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Retaining Talent: A Benchmarking Study

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Almost one-third of all employees surveyed expect to leave for another job within the next year. . . . Turnover costs the average organization more than \$27 million per year. . . . Almost half of these organizations have no formal strategy for addressing retention.

Purpose

Today's growing "war for talent" is making it more and more difficult for organizations to keep current employees and to find qualified replacements. This study examines the challenges that organizations face with employee retention in an increasingly competitive labor market.

The objectives of this study were to:

- Benchmark retention rates, costs, and outcomes.
- Identify the reasons that employees leave.
- Determine which practices for improving retention are most effective.
- Understand how retention affects organizational outcomes.

This report is based on 745 employee responses to a retention survey submitted to 118 organizational members of the DDI HR Benchmark Group.

Retention Rates

Almost one-third of all employees surveyed expect to leave for another job within the next year. About 20 percent estimate their chances of leaving to be greater than 50 percent.

If organizations identified the causes of turnover that they can control, then they could target those areas for change. We found a moderate but significant correlation between an employee's job satisfaction and intent to leave. Employees who feel neutral about or dissatisfied with their jobs are more than twice as likely to leave the organization. On average, 36 percent of employees feel neutral or dissatisfied.

One employee represents \$239,888 of an organization's revenue during a one-year period.

On average, the revenue accounted for by one employee in one year is \$239,888, a significant amount. Thus, losing employees to turnover and having open positions can affect total company revenue. Every time a position becomes vacant, the organization becomes somewhat less capable of meeting its goals.

Voluntary turnover rates are almost twice as high for non-management positions (19.3%) as for management positions (10.3%).

Organizations have a difficult time retaining their frontline and professional workers. Compared to management roles, these types of jobs typically have higher turnover rates. If one assumes that managers constitute 30 percent of the workforce, the average voluntary turnover rate for this sample is about 13 percent.

Turnover rates have increased in the past year and will continue to increase next year.

Respondents predicted increasing turnover rates over time as a general trend. Some organizations did predict a decrease in turnover; however, on average, the number of organizations predicting an increase outnumbers those predicting a decrease.

Turnover is greatest for IS/technology and sales positions.

HR professionals identified the information systems/technology and sales functions as the most problematic turnover areas. With technological advancements becoming more commonplace in organizations, these positions are in high demand.

The cost of replacing an employee ranges from 29 to 46 percent of the person's annual salary. Turnover costs the average organization more than \$27 million per year.

HR professionals were asked to estimate the costs of replacing employees in management and non-management positions. Their estimates included the cost of advertising, travel, interviewing time (spent by management), lost productivity (due to the vacant position), and other associated expenses.

On average, the cost of replacing a manager is three times the cost of replacing a non-manager. Using our estimates, we can determine the average yearly cost of turnover for the organizations in our sample: The turnover cost for an organization with almost 13,000 employees would exceed \$27 million per year.

Retention as a Business Priority

Retention is a top business priority for more than one-third of the respondent organizations.

More than one-third (36.5%) of HR professionals view retention as one of their most pressing issues. For others, retention is merely one of the many complex HR issues demanding attention.

Almost half of the participating organizations (49%) have no formal strategy for addressing retention.

Retention is difficult to focus on because so many factors affect it, and organizations cannot easily change all of them. Even so, a well-conceived plan of action can greatly enhance progress toward long-term retention improvements. Unfortunately, many organizations have failed to make a concerted effort to implement changes. They might be unaware of what factors to consider or how to change them. In addition, the other demands of running an organization can supersede most efforts to promote retention.

Why Employees Leave

An employee's relationship with his or her supervisor or manager and work-life balance are the most important determinants for staying with an organization.

The top five factors affecting an employee's decision to stay or leave are:

1. Quality of relationship with supervisor or manager.
2. Ability to balance work and home life.
3. Amount of meaningful work—the feeling of making a difference.
4. Level of cooperation with coworkers.
5. Level of trust in the workplace.

HR professionals have an unclear picture of the factors that employees consider important for staying at their jobs.

The top five factors HR professionals believe affect an employee's decision to stay or leave are:

1. Opportunities for growth and advancement.
2. Quality of compensation package.
3. Amount of job stress.
4. Quality of relationship with supervisor or manager.
5. Ability to balance work and home life.

Employees' 3rd, 4th, and 5th most important reasons are ranked 19th, 20th, and 21st on the HR list. This dramatic difference shows that HR professionals severely discount the importance of cooperation and trust as well as motivational fit.

Tactics for Improving Retention

Most HR professionals are dissatisfied with their current retention efforts. A full 98 percent of HR professionals feel that their retention efforts could be improved.

According to HR professionals' ratings, the five most-valued retention interventions are:

1. Conducting internal studies (surveys, focus groups) to understand why employees leave/stay.
2. Improving selection practices.
3. Conducting exit interviews.
4. Improving the openness of communication between management and employees.
5. Expanding or improving training and development opportunities.

The Bottom Line

When retention is above average, customer satisfaction, productivity, and profitability also tend to be above average.

HR professionals were asked to estimate several organizational outcomes during the past year. All estimates were made relative to comparable organizations. When retention is above average in comparison to the competition, organizations tend to experience greater customer satisfaction, employee productivity, and profitability.

Conclusions

1. Turnover is prevalent and will probably increase.

On average, organizations expect turnover to increase in coming years. Turnover is currently much more common for frontline and professional (i.e., non-management) workers. An increasingly competitive labor market will make finding qualified candidates more difficult in the future. Organizations that understand retention and its causes will experience a competitive advantage.

2. Turnover is a costly drain on company resources.

People are the backbone of an organization, and the value of an individual can be quantified. In terms of total company revenue, the average employee is worth about a quarter of a million dollars, and the cost of replacing one employee ranges from 29 to 46 percent of the person's salary. An organization's ability to retain employees has been linked to long-term customer satisfaction, employee productivity, and profitability.

3. Young employees, especially in IS/technology and sales, are at a high risk for turnover.

Today's workers have different priorities. Young people are less likely to spend their entire careers at one organization. With the implementation of new technologies, certain positions have become very difficult to fill. Some candidates can choose from among the best offers that a number of organizations can muster.

4. Organizations have failed to give retention high priority.

Retention is a lead indicator that does not show its impact for months or even years. Organizations are more likely to focus their attention on more immediate needs instead of the long-term retention of employees. Only half of the organizations surveyed are making formal attempts to improve retention; many do not consider it a high priority. This approach might backfire later when the labor market tightens even further and filling new positions becomes more difficult.

5. Motivational fit, cooperation, and trust are primary drivers of retention.

Although compensation matters, employees are more concerned with the level of fulfillment they get from their jobs. They also feel that working with an understanding supervisor or manager in a cooperative and trusting work environment is important. Employees care about their work and how it fits into their lives. Organizations should focus on making sure that the people they hire are a good match for the job and the work culture.

6. HR professionals fail to adequately understand the causes of retention.

Although HR professionals recognize some of the most important retention drivers, they miss these factors more than they understand them. They especially are likely to ignore the importance of a cooperative and trusting work environment. They also fail to see how much employees value the meaning of the work they do. HR professionals need to make sure they understand the retention drivers in their organizations before they take action to make things better.

7. Gathering information about the causes of retention and addressing system issues have been the most effective interventions.

HR professionals greatly value the information gathered from internal studies of retention and exit interviews. Before action can be taken, however, they must develop an understanding of why employees leave. Other successful interventions include improving organizational systems, such as training and development and the selection system.

A Final Word

Organizations that understand employee retention and its causes will ultimately have a competitive advantage. However, HR professionals might not be using the best approach to introducing changes that will improve retention. In fact, the consensus is that turnover in organizations will increase. To avoid the damage and costly effects of increased turnover, organizations need to act now to improve their retention efforts.

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