

SHRM Toolkit

Managing for Employee Retention

Overview

Managing for employee retention involves strategic actions to keep employees motivated and focused so they elect to remain employed and fully productive for the benefit of the organization. A comprehensive employee retention program can play a vital role in both attracting and retaining key employees, as well as in reducing turnover and its related costs. All of these contribute to an organization's productivity and overall business performance. It is more efficient to retain a quality employee than to recruit, train and orient a replacement employee of the same quality.

Overview

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Fairness and transparency are fundamental yet powerful concepts that can make a lasting impression on employees. According to SHRM research, employees identified these five factors as the leading contributors to job satisfaction:

1. Respectful treatment of all employees at all levels.
2. Compensation/pay.
3. Trust between employees and senior management.
4. Job security.
5. Opportunities to use their skills and abilities at work.

Employee job satisfaction and engagement factors are key ingredients of employee retention programs. The importance of addressing these factors is obvious, but actually doing so takes time and these tasks are often left for another day. However, the payoff of focusing on employee retention—in terms of increased performance, productivity, employee morale and quality of work, plus a reduction in both turnover and employee-related problems—is well worth the time and financial investment. The bottom line is that by managing for employee retention, organizations will retain talented and motivated employees who truly want to be a part of the company and who are focused on contributing to the organization's overall success.

Business Case

A critical issue that organizations face is how to retain the employees they want to keep. Companies must anticipate impending shortages of overall talent as well as a shortfall of employees with the specialized competencies needed to stay ahead of the competition. Employers that systematically manage employee retention—both in good times and in bad—will stand a greater chance of weathering such shortages.

A study by Executive Networks found that three quarters of chief human resource officers now say talent retention and attraction are their top priorities.¹

Key reasons a focus on reducing turnover makes sense:

- Turnover is costly.
- Unwanted turnover affects the performance of an organization.
- As the availability of skilled employees continues to decrease, it may become increasingly difficult to retain sought after employees.

Turnover costs can have a significant negative impact on a company's performance; however, not all turnover is harmful. For example, a new replacement hire may turn out to be more productive or more skilled than his or her predecessor.

Drivers of Employee Retention and Turnover

Devising effective employee retention strategies requires organizations to understand both why employees leave organizations and why they stay.

Why employees leave

Employees leave organizations for all sorts of reasons—Some find a different job, some go back to school, some follow a spouse who has been transferred to a different location, some retire, some get angry about a work-related or personal issue and quit on impulse, and some simply decide they no longer need a job (these categories of departure are referred to as "voluntary turnover"). Still others get fired or laid off by the organization (referred to as "involuntary turnover"). See [The Real Reason People Quit Their Jobs](#) and [13 Signs That Someone Is About to Quit, According to Research](#).

Generally, an individual will stay with an organization if the pay, working conditions, developmental opportunities, etc., are equal to or greater than the contributions (e.g., time and effort) required of the employee. These judgments are affected by both the individual's *desire* to leave the organization and the *ease* with which he or she could depart.

Studies have shown that employees typically follow four primary paths to turnover, each of which has different implications for an organization:

- **Employee dissatisfaction.** Attack this issue with traditional retention strategies such as monitoring workplace attitudes and addressing the drivers of turnover.
- **Better alternatives.** Retain employees by ensuring that the organization is competitive in terms of rewards, developmental opportunities and the quality of the work environment. Be prepared to deal with external offers for valued employees.
- **A planned change.** Some employees may have a predetermined plan to quit (e.g., if their spouse becomes pregnant, if they get a job advancement opportunity, if they are accepted into a degree program). However, increasing rewards tied to tenure or in response to employee needs may alter the plans of some employees. For example, if a company is seeing exits based on family-related plans, more generous parental leave and family-friendly policies may help reduce the impact.

- **A negative experience.** Employees sometimes leave on impulse, without any plan for the future. Generally, this is the result of a negative response to a specific action (e.g., being passed over for a promotion or experiencing difficulties with a supervisor). Analyze the types and frequencies of work-related issues that are driving employees to leave. Provide training to minimize prevalent negative interactions (e.g., harassment, bullying, or unfair and inconsistent treatment) and provide support mechanisms to deal with those problems (e.g., conflict resolution procedures, alternative work schedules or employee assistance programs).

Additional predictors of turnover that merit careful attention include:

- Organizational commitment and job satisfaction.
- Quality of the employee-supervisor relationship.
- Role clarity.
- Job design.
- Workgroup cohesion.

See:

[Are Your Workers Bored? Uninspired? They May Be Suffering a Midcareer Crisis](#)

[Just Because Your Workers Feel Loyal Doesn't Mean They'll Stay](#)

[5 Ways to Stop a Valued Employee from Quitting](#)

[Viewpoint: 8 Things Managers Do That Make Employees Quit](#)

Why employees stay

As important as it is to understand the reasons that drive employees to leave an organization, it is just as important to understand why valuable employees stay. Studies have suggested that employees become embedded in their jobs and their communities and as they participate in their professional and community life, they develop a web of connections and relationships, both on and off the job. Leaving a job would require severing or rearranging these social and value networks. Thus, the more embedded employees are in an organization, the more likely they are to stay. Companies can increase employee engagement by providing mentors, designing team-based projects, fostering team cohesiveness, encouraging employee referrals, and providing clear socialization and communication about the company's values and culture, as well as offering financial incentives based on tenure or unique incentives that may not be common elsewhere.

Employers must be responsive to the wants of employees. Prior to the COVID-19 pandemic, research found that nearly a third of workers sought out a new job because their current workplace didn't offer flexible work opportunities. After 2020, many workplaces have remote work and flexible scheduling options that have been put to the test. Employers can use this new flexibility to their advantage. See [Flexible Work Critical to Retention, Survey Finds](#).

Employees who regularly receive meaningful recognition for their good work are less likely to seek greener pastures and stay longer with organizations. A joint study by Gallup and recognition

platform provider Workhuman found that when recognition practices hit the mark with employees, 55 percent are less likely to look for external job opportunities and 68 percent are less likely to feel burned out on the job. See [Empowering Workplace Culture Through Recognition](#).

Employees who have the opportunity to move around within a company, whether to new jobs in different departments or by promotions, are more likely to stay with that company. See [Study: Internal Mobility Boosts Retention](#).

Employee benefits also play a role in retention. Offering a competitive benefits package, in addition to competitive pay, reduces the likelihood an employee will find the grass greener elsewhere. See [Employees Are More Likely to Stay If They Like Their Health Plan](#).

Key Retention Strategies and Best Practices

Practices that contribute to retention arise in all areas of HR, and all roles within an organization will need to work together to develop and implement multifaceted retention strategies. Broad-based and targeted strategies, or a combination of both, may be appropriate depending on the circumstances. See [How to Retain Employees During the Great Resignation](#).

Effective practices

Effective practices in a number of areas can be especially powerful in enabling an organization to achieve its retention goals. These areas include:

- **Recruitment.** Recruitment practices can strongly influence turnover, and considerable research shows that presenting applicants with a realistic job preview during the recruitment process has a positive effect on retention of those new hires.
- **Socialization.** Turnover is often high among new employees. Socialization practices—delivered via a strategic onboarding and assimilation program—can help new hires become embedded in the company and thus more likely to stay. These practices include shared and individualized learning experiences, formal and informal activities that help people get to know one another, and the assignment of more-seasoned employees as role models for new hires.
- **Training and development.** If employees are not given opportunities to continually update their skills, they are more inclined to leave.
- **Compensation and rewards.** Pay levels and satisfaction are only modest predictors of an employee's decision to leave the organization; however, a company has three possible strategies:
 1. Lead the market with respect to compensation and rewards.
 2. Tailor rewards to individual needs in a person-based pay structure.
 3. Explicitly link rewards to retention (e.g., tie vacation hours to seniority, offer retention bonuses or stock options to longer-term employees, or link defined benefit plan payouts to years of service).

- **Supervision.** Several studies have suggested that fair treatment by a supervisor is the most important determinant of retention. This would lead a company to focus on supervisory and management development and communication skill-building.
- **Employee engagement.** Engaged employees are satisfied with their jobs, enjoy their work and the organization, believe that their job is important, take pride in their company, and believe that their employer values their contributions. One study found that highly engaged employees were five times less likely to quit than employees who were not engaged. See [Developing and Sustaining Employee Engagement](#).

SHRM's *Better Workplaces on a Budget* report includes findings on the leading causes of employee turnover with suggestions for low-cost solutions.

Broad-based strategies

Broad-based strategies are directed at the entire organization or at large subsystems and are intended to address overall retention rates. Examples include providing across-the-board market-based salary increases, changing the hiring process to incorporate retention-related criteria and improving the work environment.

The data needed to help a company determine which broad-based strategies to implement typically come from three places:

- **Retention research** can shed valuable light on the primary drivers of turnover. Attendance at conferences and membership in professional associations such as SHRM can provide access to the latest research on turnover and retention.
- **Effective practices** encompass the strategies that other organizations are using and are finding effective or ineffective.
- **Benchmarking surveys** can provide information about how a company compares to competitors on issues such as pay, benefits, bonus plans and the like.

See:

[What benefits can employers offer to improve employee retention?](#)

[More-Authentic Workplaces Lead to Better Retention, Productivity](#)

[10 Ways Technology Can Improve Employee Retention](#)

Targeted strategies

Targeted strategies are based on data from several key sources, including organizational exit interviews, post-exit interviews, [stay interviews](#), employee focus groups, [predictive turnover studies](#) and other qualitative studies. This information can lead an organization to determine more specifically where a problem exists and to develop highly relevant and linked strategies to address the issue. For example, if female professionals are departing the organization in significant numbers, a company could review common reasons that women give for leaving a company and develop strategies to specifically deal with this group of employees. See [Treat 'Vent Letters' Like Exit Interviews](#) and [The Power of Stay Interviews for Engagement and Retention](#).

Implementation

People managers are key in the effective and efficient administration of an employee retention strategy. Having a management team that is educated about employee motivation, retention strategies, benchmarking and best-practices is critical to the success of the program.

Laying the groundwork

The following steps taken together can yield the information that an organization needs to determine the extent of its problem and to help shape the retention strategies that are implemented in response.

- **Determine whether turnover is a problem.** This step can be accomplished through turnover analysis, benchmarking and a needs assessment (both external and internal).
- **Establish a plan of action.** After reviewing the turnover analysis, benchmarking data and needs assessment, create a plan to improve retention. Identify broad-based or targeted strategies (or a combination) for implementation.
- **Implement a retention plan.** Execute the strategies that have been identified as appropriate for the specific problem.
- **Evaluate the results.** After implementing the plan, evaluate the results to assess the impact relative to the cost.

Benchmarking

Establishing appropriate benchmarks—both external and internal—is a key first step in preparing to implement an employee retention strategy.

- **External benchmarking.** Is a 15 percent annual turnover rate too high? This question is impossible to answer in isolation. Benchmarking and a needs assessment can provide valuable information for determining whether turnover is a problem for an organization. Through external benchmarking, a company compares its turnover rates against industry and competitor rates. These data represent annual and monthly quit rates as a percentage of total employment for all non-farm employment across the United States, broken down by industry, geographic location, sector, etc. See [Department of Labor, Bureau of Labor Statistics—Job Openings and Labor Turnover Survey](#).
- **Internal benchmarking.** With this form of benchmarking, an organization tracks its turnover rate across time. If the rate increases, overall or among particular groups, this can be a red flag that a problem may exist. See [Turnover Cost Calculation Spreadsheet](#).

Dealing with common problems

As with all strategic initiatives, there are some common problems associated with employee retention programs. These include:

- **Lack of top management support.** If senior management does not send a message to managers and supervisors emphasizing that employees are critical to the company's long-term success, supervisory employees are unlikely to focus on people-related issues. Unless

senior management actively participates in the retention process and takes primary responsibility for it, managers and employees will remain unsure of the true value of employees, both to senior management and to the organization.

- **Perception of the program as time-consuming "busywork."** Similarly, without an organizational commitment to the initiative and a clear understanding of how it is strategically contributing to the organization's successful long-term performance, managers may view a focus on people as, at best, "nice" or "just busywork" and, at worst, a huge waste of time that takes them away from the more important demands of their "real job."

Costs and return on investment

Because there are so many different actions a company can take to improve its employee retention rate, it is not feasible to quantify the "typical" costs—hard and soft—of designing and implementing a program. However, an organization should still try to budget its own initiative carefully.

The payback in financial terms can be estimated by reviewing a number of metrics, including turnover data, promotions/transfers from within versus outside recruiting, number of grievances filed, absenteeism, discrimination complaints, etc. See [To Have and to Hold](#).

Auditing and evaluating

Any initiative or program—especially one designed to retain an organization's key talent—needs to be continuously evaluated to determine if it is effective and to identify opportunities for improving it. An effective way to determine whether the employee retention program is working is to conduct an independent audit of the way the program is affecting various groups of employees. For example, are certain types of employees (e.g., low-skilled, highly skilled, technical, professional, managerial, executive or those with varying degrees of tenure) leaving the organization at more significant levels than others? If so, that group can be targeted for specific interventions.

One way to audit retention initiatives in addition to continuing to review turnover rates and exit interview results is to conduct [stay interviews](#) of current employees. Stay interviews help employers ascertain why good employees stay and what might make them leave. It is highly recommended that managers themselves conduct these meetings, after proper training, as they have the most direct relationships with employees.

Global approaches and perspectives

In an increasingly globalized economy, retention of quality employees is a global issue.

Increases in cultural differences within the workforce raise critical issues for employers. Employee retention efforts have proved very difficult to implement in some parts of the world due to differing expectations for pay, work assignments, benefits and the like. If a company is global in scope or simply has a highly diverse employee population, both cultural and national differences must be taken into account at the outset of the development of any new HR-related program, including employee retention strategies. See [English Classes Help Retain Immigrant Workers](#).

Employees on foreign assignments face a number of issues that domestic employees do not, and the retention of international assignees poses a significant challenge to employers. Poor repatriation planning by employers is often cited as a cause of high turnover of employees returning from foreign assignments. Employers must make efforts to keep in touch with expatriates to minimize employees' feelings of isolation and disconnectedness from the home organization. In addition, reverse culture shock can be an unexpected aspect of repatriation. Often, returning expats need a crash course on how to live in their homeland again, and employer support is critical for their retention. See [HR Best Practices Can Lead to a Better Expat Experience](#).