangible and intangible. Tangible recognition comes in many forms, such as "employee of the month" plaques and perfect-attendance certificates. Intangible and psychological recognition includes feedback from managers and supervisors that acknowledges extra effort and performance, even if monetary rewards are not given. For instance, one firm, Fairmont Hotels and Resorts, is using a "Serviceplus Colleague Recognition Program" to engage its 30,000 employees. Different types of recognitions include "Star of the Month" and "Memory Maker" for significant service. For such recognition, a small amount of money (under $50) and other types of rewards are given. An employee survey has shown significant increases in positive employee views of both their jobs and the Fairmont firm.[48]

Career Training and Development Many employees in all types of jobs consistently indicate that organizational efforts to aid their career training and development can significantly affect employee retention. *Opportunities for personal growth* lead the list of reasons why individuals took their current jobs and why they stay there. In one survey, nearly one-third of workers identified the lack of career advancement opportunities to be the most important reason for potentially changing employers.[49]

Training and development efforts can be designed to indicate that employers are committed to keeping employees' knowledge, skills, and abilities current. Also, training and development can help underused employees attain new capabilities. Such a program at Southwest Airlines has been very successful. Recruiters were reassigned to different departments, which resulted in their generating sales and revenues in flight operations and other areas.[50]

Organizations address training and development in a number of ways. Tuition aid programs, typically offered as a benefit by many employers, allow employees to pursue additional educational and training opportunities. These programs often contribute to higher employee retention rates because the employees' new knowledge and capabilities can aid the employer. Also, through formal career planning efforts, employees discuss with their managers career opportunities within the organization and career development activities that will help them to grow.

Career development and planning efforts may include formal mentoring programs. For instance, information technology (IT) organizations are using career development programs so that IT individuals can expand their skills outside of technical areas. Programs in some firms cover communication and negotiation tactics, which gives the employees additional capabilities that are needed in managerial and other jobs.[51] Companies can help reduce attrition by showing employees that they are serious about career advancement opportunities.

Employer Policies and Practices A final set of factors found to affect retention is based on the employer relations policies that exist. Such areas as the reasonableness of HR policies, the fairness of disciplinary actions, and the means used to decide work assignments and opportunities all affect employee retention. If individuals feel that policies are unreasonably restrictive or are applied inconsistently, they may be more likely to look at jobs offered by other employers.

The increasing demographic diversity of U.S. workplaces makes the *nondiscriminatory treatment* of employees important, regardless of gender, age, and other characteristics. The organizational commitment and job satisfaction of ethnically diverse individuals are affected by perceived discriminatory treatment. A number of firms have recognized that proactive management of diversity issues results in greater retention of individuals of all backgrounds.

LOGGING ON

Retensa
For resources and newsletters on current trends in employee retention strategies, visit this site at www.retensa.com.

MANAGING RETENTION

The foregoing sections summarized the results of many studies and popular HR practices to identify factors that can cause retention difficulties. Retention matters because turnover can cause poor performance in otherwise productive units. Now our focus turns toward the keys to managing retention as part of effective HR management.

MEASURE

Retention Assessment and Metrics

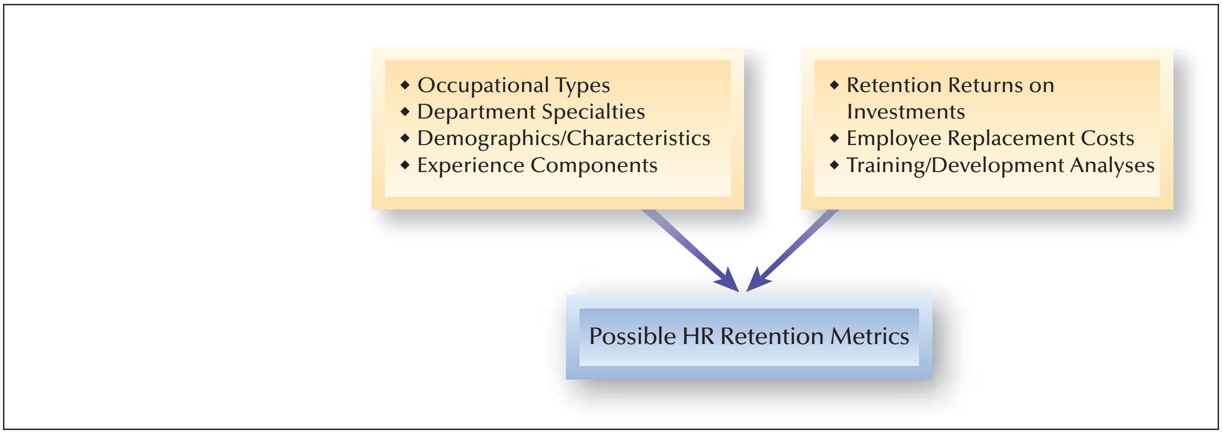
To ensure that appropriate actions are taken to enhance retention, management decisions require data and analyses rather than subjective impressions, anecdotes of selected individual situations, or panic reactions to the loss of key people. Examples of data for analyzing retention are highlighted in Figure 5-8. Discussion on some of these sources follows.

The analysis of turnover data is an attempt to get at the cause of retention problems. Analysis should recognize that turnover is a symptom of other factors that may be causing problems. When the causes are treated, the symptoms can go away.

Some of the first areas to consider when analyzing data for retention include the work, pay/benefits, supervision, and management systems. Common methods of obtaining useful perspectives are employee surveys, exit interviews, and first-year turnover evaluations.

Employee Surveys Employee surveys can be used to diagnose specific problem areas, identify employee needs or preferences, and reveal areas in which HR activities are well received or viewed negatively. Whether the surveys are on general employee attitudes, job satisfaction, or specific issues, the survey results must be examined as part of retention measurement efforts. For

FIGURE 5-8 **Retention Measurement and Assessment Sources**



example, a growing number of "mini-surveys" on specific topics are being sent via e-mail questionnaires, blogs, and other means.

Regardless of the topics in a survey, obtaining employee input provides managers and HR professionals with data on the "retention climate" in an organization. By obtaining data on how employees view their jobs, their coworkers, their supervisors, and organizational policies and practices, these surveys can be starting points for reducing turnover and increasing the length of time that employees are retained. Some employers conduct attitude surveys yearly while others do so intermittently.

By asking employees to respond candidly to an attitude survey, management is building employees' expectations that actions will be taken on the concerns identified. Therefore, a crucial part of conducting an attitude survey is providing feedback to those who participated in it. It is especially important that even negative survey results be communicated to avoid fostering the appearance of hiding the results or placing blame.

Exit Interviews One widely used means for assisting retention assessment efforts is the **exit interview**, in which individuals who are leaving the organization are asked to give their reasons. HR must regularly summarize and analyze the data by category (e.g., reasons for leaving, department, length of service, etc.) to provide managers and supervisors with information for improving company efforts. As described in the HR On-the-Job feature, the exit interview process should contain some important aspects.

Many HR departments regularly contact former employees who were valuable contributors, as they may be willing to provide more information on questionnaires that are e-mailed to their homes or in telephone conversations conducted some time after they have left the organization.[52] For instance, one health care firm contacts former employees within 60 days after they have left. Many times these follow-up conversations reveal the "real" reasons for departures, other than what was said in the exit interviews. This health care firm also has a program through which ex-employees are invited to return as "alumni" and have lunch with former coworkers, which has led to a number of departed individuals indicating they would like to return to the firm because the jobs they took elsewhere did not turn out to be as "promising" as they had anticipated. Thus, rehiring can be aided by ongoing efforts such as e-mails, exit interview follow-ups, and continuing contacts with good former employees.

Exit interview An interview in which individuals who are leaving an organization are asked to give their reasons.

Conducting Exit Interviews

HR on-the-job

Departing employees may be reluctant to divulge their real reasons for leaving. A skilled HR interviewer may be able to gain useful information that departing employees do not wish to share with managers and supervisors. The following suggestions may be useful when conducting exit interviews:

- Decide who will conduct the exit interview and when the discussion will occur. Often these interviews occur on the last day or so of a departing individual's employment.
- Emphasize that the information provided by the departing employee will be treated confidentially and used to make improvements.
- Utilize a checklist or a set of standard questions so that the information can be summarized. Typical areas covered include reasons for leaving, supervision, pay, training, liked and disliked aspects of the job, and details on the organization to which the employee is moving.

When doing the actual exit interview, numerous questions can be asked. Ones typically asked of individuals include the following:

- Why are you leaving as an employee?
- What have you liked and disliked about your job and managers?
- What company actions have made you and other employees more or less positive?
- What would or would not lead you to recommend the employer to future possible hires?

First-Year Turnover Evaluations A special type of retention assessment focuses on first-year employees. It is not unusual for turnover to be high among newer employees during their first year. Sometimes the cause of departure is voluntary; for example, individuals may identify a mismatch between what they expected in their jobs and managers and what actually occurs, or between their perceptions of the new job and its reality. Other times individuals are involuntarily removed in the first year. Some causes can be excessive absenteeism and poor performance, mismatches with job requirements, and conflicts with other employees and managers. If these situations occur too often, HR may need to reevaluate its recruiting and selection processes, as well as its job previews to make sure they are realistic.[53]

Overall, focus on first-year retention and turnover is useful because individuals who stay for a year are more likely to extend their employment and have greater retention beyond the first year. Also, effective first-year efforts may lead to future career development, higher performance, and other positive retention factors.

Retention Evaluation and Follow-Up

Management can take numerous actions to deal with retention issues. The choice of a particular action depends on the analysis of the turnover and retention problems in a particular organization and should be custom tailored for that organization.

Tracking of intervention results and *adjustment of intervention efforts* should be part of retention evaluation and follow-up. Some firms use pilot programs to see how changes affect retention before extending them to the entire organization. For instance, to test the effect of flextime scheduling on employee turnover, a firm might try flexible scheduling in one department. If the turnover rate in that department drops in comparison to the turnover rates in other departments still working set schedules, the firm might extend the use of flexible scheduling to other departments.

Retention evaluation and follow-up are key facets of the broader organizational HR planning and staffing. Effective retention management can have major impacts on the integrated HR attraction, recruiting, and selection processes.

SUMMARY

- HR planning involves analyzing and identifying the need for and availability of human resources so that the organization can meet its objectives.
- When developing HR plans, it is important to examine potential HR availability, both external and internal.
- When assessing external labor supply sources, economic, governmental, competitive, and workforce composition changes should be analyzed.
- Assessing internal strengths and weaknesses as a part of HR planning requires auditing and inventorying current jobs and employee capabilities.
- The supply and demand for human resources can be forecast with a variety of methods and for differing periods of time.
- Psychological contracts are unwritten expectations that employees and employers have about the nature of their work relationships.
- The components of individual performance are individual ability, effort expended, and organizational support.
- Motivation deals with the needs and desires of human behavior and managerial and organizational factors.
- The interaction between individuals and their jobs affects both job satisfaction and organizational commitment. The extent to which employees feel linked to organizational success can affect employee engagement and loyalty.
- Turnover occurs when employees leave an organization and must be replaced. It can be classified in a number of ways, but it should be measured and its costs determined.
- Increasing employee retention or reducing turnover is important in HR management.
- Drivers of retention include organizational, managerial, and job factors that may affect employees' work-life balancing; compensation and other rewards; career training and development; and employer policies and practices.
- Retention of employees is a major focus of HR management efforts in organizations, as demonstrated by the use of retention measures, including employee surveys and exit interviews.
- Managing retention should include evaluation and tracking of both retention actions and turnover follow-up.

CRITICAL THINKING ACTIVITIES

1. Discuss the major components of HR planning and forecasting efforts.
2. Describe your expectations for a job. How well does your employer meet the expectations you bring to the psychological contract?
3. If you became the new manager at a restaurant with high employee turnover, what actions would you take to increase retention of employees?
4. As the HR manager, you must provide the senior management team with turnover costs for the following high-turnover position. Use Web sites such as

www.talentkeepers.com and www.keepemployees.com, to calculate turnover and analyze the variables involved. Also identify any other data that might be relevant, and then discuss how you would reduce the turnover.

Position: Machine Operator
Number of employees: 250
Number of turnovers: 85
Average wage: $11.50/hour
Cost of benefits: 35% of payroll

HR EXPERIENTIAL PROBLEM SOLVING

Your company has reaped the benefits of having long-term, tenured employees, but many of them are now approaching retirement. It is anticipated that approximately 20% of the company's workforce will retire in the next 3 to 5 years. In reviewing the remaining workforce through HR planning efforts, you have become aware of work-life balance issues that need to be reviewed and addressed. The Company President has requested that you prepare a Retention Plan outlining these issues as well as ways to address them. Resources to help you address the issues in the Retention Plan can be found at www.workfamily.com.

1. What steps will you take to identify key priorities in the work-life balance issues?
2. How will you present a business case to gain management support for addressing those issues in order to help retain existing workers and to fill the positions vacated by retiring employees?

CASE

Accenture—Retaining for Itself

Accenture is a firm that provides a wide range of consulting and services to organizations worldwide. With more than 170,000 employees, the firm has clients in 120 countries that receive many HR and other consulting services. Among others, these services include organizational, strategic, and change management analyses; leadership training and development; and technology assistance and supply chain assistance. Large and small client organizations also outsource various operational functions to Accenture instead of performing them internally with employees. Thus, Accenture has many individuals who serve as consultants and support experts on specialized areas and industries.

Because of its many professional consulting and support staff members, Accenture has to manage its own human resources effectively in order to serve both itself and its clients. The rapid growth of this widespread firm has caused Accenture to hire up to 60,000 employees in just one year due to the expansion of clients and the need to replace employees who have left to become employees at other firms, to become independent consultants, or to work as employees at client firms.

What Accenture does for its own employees illustrates one reason why it is widely used by clients. At the heart of Accenture's approach for itself is to consider its employees as a virtual workforce. This means that numerous employees work in many different places at different times, often using work-life balancing, technology resources, and work-related job flexibility. With offices in more than 150 cities worldwide, the work locations and schedules vary so much that numerous Accenture consultants have to reserve a desk at an office when they need to be there. Otherwise, many employees are encouraged to work outside offices.

The out-of-office environment presents an extensive HR challenge for Accenture in terms of engaging its employees. Many consultant employees work intermittently with a variety of managers and coworkers, in teams as large as 1,000 consultants, throughout multiple countries.

To practice retention in its own firm, Accenture does extensive training and development of employees. All new Accenture workers participate in "New Joiner Orientation" where they learn what is expected of them, do sample client projects with coworkers, and become linked to personal career counselors.

Career training and development efforts include a wide range of activities, access to Accenture's "Career Marketplace" website, and training in how to work effectively on different types of projects and in global locations. The value of these activities is shown in the fact that almost 39% of Accenture's open U.S. jobs are filled by current employees who change and/or increase their job levels.

What Accenture's employee retention program emphasizes is that the firm does not just consult about HR and other services for clients, but also does for itself what many current and potential clients need to do, which is to view HR planning and retention as crucial for organizational success and growth.[54]

QUESTIONS

1. Identify how some Accenture-type efforts have and have not occurred in your current and previous workplaces. Also, discuss why focusing on employee retention pays off for Accenture clients, and not just for Accenture itself.
2. Go to the Accenture website, www.accenture.com, to research and gather job- and career-related information that might need to be adapted by other employers. As part of this research, examine how Accenture markets itself to current and potential employees.

SUPPLEMENTAL CASES

The Clothing Store

This case describes the approach of one firm to improving employee retention. (For the case, go to www.cengage.com/management/mathis.)

Alegent Health

This case discusses how Alegent, a large nonprofit health care system, improved employee retention and reduced turnover. (For the case, go to www.cengage.com/management/mathis.)

NOTES

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