



TenStep Supplemental Paper

21 February 2004

Retaining High Performers

As companies face staffing problems and an increased danger of losing their high performers, what can HR professionals do to meet this challenge and retain the talent their companies need to compete effectively?

It is becoming increasingly clear that in today's dynamic business environment, companies that want to remain competitive must adopt a more strategic approach to retention.

Two major trends point to the growing importance of retention as an HR issue. One is the ongoing rise in turnover rates in virtually every economic sector and region that, if left unaddressed, could have a significant impact on bottom-line results and organizational success. The other is the ever-climbing cost of turnover, especially when it involves high performers.

A report released last year by the US Bureau of National Affairs showed that turnover rates (which exclude layoffs) have soared to their highest levels in a decade for companies in both the service and manufacturing sectors. Employers in all parts of the country now face higher levels of turnover and, as a result, higher replacement costs.

Though the direct costs associated with losing an employee are well documented and range anywhere from one to three times the employee's salary, these calculations often fail to factor in the hidden costs of turnover. These hidden costs include lost productivity and missed revenues, as well as intangible repercussions such as reduced morale and diminished company reputation. If the lost employees are high performers, turnover costs could rise dramatically.

Uncommon initiatives

Responding to what many experts now consider a retention crisis, some companies are implementing aggressive programs to manage turnover and hold on to those employees who contribute most to their business success.

One company conducted more than 1,000 exit interviews to identify the key drivers of retention in the organization, and then used the results to develop a formal retention strategy. Another company performed a retention analysis to determine what had to be done to hold on to high performers in acquired organizations.

Although such approaches can be highly effective, they are not yet common. In a recent study of more than 600 companies, only a third reported that they have developed strategies for retaining employees.

In fact, only 40% of HR executives in major corporations track the departure of high performers or document their reasons for leaving.

Why are so few companies taking action to manage retention? One reason may be the pervasive belief that high turnover is inevitable today, given the tight labor market and



TenStep Supplemental Paper

the "new employment contract" (ranging from one year to two years), which tacitly endorses more frequent job changes. Some managers believe that, just as high rates of turnover seem almost endemic to certain industries (like health care) or professions (like sales), relatively little can be done to improve retention in a business environment characterized by rapid growth and rock-bottom unemployment.

Another reason that companies often fail to address the retention challenge is that they lack effective strategies for managing turnover, or, when they do apply specific retention techniques (such as stock options), they achieve only limited results because their approach is incomplete or misdirected. Perhaps the best way to manage turnover and retain high performers is to implement a well-planned and coordinated retention strategy, which sometimes requires fundamental changes in how a company selects, develops, and rewards its employees.

An effective retention strategy begins at the earliest stages of the recruitment and election process. Identifying and attracting good candidates for hire helps companies to select the "right" people - those who not only possess the skills that are needed but also demonstrate the attitudes, personality traits, and behaviors that ensure an organizational fit and promote commitment.

Introduce recruitment practices that focus on cultural fit. The best way to gain an accurate picture of what a candidate needs to succeed at a job in a particular culture is to conduct a strategic job analysis. This involves gathering data to establish the skills and competencies required for the job, analyzing the cultural context in which the job will be performed, and spending time with employees who excelled at the job in the past or with high performers who hold similar jobs.

Dr. John Sullivan, head of the Human Resource Management Program at San Francisco State University, has written extensively on this subject. He claims that most companies need to reconstruct their orientation programs so that they make more favorable first impressions and "close the sale" on new hires. Some of his suggestions follow:

- Involve the families of new employees in orientation programs.
- Ask senior managers to participate in orientations to show new recruits that they are important to the organization.
- Assign a departmental mentor to assist new recruits during their first month.
- Give line managers control of the orientation process to integrate new employees into their work family as quickly as possible.