

## *Organizational Application*

# Managing Employee Retention as a Strategy for Increasing Organizational Competitiveness

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*Research indicates that the total cost of employee turnover is about 150% of an employee's salary. Because of this high cost of turnover, the organization that is the focus of this article sought to understand their employee's turnover intentions and the reasons for the potential turnover. Through a series of surveys, observations, and interviews, it was determined that the location of the company and its compensation package were the most common factors in remaining with the company and that compensation and lack of challenge and opportunity were the most common factors in contemplating leaving the organization.*

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### **Purpose of the Study**

The purpose of this study was to determine the factors that most significantly influence employees' decisions to remain employed at a particular organization and possible reasons for choosing to leave. In addition, the study sought to describe the importance of retaining critical employees and developing strategies to enhance employee retention practices.

The importance of this issue is demonstrated by the finding that 86% of employers experience difficulty attracting new employees and 58% experience difficulty retaining their employees (Hale, 1998). The results of the current study can be used by organizations to develop policies, practices, and strategies that would enable higher levels of employee retention and create greater efficiencies in meeting strategic business objectives.

### **The Cost of Employee Turnover**

Abbasi and Hollman (2000) sought to determine the impact of employee turnover on organizations and found that excessive employee turnover often engenders far-reaching consequences and, at the extreme, may jeopardize efforts to attain organizational objectives. In addition, Abbasi and Hollman (2000) indicated that when an organization loses a critical employee, there is negative impact on innovation, consistency in providing service to guests may be jeopardized, and major delays in the delivery of services to customers may occur. The study also showed that a decline in the standard of service provided to guests could also adversely affect

the satisfaction of internal and external customers and consequently, the profitability of the organization.

Examples from prior research reveal the incredible cost incurred in losing critical employees. For example, in one study (Hale, 1998), employers cited recruitment costs of 50 to 60% of an employee's first year's salary and up to 100% for certain specialized, high-skill positions. In another study, Fitz-enz (1997) indicated that when direct and indirect costs are combined, the total turnover cost of an exempt employee is a minimum of one year's pay and benefits, or a maximum of two years' pay and benefits

As part of the process of developing and implementing strategies to maintain and increase competitiveness, organizations face the challenge of retaining their best employees. As such, this research was designed to analyze and determine the most effective ways for one employer to retain its critical employees. The company in this study has been successful at maintaining a relatively low turnover ratio, but the employees who left the organization have been critical employees, thus presenting a significant challenge. The results of this research effort potentially could be used as a framework for guiding employee retention in other large, complex organizations.

### **Why is it Important to Retain Critical Employees?**

Fitz-enz (1997) stated that the average company loses approximately \$1 million with every 10 managerial and professional employees who leave the organization. As mentioned previously, the combined direct and indirect costs associated with one employee ranges from a minimum of one year's pay and benefits to a maximum of two years' pay and benefits. Thus, there is significant economic impact when an organization loses any of its critical employees, especially given the knowledge that is lost with the employee's departure.

It will become significantly more important in the years ahead to recognize the commitment of individuals to an organization, as well as the organization's need to create an environment in which one would be willing to stay (Harris, 2000). Organizations will need to either create an intellectual capital environment where the transmission of knowledge takes place throughout the structure, or continue to lose important individual knowledge that has been developed during the length of service (Harris, 2000). This deep knowledge is what many believe will help to meet the needs and expectations of the customers and to create and sustain a competitive advantage within the global economy in which organizations are competing in today.

### **Method**

The author conducted the research at a large, complex organization using a stratified random sample to select employees from all departments of the organization and to include non-supervisory employees, mid-level management, and senior management employees. Surveys were sent to all 115 employees at the organization's headquarters, of which 78 employees responded resulting in a 67.8% participation rate.

Participants in the study were asked to complete a survey describing their commitment to the organization, reasons and explanations as to why they might seek employment at another organization, reasons for remaining employed with the current employer, and what the organization could do to retain its high performing employees. In addition, several one-on-one interviews and observations were conducted to supplement the surveys. Interviews were subsequently conducted with five senior leaders, ten managers, and ten non-managerial employees. Furthermore, the daily activities of all groups of employees were visually observed for two to three hours per day for one week.

## Discussion of the Results

### Employee Characteristics

The average tenure of employees was 8.53 years. As would be expected, older employees had significantly longer tenure than did younger employees ( $r = .47$ ). There was also a relationship between age and the number of positions employees had with the organization ( $r = .30$ ).

The formal education of the participants varied with 40% of the respondents having a high-school diploma or equivalent, 32% having an associate's degree, 27% completing a bachelor's degree, and 1% completing a graduate degree. Many of the employees who had completed the associate's degree indicated they were currently pursuing a baccalaureate degree at a local college or university. They also felt that the bachelor's degree was necessary for them to advance at a faster pace in their respective careers. More details on the sample are in Table 1.

Classification	Average Years Tenure			Average number of jobs held in the organization
	In the Corporation	In Current Position	All Positions	
Exempt	9.7	5.5	9.1	2.2
Non-exempt	7.1	2.2	6.6	1.1
Overall	8.5	4.8	8.1	2.1

### Successful Employee Retention Strategies

Employees cited location of the company as the most important reason for choosing the current organization as their employer. Two-thirds of the respondents chose the organization because its location resulted in a relatively short commute to and from work. Compensation was the next most frequently cited reason at 64.1%. Respondents stated that the organization offered a competitive salary with attractive benefits.

The job itself was a significant factor having been cited by 28.2% of the respondents. This is where the actual job responsibilities were the primary reason

for the employee choosing the organization. The organization's reputation was also cited by 28.2% of the respondents as a contributing factor.

<b>Table 2: Reasons for Choosing the Corporation as an Employee</b>		
Factor	Description	Frequency
Location of the Company	The relative distance and amount of time an employee has to spend driving to and from work.	52
Compensation	The amount of money paid to an employee and the benefits such as medical, dental, and 401(k) provided.	50
The Job Itself	The actual responsibilities an employee has in a specific job.	22
The Company's Reputation	The reputation of the company as written in various publications, opinions shared by employees, and analysts within the industry.	22
Career Development	The ability for one to advance within the Company given high performance and interest.	20
Job Security	The relatively low risk associated with working at the Company.	10
Organization Culture	The way the Company conducts business and the manner in which employees are treated.	8
Challenge	The Company challenges its employees to perform with more efficiency.	4
Training & Development	The amount and type of training and development opportunities provided available to employees.	4
Empowerment	Employees are empowered to make decisions affecting their work to a relatively high degree.	2
Attractive Benefits	The quality of the coverage offered and a relatively low premium for the benefits.	2
Other	Any other factor cited but not described.	2

### **Potential Factors that could cause the Employee to Leave the Company**

Through the various instruments used, the researcher sought to understand why employees would choose to leave the organization. As indicated in Table 2, salary, lack of challenge and opportunities in one's position, and the inability to advance in one's career were the most significant factors. Other factors identified by the respondents included lack of recognition, ineffective leadership, and a work environment that lacked teamwork.

Other factors cited included employees wanting to be paid at or above the market rate for their job classification and that there should be consistency in the ways in which employees are paid. The respondents also indicated a high desirability for their positions to be challenging and that there should be adequate opportunities to learn new tasks and to develop new skills.

### **Reasons for Colleagues Leaving the Company**

To determine what employees had heard through discussions or through observations about the reasons for their colleagues leaving, the researcher asked a

question to this effect and was provided answers similar to the responses to the question of possible reasons for leaving. Compensation and opportunities for career advancement were cited by 59% and 41% respectively. Work environment and ineffective leadership were also identified as reasons why the respondents' peers and colleagues have left. Work environment referred to the level of respect for each other and the ability to seek and attain support from supervisors and colleagues.

### **Reward and Recognition**

The three forms of recognition and reward most frequently cited by the respondents were verbal praise from supervisor and other leaders, salary increases, and gift certificates. The salary increases reflected an employee's performance over the year, successfully completing a project, or taking on additional responsibilities. The gift certificates were for local restaurants, stores, or movie tickets for exemplary teamwork, taking extra initiative to complete a task, or resolving a customer complaint in an efficient manner. Two of the 78 respondents said that a flexible work schedule was part of the reward and recognition package, especially given that the employees have stated that this would be another strategy that their supervisors could take to reduce employee turnover.

In responding to their satisfaction with the rewards and recognition they receive, the participants responded that on average their satisfaction is between neutral and satisfied. The mean score, as shown below, was 3.53 with three being neutral and four being satisfied. The range for the responses was one to five with one representing highly dissatisfied and five representing highly satisfied.

### **Likelihood of Seeking Employment with another Company**

The likelihood of an employee leaving is an effective way of predicting if an employee will leave within a relatively short period of time (Mobley, Griffeth, Hand, & Meglino, 1979). With a scale of five representing a high likelihood of leaving and one representing highly unlikely to leave the organization, the participants indicated a mean score of 2.4 showing that they were unlikely to leave within the next one to two years. Approximately 15% of the participants indicated that they were likely or highly likely to seek employment elsewhere within the next one to two years.

With a low unemployment rate and a recovering economy, this situation can become a challenge to the organization given that this shows at least 15.4% turnover within the next subsequent years. A regression analysis showed that satisfaction with position, task identity, feedback, number of positions held in the organization, average tenure in position, and age were the most significant factors influencing an employee's decision whether to seek employment at another organization.

<b>Table 3: Potential Reasons for Leaving the Organization</b>		
<b>Factor</b>	<b>Description</b>	<b>Frequency</b>
Salary	Not being paid at or above market and not having internal and external equity.	38
Lack of challenge and opportunity	The position not offering adequate challenges and the opportunity to learn new tasks and responsibilities.	28
Lack of career advancement opportunities	Not being able to advance in one's career within a reasonable time and with higher levels of performance.	24
Lack of recognition	Not being rewarded fairly for work performed. Rewards may be financial or non-financial.	14
Ineffective leadership	The inability of leaders to develop and communicate the Company's vision and effectively developing employees to maximize their potential.	14
Inadequate emphasis on teamwork	The lack of effort exerted by employees and leaders to foster a teamwork type environment.	14
Not having the opportunity for a flexible work schedule	The inability to work a flexible work schedule including reduced hours, telecommuting, four ten-hour days per week and job-sharing.	6
Too long of a commute	The distance an employee has to commute to and from work.	6
Lack of trust in senior management	Lack of confidence in the Senior Management to do what is right for the employees.	2
Inadequate opportunities for training & development	The unavailability and inadequate opportunity to take classes at local colleges and universities and participating in the in-house training program.	2
Low overall job satisfaction	Not feeling a sense of satisfaction from performing one's job.	2

### **Satisfaction in One's Position**

Satisfaction in one's position has been widely viewed as an indicator of whether one will seek employment elsewhere within a relatively short period of time. The mean level of satisfaction for employees was 3.85 with 3 being neutral and 4 being satisfied. A higher value would indicate the lesser chance of the employee seeking employment at another company.

Further analyses through regression and correlation on the factors that affected employees' satisfaction in their positions showed that satisfaction with rewards and recognition, task identity, feedback, number of positions held at the company, and age as the factors most significantly affecting the satisfaction level of employees in their positions.

### **Job Characteristics Model**

The Job Characteristics Model is based on the idea that the job itself is a key to employee motivation. The five components of the model are skill variety, task identity, task significance, autonomy, and feedback. The proponents of this model, Hackman and Oldham (1980), suggested that factors such as compensation, effective supervision, compensation, and similar factors are not effective in increasing

motivation, but rather act as neutralizers. It is only through enhancing the job itself that motivation can be increased according to the model.

Based on data from this study, respondents indicated that they were satisfied with the skill variety offered in their respective positions ( $M = 4.03$ ). Ten percent of the participants indicated that their positions did not offer adequate skill variety. Employees indicated that they were satisfied with the task identity they had in their positions ( $M = 4.13$ ). Nine percent of the respondents indicated that they were not satisfied with this component of the model. Task significance resulted in a mean of 4.00 with 12.8% of the respondents stating they were dissatisfied with the task significance offered in their positions.

Autonomy had a score of 4.29 indicating employees' satisfaction with the amount of independence they had in determining how they do their work and for determining their schedule. Similar to task significance, 12.8% of the respondents were not satisfied with the autonomy they had in their positions and with regards to feedback, the respondents indicated that they were not as satisfied as compared to the other components of this model. The mean score was 3.58 with 32% stating they were not satisfied with the feedback they received about their performance. The results indicated that employees were at least satisfied with the level of skill variety, task identity, task significance, autonomy, and feedback in the respective jobs. Nevertheless feedback was significantly less favorable than the other areas at approximately 0.46 points lower than the average of the five factors.

### **Investment in Employee Retention as a Means of Achieving the Strategic Business Objectives of the Company**

Based on responses by supervisors, critical employees possessed deep knowledge which is necessary to enhance the competitiveness of the organization. In addition, the critical employees perform more efficiently than the average employee which results. With a loss of the critical employees, it can be inferred that the Company's output, efficiency, motivation, and productivity will decrease. Supervisors directly and indirectly stated it will take more average employees to perform at the same level than for the critical employees. They help to foster the attainment of the strategic business objectives of the Company more effectively.

Furthermore, the human resource leader could not provide exact data about the cost of replacing a critical employee, but agreed with the figures stated by Fitzenz (1997) where he calculated the cost of an exempt employee averaging approximately \$1 million for every ten managerial employees.

### **Effectiveness of Employee Retention Strategies**

Given the organization's ability to minimize employee turnover to an average of 5% over the past two years, one can easily conclude that the organization has been effective in its employee retention efforts. Furthermore, through efforts such as allowing the researcher to conduct this study reaffirms the organization's emphasis on trying to retain its best and brightest employees. Compared to a national turnover average of 15.6% (Bureau of National Affairs, 1998), the organization has performed

extremely well in retaining its employees. The BNA report also indicated that among manufacturers, the 12-month average of median separations was approximately 10.8%, 16.8% for non-manufacturing businesses, and 12.4% for the non-business sector.

## **Overall Conclusions**

One of the primary conclusions from this study is that the factors that most significantly contributed to an employee's satisfaction with a position were similar to the factors that contributed to the likelihood of an employee seeking employment with another organization. The common factors affecting employees' satisfaction and the likeliness to leave were satisfaction with rewards and recognition, task identity, feedback, number of positions held at the company, age, and satisfaction with position as an indicator for likeliness to seek a position with another organization.

A second conclusion based on the findings of the study is that supervisors depended heavily on the human resources function as an adviser and a source of general assistance in the effort to retain their critical employees. Supervisors typically resort to their departmental leaders to seek their support in the effort and to approve funding when applicable for budget increases. The human resources partners are viewed as the experts with the applicable knowledge needed in the employee retention efforts.

A third conclusion from this study is that employees seem to increasingly want a flexible work schedule. Flexible work schedule was cited as one of the main reasons for deciding to remain with the Company if offered employment with another organization. In addition, this factor was mentioned by numerous authors in the literature reviewed as a significant factor in the employee retention efforts. The researcher is forming the conclusion that flexible work schedule will increasingly be an important issue in the efforts to retain an organization's critical employees.

The fourth conclusion based on the research findings is that even though supervisors agreed there were risks associated with trying to retain the critical employees, it was evident that the benefits outweigh the costs and risks associated with such effort. Given the awareness of the potential risks, supervisors have taken the necessary steps in trying to reduce these risks.

The benefits of retaining the critical employees include the ability of the Company to achieve its strategic business objectives and to gain a competitive advantage over its current and potential competitors. Supervisors were willing to invest to retain their critical employees rather than to risk reducing productivity and profitability given the turnover of a critical employee.

These conclusions indicate that organizations should identify their critical employees; understand their needs with regards to career, family, education, and community; and be able to continuously meet the expectations and needs of these employees. It is through proactive efforts that the organization can reduce the likelihood of losing the critical employees.

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