THE EMPLOYEE SUCCESS GUIDE FOR RETENTION

TALENT MANAGEMENT SERIES

TABLE OF CONTENTS

THE STATE OF EMPLOYEE RETENTION

As the global global economy continues to improve, almost a quarter of the US labor force voluntarily left their jobs in 2015 - 33.4 million out of 141.5 million employed Americans. This represents a steady increase from the end of the recession in 2009 (see table).

Employers are feeling the brunt of the improving economy as unfilled positions remain open. Close to 6 million roles (the highest since the BLS started tracking in 2000) either lack interested or skilled applicants to filll them.

With turnover compounding the issue, employers are investing in both retention efforts - including salary, benefits, and workplace flexibility - and technology to close the productivity gap.

These trends keep HR leaders up at night. Deloitte reports in their Global Human Capital Trends 2015 study that 87% of companies now rate "retention, engagement, and culture" as an important imperative and 50% rate it "urgent." The the need to build a global leadership pipeline came in second.

Year	Quit Rate
2015	23.6%
2014	22.0%
2013	20.3%
2012	18.8%
2011	17.9%
2010	16.4%
2009	16.8%

QUICK FACTS

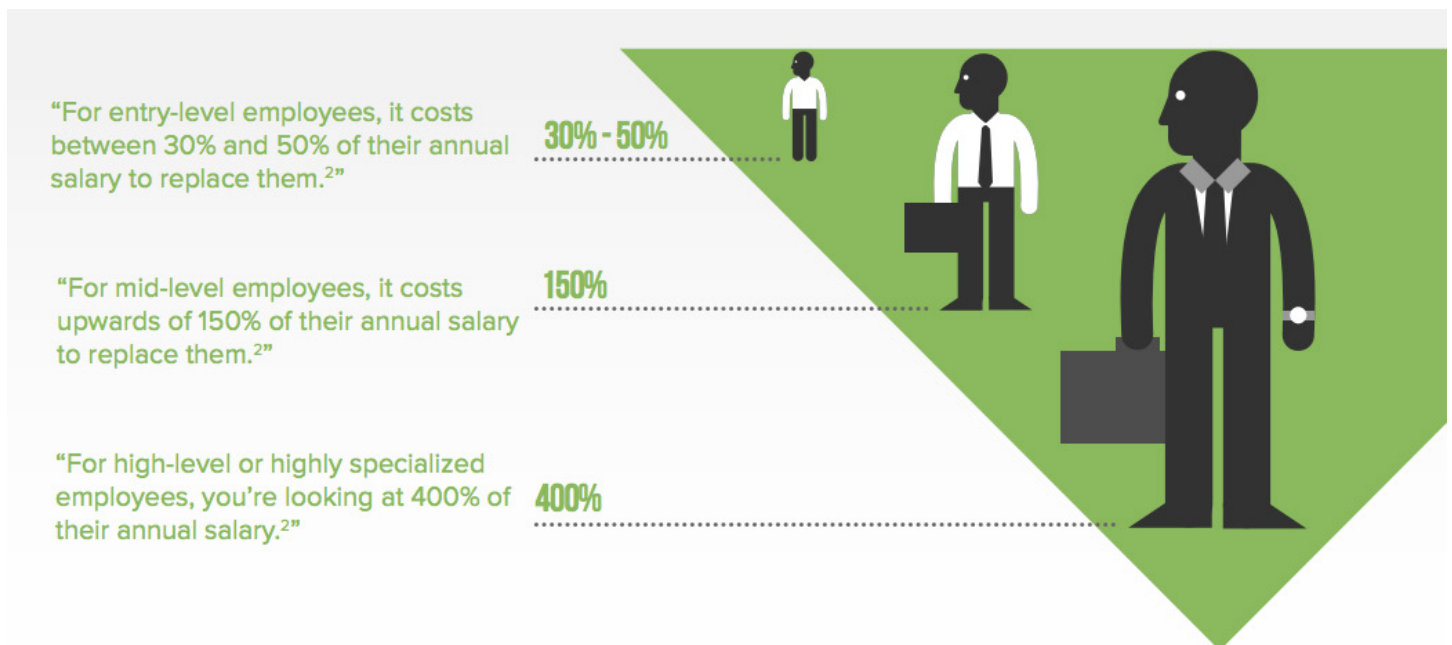Almost 1 in 4 employees quit their jobs every year, up from 1 in 6 in 2009.

It costs anywhere from one half to 4X a churned employee's salary to replace them

A third of employees leave for career advancement opportunities

THE RETENTION IMPERATIVE

It's expensive to replace an employee. After factoring in the hit to productivity, lost training costs and the expenses associated with bringing a new team member on board, the cost of replacing an employee can add up to about 150% of the departing staffer's wages. And that's just the average cost of losing a worker; the cost of losing an employee with a hard-to-find skillset or extensive industry knowledge can soar even higher.

"For entry-level employees, it costs between 30% and 50% of their annual salary to replace them.[2]"

30% - 50%

"For mid-level employees, it costs upwards of 150% of their annual salary to replace them.[2]"

150%

"For high-level or highly specialized employees, you're looking at 400% of their annual salary.[2]"

400%

Indirect costs such as lost production due to inexperience or short-staffing, lost knowledge, mistakes, and loss of customer opportunities are difficult to assign a cost to, but may be more significant than the direct costs. We provide a hypothetical example to illustrate on the next page.

Total Cost of Replacing a $60,000/Year Employee

Possible Direct Costs		Possible Indirect Costs	
Job ads		Loss of training	$5,000
- Develop a job description, write a job ad, get approvals,		Loss of institutional knowledge	$15,000
& post to internal & external job boards		Loss of productivity	$26,000
(5 hrs x $100/hr)	$500	Loss of morale in other employees	$18,924
- Run a 2-week ad on Monster	$100	Additional stress on management	$12,000
- Handle/screen responses & schedule interviews		Consulting fees	$18,000
(10 hrs x $100/hr)	$1,000	Overtime expense	$5,640
Interviewing costs (7 candidates x 3 hrs ea x $100/hr)	$2,100		
External recruiting fees ($66,000 x 33%)	$22,176		
Pre-employment testing/reference check	$1,000		
Salary increase ($60,000 x 10%)	$7,200		
Sign-on bonus ($67,200 x 5%)	$3,360		
Relocation	$5,000		
Training (30 days x 2hrs/day x $100/hour + $1,000)	$7,000		
TOTAL DIRECT COSTS	**$49,436**	**TOTAL INDIRECT COSTS**	**$100,564**

TOTAL COST = $150,000*
*Based on statistics, the total cost of replacing this employee could range from $120K to $180K.

All numbers in this scenario are estimates based on previous experience. The following are our assumptions:
- It takes 5 hours to develop a job description, write a job ad, get approval, and post the ad.
- The person responsible for hiring is worth $100/hour to the company based on typical productivity.
- It takes 10 hours to handle and screen all ad responses and schedule candidate interviews.
- Approximately 7 candidates will be interviewed before finding the right person for the job.
- Each candidate will require 3 hours of the hiring person's time during the process.
- External recruiting fees will be 33% of the new annual base salary.
- Pre-emptive testing for the chosen candidate will cost $100.
- The base salary for the position will get an average 12% increase.
- The new employee will receive an average bonus of 5% of his or her annual base salary.
- An average relocation fee of $5,000 will be offered and taken.
- The new employee will receive an average of 2 hours of training per day for the first 6 weeks.
- Training materials for this person will cost $1,000.
- The person responsible for training the new employee is worth $100/hour to the company based on typical productivity.

Successful retention programs, targeted to those at most risk of leaving usually cost only a fraction of what it would take to replace the departing employee. An illustrative example is below.

Total Cost of Retaining a $60,000/Year Employee

Monetary Rewards		Non-Cash Incentives	
Salary increase ($60,000 x 10%)	$6,000	Flexible scheduling	$0
Annual bonus ($66,000 x 12%)	$7,920	Telecommuting	
		- Laptop	$1,000
		- Internet access	$1,500
		Employee appreciation	$100
		One week of additional vacation ($31.73/ hr x 40 hrs)	$1,270
		Clear & precise career path	$0
		One training course per quarter (1 training/qtr x 4 qtrs x	$4,000
		$1,000/training)	$0
		Additional exposure	$0
TOTAL MONETARY REWARD COSTS	**$13,920**	Communication = $0	$7,870
		TOTAL NON-CASH INCENTIVE COSTS	

TOTAL COST = $21,790

All numbers in this scenario are estimates based on our experience. The following are our assumptions:
- In order to retain this employee, you have chosen to implement an above-average 10% adjustment in the employee's current annual base salary.
- You have also chosen to implement an above-average bonus equivalent to 12% of the new annual base salary.
- The employee earns the full bonus.
- Also in an attempt to retain this employee, you choose to add each of the non-cash incentives we discussed to the employee's current total compensation package.
- Flexible scheduling is free as it is simply an exchange of hours.
- The cost of telecommuting will include only a laptop and a year's worth of internet access.
- You will purchase $100 worth of employee appreciation items over the course of the year.
- With a $66,000 annual salary, the employee's hourly rate is $31.73.
- You will give the employee one week of additional vacation which is equivalent to 40 hours.
- The cost of implementing a career path for the employee is virtually free.
- You will send the employee to one training course per quarter.
- The average cost of a training course for this employee is $1,000.
- Any cost associated with additional exposure for this employee will be offset by the employee's increased productivity and value to the company.
- The cost of communicating with this employee is negligible.

FROM THE EMPLOYEE'S PERSPECTIVE

WHAT EMPLOYEES VALUE AT WORK

Competitive Compensation — 66%

Bonuses and Merit-Based Rewards — 55%
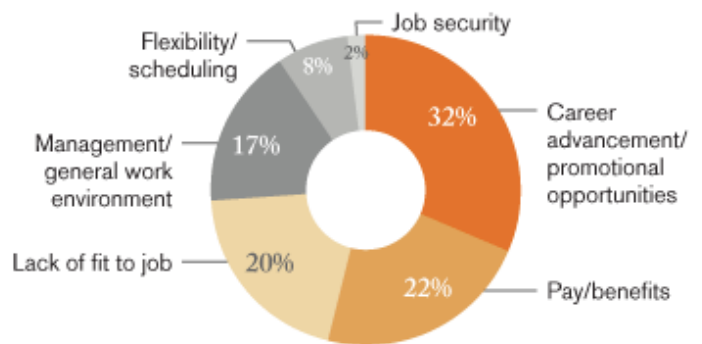
Retirement Plans — 45%

A look at what employees say they value at work might suggest that a monetary imbalance is to blame for employees leaving their place of work. One might conclude that raising salaries or doling out bonuses would be enough to solve the retention problem.

Yet contrary to what they say they want, the majority of employees who voluntarily leave the company aren't doing so for better pay or benefits. The largest proportion leaves for career advancement opportunities. Other reasons include fit with the role and overall culture and workplace environment factors.

So how does an HR leader rectify the disconnect between what employees want and why they leave? Unfortunately, there isn't a simple or quick fix but an examination of the companies with the lowest turnover and happiest employees does share some insight.

TOP VOLUNTARY JOB-RELATED REASONS FOR CHANGING JOBS

- Job security — 2%
- Career advancement/promotional opportunities — 32%
- Pay/benefits — 22%
- Lack of fit to job — 20%
- Management/general work environment — 17%
- Flexibility/scheduling — 8%

THE REFLEKTIVE RETENTION GUIDE

In reviewing the literature that examines the culture and processes of the companies with the highest employee retentions, Reflektive notes a few common themes:

• BUILD TRUST AND ACCOUNTABILITY

According to Gallup, the final straw for departing employees is that their managers aren't giving them what they need. That means that to retain top talent, employers must foster better relationships between managers and employees. Employees have to trust managers with their careers, and managers need to show a firm commitment to employee success. One effective strategy to achieve this is to jettison the yearly performance review model, which is geared toward tasks rather than people, and provide the infrastructure and tools needed to integrate real-time feedback into the daily workflow.
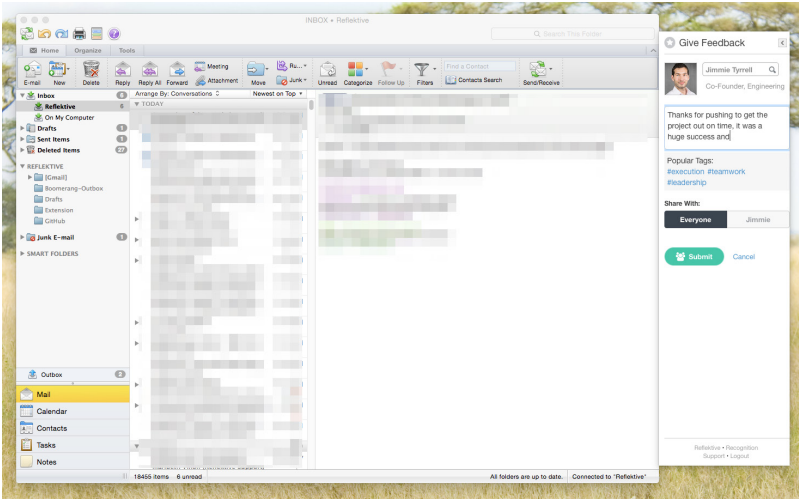
Hooking a feedback mechanism into employee workflows - whether it's in email or another pervasive operation system makes it easy to gather employee-generated data that can be used for a variety of development purposes. Easy tags funnel feedback into the right review, check-in, or recognition wall.

When employees operate in a nurturing environment that is focused on employee success and includes frequent employee-manager interactions, discussions about goals and collaboration on career development, they have a better understanding of what's expected of them and a sense of ownership. Frequent coaching allows employees and managers to set milestones and monitor progress together, reviewing recent, relevant data that can be automatically collected during the course of daily operations, acknowledging wins and suggesting improvements.

• FACILITATE TRANSPARENCY AND COLLABORATION

Today's employees — particularly millennials, who are now the largest workplace demographic — also value transparency in their relationships with their employers. That's why real-time feedback is so important in a modern workforce. Managers and employees need to interact regularly with a focus on setting employees up for success. They should have candid conversations about strengths and weaknesses, with a regularly monitored game plan to address areas that need improvement. Active manager participation is required to ensure employee activities align with company goals.

Moving from annual reviews to more frequent check-ins can be a daunting process.

Fortunately ongoing feedback can become the unbiased source of data for quickly completing these.

In addition to transparency, today's employees tend to be more collaborative, which is one reason collaboration software is now a linchpin in the modern workplace. A real-time feedback solution that integrates into existing business applications is a great way to facilitate manager-employee interactions, providing recent, relevant data that supervisors can use to coach and mentor their teams in a meaningful way. And maintaining a collaborative, tech-forward workplace where employees feel valued makes it easier attract and retain the best and brightest.
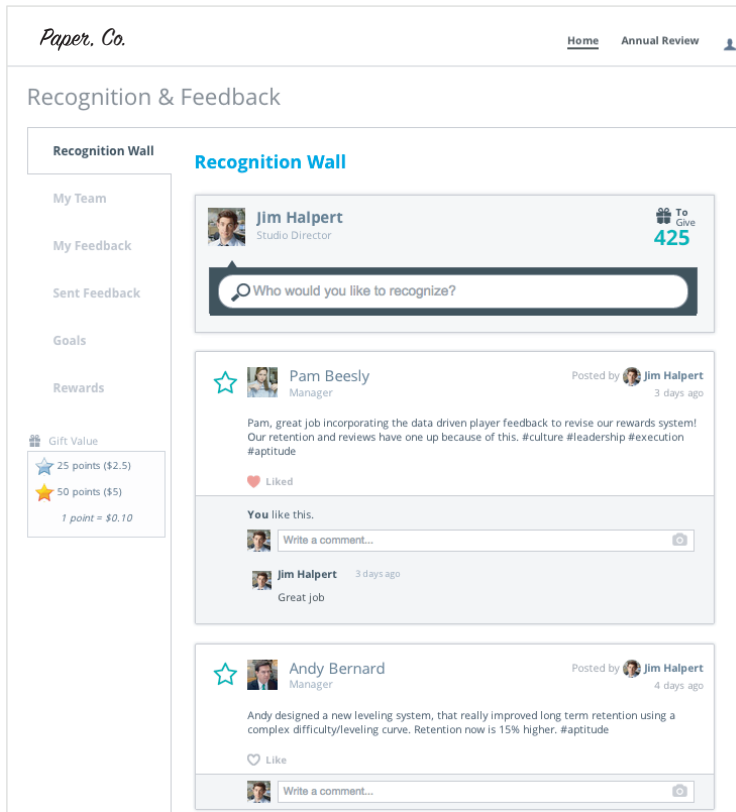
Recognition is an important motivational lever. Improve expertise location and elevate accomplishments to both bolster the individual and th e team.

THE BOTTOM LINE ON WORKFORCE RETENTION

In addition to the steep costs of replacing employees that churn exacts, a high turnover rate makes it difficult to build and maintain a high-performance team. Rock star job candidates tend to gravitate toward workplaces that have equally accomplished employees already aboard, so business leaders who find a way to retain their top talent create a virtuous circle, bringing new talent on board to ramp up creativity and productivity even more.

Before they can make that happen, business leaders have to transcend the outmoded task oversight and compliance enforcement model of management and create a workplace that incubates careers. They must provide managers with the guidance and tools they need to create trust and accountability and promote transparency and collaboration. Business leaders who create a nurturing environment that keeps their top performers on board are rewarded with more than just savings on turnover; they also get a formidable competitive advantage.

HOW TO GET STARTED

Drastically improving employee retention can seem like it requires a huge transformation. However, easy changes can be made that will snowball to organization-wide culture shifts. With more frequent and real-time feedback as the foundation, Reflektive customers like Comcast, Pinterest, and Instacart hava strong basis for employee engagement, motivation, an retention. As part of the Reflektive family, we'll create a better workplace together. We look forward to seeing how we can help.

Reach out at hello@reflektive.com
for a free assessment!