Employee Retention: Investing for the Future
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Problem

Employee retention is one of the most critical issues that companies face today. Retaining key employees is vital for an organization’s long term health and overall business success. High quality human capital is an organization’s most valuable asset and most costly investment. The increasing shortage of skilled labor and increased levels of employee turnover has only made the issue more pressing. According to research by engagement and retention specialist firm Talent Drain in 2008: Approximately one in four employees leave their jobs within six months, while over 50% of employees stay for less than two years (Jones). The problem with effectively managing employee retention stems from not receiving the necessary attention by organizational leaders. Research by Gregory Smith, business consultant at Chart Your Course International, cites retention efforts fail due to: lack of connection to organizational values, top leadership not involved, not being made part of the organizational strategy, lack of clear goals, lack of proper resources to tackle issue, and delegating human resources to fix the issue (Smith).

Many companies do not have a proper organizational structure in place to support a comprehensive employee retention initiative. This ultimately leads to poor retention practices, which results in an unclear understanding of the perceived drivers that cause employees to leave and how to prevent such loss of valuable human capital in the first place. It is clear that retention issues are attributed to the fact that there is no clear responsibility and accountability as to who’s in charge of the matter. Executive recruitment firm PermanTech polled executives and managers from 200 firms and found a large majority believing that retaining employees is not a manager’s first responsibility instead; financial results are (Perman).

Top level management shows signs of not being responsible when it comes to managing retention which often lead to poor decisions. For example, the Saratoga Institute, which compiles exit-interview results, reports that employees voluntarily leave their jobs due to misalignment of mutual expectations, person-job mismatch, insufficient coaching and feedback, perception of poor career-advancement prospects, work-life imbalance, and both distrust toward and low confidence in senior leadership (Branham). Many companies seem to ignore such findings and base their retention policies on simple reward mechanics of increasing pay or other benefits instead. The lack of careful consideration and strategic planning by top level executives leaders
often lead to such reactive solutions that do nothing to motivate people to stay. Findings by Talent Drain suggest that “79% of organizations do not have a discrete and identifiable budget for retention as an HR function” (Jones). This further highlights the lack of emphasis retention has received in terms of being vital component in a firm’s business strategy but more importantly shows how firms seem to pass the issue off as an HR function when it should be dealt with starting from the top.

What is Employee Retention?

Employee retention refers to the workplace policies and practices employed by organizations to encourage valuable employees to stay committed to working for the organization. These measures seek to satisfy the needs of employees and also ensure their abilities are being put to use effectively. It attempts to answer the overarching question of “Why should an employee remain in your organization?” Most retention policies are often based on reward mechanics such as through monetary incentives and fringe benefits as a means to recognize the achievements and contributions of an employee (Piper). Along with rewards, employee retention attempts to address the issue of how to make jobs more meaningful by aligning it with the core values of employees in terms of receiving necessary training, advancement opportunity, work that fits their interest etc. A survey by NFI stated, understanding what employee value is what defines the employee retention discipline of today. Providing job satisfaction is imperative and can be achieved through implementing the necessary initiatives to give employees the ability to grow both personally and professionally (Martin).

Why Does Employee Retention Matter?

Retention of key employees is a critical matter if organizations want to succeed in the long term. Managers have widely agreed that “retaining good employees ensure customer satisfaction, high productivity, satisfied coworkers, effective succession planning and increased organizational knowledge and learning” (Heathfield). For instance, customer satisfaction is often achieved through building a good relationship between the client and employee of the firm. But when an employee decides to leave, the relationship that was built is severed and a potential customer could be lost. However, the biggest loss has to do with organizational knowledge,
when an employee leaves. The departing employees take with them valuable knowledge about the company, customers, current projects, past history, and so forth (Nobscot). Such a loss would have a devastating effect on an organization since not only are talented employees difficult to replace but the added possibility of them going to work for a competitor would result in immeasurable losses.

This is especially true for older workers which Sharon Birkman-Fink, President and CEO of Birkman International, states “retaining older workers is incredibly important for companies who wish to retain the skills and embedded knowledge base of their senior employees” (Birkman). The added notion of the time and money invested in an employee along with their contributions to customer satisfaction, co-worker morale, transfer existing knowledge to new employees and overall performances highlights huge complex losses that can’t even be quantified accurately. Some studies have suggested that losing key employees can cost organizations up to 200 percent of his/her salary and the losses are even greater for key executives and managers (Heathfield).

Organizations face too great of risk by not taking the initiative to have proper employee retention measures in place. For example, in 2002, New York State, Department of Civil Servants published a report which highlighted their shift in focusing on employee retention with greater care was attributed to three factors: 1) The cost of employee turnover 2) The limited supply of qualified workers in critical areas such as health care, information technology, engineering, accounting, and auditing resulted in many unfilled civil servant jobs in those areas. 3) The results from exit interviews of former employees who found it more favorable to work in the private and public sector (Sinnott). It was clear that monetary incentives were important but findings such as employees greatly concerned about their career mobility, amount of time that passed before promotion examinations are offered, inflexible work hours and schedule, desire for more training opportunities and the ability to use new and “future” technology in the workplace. This shows that employees have diverse needs and require a majority of them to be satisfied in order for them to have a reason to stay.

In order to better manage turnover and challenges faced by limited qualified workers, fulfilling the personal needs of employees is vital to ensure long term stability and success of an organization. Having to continually hire new employees is costly, especially in terms of time it
takes to orientate and train new employees. The future clearly indicates that if companies don’t take employee retention planning seriously, such as from the day a new employee is hired, they will find fewer skilled employees to replace him or her along with incurring losses that could jeopardize the health of the organization. An article in the Los Angeles Times reaffirms this notion of an impending labor shortage with the upcoming retirement of many baby boomers. “Labor experts are raising concerns that workers in California and the nation lack the critical skills needed to replace them” (Watanabe). Time is of the essence when it comes to planning and implementing employee retention measures. Top level executives must be proactive in continually finding new ways to ensure that employees have a reason to stay. Having great employees is vital to the success of an organization and being able to keep them is a cost-effective strategy to keep up with business needs.

**Recommendations**

Small and large organizations that seek to retain their best employees should understand that the size of the organizations can have an effect on the success of employee retention and must be adjusted accordingly.

**Small Organizations**

Small organizations often have less financial resources to offer monetary incentives to employee but have the opportunity to foster greater job satisfaction more easily attributed to their size. Good management and continuing to foster a family oriented atmosphere in which people feel a valued is key.

- **Company Culture**
  Managers should reinforce a culture that is family or team oriented which allows an exchange of ideas and innovations on every level in the organization. People must feel that they are “somebody” and not just another face at the office. Establishing a bond “everyone wants to be there and works towards a common goal” (Reeves).
• Acknowledge Contributions
Managers must challenge employees by giving them work that fit their interests and expertise. Be sure to acknowledge their contributions to ensure that they know they are making a difference in the organization.

• Innovative Perks
Beyond increasing salary, small organizations should provide perks that are thoughtful to ensure that employee know they are cared about. This could include gym membership, creating a place in the office for people to relax stocked with food, child care, and such. For example Kevin Trapani, owner of the Redwoods Group, offered $5,000 to employees with college-aged children who stayed with the company at least two years (Stern). It shows that employers care and want to help employees beyond the confines of the office.

Large Organizations
Large organizations have the resources to retain employees but due to their size, employees are easily overlooked and left feeling not cared for or valued. Proper management is vital the success for employee retention.

• Leadership
It is critical for leaders to earn the respect of employees by being supportive figures who can communicate clearly “employee goals, the reasons for the goals, the strategies in place to achieve the goals and the valuable contribution of each employee to implementing the strategies successfully” (Hodges). Managers are advised to adopt a coaching style of leadership that help employees learn through continually feedback, providing them with opportunities to succeed through empowerment, and ensuring that their skills and talents are being put to use properly.

• Communication
Leaders must clearly communicate the goals, strategies, and responsibilities of the employee retention program to managers within the organization. An understanding must be fostered so retention is considered a business strategy and not just a human resources
issue. Managers will be more adept to managing employees if a clear direction is provided by the leader of the organization

- **Learn**

Managers should conduct exit interviews with employees that choose to leave to get some insight as to what factors prompted them to do so. Information will help managers understand what possible changes must be made in the organization. Furthermore, frequent anonymous surveys on job satisfaction should be made to get up to date information so that changes can be made quickly if necessary.

**Concluding Remarks**

Organizations have not invested enough in employee retention during a time when it is most needed. The shrinking pool of skilled employee combined with poor retention policies and practices endanger an organizations ability to succeed. Great employees are a defining aspect of great company. Leaders in organizations must view retaining employees as being an important aspect of business strategy similar to that of recruitment. Retention cannot be an afterthought as the costs and risks associated with losing key employees is tremendous. Managers must pay greater attention to the needs of employees and find ways to address them. The goal is provide job satisfaction all with giving employees a reason to stay. The time and money invested in coaching employees to help them grow may seem high but is necessary for the overall benefit of the organization.
Works Cited


