

Retention and Fluctuation: Keeping staff - Losing staff

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1. INTRODUCTION

Unemployment is one of the central social problems of western industrialised countries. Companies such as IBM, Siemens and Hewlett Packard are carrying out large-scale staff cuts. At the same time, HR managers describe the retention of skilled employees as one of the main challenges for personnel policy. Why are companies going to such lengths to hold onto their own personnel in a period dominated by forced downsizing in many areas?

The endeavour to maintain a stable core workforce has very solid underlying reasons: when employees with knowledge leave a company, the consequences for the company go far beyond the substantial costs of recruiting and integrating replacements. When the departure of employees brings projects to a halt and causes the loss of well-oiled relationships between colleagues and customers and the disappearance of knowledge gained through long experience, the after-effects for a company are serious.

The large-scale trend also points to an increase in the importance of employee retention. Despite high unemployment in the western industrialised countries, forecasts say that skilled workers will become an increasingly scarce resource in the foreseeable future. Even now highly skilled employees and managers are in short supply in some areas and these shortages are likely to become more severe as demographic trends reduce the number of young people in the workforce.

With an extensive arsenal of retention management weapons, companies are battling to secure the loyalty of their "strategically vital" employees. "The war for talent" is the new catch phrase trumpeted by numerous authors of management literature. The employee retention activities considered most important are highly diverse; in their sum, they amount to a compendium of good management tools. From performance-linked compensation to free massages, from transparent career paths and a good workplace atmosphere to superiors who give credit to their staff: nearly every aspect of a company's activities is relevant to staff retention. Concepts designed to enhance the appeal of employers are correspondingly broad.

At the same time, efforts by employers to gain the loyalty of their personnel are highly selective, and are focused on the strong performers and the promising young talent. The name of the game is to retain your employees - but not all of them. Turnover is undesirable only for certain

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target groups, and for others it is actually encouraged. The objective, then, is rarely to prevent departures as such, but rather to keep a certain group of employees.

This report first examines the current trends in employment stability and assesses workforce turnover, both at the level of individual establishments and in the economy as a whole. On the basis of a number of studies, we present several causes and factors associated with employees' decisions to change jobs. The next section focuses on various retention management measures. This section also examines the consequences of employees' not changing workplaces – "bottled-up turnover" – since it is often associated with other forms of undesirable behaviour such as absenteeism or a lack of commitment. And because turnover will remain a fact of life regardless of the most elaborate countermeasures of companies, we will conclude by looking at various ways of dealing with the departure of employees. Ultimately, the question of whether and to what extent staff turnover has a destructive effect on a company depends largely on how change is managed.

In addition to insights from specialised and management literature on the issue of turnover and employee retention, this report also draws on the results of extensive interviews the author was able to conduct with a number of employees who have left or plan to leave an international service company. The data from these interviews is presented in anonymous form because of the sensitivity of the statements made.

2. THE MYTH OF EROSION: STABILITY REMAINS RELEVANT

The public perception of the modern working world is dominated by nomads of the working world with no real ties, patchwork careers and the erosion of everything long-term in nature. Short-term employment and 'episodic labour' are on the rise according to the American sociologist Richard Sennett in his book "The Corrosion of Character" (1998). The purported "end of normal employment" is the starting point of many debates on the loss of stability. The notion that working life at the start of the new millennium is dominated by job-hopping and short-term stints of employment is soon unmasked as a modern erosion myth when we take a closer look at the figures.

Some forms of work have indeed undergone far-reaching changes. For example, employment with temping companies has sharply increased since the 1970s, and not only in the USA; for many companies, the use of temps has become a permanent solution (Benner 2002, p. 30). Part-time work has also increased in the USA and several European countries (Benner 2002, p. 31; Bosch 2003, p. 14). By contrast, there has been no major increase - and in some areas even a decrease - in short-term contracts. Self-employed forms of work has gained somewhat in importance, however: freelancers account for an increasingly significant segment of the workforce particularly in the area of creative work and knowledge work (ILO Employment Report 2001; p. 31 f.). But a look at the duration of employment relationships shows that the much-lamented loss of stability for people in regular employment relationships is more a "perceived destabilisation" (Erlinghagen / Knuth 2003, p. 503) than an empirical reality. A study in the OECD countries showed a 2.1 percent increase in the average duration of employment with companies between 1992 and 2000 (from 10.2 to 10.4 years), with some differences among countries (Bosch 2003, p. 16). In German workplaces, employment stability has also increased on the whole since the end of the 1980s (Erlinghagen / Knuth 2003, p. 507). On the basis of this data, it is not possible to uphold theses of widespread erosion which declare instability to be the norm and workforce fluctuation a spreading phenomenon. Strong ties to the workplace are not only desired by many employees; they are also a widespread reality.

The number of employees who move to other companies on their own initiative is linked to economic trends. When (segments of) labour markets are completely drained of capacity, and shortages of qualified personnel ensue, turnover rates pick up. By contrast, employees tend to give notice

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less often during economic downturns. There is still a strong inclination on the part of employees to change jobs; in many cases, however, they cannot act on this desire, i. e. actually move on to a new company. This phenomenon can be described as a "turnover backlog" (Börner / Maier / Schramm 1996, p. 11).

3. STAFF TURNOVER: LOVED AND HATED

When companies address the issue of employees leaving on their accord, they are usually concerned with how to avoid it. The central perspective is usually the viewpoint of the "donor" company, which loses a key repository of know-how, and in whose qualifications the company may have invested considerable amounts. The main focus is on the costs of recruiting a replacement and providing training and support to integrate new hires, and time delays in strategically important projects or the loss of important know-how. The social effects within the company when employees leave, such as insecurity on the part of colleagues or business partners, are also perceived as serious "collateral damage". On the other hand, companies also repeatedly play the role of "recipients" of mobile employees. In this context, the focus is on the benefits of staff turnover. New employees bring in external knowledge resources, a valuable outside viewpoint and fresh impetus – definitely a positive aspect of switching employers in view of the risk of long-serving staff tending to wear blinders.

The consequences of staff turnover for the economy as a whole – unlike those from the viewpoint of companies that lose employees – are generally assessed as positive (see Rippe 1974, p. 9). From a broader perspective, phenomena described as an (unwanted) loss of skills from the standpoint of individual establishments take on the identity of growth-promoting mobility facilitating flexible adaptation to changing markets, new knowledge and technological innovations. Considerable mobility – between jobs, companies or regions – is also expected from individuals, if only to boost their knowledge and experience and thus to ensure their continued employability.

4. STAFF TURNOVER AND ITS CONSEQUENCES FOR COMPANIES

The departure of employees is associated with numerous quantifiable and non-quantifiable costs. Estimates of the calculable monetary damage vary by position of the departing employee and the difficulty of finding a suitable replacement. Many sources mention a rule of thumb that sets the cost at approximately 150 percent of the annual salary, and considerably more in the case of top executives (see Teltschik 1999, p. 125).

In addition to **recruitment costs** for a successor, the specific effects of staff turnover include the **ancillary costs of a vacancy**. Work is redistributed to other people when an employee is absent, colleagues and customers temporarily lack a competent contact within the company, and project deadlines are threatened. In particular in the case of knowledge-intensive projects, the disappearance of key personnel and individuals with important know-how may threaten the entire project. Another factor that should not be underestimated is the impact on the **workplace atmosphere**: The departure of colleagues is often a source of distraction and uncertainty for the staff who remain.

During the **orientation period for new employees**, costs are caused not only by orientation programmes, training and support by colleagues; the company must also anticipate **low productivity** on the part of the new employees over a considerable period. This is how a manager at *Service Inc.** describes the consequences of the departure of sales staff: "It takes a year until a new employee has acquired the necessary knowledge and contacts. First the sales revenues steadily go down". A Deloitte study reached the following conclusion: "It takes up to six months to get new employees working reasonably proficiently. It takes 18 months to get them integrated into the culture of an organisation and it takes 24 months before they really know the strategy and the business they have joined" (Birchfield, 2001).

When employees leave a company, a large amount of **know-how** usually departs with them. A large portion of the knowledge vital to organisations is experience-based and specific to individuals. Unlike documentable knowledge resources, it is the result of long practice, and thus coalesces into the intuition of an individual with a wealth of practical experience. The

* The company name has been changed to protect anonymity. Structured, qualitative interviews were conducted with five employees, examining in detail the reasons for their decision to leave or stay with the company and the decision-making process. Three of those interviewed have left the company, and the other two are considering or have considered changing jobs. In addition, several short interviews were conducted at the same company.

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transfer of tacit knowledge requires close interaction between individuals. Consequently, tacit knowledge is not subject to transfer via documents and databases. High turnover rates can therefore lead to a sort of "corporate amnesia". The result: "an inability to learn from individual past experiences - and the familiar pattern of repeated mistakes, re-invented wheels and other unlearned lessons" (Kransdorff 2003). From this standpoint, it appears particularly risky when companies try to lower the age of their workforce with the main aim of gaining access to the latest knowledge, since it is especially older, high-seniority employees who have the experience-based knowledge that is so important for organisations.

Relationships within the workplace and business relationships are also **highly dependent on individuals** (and not on employees' functions). It is an important 'lubricant' for working processes when people know one another and establish mutual trust on the basis of long-term interactions. The long-running cooperative relationships among customers, sales staff and technology experts on software projects are extremely valuable: "they build up an accumulated stock of knowledge and interaction. This is real creative capital, but it's stored in the relationships that exist among the employees and customers of organization". (Florida 2005). This "relationship capital" is an impediment to the seamless interchangeability of employees. An administrative employee of *Service Inc.* describes the consequences of the departure of a colleague in sales: "Our business partners ask us where *Peter Meier** is. They like him personally, and that means more to them than our company and our products". Many contacts follow former employees to their new companies that operate in the same market.

Staff turnover often leads to **chain reactions** - particularly when departing employees recruit a few colleagues for their new employer: "In our industry that is not unusual. You go to another company and say, 'I'll bring a couple of good people with me'. The new employer is delighted," said a manager at *Service Inc.* It is not an exception when an executive who is changing employers takes three or four of their old staff along.

Whereas a broad consensus among most authors place the costs and negative effects of staff turnover in the foreground, a few others point out a number of **positive side effects**. First they point out that most calculations overstate the "hard" costs of staff turnover and ignore cost-saving effects: "In what should be a standard cost/benefit analysis, only the cost side of the equation is completed" (Hansen 2005, p. 37). A potential measurable benefit is based on the non-payment of the annual bonus and performance payments to departing employees. While the position remains unfilled, colleagues usually perform the related work, often without receiving additional pay. The opportunity to hire new employees at lower salary levels is also seen as a positive aspect of staff

* Name changed

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turnover: "Turnover among employees who have reached the high end of the pay structure generates substantial cost savings because the company can typically bring in a replacement at a lower rate" (Jamie Hale, in: Hansen 2005). A further benefit of turnover is seen in the inflow of new ideas and skills from outside the company. The overall conclusion is a positive verdict on the effects of staff migration: "The pressing issue at many companies is not whether voluntary turnover is too high, but whether it is too low to provide opportunities for introducing new talent and resetting salaries" (Hansen 2005).

IT specialists in demand in India: job-hopping in a booming industry

The link between the state of the economy and staff turnover is concretely manifested in the experiences of Indian software companies. In the boom phase of the export-driven IT industry at the turn of the millennium, the turnover rate of Indian high-tech experts was 25 – 30 percent. The strong demand for expertise not only pushed up salaries; the number of specialists leaving their employers in search of the highest bidder reached dangerous levels from the standpoint of companies. An IT manager repeatedly faced with the departure of employees with important know-how from Indian software projects says, "As soon as you develop one, he leaves". The continued high attrition rate is considered a key problem of Indian service providers attempting to build up know-how and acquire sophisticated projects: "High rates of employee turnover constitute one of the most important challenges to the ability of Indian firms to progress beyond providing low-end software coding, development and maintaining services" (Arora et. al. 2001, p. 1279).

5. NOT AN EASY DECISION: MULTI-FACETTED MOTIVATION

Decisions to change employers are complex in nature and rarely determined by a single factor. Interviews with employees of *Service Inc.* revealed an individual mix of reasons for each employee faced with the decision to leave or to stay on (for the present). The reasons may relate to the old employment situation or the new employer. Some decisions are primarily motivated by the desire to end an unsatisfactory employment relationship. In other words, '**push motives**' are dominant. Others are based on an attractive offer from a new employer, i.e. '**pull factors**.' An example of a typical statement in this situation is, "It was an opportunity I couldn't turn down". One former *Service* employee explained, "It wasn't a matter of walking away. It was an opportunity. It was a hard decision because I felt very good in our small team at *Service Inc.*"

The final decision to change employers sometimes comes at the end of a long **chain of attempts** by an employee to change his/her situation. Even when employees are quite dissatisfied with the current situation, changing jobs is just *one* option among many. Depending on the possibilities available to them to influence their situation and the costs of changing jobs, some employees attempt to make use of the available freedom to define their working conditions. The decision to leave is often made only after several failed attempts to change the situation *within* the company through discussions with the employee's immediate superior or the personnel department.

An employee's inclination to leave the company cannot always be implemented in the form of an actual change of employer. In a situation where a "turnover backlog" has built up (Börner et. al. 1996, p. 22), employees do not stay because of their loyalty, but rather because they have no exit option. Even if this situation is not immediately evident in personnel statistics, it leaves its mark. When employees cannot or do not act on their inclination to leave, the result can be psychosomatic illnesses, an increase in absenteeism or a decline in commitment. A decline in loyalty and commitment on the part of experienced employees is not necessarily easy to identify from outside and may extend over long periods. "I came to terms with the situation and looked for loopholes", said a *Service Inc.* employee, who left the company only after several years of dissatisfaction. A very serious risk, especially during periods of high unemployment, is the danger of an employee becoming a "quit-stay", i.e. remains with the company despite having inwardly resigned.

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This risk is also high in case of employees with generally poor opportunities on the employment market.

Ironically, factors generally believed to promote employee retention also tend to bind employees who are actually on the point of leaving: "I have found a certain comfort zone here and the money's not bad. I can come to terms with that", said one employee who is inwardly at arms' length with his employer, has reduced his commitment to a "comfortable" level and is open to outside offers - provided that they are appealing.

Head hunters: turnover catalysts

An industry for which staff turnover is an integral part of doing business, and which acts as an important agent and catalyst in the turnover process, is personnel consulting. Head hunters are in demand - even during economic slumps (Steppan 2005). Particularly in the area of highly skilled specialists and management staff, professional personnel consultants often play a central role when employees change companies. A study at Telecom New Zealand showed that 60 percent of managers leaving of their own accord did so in response to offers from head hunters (Human Resources 2001, p. 25); the author's interviews at *Service Inc.* point in the same direction: The majority of employees who left or considered leaving did so in response to a call from personnel consultants. The fact that professional recruiters make a major contribution to staff turnover has implications for retention management: Some companies do not limit their activities to increasing their attractiveness to their personnel, but also attempt to close the gates against head hunters (for instance by providing training for switchboard operators and secretaries). For this purpose there are special service providers (see Sunter 2002;

www.anti-headhunting.com).

6. EXPECTATIONS AND MOTIVES: REASONS FOR LEAVING

The underlying reasons for employees' decisions to move to a new employer have been examined in a series of quantitative studies (including Yasar Tinar 1986; Nagel 2005; Süß / Henning 2005). Empirical material weighing a number of factors is also available on the special motivational situation of highly qualified specialists and management staff (Rippe 1974; Kallus 2004). Heading the list of the most common reasons for changing companies are motives related to the work itself and the employee's career path, or dissatisfaction with the immediate superior or the atmosphere within the workplace (Rippe 1974, p. 117; Süß / Henning 2005, p. 16).

A desire to take on **new challenges** (or the lack of challenging work at present) is a central motive for accepting new job offers. A related motive in this context is the feeling of having no influence on events within the company: "Whether you can change or influence something yourself is the crucial point. And that was no longer possible here", said an employee of Service, explaining his decision to join an employer who offered him a job with more degrees of freedom and opportunities to shape events. Often associated with this aspect are **career opportunities** which were not plentiful enough with the former employer and are offered by the new company. "In the medium term I don't see very many opportunities for myself with *Service Inc.*", said one former employee. "The distribution of tasks within the company does not leave much space for me to take the initiative". Another person who changed jobs explained, "I was stuck in a role that I wanted to get out of". The decision to leave the company was preceded by numerous unsuccessful attempts by this employee to expand his area and enhance his position within the company.

A desire for **higher income** is far less important than is frequently assumed. In most studies it has a low to middle ranking among reasons for changing employers (Rippe 1974; Nagel 2005). It is often mentioned more as a pleasant side effect of a decision primarily motivated by a desire for career advancement - and sometimes even the lack of financial improvements appears to play a subordinate role: "My new salary is only slightly higher than before, and was not a major motivating factor", explained one *Service Inc.* employee. What clinched the decision to move was "an appealing task", that presented the opportunity for long-term growth. Another employee reported that he decided to remain loyal to his employer although he would have improved his income by leaving. He rejected an offer from another company that included a "very attractive

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financial package". "I feel good at *Service Inc.*, and that's more important to me".

When deciding to accept a new job, employees also see the **market position** and the future prospects of a company as major criteria. Here, the decision is ultimately based on job security. When employees lack job security, the willingness to change employers increases (Börner / Maier/ Schramm 1996, p. 15). In the case of one Service employee, a perception that the company's prospects - and therefore the employee's own job - were uncertain indeed played a role in the decision to leave: "I looked at the whole situation from a higher level: Where's the market going? Does it have a future? At present, *Service Inc.* is not very well positioned - unlike my new employer". For similar reasons, restructuring plans and take-over rumours are often linked to an intensified search for other options. "Nobody wants to be the one upstanding man who is last to leave the ship", remarked one manager.

Not least among the reasons are a number of "marginal factors" that play a role when weighing the pros and cons of leaving. The most important of them are the employee's personal situation and the family's place of residence. A survey of employees who changed jobs showed that personal reasons often top the list of motivations for making a fresh start - sometimes "... taking priority over challenging work and easily outweighing career prospects (...). Particularly the place of work of the employee's spouse or partner and the decision to build a life together" played a substantial role in many decisions to change jobs (Nagel 2005, p. 26).

In contrast to the motivations that could be indicated by a purely instrumental/benefit-oriented view, employees' decisions are influenced to a very great extent through **affective commitment** (or the absence thereof). Important factors contributing to employees' affective commitment to their employers are above all relations with colleagues, superiors and the management. An employee of Service who rejected an interesting offer from another company remarked: "I'm an emotional person and I want to feel good in my surroundings. I want to look forward to going to work in the mornings and identify with my work. I can do that here. I wouldn't really have fit in at the other company".

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"I want to make a contribution": the self-image and expectations of highly qualified employees

Highly-qualified employees and managers are keenly desired clientele of retention management. Various studies in industrial and labour sociology have examined the specific needs of this target group.

The self-perception of the top performers in companies is primarily **results-driven**. At the top of the list of priorities of highly qualified employees is the desire to work towards goals, "undisturbed" by any rules or standards perceived as irrational. Dissatisfaction is frequently the result of "not being listened to by the people with expert competencies at the operational level" or managers "who are above the working process and only interfere with it when they fail to respect the specialists' pragmatism". (Kotthoff 1996, p. 438).

The professionals see a high degree of **autonomy in their work** as indispensable to their ability to perform their tasks competently. This is exactly where many of them see the basis for professional success threatened: Their criticism focuses mainly on the fact that "professional autonomy in their assigned area as a rule *does not* include appropriate responsibility for the required operational resources", which, they complain, results in "drawn-out decision-making procedures with superior units". (Kadritzke 1997, p. 136).

To meet the expectations associated with their positions and contribute to the company's goals, highly qualified professionals believe that they need close involvement in **information and strategic development**. However, many of them believe that, in everyday company operations, they are "badly informed about the integration of their work into the large operational picture and the overall activities of the company". (Kadritzke 1997, p. 137).

In view of flat hierarchies and project-like organisational structures, vertical **career paths** are becoming rare in many companies. The goal of gradually taking on more responsibility is difficult to attain within these structures, at least through traditional advancement. Some companies try to address this problem with new career models such as "specialised careers". Solid perspectives for career development hinge largely on transparent and credible methods of **performance assessment**. But such methods are believed by many employees to be rare: "In contrast to some finely tuned models for personnel development and career planning officially practised by the companies under study", the employees concerned believed that advancement was influenced to a great extent by people's ability to sell themselves, their connections and opportunistic conformity - resulting in disappointment, insecurity and demotivation (Kadritzke 1997, p. 140).

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For many highly qualified employees, a key consideration when judging their companies is the "social integration of **top management** into the company". The top executives serve as an important anchor for loyalty to the company as a whole. The members of the executive team are expected "to stay as long as possible, take an interest in the staff and occasionally put in an appearance to convey a sense that they are sitting in the same boat as the rest of the staff". (Kotthoff 1996, p. 440). In practice, many criticise a change in corporate culture that they subsume under the heading of a "presumptuous-indifferent attitude of upper managers" and their tendency to "hermetically seal themselves off from the staff".

Highly qualified employees - if their self-perception is to be believed - are highly performance-driven and are already self-motivated to a very large extent. Consequently, any attempt to create strong ties between them and the company must focus primarily on eliminating demotivating factors (DGFP 2004, p. 54) - i.e. aspects that prevent the employees from doing what they want to do, namely contribute their skills to create results and further their own development. A statement by an employee of *Service Inc.* who is increasingly open to new job opportunities points in a similar direction: "I like my work to be goal-driven, and I derive my affirmation from it. But at the moment I can't see where the company is going and I don't understand the strategy anymore. I no longer see where I can benefit the company".

7. HOLDING ON TO STAFF: THE BASICS OF RETENTION MANAGEMENT

At least to some extent, the goals of retaining staff and reducing the likelihood of employees deciding to leave are within reach of companies. Admittedly, they cannot influence some individual concerns, above all those related to employees' personal lives; however, there is broad scope for action on factors related to the work itself and the company.

Retention management approaches often arise in the context of the discussion on "attractive employers". Such employers - it is widely believed - can more easily secure the loyalty of their employees². Because the framework of conditions that motivates employees to leave or stay is complex, and because there is hardly any aspect that cannot affect the commitment of employees, retention management guides embrace numerous elements of personnel policy and corporate structure. Because of the extent of the material involved, the examination of these elements is necessarily brief.

The **central spheres of activity for employee retention** activities are considered (see DGFP 2004):

- recruitment and integration of new employees
- personnel development
- defining job responsibilities
- suitable management instruments and suitable individuals in management positions
- and incentive systems

The required knowledge base: measuring turnover, spotting motivation barriers

Companies must first find out the set of motives they are facing in order to develop sensible employee retention measures. The most advisable tool for this purpose is a **survey** of the entire workforce or the relevant

² The consulting firm Hewitt, which conducts international employee surveys on the quality of employers and managers, reports a far lower rate of employees resigning from the "best employers" (Baumruk et. al. 2004, p. 12). However, the correlation is not unequivocal, as the Fortune 500 list of "Best Companies to Work for" shows. Among the 20 selected companies, the rate of voluntary turnover ranged from 6 percent (Wegmans Food Markets) to 34 percent (Whole Foods) even within a single industry. (Hansen 2005, p. 40). In general, caution should be exercised both with figures on voluntary turnover and with allegedly clear causal relationships to the attractiveness of employers (see Hielscher 2002, p. 96).

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employee groups. It should help to determine the level of employee commitment, identify motivation barriers and show where there is room for improvement. **Exit interviews** with departing employees are intended to provide insights into their reasons for leaving and, in a risk-free discussion, to obtain a "warts-and-all" view from an employee standpoint of weaknesses and problem areas. In addition to statistics on employees who leave on their own initiative in all departments, parameters such as absenteeism must also be included in "**early warning systems**" on staff turnover.

Recruiting: the right fit

Retention management starts before an employee joins the company. In addition to the recruitment of individuals who fit into the corporate culture and the existing team, it is also important for applicants to have realistic expectations of their new employer. It is therefore advisable to present prospective employees with a picture of their future job that reflects the way that it will look in practice - including overtime, travel and other stress factors. The involvement of the applicant's future superiors and other key contacts in the selection allows both sides to gain a sense of the applicant's "social fit" at an early stage.

The orientation period: the foundation for employee retention

"The first few weeks of employment are the most critical time to lay the groundwork for long-term employee commitment and promote feelings of affiliation" (Russell 2001, p. 17). From this viewpoint, orientation programmes and training do not serve information purposes only, but also communicate the corporate culture and a feeling of belonging. Having experienced employees act as mentors can also help to support the process of integrating new colleagues into the company. To demonstrate strong interest on the part of management and convey a picture of the corporate strategy, "round-table meetings" with higher-level executives are also recommended (DGFP 2004, p. 67).

Defining and shaping tasks: autonomy and opportunities to succeed

The contours and structure of an employee's tasks and responsibilities make a major contribution to motivation (or, in negative cases, demotivation). A key requirement when structuring and defining the responsibilities associated with a position is the "right" level of challenge for the employee. To ensure that employees are able to achieve results, they must also be provided with the necessary resources and have the

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authority to act. Great importance is attached to the involvement of qualified employees in problem-solving processes and allowing them to influence corporate strategy. "Enlisting them as key problem solvers can help strengthen their feelings of engagement and enhance their self-image as stakeholders" (Russell 2001, p. 18). A vital aspect of the defining conditions is the overall organisational structure. Flat hierarchies and a relatively high level of decentralisation of decision-making authority go a long way towards meeting the need for professional autonomy and influence (Eröcal 2005, p. 19).

Personnel development: providing opportunities for growth

For many highly qualified employees, the opportunity to continually build their skills and develop professionally is a top priority. To satisfy this need for growth, employers must not only provide training, but above all challenging work. Employees also tend to be more satisfied with their opportunities for advancement if selection and promotion processes are transparent to them, and if they believe that these processes are fair.

However, the possibilities of employers are limited, particularly when employees expect to move up a vertical hierarchy, and even more so when flat hierarchies and project-like organisational structures restrict the available number of management positions. Some companies try to define "specialised careers" for high-potential employees as an alternative to the traditional career ladder (Gertz, in: Computerwoche, March 4, 2005). Promoting the individual advancement of the "top performers" also involves a certain dilemma, since large investments in skills development enhance employability and thus make them especially attractive to other employers.

Management instruments: agreeing on objectives, assessing performance

The definition of company-wide **guidelines** serves to set binding standards for the management of employees and cooperation. They usually include elements such as respect, constructive feedback, employee involvement in the life of the company, and transparent communication. Principles like these have a positive impact only when they become part of everyday working life and define the conduct of members of the organisation, i. e. when they align with corporate culture as it is lived. Decried corporate values and "core values" that conflict with the perceived corporate reality are more likely to generate distrust and distance.

To provide a basis for **autonomous, goal-driven work**, it is essential for companies to operate **management by objectives**, which "aims to boost individual initiative, a results-driven approach and self-motivation". (DGFP 2004, p. 59). As a rule, management by objectives is linked to

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performance-based incentive systems. The extent to which these incentives motivate employees depends to a large degree on whether employees believe that they are objective, transparent and subject to their influence.

Because management is not only rooted in instruments, but above all is linked to individuals, considerable weighting is assigned to the **assessment of management performance**. A management performance barometer such as that used in US companies is intended to yield comprehensive information on motivation levels within individual departments for "inclusion in calculations of flexible salary components of managers alongside other performance parameters such as sales and production figures". The collected data includes the turnover rate, the number of transfer requests and an employee survey (Geschwill 2001, p. 3). Because the behaviour of an employee's superior has such a large impact on the employee, companies are called upon to develop managers' competencies - but, by the same token, should also take decisive action to remove them if their leadership performance proves inadequate (Human Resources April 2001, p. 25).

Incentive systems: addressing interests, providing recognition

Financial incentive systems are considered to play a major - perhaps even decisive - role in employee retention. They not only address employees' material interests, but are also indicative of the value placed on their performance. Alongside the absolute amount of salary paid, key aspects include the question of "a fair share" as compared with other employees. Important factors are therefore an "understandable structure and valuation of functions" and "a clearly definable catalogue of criteria for granting performance-based salary components" (DGFP 2004, p. 63). Individual employees must be able to clearly understand how performance-based elements can be influenced. In addition, many employers offer fringe benefits such as payments into company pension plans, attractive models for total lifetime working time, or employee stock options, some of which are linked to seniority (Teltschnik 1999, p. 126).

Non-financial incentives are also in widespread use, for example attractive and flexible systems for planning working hours that take into account employees' work-life balance. Support for working parents to improve the compatibility of professional and family life is steadily gaining in importance - whether it takes the form of help with child care or the possibility of working from home when children are ill. The range of retention instruments also extends to "feel-good initiatives" such as a cafeteria and free beverages, massages at the workplace, fitness studios or organised leisure-time activities.

Retention and Fluctuation

Retaining the "right" employees: target group segmentation

According to mainstream retention management literature, the areas where companies should avoid turnover and those where it is desirable must be determined on employees' positions, performance, and the ease of replacing them: Retention management efforts should focus first and foremost on "strategically important employees" for whom it would be difficult to find suitable replacements (DGFP e.V. 2004, p. 21). The broad consensus states that employee retention must be designed as a selective instrument that focuses primarily on top performers, and allows the less effectual people to leave – the sooner the better. "Not all employees perform equally – nor should they be mourned equally when they leave" (Dalton 2005). According to this approach, continuing to carry the poor performers not only jeopardises the company's success, but also demotivates the workforce.

There are many reports, most of them from US companies, on turnover policies linked to rigid assessment systems and forced rankings³. In companies such as the software house SAS or the Applebee restaurant chain, the management has clear retention targets for specific employee groups. "Managers have retention targets that they are expected to meet" – at least 80 percent of the top performers and "none of the bottom 20 percent". It is obvious that the question of whether a ranking-based retention concept makes any sense hinges entirely on the quality of performance assessments. Assessments are indeed often subject to problems and are highly dependent on individuals. Consequently, a turnover policy based on clear-cut selection criteria should be treated with considerable caution.

The widespread tendency to limit the scope of retention management policies on the best performers has another weak point. The exclusive focus on "high performers" working as top-level experts or executives downplays the importance of established relationships and "ordinary employees" for the stable operation of a company or individual teams. Broad knowledge gained from experience and long-term cooperation with colleagues contribute to efficient processes at all levels. Older employees, who are obviously counted among the fringe groups under retention management, should also receive more attention from human resources departments: in view of demographic trends, there is likely to be a shortage of qualified – and above all young – members of the workforce in the foreseeable future. This trend will lend new significance to the retention of older employees.

³ Forced rankings require managers to rank employees on the basis of performance and categorise them as "low performers" and "high performers". The application of standards such as the normal distribution is intended to prevent managers from assessing employee performance "too softly" and enable employers to "sort out" the poor performers.

8. WHEN EMPLOYEES LEAVE: PLANNING THE DEPARTURE

Even an employer of choice, working with the full range of retention management tools, will occasionally have to deal with the departure of key employees. Employee resignations are part of normal business operations. However, the company can take action in a number of areas to shape the concrete effects. This includes respect when responding to the decision by the "disloyal" employee and, as far as possible, a comprehensive handover process to the successor. In addition, it is also possible for companies to retain ties to "alumni". In addition, the workforce as a whole pays close attention to the treatment of departing employees, whether they are given notice by the employer or leave of their own accord. Observers within the company are usually very sensitive to behaviour in such critical situations – especially that of management.

Scorched earth? Dealing with exit decisions

Some people who change employers experience a sudden shift in manners. "My boss stopped speaking to me when I handed in my notice", said one *Service Inc.* employee. Sometimes "abandoned" colleagues and superiors vent their disappointment in angry telephone calls and e-mails accusing the departing employee of disloyalty and "desertion". For employees who have struggled with the decision to leave – particularly because of their loyalty to *individuals* – these reactions are an additional burden. And in some cases, "insulted" superiors may even fail to notice that they still have a chance to retain an employee who is planning to leave.

From the company's standpoint, the treatment of employees in the process of changing jobs is very important. Careful planning of the phase between the time an employee announces plans to leave and the actual departure may yield considerable benefits to the company, the remaining colleagues and the employee's successor. These may take the form of information on possible motivation barriers within the company, or a comprehensive "business handover". Companies should ensure that they put the remaining time to constructive use especially when employees with valuable know-how leave the company and their knowledge must be transferred to colleagues or successors.

Retention and Fluctuation

Not lost forever: creating ties to alumni

Laying the foundation for future cooperation during the departure phase also appears opportune in another respect: Former employees are a potential source of recommendations for a company. In some cases they may become new business partners with very close ties to the company. "The customer-supplier relationship is on another level right from the start" (Indialogo-Newsletter, www.indialogo.de).

Moreover, former employees are also potential future employees. "I have understanding for any employee who wants to change jobs after working successfully for us for a few years. However, he can also come back at any time. After all, our company profits from the knowledge that our employees acquire with other employers", says the managing director of a multimedia service provider (Volker Tietgens, in: brand eins 1/2000). It takes far less time and effort to integrate former employees into an organisation than complete outsiders; their performance and their ability to get established within the company entail fewer risks. It is becoming increasingly common for companies in the USA to develop alumni networks. The German chip maker Infineon "has also started utilising the potential of the so-called alumni: 'We regularly ask them whether they can imagine coming back to us' ". (Gillies 2005, p. 21). It may therefore be beneficial to both parties to bear in mind possible future encounters despite the atmosphere of conflict that frequently accompanies departure decisions.

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