9

CHAPTER

Retention Matters

What's the point of pulling in great talent if you can't keep them in your employ? I know a number of companies that are revolving doors, with people exiting as fast as they are entering. One can get dizzy watching this parade in motion.

Business owners and executives are far too busy paying attention to the revenue side of the business, and as a result they lose sight of what really matters—the relationships that drive their business. People do businesses with people, not companies. When workers leave your employ, they take their relationships with them. This is true whether they are working on the front line or on the back end of the business. They are also sharing what they really think about your firm (both good and bad) through their social media networks for all to see.

I have followed my favorite hairdresser wherever she has gone, even if it meant more than an hour's drive for me. We all have personal relationships with the repair people who come into our homes (sometimes more often than we care to remember). I honestly couldn't tell you the company the repair people I use work for because I only know their names and their cell phone numbers. I can only imagine the loss of revenue and reputation that occurs when good employees leave businesses that rely on word of mouth for their daily bread.

The High Cost of Employee Turnover

I believe CEOs and senior executives don't pay much attention to employee turnover because they don't have a full understanding of what turnover really costs an organization. That's because somewhere along the line, in an effort to simplify life, someone came up with a nice, compact formula that fit perfectly into a package, and others bought it. I'm talking about the one times, two times, or three times annual earnings formula that people use to calculate the cost of turnover.

Here is a perfect example of why this formula is more harmful than good. According to Salary.com, the median salary for a receptionist in Boston, Massachusetts, is $32,955. If you subscribe to the accepter turnover-cost formulas, this means that the loss of a receptionist will cost your firm either $32,955, $65,910, or $98,865. These numbers appear to be far from reality, but you won't know unless you actually do the math. Not to mention that there is a huge gap between the low end of the spectrum and the high end. You might as well throw a dart at a chart full of numbers and pick whichever one you hit. No wonder CEOs and other senior executives shake their heads and ignore conversations when the cost of employee turnover is mentioned.

CEOs are generally bright people who are good with numbers. They read articles in business publications that repeat these ridiculous formulas and quickly discount them. I'm glad they do. However, the conversation still needs to be had. Here's why.

Lost Knowledge

When an employee leaves an organization, he takes with him the knowledge he has, including knowledge specific to the organization. This is often referred to as institutional knowledge. It can be as simple as being the only one who knows how to fix a particular thorny problem or it can be more complex, like knowing the history of and rationale behind certain business decisions and how they play into the future viability of the organization.

In some situations, it can take years to replace the knowledge that goes out the door when an employee leaves. Sometimes this knowledge can be brought in from the outside. A consultant may be able to bridge the knowledge gap, but this is usually a temporary fix and can be costly over the long term. Ask yourself, "What's the cost of losing this knowledge? What can I do today to prevent it from happening?"

Disruption of the Team

It takes time for a team to become fully productive, and in some cases this never occurs because team members are swapped out before the group has hit its stride. When teams are operating properly, work is assigned to ensure everyone is pulling her weight. When one member leaves the team, the weight gets redistributed, and time lines must be adjusted. Imagine the impact employee turnover has on a team that is responsible for the development of new products. That may explain why some products are obsolete before they ever make it out the door.

Loss of Reputation

In highly competitive industries like hospitality, reputation truly differentiates one hotel from another. Without the edge a stellar reputation bestows, you are merely another building with beds. Niki Leondakis, CEO of San Francisco–based Commune Hotels & Resorts and former president and COO of Kimpton Hotels, is mindful of the impact employee turnover can have on business. “When you have longevity in your workforce, that’s when you really start to see consistency and harmony,” explains Leondakis. The opposite is true when you don’t have a steady workforce. Customers who are expecting one thing and wind up with something that isn’t up to the usual standards quickly shy away from that hotel, vowing never to return.

Recently I attended an event at the W Hotel in Times Square. For years, the W brand had a reputation of really slick hotels that were operated at a level far above that of their competitors. People didn’t hesitate to pay the extra required to book at one of these hotels because they knew the experience would be consistently worth it. Not so much anymore. Friends who stayed at this hotel told tales of dirty room-service dishes remaining outside rooms well into the early morning. They complained of poor service when filing complaints that are too nasty to describe here. Clearly, the reputation of this hotel and, consequently, the W brand, has slid. With a hotel on almost every corner in NYC, travelers can be picky about where they lay their heads at night. With high employee turnover comes an influx of new staff members, many of whom are not properly trained before they are tossed out on the floor. Without a solid reputation, what do you have?

Increased Difficulty Attracting People

We all know of companies that we’ve been advised to stay away from when seeking new employment opportunities. Phrases like “They’ll chew you up and spit you out” and “You’ll sell yourself to the devil if you go to work for them” are some of the nicer things being said about these organizations.

Of course, some desperate people do go to work for these companies. How do I know this? Because their actions let us know every day that they'd much rather be someplace else.

Turnover at Kimpton Hotels is quite low, and Kimpton is now experiencing the benefits of having staff who really want to work for their company. "Being able to fill open positions quickly with top talent allows you to not miss a beat," states Niki Leondakis. "You may only get what the agency finds if you aren't pulling in your own talent." Leondakis goes on to talk about her recent experience hiring a chief information officer. "Within two weeks of announcing the opening, I had 250 highly qualified applicants and I didn't have to go through a search firm." Leondakis would not have been so fortunate if her company had had the reputation of a workplace where few want to be. Hence, you can see that it makes both dollars and "sense" to control employee turnover.

Employee Turnover in Terms of Products and Services

Estimates of turnover costs for a single position range from 30 percent of the yearly salary for hourly employees to 150 percent, as estimated by the Saratoga Institute. The McQuaig Institute puts this into terms that most of us can relate to: a fast-food restaurant must sell 7,613 children's combo meals at $2.50 each to recoup the cost of losing just one crew member. To recoup the cost of losing just one sales clerk, a clothing store must sell almost 3,000 pairs of khakis at $35. How many of your products or services must you sell to make up for the loss of one employee?

Your Real Cost of Employee Turnover

We've established that many companies rely on data produced from mystical formulas that are merely smoke and mirrors and that obscure the real cost of employee turnover.

Some may argue that these formulas are better than nothing. I disagree. You may as well pluck a number out of the sky—your guess will be as good, if not better, than one produced by using these formulas. So how do you calculate the real cost of employee turnover? Warning: the following diagnostic tool will help you come up with a number that, for many, will be shocking. But isn't it better to know the true cost of employee turnover, so you can better assess the ROI of programs you may be considering to help you reduce this number?

Many companies are still fat and happy. Like waistlines all across the globe, employee turnover is expanding at an alarming rate. Yet companies are still following the same regimen, hoping to control their expanding costs. Nobody, including me, wants to step on the scale and face reality, especially if it's been a while since you've stood naked in front of the mirror. How much money are you wasting on satisfying short-term needs? Taking shortcuts may give you immediate satisfaction, but they will hurt you in the end. If you knew you could shave hundreds of thousands of dollars off your recruitment and hiring costs while adding millions to your bottom line, would you be willing to address the issues that are slowing your company down and, in some cases, making it impossible to move toward healthier profits? Like losing weight, it can be painful to take that first step. But once you do, you will feel empowered, knowing that you are one step closer to getting your organization back into shape. Let's begin.

Create a list of everyone who has left your organization this year. If you want to capture a full year's worth of information, consider obtaining the data for those who left the company the previous year as well. The business costs and impact of employee turnover can be grouped into four major categories:

1. Costs due to a person leaving
2. Hiring costs
3. Training costs
4. Lost productivity costs

Costs Due to a Person Leaving

Employees who have announced their resignation have already begun to transition out of the company. While working out their notice period, their full attention is no longer on your business. Others in the organization are picking up their slack, which prohibits them from giving full attention to their own jobs. In addition, consider the following costs and jot down your answers in the right hand column, or if you prefer, go to www.matusonconsulting.com to access our free online employee turnover calculator:

Situation	Actual Cost
Cost of employees who must fill in for the person who leaves before a replacement is found	
Payments for temporary help or consultants to fill in while position is re-staffed	
The cost of the time spent by manager or executive for exit interview with the employee to determine what work remains, how to do work, why employee is leaving	
The amount of money the company has invested in the departing person's training; the cost of lost knowledge, skills, and contacts that will depart with employee	
Cost of lost customers the departing employee is taking with her (or who will leave because service is negatively impacted)	
The increased cost of unemployment insurance	
Separation pay	
Subtotal	$

Hiring Costs

You might get lucky and find a candidate on a free website, but most likely you'll need to post and advertise elsewhere. Consider the following hiring costs:

Situation	Actual Cost
The cost of advertising, Internet postings, employment agencies, search firms, employee referral awards	
Increase in starting pay, as salaries have risen since you last hired, adjusting everyone else in the department's pay to ensure parity	
The cost of time spent screening résumés, arranging interviews, conducting interviews (by both HR and upper management), checking references, and notifying candidates who were not awarded the job	
Fees associated with assessment testing, background checks, drug screening (usually done on more than one candidate), and time spent interpreting and discussing results	
Cost of time spent assembling and processing new-hire paperwork, explaining employee benefit programs, and entering data to ensure employee receives a paycheck	
Subtotal	$

Training Costs

It would be great if all employees arrived fully assembled, but this is not usually the case. Things are done differently in every organization, so you must factor in the following costs:

Situation	Actual Cost
Cost of new employee orientation or onboarding	
Money allotted for training for the person to perform his job, such as computer training, product knowledge, company systems, leadership courses	
Cost of time spent by others to train this person	
Subtotal	$

Loss of Productivity Costs

Because new employees do not enter an organization fully trained, it will take time before they are fully productive. Factor in the following productivity costs:

Situation	Actual Cost
Cost of time the manager is spending directing, reviewing work, and possibly fixing mistakes	
Outlay for errors that were not caught by manager	
Cost associated with loss of good will as you scramble to preserve your relationship with valued customers and clients	
Loss from plummeting employee morale as overworked employees assume more responsibility while the new hire is being trained	
Cost of turning away new business as you continue to focus on stabilizing your company.	
Subtotal	$

Tally up your subtotals to determine the full cost of losing an employee.

Categories Associated with Turnover Costs	Subtotals of Actual Costs
Costs due to a person leaving	
Hiring costs	
Training costs	
Loss of productivity costs	
Total cost	$

Note: Go to www.matusonconsulting.com to access my *free* online employee turnover calculator, which will automatically tally these numbers for you.

Now, rinse and repeat this formula or multiply according to the number of incumbents who have left this position. Plug this information into a spreadsheet to determine the real cost of employee turnover in your organization. How do you measure up? Are you in better shape than you thought, or is it time for an intervention?

As you can see for yourself, employee turnover can dramatically impact productivity, customer retention, and your bottom line. Paying even a small bit of attention to this matter can make a big difference. As you read on, consider that employee turnover is a lot like eating a piece of dark chocolate. In moderation, both are fine and can even be healthy, which we'll discuss later in this book (healthy employee turnover, not dark chocolate). In excess, both can have serious ramifications.

Capturing the Hearts of Employees: Principles of Employee Retention

Companies are spending billions of dollars trying to help employees with work–life balance, but many of these efforts are not achieving the desired result. Here's what one of my clients did instead.

> We never quite understood the need for formalized work/life balance programs. That's because at UM International, we believe in living one whole life. There may be days when we are burning the midnight oil and other times when we are riding off into the sunset on our motorcycles. We measure people on results, not face time, and we provide team members with the flexibility and resources they need to live one glorious life.

Many people leave organizations because they feel they have to choose between work and family. Companies like UM International make it easy for employees to stay, because they don't have to choose between work and life.

There are a number of companies where CEOs are improving conditions for employees because they want to, not because they have to, and this is having a positive impact on morale and employee retention. Chris Knight, CEO of SparkNET, is one of these CEOs.

Magnetic Leader Chris Knight

Chris Knight, CEO of SparkNET—a high-tech Internet firm and mobile app development company based in Green Bay, Wisconsin—spent the past two years designing and building a new facility for his employees and *with* his employees, as quite a few of the team members were involved in the decision making. "We make decisions that make no economic sense at all because we believe it's important for people to love being in the space they are in. I want people to feel like work is as fun as being at home," Knight says. For example, "The staff wanted window space. They wanted to see the outside world from their workspace. It was really important to them, so we added more windows than originally planned," explains Knight.

There is a sundeck on the second floor and plenty of outdoor spaces for staff to eat or grab some sunshine in the afternoon. The state-of-the-art fitness center was built to help his people recharge and reset their brains. Of course, a workplace wouldn't be like home without a thermal spa, so Knight threw one of those in as well. There's also a gourmet kitchen, where a chef prepares free, healthy, and delicious meals for SparkNET employees.

Knight jokes about being located in the Silicon Cheese Valley, since his company is in Green Bay, Wisconsin. He wanted to have a campfire area inside the building where his employees could gather, but he had to give up on that idea due to permitting issues.

"I'm doing these things because I want to, not because I have to," notes Knight. "I want to have fun at work. I want to have no regrets at the end of my life. I believe the purpose of life is to provide value to others." And indeed, Knight is doing that. Knight has also significantly reduced the stress that is often associated with turnover because his turnover rate is low—in the low single digits. He adds, "I have a young team and we all know they won't be there for life. We'll have fun for now."

Making a commitment to your employees' well-being is another way of capturing the hearts of your employees.

Magnetic Leader Tom Kulzer

Tom Kulzer is CEO and founder of AWeber Communications, located in Chalfont, Pennsylvania. The company develops and manages opt-in e-mail marketing tools. Kulzer is proud of the fact that the company pays 100 percent of the health-care premiums for his employees, whose average age is twenty-eight. "From a retention point, this may not seem important to the team now, but as they age and their personal situations change, they will value this more." Kulzer also provides daily catered lunches to all employees: "The employees select what they want and we have it delivered."

Kulzer is building a new facility, which will have an on-site kitchen. There, chefs will come in and prepare meals for the employees. Currently, everyone piles into the lunchroom and plays card games, or they can go to the theater room where they can watch a movie. "The more they do together, the more cohesive the team becomes." Kulzer goes on to say, "When you are friends with the people you work with, you are less likely to leave. People look forward to coming to work to be with their friends."

Magnetic Leader Ed Kushins

Ed Kushins, founder and CEO of HomeExchange.com, based in Hermosa, California, is someone who regularly invites people into his home, including the gentleman who eventually became a business partner. Kushins knew his neighbor was doing a home exchange, so he invited his neighbor's guest over for a barbecue. The rest, as they say, is history. The company has quickly grown to become one of the United States's largest members-only home exchange businesses. Here is what Kushins does to ensure his employees feel at home when they are at work.

(*continues*)

"I've brought on a few people without having a specific spot for them. If someone really wants to contribute to HomeExchange, I'll find them a spot," says Kushins. Everyone in Kushins's organization is passionate about the HomeExchange experience. Kushins makes it a point to give people the opportunity to work in areas where they seem to shine. When someone maxes out, he gives that person permission to hire another person so the employee is free to take on more challenging work. "We trust the judgment of the people we hire," says Kushins.

Once a year, Kushins brings the entire team and their families together, and he has done so for years. "The team is now becoming friends with everyone and not just business associates. Everyone brings their families to our annual meeting." In case you are interested, the next meeting will be held in Sicily!

Kushins works hard to make sure his people understand how important the work they do is to HomeExchange.com. Every day, he builds on what he calls a culture of excitement to make sure the company remains an interesting and exciting place to be. "They know I love our team, and I really acknowledge and appreciate everything our people are doing for us," Kushins explains. Thanks to technology, he is able to do this daily, no matter where in the world he happens to be that day.

Future Shock

In the future, workplace longevity may very well be measured in months rather than years. The sooner you accept this possibility, the better prepared you will be for the future state of the employment relationship.

All of the magnetic leaders I interviewed for this book acknowledged that most talent cannot be held onto forever. You have to embrace the possibility that at any moment, another employee will take flight from your company's departure lounge. Niki Leondakis, CEO of Commune Hotels

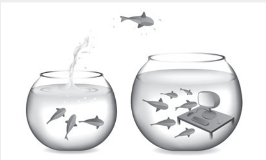
& Resorts, understands this on both an emotional and a business level. When it comes to her employees, she says, "I hope you stay with us forever. We understand that life takes its turns, and when you do leave, we hope you come back." Leondakis's former employer, Kimpton, welcomes former employees back with open arms—a strategy that will serve them well as predicted labor shortages become reality.

Knight also understands this. "I have a young team, and we all know they won't be with us for life. We'll have fun for now."

You can prepare for the future now by:

- Encouraging people to leave the nest when they show signs of restlessness.
- Welcoming returning employees back into the fold.
- Reviewing policies and adjusting accordingly so rehires don't have to start their employee benefits clock all over again.
- Staying connected with former employees and encouraging them to recommend you to job seekers.
- Always being on the lookout for great talent.

Rule of Attraction



Complete the diagnostic tool (or do so online at www.matusonconsulting.com) to determine the real cost of employee turnover in your organization. Then calculate how much in products or services you must sell to make up for the loss of one employee. Have I gotten your attention yet?