SPECIAL REPORT

RETAINING YOUR BEST EMPLOYEES

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With a new Administration in Washington, rapid and constant change is in the air. President Trump is pursuing a pro-growth agenda and if the tax and deregulation policies he's articulated come to pass, the economy could accelerate.

If that happens, employees who were once content to hang on to what they had in an economy growing at under 2 percent a year could see opportunity knocking.

Now is the time, therefore, to begin thinking about how to keep the employees you want to retain from leaving for what they might suddenly see as greener pastures.

Outlook Improving

The evidence that positive economic change may be coming or at least anticipated is starting to mount. Unemployment is relatively low at 4.8 percent and with a modest upturn of investment in inventories, plants and other fixed assets, competition for new talent is ramping up.

Year-over-year earnings growth for the fourth quarter of 2016 tracked at about 7.5 percent, according to Thomson Reuters, with revenues up 5 percent from the year-ago period. Expect those trends to continue if President Trump's much anticipated economic policies succeed in accelerating growth. It is what Wall Street is betting on.

The Multiplier Effect

New jobs, of course, have a multiplier effect on local economies. Enrico Moretti, a professor of economics at the University of California, Berkeley, says that for each new high-tech job in a city like Austin, Seattle or Boston, five additional jobs are ultimately created in the region, both skilled (lawyers, teachers, nurses) and so-called unskilled (waiters, hairdressers, carpenters.)

Most sectors have a multiplier effect, but innovation, Moretti adds, "has a disproportionate effect on the economy of American communities, the largest multiplier of all, about three times that of manufacturing."

Changing Workforce Demographics

So you're hiring again. That's great, but what are you doing to keep valued employees from leaving? Retention is something management consultants and other experts say is now more important than ever.

The Bureau of Labor Statistics projects that within five years, *half the workforce* will be made up of millennials and Gen Z-ers, people who likely won't spend more than two years in the same job as they get lured away by hot new start-ups or opt for the "Gig Economy" or look for a major new assignment within their same organization. We have long since moved on from the days when eager recruits dreamed of spending their entire careers at one place.

A growing economy also means rising attrition rates, as employees leave for jobs they believe will engage them more and offer better growth opportunities. It's a seller's market, driven by both practical and emotional factors. The term "revolving door" is no longer the pejorative it once was, for the employer and the employee alike. In fact, if your departing employees go on to pastures that are recognized to be greener it can be a silver lining for you, as your reputation may increase. As *The Week* put it recently in an article covering a study of law-firm hiring practices, "The Upside of Losing Your Best People," you may become known as a "talent magnet" that can "attract younger talent at lower wages."

Real or perceived shortcomings in compensation, benefits and the degree to which their work is respected and acknowledged by managers thus become key elements in the decisions key employees make as to whether to stay or go.

A recent Deloitte *Human Capital Trends Report* showed that 78 percent of business leaders list employee engagement and retention as one of their top priorities. It is a consequential bottom-line issue: Factoring in recruitment fees, training and lost productivity, studies have shown that the cost of losing an employee is equal to 20 percent of their annual salary, more if the person makes more than $50,000 a year.

Retaining the Best

Do you worry your top talent will walk out the door? How do you keep that from happening?

McKinsey has long believed that too many companies simply throw money at executives and top performers during periods of organizational change (mergers, for example) or as a defensive move to deflect a competitor who starts picking off the low-hanging fruit of high-profile rainmakers (think investment banks or law firms that go on recruiting binges, for example.) Such money, McKinsey believes, is rarely well spent, since many of the recipients would have stayed anyway, and others have concerns that would not be solved simply by a bigger paycheck.

Yes, draw up a list of all key players. But target only those who are most critical to the mission and are at the highest risk of leaving. Often this filtered list, which could involve as little as 10 percent of all employees, includes some "hidden gems" who are average performers or may be nearing retirement, but are critically important to day-to-day operations and to "delivering against longer-term business objectives." These people often have unexceptional performance records, but can have important institutional knowledge, direct relationships with key suppliers or customers or valuable technical skills that make the trains run on time.

No, these employees don't typically show up on an HR "high potential" list, but they are important nonetheless. In one merger it worked on, McKinsey found several sales support staffers who did basic tasks like filling orders and taking inventory, but they turned out to be just as important to the company's success as the star salespeople.

Who Is At Risk

Research abounds measuring all aspects of employee retention—a process that colors every aspect of the work experience. The process starts at the job interview, and continues through tangible elements such as training, mentoring and performance evaluations, to intangibles such as company culture and "live-work" policies. Explaining what all these studies mean has led to the development of a flourishing industry of workplace consultants.

For example, TINYpulse, which offers solutions to "employee engagement" problems, recently pointed to studies from Accenture, LinkedIn, Gallup and other sources for the top reasons that employees leave jobs:

Their responsibilities don't match their job description. 38% have left companies because they felt that their responsibilities were out of line with their job descriptions and their salaries.

Their work isn't interesting, or they don't see its importance to the organization or they don't see where it leads for them. 38% said they've left jobs because they found the work to be mind-numbingly boring. Almost 30% left because they didn't feel their work made a positive impact in their organization. And a lack of opportunity for advancement is the third most common reason why people leave their companies.

They "burn out" from working long and inflexible hours. 31% have left jobs because they were expected to log long hours regularly—and those hours had to be worked during specific times from specific locations.

They don't receive feedback or recognition from their bosses. 31% have moved on because their supervisors never gave them feedback to help them develop their skills or didn't take enough proactive steps to recognize a job well done.

All these reasons can be addressed. As can additional ones such as "lack of connection with co-workers" and "poor fit with the company culture" and the whopper, with 50% citing it in one study—"not getting along with the boss."

If all of the above sounds like keen-grasp-of-the-obvious, you would be correct. But these conclusions also underscore how the most basic things often matter most; learning what is important to the individual employee is critical. In situations where valued workers are being asked to relocate overseas, for example, is assistance being offered in finding and paying for schools for the kids, career counseling for the spouses, language training, and alterative work arrangements like telecommuting?

Defining High-Potential Employees

Opportunities for leadership development are often a powerful incentive in any retention program. For example, in a merger aimed at building up a North American pharmaceutical company's presence in Europe, 50 valued middle managers from the acquired company accepted invitations to join trans-Atlantic teams. Their responsibilities included playing key roles in integrating the two companies and developing new strategies. Not only did the acquiring company's top people get a close-up look at a new talent pool for future development, but the participants also got a clear motivational signal that they had a future in the merged operation, along with a chance to interact with the acquirer's top management.

But as the *Harvard Business Review* has warned, launching programs aimed at developing "high potential" employees can be fraught with peril, notwithstanding the success companies like GE, PepsiCo, Unilever and Shell have had in managing talent. For one thing, top executives need to weigh the benefits of putting high performers into development programs that distract them from their immediate responsibilities. For another, those who are *not* picked for such programs (i.e., the clear majority of managers) are invariably demoralized and start talking to head hunters. And too often, *HBR* noted, "the programs fail to maintain momentum, leaving companies unsure they have paid off and fueling worker cynicism."

There's no one-size-fits-all solution here, no off-the-shelf version that can be applied everywhere. The development program must be tied directly to the corporation's overall strategy. A company trying to aggressively expand by acquiring emerging market firms, for example, needs a very different program from one for a firm that is pursuing low-cost leadership through operational and productivity improvements, *HBR* noted. Often, the Harvard researchers found, companies they surveyed had launched high-potential programs without clearly establishing what they meant by "potential." Such initiatives are bound to fail.

The Harvard Business School definition of potential is a person's "ability to grow and to handle responsibilities of greater scale and scope." "High potentials" see themselves as change agents who derive insight from a vast range of information by applying transformative new ideas; they engage with others and demonstrate resolve; they seek understanding by constantly exposing themselves to new ideas and experiences; they seek to make a positive impact on others for the good of the entire organization; and they have a passion for team-building and making things happen.

Rethinking the Career Track

Internal programs that identify such people and nurture them accomplish two things: identification of the company's most promising future leaders, and "locking them in" emotionally and professionally to the corporate mission, thereby creating a natural barrier to defection.

One way to energize those who may feel a lack of growth because of a perceived clogged management pipeline is to rethink the basics of the classic career track. Take away the traditional "ladder" and replace it with a "matrix" of different challenges and opportunities to stimulate problem solving in different environments. Removing the traditional ladder also energizes those technical employees (such as many STEM types) who feel no need to "advance" to management or leadership positions. Such employees can be very loyal if they feel that they are truly developing and using their skills in service to the corporate mission; promotions and new titles are not necessarily motivating forces.

"Re-recruit" your most promising people for these assignments. Job rotation like this has become a science at places like GE, Cargill and P&G, corporations that stretch personnel and stimulate problem-solving in bigger scale, bigger scope positions—often in different locations that bring novelty and the need to adapt. But again, the Harvard researchers issue a warning: Don't overload people. There is a fine line between a challenging assignment and an overwhelming one.

Benefits, Perks and Corporate Culture

A "must have" element of any retention program, of course, is a competitive benefits package, profit sharing and medical provisions that give employees an incentive to stay. These programs can be early casualties of cost cutting when times are tough, so this may be the year to revisit them. Generous benefit programs are always high on the list of reasons employees stick around.

Consider adding perks that don't cost a lot but acknowledge employees have lives outside of work: flexible hours, telecommuting options, a generous vacation policy, catered sandwiches or pizza for those who must work late, and a car service home on those nights. Simple things that may seem obvious but build loyalty.

A culture that seems to be constantly about work is off-putting. Chris Evans, founder of The Purposeful Culture Group, says, "If leaders model 80-hour weeks and they respond to e-mails at 1:00 a.m, those norms trickle down to employees…If leaders model taking their vacation time—all four weeks every year—that can trickle down, inspiring managers to take their vacations and to encourage their employees to take theirs."

Communicating Commitment

Central to implementing an enhanced retention program is a parallel internal communications plan, focused on highlighting and reinforcing the company's commitment to employee well being. Elements should include regular newsletters, and "town meetings" to update everyone on broad corporate developments and goals.

Most importantly, the core factor of internal communication should be direct engagement with individual employees, including a substantive annual review process, where they get feedback from management, including candid, constructive criticism. But this should not be limited to just once a year. It should be a constant process, with supervisors and senior management showing respect and appreciation for an individual's performance. Says employee engagement expert Kevin Sheridan: "Regularly thank people for their work. Admit when you make a mistake. Apologize."

The absence of this kind of communication and interaction puts valued employees out in the desert with no water. Don't let that happen to your company. Otherwise you'll be spending more time than you wanted filling new openings.

In a Larger Context

Finally, we live and work in highly charged times. Developing situations at Fox News and in several Silicon Valley companies have thrown the issue of sexual harassment, which is not a new factor in the workplace, under a new spotlight. For the women involved, there is no doubt that harassment—and their reaction to it—has affected their "retention" as employees.

The New York Times editorialized recently about "the entrenched reality of practices that have discounted, demeaned and derailed women's work lives for decades. Those practices include not only sexual harassment, but also persistent disparities in pay and promotion, as well as structural impediments—in child care, scheduling and other workplace policies. Those barriers to women are no secret. Their injustice is obvious."

This "entrenched reality" applies to other employee populations, across all industries and professions, as well. The most carefully calibrated retention practices can be useless in the face of broader "injustices" faced also by … men and women balancing family life in all its permutations … by men and women facing illness … by people in minimum-wage jobs …by men and women who are differently abled … by LGBTQ men and women … by men and women of color … by people belonging to any minority group … and more as the diversity of our culture, and therefore our workplaces, increases.