Managing Retention:
A Strategic Accountability Approach

By Jack J. Phillips

With most economies on the rebound, the subject of retention is heating up again. On the back burner for many HR managers for the last two years, this topic is now commanding much attention as organizations strive to prevent another talent war characterized in the 1990s. Using a strategic approach, combined with analytics, including ROI, gives firms a competitive advantage. The time to tackle this is now – before it becomes a crisis. This article explores this proven approach to managing retention.

Some organizations do a superb job of managing retention where others fail miserably. The issues are not always externally driven, but often lie within the organization—sometimes in the approach to the problem. Finding a new approach requires shifting paradigms, changing perceptions, and throwing out old habits. A more rigorous, analytical, and strategic approach to addressing internal issues is often needed.

This article describes the recommended approach to address employee retention. Several issues pertaining to managing retention as a strategic initiative are explored, including the rationale for the approach and the steps involved. Eight distinct steps lead to a strategic approach and bring the appropriate focus on accountability to the retention issue.

PROBLEMS WITH EXISTING APPROACHES

Old and outdated approaches to managing retention have created six distinct problems. How many of these sound familiar?

Proactive vs. Reactive (What problem?). The pressure is on — a solution must be implemented, now! Many organizations react to the retention issue — waiting until a problem surfaces, often developing enormous incentive packages to entice key employees to stay with the organization. In these situations, the turnover issue results in severe stresses and financial impact in the organization before steps are taken to resolve it.

A proactive approach is needed to prevent the issue from ever surfacing. This is often easier said than done. Almost every manager will agree that employee turnover should be prevented before it becomes a problem. Unfortunately, many external environmental factors exacerbate the turnover issue. The HR staff and management team is not fully prepared for these issues and the results are sometimes disastrous. A continuous improvement process cycle is needed so that the focus is always on improving the current situation. This will help manage the employee retention issue.

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Developing too many Preventive Programs (If we try this, and this, and this, we can prevent the problem in the future). Just as the reactive approach can be a problem, implementing too many preventive programs can also be a problem. In an effort to be proactive, many organizations implement multiple programs with a "try it and see" mentality without understanding the real impact turnover has on the organization. The philosophy is this: If enough programs are implemented, eventually, one of them will help maintain staffing, eliminating unnecessary turnover. Without the appropriate accountability applied to the program, the results of the program's implementation may never be known. Meanwhile, far too much money is spent. The landscape is littered with overspending in an attempt to prevent the turnover problem from occurring. While prevention is important, some method to forecast the value of preventive programs must be in place. Forecasting value provides some assurance that the program will generate enough monetary benefit to offset the costs.

Searching for Solutions (Hey, they have a great program over at the Hard Rock Café!).
Many HR managers and staff members are constantly searching for a solution, trying to find a program that has worked for another location. When workshops and conferences are offered about retention strategies, HR staff flock to sessions, taking copious notes, and feverishly attempting to apply newly discovered techniques or programs to their organization. Many times this approach results in failure. Searching for a solution without the proper analysis of the problem is a very serious issue and leaves the management team wondering if there *is* a solution in their situation. An up-front evaluation is needed to identify the specific causes of turnover.

Too Many Solutions (I never met a solution I didn't like). Even when employee retention is identified as a problem, far too many organizations (even some of the successful ones) base their approach to the issue on an excessive number of strategies. Turnover is a complex issue with many influences. There are probably 500 specific solutions that could be implemented. The published literature on retention doesn't help—often offering countless solutions. One publication offers 154 solutions to "keep good people." Implementing, or at least, attempting to implement, too many solutions can create disastrous results. The organization is burdened with an excessive number of new programs, projects, initiatives, plans, policies, and techniques. This can result in costly efforts with minimal, if any, results to show for them, while, at the same time, leaving staff members confused and managers perplexed. The objective is to tackle only the most critical turnover solutions, using precious organizational resources wisely to develop the most effective approach.

Mismatches between Need and Solution (We blew it on this one!). Too often, a solution that doesn't actually address the need/problem is implemented. Maybe there is insufficient information to provide a clear understanding of the solution required. Maybe the wrong solution is selected or improperly implemented, resulting in a lack of added value. Maybe the solution wasn't addressing the need as anticipated. Whatever the case, these mistakes can be avoided by clearly matching the solutions to the needs.

Lack of Payoff (What results?). When an expensive solution is implemented, taking precious time and resources, a familiar scenario often surfaces. The management team wonders if it made a difference. Did it add enough value to offset the costs of its implementation? Could a different, less

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expensive solution have similar results? Is the turnover rate still unacceptable? The solution might have successfully prevented further turnover deterioration or it could have left turnover unchanged, poised for further deterioration. The problem lies in not knowing. A process is needed to measure the results of a solution from a balanced perspective, collecting different types of data (tangible and intangible) so that management can clearly see the impact of major retention strategies.

The problems with these six approaches, and the rationale for preventing them, form the basis for the approach presented in this article.

NEEDED: A STRATEGIC ACCOUNTABILITY APPROACH

The strategic accountability approach is the basic model for this article (Phillips and Connell, 2003). The process brings accountability to the retention issue in eight steps.

The strategic accountability approach has five very important advantages:

It considers the retention issue to be an important part of strategy. The executive team is very involved in the retention issue. With many firms, retention has become a strategic issue because it makes the difference between financial mediocrity and excellence.

The retention issues are measured with bottom-line results. Accountability is built in throughout the process so those involved can fully understand the cost of the problem, cost of the solutions, potential impact of the solutions, and the actual impact of the solutions – all in monetary terms.

The approach moves logically from one issue to another. A series of steps, necessary to manage the process, are followed with this approach. Each step has options and possibilities, but needs to be addressed in some way for the process to be successful.

The approach is a discipline and a methodology. With this approach, it's easy to stay on track because each of the different issues has to be addressed before moving onto another issue. The approach brings structure and organization to the retention issue, rather than shooting from the hip or implementing solutions without analysis.

It is a continuous cycle of improvement. Starting with the problem ultimately leads to an impact on turnover. The process continues until turnover is maintained at the desired level. Ultimately, the approach positions the organization in a preventive stance working to maintain the appropriate level of staffing and reducing the risk of turnover. Each step of the strategic accountability approach is briefly presented next:

Step 1 - Measure and Monitor Turnover

Specific issues need to be addressed to properly monitor and measure turnover. Several key issues are explored here.

Appropriate Definition of Turnover. For many organizations, the turnover measure is voluntary; for others, it is voluntary plus terminations based on unsatisfactory performance. The best definition to

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use is avoidable turnover. A few organizations actually call this kind of turnover "regrets"; employees left (voluntarily) or had to leave (involuntarily). It's important for the definition to match the definition in benchmarking studies, industry reports, or trade publications. While this seems simple, problems can easily develop because of the different data used in turnover calculations. Most professionals would agree that deaths, disabilities, and retirement should not be included in the turnover rate. However, in an organization where early retirement is an option, this could be an issue that deserves consideration. The important point is to select the proper definition and use it appropriately to compare with others.

Turnover Rates by Various Categories. A variety of demographics could be reported, showing the regions, divisions, branches, plants as well as sex, age, and personal characteristics of the individual employees. Reporting by critical job groups may be important for benchmarking comparisons. Also, certain jobs are more critical than others, particularly in technology industries.

Report Turnover with Costs. While actual turnover rates and percentages are reported either monthly or yearly, additional reporting of actual costs can be more effective. Since the actual cost of turnover appears in different cost statements, it is important to bring the total cost of turnover to the attention of the senior management team, revealing the true impact that turnover is having in the organization. The fully loaded cost of turnover should be developed, even if it's only an estimate. Cost formulas should be used to detail the cost. Senior managers should reach an agreement on the assumptions, formulas, methods, and comparison values used to develop the cost of turnover, which is usually expressed as a percentage of annual salary.

Compare Data with Benchmarking Targets. It's important to compare turnover data in three or four ways.

1. A comparison within the industry is recommended. This comparison shows how the organization stacks up with others in similar situations.
2. If possible, a custom-designed benchmark project should be developed in which the organization is compared to best-practice firms.
3. A comparison with history is critical. Trending is important: Is employee retention going up, down, or stable?
4. A comparison with expectations, particularly from the division manager, senior executives, or plant manager is essential.

Develop Trigger Points for Action. When using benchmark data and other comparisons, trigger points for action must be developed. When should an alarm sound? Is it a rising trend or a sudden spurt? Is the measure going up when it should go down? Each of these could signal action necessary to begin exploring causes and creating solutions.

Step 2 - Developing a Fully Loaded Cost of Turnover

The impact cost of turnover is one of the most underestimated and undervalued costs in the organization. It is often misunderstood because it does not reflect the actual costs of turnover, and it is not regularly reported to the management team. In addition, it can be alarming to management when fully loaded costs are calculated for the organization for an entire year. In one technology

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organization, the full costs for turnover were estimated to be almost $2 billion, in a firm with revenues in the $20 billion category. This is frightening when considering the total impact on the organization.

In some turnover cost studies, only the costs for recruiting, selection, and training are considered. These are easily calculated and, consequently, inappropriately reported as the total cost of turnover. In reality, other costs should be included to generate a fully loaded cost profile.

A complete cost profile is recommended, covering all of these different categories.

Step 3 - Diagnose Causes and Needs for Retention Improvement

Determining the cause of turnover is a critical and illusive issue. Some causes may be obvious, while others can be extremely elusive. Collecting appropriate data is often a challenge because of the potential for bias and inaccuracies that surface during the data collection process. Several diagnostic processes are available. Figure 2 shows an initial list of diagnostic tools available to use with turnover analysis, beginning with analyzing trends and patterns in particular groups and demographic categories to pinpoint the problem area. The tools range from a survey to a focus group to uncover the causes of turnover.

Step 4 - Explore a Range of Solutions

Organizations are very creative in their approach to the turnover problem, resulting in hundreds of excellent solutions. Because there are so many potential solutions to turnover, confusion may develop. The critical issue is to ensure that the solution is feasible for the organization. Figure 3 shows the various major categories of solutions.

Step 5 - Matching Solutions to Needs

This step is in concert with the issue of forecasting the value of solutions presented next. The development of the two issues should be parallel since the solutions selected for implementation are assumed to meet specific needs, making the forecast of the anticipated value imperative. When attempting to match solutions to need, five key issues are considered:

Avoid mismatches. The solution selected for implementation must specifically address the need that has been identified. More importantly, this process will ensure that the need has been identified in enough detail to make the solution obvious.

Discourage multiple solutions. Adopting too many solutions is worse than taking on too few. It's important to focus on those key solutions that will add the most value. Consequently, the forecasting step should be developed simultaneously with the selection of solutions. Realistically, an organization can tackle only a few solutions because each solution requires the time and effort of many individuals – sometimes all employees. Taking on too many creates confusion and takes precious time and energy away from other important issues.

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Select a solution for a maximum return. Understanding the payoff of a solution will help guide the selection process. The discipline of this step is simple: implement a solution only if the perceived return is acceptable.

Verify the match early. Accumulating data expeditiously from appropriate individuals can "red flag" a problem. If a cause has been clearly identified, a solution can swiftly address the need.

Check the progress of each solution. Periodic progress reports provide data to ensure a solution is adding the appropriate value that it should.

Step 6 - Forecast the Value of Solutions

Developing a forecast for the value of a solution allows the team to establish priorities, work with a minimum number of solutions, and focus on solutions with the greatest return on investment. A difficult, challenging, and, sometimes risky, issue, forecasting is an expert estimation of what a solution should contribute. With this approach, it is helpful to accumulate as much data as possible to back up the estimate and build credibility around the process. The payoff value can be developed if the percentage of expected turnover reduction can be related to it. For example, if the primary cause of turnover is actually addressed with a solution, what percentage of the turnover would actually be eliminated? Sometimes, employees can provide input for this issue as data are collected to identify the causes of turnover. This step may require several "what if" decisions with employees while making various assumptions about the data. Also, this step may involve building on previous experiences to the extent possible. In some cases, the experience of other organizations can be helpful.

Ideally, the forecast should contain an expected return on investment (ROI) value. However, a more realistic approach is to offer a range of possible ROI values, given certain assumptions, removing some of the risk of making a precise estimation. This step is perhaps one of the most difficult, but necessary, parts of the process. Because of the difficulty, a chapter is included to develop forecasted values for solutions.

Step 7 - Measure ROI for Turnover Reduction Solutions

Another, often-neglected step is the actual calculation of the impact of a turnover reduction strategy. This step is often omitted because it appears to be an add-on process that may be unnecessary. If accumulating solutions is the measure of success of turnover reduction or prevention, the impact to those solutions may seem to have no value. From a senior executive's point of view, accountability is not complete until impact and ROI data have been collected, at least for major solutions. The ROI process generates six types of data about the success of a turnover-reduction strategy:

1. Reaction to, and satisfaction with, the solution
2. Skill and knowledge acquisition
3. Application and implementation progress
4. Business impact improvement
5. Return on investment, expressed as an ROI formula
6. Intangible measures, not converted to monetary values.

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This strategy also includes a technique to isolate the effects of a turnover solution.

The ROI process has achieved widespread applications for the evaluation of all types of programs and solutions. It involves a series of steps collecting the six types of data at different time frames and processing the data in a logical, rationale approach, as shown in Figure 4 (Phillips, Stone, and Phillips, 2001). This ROI process is comprehensive and accurate and can provide assessment of the impact of any turnover-reduction strategy. However, because of the time and effort required, the process should not be applied to every turnover reduction program. Only those solutions considered to be expensive, time consuming, high profile, and closely attached to the goals of the organizations should be considered for this type of analysis.

Step 8 - Make Adjustment and Continue

The extensive data set collected from the ROI process will provide information to make adjustments and changes in turnover-reduction strategies. The information reveals success of the turnover reduction solution at all levels from reaction to ROI. It also examines barriers to success, identifying specifically what kept the solution from being effective or prevented it from becoming more effective. It also identifies the processes in place that enable or support a turnover reduction solution. All of the information provides a framework for adjusting and/or repositioning the solution so that it can be revised, discontinued, or amplified. The next step in the process goes back to the beginning--monitoring the data to ensure that turnover continues to meet expectations. . . and the cycle continues.

FINAL THOUGHTS

This article explores a unique way to manage retention – implementing a strategic accountability approach. The approach has many inherent advantages and is highly recommended where there is concern with preventing turnover or reducing turnover from its current level. It is comprehensive, disciplined, and focuses on results throughout the process as retention is tackled in a productive and meaningful way.

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