



## The Challenge of Retaining Top Talent: The Workforce Attrition Crisis

By B. Lynn Ware, Ph.D., and Bruce Fern

It is no wonder that in today's aggressive business environment, the challenge of sustaining a competitive advantage preoccupies the minds of many business leaders. Corporate customers and individual consumers have more providers to choose from than ever before. Furthermore, they often perceive that what they are purchasing is, for all practical purposes, a commodity that can be easily obtained from other companies if need be.

So how does a corporation distinguish itself in a highly commoditized and competitive market? Today's businesses are more dependent than ever before on their top performers to innovate and provide services that differentiate a company from its fierce competitors. In other words, corporations are reliant upon their *human assets* to survive and thrive.

However, with unemployment now running at less than 6%, many corporations and government agencies are struggling to find and keep these valued employees. Changing work force demographics, such as the shrinking of the most desirable labor pool (25-34 year olds) and the negative impact downsizing has had on employee loyalty, have led corporate America to search for answers to recruiting and retaining the strategic asset of the twenty-first century: *talented people*.

Retaining top talent was less of an issue in the past, but the shifting tides of the unspoken employee/employer contract have created new currents in the workplace. The old contract asked employees to:

- work hard
- be loyal
- give their all

In return, they would have:

- a job for life
- a home away from home
- regular salary increases
- a good chance for a promotion

The new contract is substantially different. It states that employees must now work harder, doing not only their jobs, but the jobs of their former co-workers who were "right-sized." In return, job security is extinct, promotions are scarce, salary increases are modest at best, and the constant uncertainty of change is almost guaranteed. Is it any wonder that employee loyalty is on the demise and talented individual contributors and managers feel less bonded to their organizations?

## Research

Because the increased flow of defecting employees plagued our clients, Integral Talent Systems, Inc., a national consulting and training firm and Bruce Fern, an expert in the field of retention, engaged in an aggressive endeavor to tackle the attrition dilemma. As part of this project, we conducted attrition and retention research with our clients (1), and substantiated our findings by reviewing industry practices and the behavioral science literature. We uncovered a number of critical findings, seven of which are described in this article.

### 1. The Costs of Attrition Can Be Staggering, But Often Unseen

What does it cost an organization when a talented employee defects to the competition? Some of the cost factors are obvious, such as productivity losses due to a vacant position. However, there are often unseen costs, like the reduced productivity from the *departing employee* who is inevitably distracted during his or her job search and therefore contributes less during this time period (sometimes called "short-timer's disease").

Using conservative calculations, one technical company in California's Silicon Valley estimates that it costs them an average of **\$125,000** when just one employee leaves. Other companies calculate that attrition costs them annual productivity losses of **65-75%** in the position the employee departs.

Another of our clients with a national sales force of hundreds estimates that they have to scramble to make up for over a million dollars of potentially lost sales when just one salesperson leaves. To add insult to injury, this does not even take into consideration the departed employee's attempts to woo his or her past customers over to his or her new employer. Multiply these costs by the number of employees who leave in one year, and the financial impact is dramatic.

### 2. The Reasons Employees Stay are Not the Same as Why They Leave

Most organizations do not have a handle on the actual reasons why employees stay, as well as the actual reasons why they depart. Many organizations attempt to capture the causes of attrition through exit interviews. Unfortunately, traditional exit interviews just scratch the surface of the causes for attrition. They inevitably fail to differentiate between factors that make the new job attractive to the departing employee, versus the reasons why the employee was prompted to consider leaving his or her current job in the first place.

For example, many employees report "better compensation" as one of their main reasons for leaving. In many cases, our research revealed that these same employees were not, in fact, originally dissatisfied with their compensation. Instead, *other* reasons prompted them to consider leaving their current job, such as the absence of professional development opportunities. However, they often do not report these negative reasons associated with their *old* job (possibly from fear of retribution), but instead report what is attractive in the *new* job. Because of this phenomenon, organizational data from typical exit interviews fails to surface the *real* causes of an organization's attrition problems.

This is just as true when an employee is actively recruited by the competition. Our work in retention shows that attractive candidates receive calls from recruiters all the time! What

causes the sudden shift that makes an employee act on a recruiter's call at a particular point in time? We consistently found in these circumstances that something deteriorated in their work situations that caused them to take the current recruiter's call more seriously.

Obviously, when organizations unknowingly misdiagnose the situation and fail to surface the most critical factors that contribute to attrition, their solutions to correct the problem fall short of the mark. The result is a bad diagnosis leading to improper prescriptions.

### **3. The Manager's Role in Attrition is Paramount but Underplayed**

Most managers we interviewed as part of our research in retention lamented the loss of talented contributors. However, when asked to diagnose the reasons for an employee's departure, the average manager pointed to a variety of external organizational factors as the causes of attrition, failing to take any *personal* responsibility for the situation. They typically did not acknowledge any factors within their control that contributed to the employee's departure.

For example, managers often attributed attrition problems to such factors as compensation. Certain factors that are the responsibility of "the overall corporation" can certainly aggravate attrition if they are not in order, such as inequitable pay scales or excessively rigid policies that dilute employee autonomy. However, we discovered that a large number of factors contributing to employee retention *are* within the manager's circle of influence.

Therefore, the results of any attrition intervention are dependent upon the organization's ability to provide managers with an awareness of those factors, as well as tools to help them meet their personal accountability in retaining top talent.

Furthermore, managers need this guidance more than ever before. Managers' span of control has been widening in most companies over the past several years, and the number of times the manager "touches" the employee is therefore less frequent. Each contact must maximize any opportunity to influence employee motivation and commitment.

### **4. Prevention is the Best Medicine**

The loss of key employees, even in small numbers, can be devastating to a company. (This points to the importance of tracking not just overall attrition ratios, but also tracking the level of performers leaving.)

Consequently, we were interested in determining the degree to which managers rank retention as a high on-going priority. Not surprisingly, we found that the only time the average manager thinks about retention is when she or he receives a resignation from an employee. We also found that most managers predictably attempt to talk departing employees out of leaving, trying to convince them that they are making a mistake.

However, also predictably, we found that the vast majority of the time, these employees leave their resignations on the table, resisting attempts to persuade them to stay. And, in the infrequent situation when a manager successfully persuades the employee to remain, he or she often leaves within six to nine months anyway. (The exception is when there is a clear salary inequity which is remedied, and the employee is satisfied with everything else about the work situation.)

Clearly, the solution lies in tying retention to critical business activities so that managers do not think about retention *after* the fact, when it is too late, but rather see it as integral to business success and survival. Treating retention as an *on-going priority* enables the manager to focus on proactive measures to sustain long term employee commitment, rather than on reactive attempts to reverse surprise resignations.

## **5. Retention Has an Often Unrecognized Impact on the Customer**

Managers are well aware of the impact on their function when a valued employee leaves. However, even managers of customer contact functions, such as sales or customer service, often fail to demonstrate a sensitivity to the impact attrition has on customers.

When key employees leave customer contact functions, customers often experience:

- a discontinuity in the relationship
- a negative impact on their own productivity
- time wasted reorienting the new employee to their operation and the way they work

When the relationship represents a value-added partnership, the change in account managers or service providers can set the relationship back months and give competitors a weighty advantage. This is especially true if the transition to new account personnel is not well managed. At a certain point, regular changes in account personnel can send a message of organizational instability and create the impression that the organization does not care about the account relationship.

In the case of development or support functions, we also found a general lack of awareness on the manager's part of the negative impact the departing employee has on internal customers. The departure of a top performing employee can therefore have a "ripple effect" on the organization and its clients that creates problems for months.

## **6. Misguided Thinking: "Attrition is Inevitable"**

It is true that some level of attrition is unavoidable. In fact, a certain degree of attrition is desirable in order to compensate for poor hiring decisions. However, human resource and senior line managers often question whether they can really increase their retention ratios.

The answer is definitively *yes*, with evidence to support it. In one of our client organizations, the attrition rate for one of their divisions in 1995 prior to our intervention was 18.5%, with 25% attrition in one of the most critical occupation groups. After working with us in 1996 and making retention a priority for every manager, the attrition rate dropped to 11.7% overall and 15% in the critical group.

One might predict that other factors contributed to this outcome. In fact, it should be noted that there were actually *reductions* in employee compensation during this time, which should have increased attrition. Nevertheless, we still saw an increase in retention rates.

Another of our clients asked that we conduct a retention risk analysis and intervention in a critical technical division because the organization feared that attrition would rise in the near future. Two interesting findings emerged from our research with this group. The first was that this division was already following a number of the retention prescriptions we provide our clients (one of the few divisions in the entire company to do so). More striking, however, was

the fact that as a result of following these prescriptions, this group's retention rates were over 10% higher than the rest of the company's, thus validating the efficacy of our model.

Another company in the Northwest began with an attrition rate of 17%. After following the same prescriptions (2), they reduced their attrition rate to 3%, bringing their retention rate up to 97%. As the evidence suggests, attrition is not an unbeatable foe. Instead, it is a challenge that can be overcome with the right strategies and tools.

## **7. World Class Retention Reflects A Multi-Factored Solution**

The scenario in many organizations is the same. Someone, such as a senior line manager or HR professional who is tied to the business, raises the red flag of attrition, recognizing its potentially devastating impact on the company's strategic position. Then, someone scrambles to pull some sort of training or tools together which focuses on only a few (but not all) of the factors that are required to reduce attrition. The result is the organization experiences mediocre results, or no results at all.

This multi-factored retention solution is like the story of the blind men and the elephant. Never having seen an elephant, three blind men were brought over to a young elephant to let them experience it. Each man touched a part of the elephant. The first one touched a leg and said, "Now I understand. An elephant is like a tree trunk." The second man touched the tail and said, "No. You are wrong. An elephant is like a snake." The third man touched an ear and said, "You are both quite mistaken. An elephant is like the leaf of a big palm tree."

If any of the men wanted to control the elephant, they would have found themselves incapable of doing so, because their understanding of the elephant was only partial. This is also true of many organizations that try to tackle only one factor of the attrition dilemma.

One piece of anecdotal evidence comes from a report made by one of the nation's leading financial services companies. In an attempt to stem the outflow of critical managers and individual contributors, they contracted with a reputable training firm with whom they had worked successfully in the past. While the firm admitted they were not experts in employee retention, they nevertheless conducted sessions for senior managers, hoping to help their client to deal effectively with the problem.

Unfortunately, but also predictably, the firm addressed only a fragment of the retention solution. The kick-back from the managers was strong, since they intuitively sensed this was only a partial solution and it would not effectively address their issues. Therefore, one litmus test for a retention solution is to assess its scope and depth. Any solution that is unidimensional is bound to fail.

## **Retention Strategies**

Our research surfaced six dimensions that are most critical to influencing retention. These dimensions must be infused into three major components that must be in place and aligned for an organization to achieve world class retention:

### **1. Manager Retention Practices**

Our research consistently validated the reality that *the manager plays a significant role in influencing the employee's commitment level and retention*. There are a number of manager

retention practices which increase the probability that an employee will remain committed to an organization over time.

These retention practices represent the manager's actual behaviors on the job. This often has little to do with the amount of classroom training they have received. Furthermore, the best retention practices are not the same as the standard menu for good organizational management. Most organizations ask their managers to place productivity as the highest priority, underscored by pressures to fulfill "our obligations to our investors."

Good retention practices focus not only on what the employee is contributing to the company, but also focus on how the manager can create a climate so that the employee is retained and committed on a long term basis. While enlightened leaders balance the needs of the organization with the needs of the employee, the truth is that these leaders are rare. Though managers play a very crucial role in retention, they do not control all of the factors that can affect attrition. Therefore, the second component represents the organization's responsibility in the retention equation.

## **2. Organizational Retention Systems**

There are a number of organizational systems and processes that influence retention. Some of them are evident, such as equity of pay scales. Other systems are less obvious, and their impact on retention is often unrecognized. For example, there is evidence that an organization's recruiting systems and processes can significantly impact retention ratios. These systems support the Manager Retention Practices, but they also increase the likelihood that employees are committed on a long term basis and are performing at their best.

## **3. Measurement and Accountability**

Closely linked to the other components, this component ensures that retention becomes an on-going priority. Many organizations do not even know what their attrition rates are. And those that do often lack enough data to pinpoint where the problem is most severe, or to uncover the specific causes of attrition.

For example, those organizations that measure attrition sometimes do not track it by length of service. The tenure patterns of the departing employees can reveal valuable information concerning the potential causes for attrition. Additionally, many organizations do not track attrition by occupational group other than by "manager" or "non-manager." This simple segmentation is often a crude one that does not provide the organization the refined information it needs.

Measurement goes hand in hand with accountability. Organizations must hold their managers personally accountable for retention. Likewise, they must hold their corporate staff accountable for developing, maintaining, and upgrading their retention systems. When retention is relegated the status of being a "HR issue," it often falls to the bottom of the priority list for managers. When it becomes one of their business goals, it takes on a new perspective.

One example comes from one of the world's top hardware manufacturers. In a recent meeting, the new director of the telephone technical support group presented the following four new business goals to his management team. The first three were:

1. Fulfill Technical Support Contract Obligations
2. Maintain the Highest Level of Customer Satisfaction
3. Manage Costs Aggressively

The fourth goal was to retain employees! After some discussion, the entire management team observed that they would not achieve the other goals if they could not achieve their retention goals. In another division of the same company, the senior managers' personal bonuses are calculated on the basis of their success at retaining their best people. When managers are held accountable in this fashion, it ensures that the motivation to examine and enhance their personal retention practices is ever present.

## **Conclusion**

Interestingly enough, organizational experts predicted that mergers and downsizing would result in employees who felt lucky to have a job and who would, of course, stay. This may be true for employees in the lower tiers of performance. However, top talented employees recognize they represent a valued organizational asset. When their loyalty deteriorates, the tendency to switch organizations increases.

The average costs of replacing today's defecting work force are eating away at the profitability of even the healthiest organizations. Even when the bottom line remains intact, the loss of just a handful of key employees who have a special expertise or who maintain valued customer relationships can shake an organization to its roots. In this age of high stakes and unpredictable market and organizational changes, organizations must educate their managers and create an environment where today's top talent can thrive. The alternative is unacceptable.

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(1) Because of the sensitive nature of any organization's attrition problems, we have not identified our clients or other organizations by name in this document when citing examples of their retention problems or solutions.

(2) This was not one of our clients, but rather a company we discovered during our retention research.