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# Employee Retention and Turnover: The Real Reasons Employees Stay or Go

Merge Gupta-Sunderji

As the Canadian and world economies improve in 2004, employees who are not happy with their present state of employment will go elsewhere. Unless organizations take concrete steps to understand and act on what drives employees to stay or go, the human resources bleeding will go straight to the bottom line.

## The business case

In an August 2003 survey by the Society for Human Resource Management (SHRM) and CareerJournal.com, 83 percent of employees and 56 percent of HR professionals believed it was likely that voluntary turnover would increase in 2004 as overall world economies improved. The total cost of turnover is estimated to be somewhere between 30 percent of the annual salary of hourly employees (Cornell University) and 150 percent as estimated by the Saratoga Institute (Price Waterhouse Coopers). Taking a fairly conservative estimate that the financial loss from one employee is equal to his or her annual salary, the negative financial impact of turnover to the bottom line can be substantial. For example, consider a company with 1,000 employees at an average salary of \$40,000 and a turnover rate of 3 percent. The cost of this turnover would be \$1.2 million. A reduction in turnover of just one-half percent would result in a bottom-line savings of \$200,000 to this organization. Clearly, this math provides enough of a business case for companies to invest in building up levels of employee retention!

## Employee motivators and de-motivators

To understand the factors underlying employee retention, it is useful to go back to a classic study conducted by Frederick Herzberg in 1968, which was revalidated in 2003 (Harvard Business Review). Herzberg identified intrinsic factors in employee

motivation such as achievement, recognition for achievement, the work itself, responsibility, growth, and advancement; and extrinsic factors such as company policy and administration, supervision, interpersonal relationships, working conditions, salary, status, and security. He discovered that not only were the factors that produced job satisfaction separate and distinct from those that lead to job dissatisfaction, but that the intrinsic factors (or motivators) were the primary causes of satisfaction, and the extrinsic factors (or de-motivators) were the primary cause of unhappiness on the job. It is important to understand that since these factors are separate and distinct, job satisfaction and dissatisfaction are *not* opposites of each other. The opposite of job satisfaction is not job dissatisfaction, but rather, *no* job satisfaction; and similarly, the opposite of job dissatisfaction is not job satisfaction, but *no* job dissatisfaction. In other words, it is *the presence of de-motivators (job dissatisfaction) AND the absence of motivators (no job satisfaction)* that cause employees to jump ship.

Without getting into the Herzberg study in any great depth, the following facts from this review may be of interest.

- The top two motivators leading to job satisfaction were a sense of achievement, and recognition for the achievement.
- The top two de-motivators leading to job dissatisfaction were bureaucratic and unfair company policies and administration, and poor supervision.
- Salary is an extrinsic factor: therefore, an average or generous salary did not lead to job satisfaction; rather, it led to *no* job dissatisfaction. An inadequate salary however resulted in job dissatisfaction. Even as an extrinsic factor though, salary ranked fifth on the list, behind company policy and administration, quality of supervision, relationship with the supervisor, and working conditions.



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- The employees, studied in twelve different investigations as part of this review (and subsequent investigations between 1968 and 2003), were a wide cross-section of different industries and job classes, and included lower level supervisors, professional women, agricultural administrators, men about to retire from management positions, hospital maintenance personnel, manufacturing supervisors, nurses, food handlers, military officers, engineers, scientists, housekeepers, teachers, technicians, female assemblers, accountants, Finnish foremen, and Hungarian engineers.

## Focus more on reducing de-motivators – the motivators will follow

Interestingly, many recent studies have shown that managing to reduce de-motivators is often much cheaper and more effective than managing to increase motivators; reducing de-motivators often, as a side effect, results in increasing motivators. Therefore it follows that companies should get a greater return from first focusing on removing de-motivators and, second, boosting motivators. Unfortunately, most traditional models of management take the

opposite approach – they focus more on creating motivators rather than removing de-motivators.

The top three intrinsic motivators are achievement, recognition for achievement, and the work itself; the top three extrinsic de-motivators are bureaucratic company policies and administration, poor supervision, and a poor relationship with the supervisor. The critical point here is that all six of the top criteria that employees use to decide whether they should jump ship or stay with an organization are things that a good leader (whether a formal supervisor or manager, or an informal mentor) can control. Leaders have direct control over an employee's sense of achievement, recognition for those achievements, job structure and content, supervisory practices, and relationships with employees. Leaders also have at least partial influence and control over the bureaucracy associated with company policies and administration, at a minimum to the extent that they can buffer their employees from the full impact of such policies.

Bottom line: employee retention and turnover are under the direct control of the organization's (or division's or department's) leaders. While focusing on achievement, recognition, and job structure/content will produce positive results, it is much more effective to focus on reducing de-motivators by improving supervisory practices and relationships with employees, and removing the bureaucracy associated with company policies. In fact, improving supervisory practices and relationships with employees, and removing bureaucracy, will, by default, result in increased intrinsic motivation as well.

### Take action

So how can a good manager reduce de-motivators to keep his/her employees? There are several alternatives, and it is likely that none of them will surprise you. In fact, many of these are so obvious that as you read through them, you might be tempted to say to yourself, "Uh-huh. I knew that." If you find yourself uttering these words, I encourage you to ask yourself the next question. "Yes, I may know that, *but* am I doing it?" Unfortunately, many of us know what we *should* be doing, but we are not always proficient in the execution of our good intentions. Often, we fall down

when it comes to putting it into action. As you read through the remainder of this article, you will notice that I have offered you many practical and specific tactics to improve your supervisory practices and your relationships with your employees, and to streamline administration practices. I encourage you to think about what you are going to do to put some of these tactics into action. And of course, the perhaps unexpected added bonus: when you focus on reducing these extrinsic de-motivators, the presence of intrinsic motivators will increase.

### Tactic #1: Define goals

One of the fundamental characteristics of good supervision is establishing well-defined goals that are clearly understood and accepted by the troops. No employee should have to question what's expected of them. One of the best ways to accomplish this is to make goals and responsibilities constantly visible, and track progress against targets so that people can see where they're headed and how far they need to go. Consider publishing your goals and expectations in the company newsletter; displaying posters on cork boards in break rooms; exhibiting your mission statement at every workstation; and talking regularly on this subject to your people. The dual benefit: when goals are established and monitored, employees see visible achievements and feel acknowledged and recognized. Can you see how focusing on reduction of de-motivators (in this case, improving supervisory practices) also results in creating motivators?

### Tactic #2: Create a sense of purpose

Another characteristic of good leadership practices is helping employees understand their significance in the big picture.

Let me give you an example. As a professional speaker and trainer, I travel to over 100 cities a year giving keynotes and seminars. Unfortunately, I find myself spending a lot of time in airports, usually running to catch a flight that I invariably miss due to a late connection, and then sitting around for several hours waiting for the next flight. In the airport, I often have to deal with over-worked staff whose customer service skills have deteriorated as the day has worn on. In a nutshell, they're cranky, and as a result,

often quite difficult to deal with. When I finally get to my destination, I often find myself eating a poorly-cooked (and overpriced) meal, and then sleeping in an uncomfortable bed. In a nutshell, I get cranky, and often difficult to deal with! Here's my question – after this description, would you want my job? I suspect that many of you would answer, "No way, Merge. Keep your job!"

Now consider this alternate description of what I do. As a professional speaker and trainer, I travel to over 100 cities a year giving keynotes and seminars. I help people in organizations maximize their individual and team results by giving them specific and practical tools to communicate and work more effectively with their staff and colleagues. Through my efforts, people are entertained, energized, engaged, and inspired with the confidence and knowledge to not only manage potentially difficult situations, but to also lead others to greater professional and personal success. Now, after this account, would you want my job? I suspect that many more of you would respond in the affirmative to this second description. The unfortunate truth, however, is that both the descriptions I gave you are true! Any and all jobs have negative components to them, and you can see some of mine portrayed in the first account. However, unless people have a sense of purpose (my second portrayal), the negative components can be overwhelming, leading to de-motivation. It's the second description that defines my purpose, and allows me to deal with the negative aspects of what I do.

Creating a sense of purpose promotes teamwork and instills a sense of pride. Help employees understand the purpose of their jobs and why their positions are important to the company. Start by asking them, and then helping them develop the answer themselves. Once they understand the purpose of their and other jobs and how the entire organizational structure works toward accomplishing the company's mission, not only will de-motivators be reduced, but also motivators will be created.

### Tactic #3: Empower your employees

When you empower your employees, you develop better relationships with them, and you allow them to take ownership for

streamlining company operations and administration. When you authorize your employees to take action, it gives them a sense of pride and ownership. Assign employees ownership of a task and attach all the responsibilities that go with getting the job done. For example, if you want to build a better machine, look to the people who operate it. Let them figure out how to improve it. Show them where you keep the toolbox and stand back. As far as you are able, even just within your circle of influence, cut out the regulations and red tape and let them use their best judgment to reach a goal.

Try this idea. When a problem is plaguing your company or department, send it out by e-mail or on index cards to all your employees asking for suggestions on how to fix it. You might be surprised at where your best solutions come from. At minimum, you'll give everyone involved a feeling that they are part of the team and that you value their opinions. Even better, let the person or department that comes up with the best solution implement it, giving them the freedom and resources needed to get the job done. Autonomy inspires self-motivation and reinforces self-worth. Allowing employees the opportunity to follow through on their ideas will give them a strong sense of accomplishment, and then watch job dissatisfaction go down *and* job satisfaction skyrocket!

#### **Tactic #4: Get to know your employees**

This one's easy! If you want to build solid relationships with your employees, you can do nothing better than get to know them. And I mean beyond the obvious in the work environment. Find out about their lives outside work – whom they really are, the names and ages of their children, about their beloved pets, their hobbies, their interests when they are not at work. Some of you will tell me that you have some employees that you really don't want to develop a relationship with beyond the boundaries of work – I'm not asking you to go out to dinner with them; I'm just asking you to find out more about them. It will not only help you understand them better, but also build up their self-esteem and self-worth. One senior executive I know keeps a notebook in which he jots down personal notes about each of his over 300 employees – when he sees the foreman on the shop floor, he can make an instant connection by remembering to ask how his son fared in the last hockey tournament. Needless to say, his over 300 employees like him very much, and even though they may not always agree with his decisions, they still respect him because their relationships with him are based on more than just work.

#### **Tactic #5: Communicate, communicate, communicate**

In my consulting practice of almost fifteen years, I have yet to come across an organization that creates bureaucracy simply for the sake of doing so. In every situation, without exception, policies and procedures have been put in place to manage some legitimate business function or issue. Unfortunately, almost as often, the people in these organizations have perceived these new procedures to be "bureaucracy", and I have often heard this sentiment, "There goes Head Office putting in new rules that don't make any sense!" The reason people view these actions as "red tape" is because they often don't understand the logic behind the decision, and just as often, it's because no one thought to communicate this information to them.

Let me give you an example. I recall, several years ago, an organization I worked with implemented a new rule at its plants that security

## Audit Programs Require Short and Long Term Goals

Scott Murdoch CA

Independent reviews and audits are key elements of the modern comptrollership framework. Detailed planning and careful management of risk factors will have many short-term benefits in terms of effective reporting and proactive feedback (see FMI Journal, Autumn 2003, p.25) but there are other tangible and longer-term benefits to also consider when establishing your audit programs.

While the goal of an audit may be an overall improvement of internal controls and reduction in over-claims, the planning of the compliance or contribution audit program can be designed as a business case with a calculated ROI.

Selection of samples can be based on your knowledge and past experience with the recipient population. While requiring a strong representation from the entire population, your sample can have characteristics that focus on a target population having the highest potential for over-claims and subsequent recoveries. Estimates of these potential recoveries can form part of the business case rationale for the size of the audit program to be initiated.

By identifying shared characteristics among the recipients who made over-claims, the audit sample for subsequent years can be more focused with the goal of increasing the chances of detecting material over-claims. For example, assuming a total program population of \$2M and a past audit detection rate for over-claims of 20%, the over-claims for any given year will most likely be in the range of \$400,000. When the audit fees (which would be substantially less) are factored in, you have a positive ROI value from the audit.

In the long term, the continued recovery of over-claims should not be a goal of the audit program. Your long-term goals should be to improve internal controls and continue to improve your agreements and memorandum of understanding to prevent future over-claim issues.

Recognition by recipients of the effectiveness and efficiency of the audits for your program will, over the long term, result in the reduction of over-claims and a more streamlined program.



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staff could ask to inspect employee's bags when they were coming into or leaving the plant. Now this was in the pre-9/11 days when inspecting bags was not a normal or widely-accepted practice. Staff at the plant were horrified. "My privacy is being violated" and "Don't they trust me?" were some of the many sentiments voiced; and morale started to plummet. See, nobody had told the employees *why* this new rule had been implemented. Fortunately, the company's leadership quickly realized this shortcoming, and each manager took the time to explain the reason behind the new rule to employees. The rule had been prompted by a serious theft that had occurred in another plant, where one employee had been stealing a small number of tools and components over a period of more than six months. The subsequent police and audit investigation had recommended this new directive. Now all the employees didn't necessarily agree with the change, but at least they knew *why*, and the irritation levels diminished.

When you take the time to communicate to and consult with employees, at a minimum, you will build better relationships. In an even better scenario, you may hear about alternative approaches that will streamline administrative procedures even more than you might have realized.

Another aspect of communication that generates positive results is offering timely and constructive feedback to your employees. Virtually any management tome will tell you that offering frequent and useful feedback to the people that work for you is a hallmark of good supervisory practice. People need to know how they're doing and they need to hear it more frequently than once or twice a year in the obligatory performance review meeting. In fact, here's a good rule of thumb. An employee should get feedback (positive or a negative) within 24 hours of the event having occurred. Therefore, by default, there should be no surprises during the periodic performance review meeting, since the employee should have received any feedback well before then. The performance review meeting should serve only as a way to summarize previous discussions. If any of your employees are flabbergasted at information that you are giving them in a performance review meeting, then you know that you are

not communicating appropriately or frequently enough.

It takes time to communicate information to employees, but it is time well spent. It contributes to improved supervision on your part, better relationships with your staff, and more streamlined administrative procedures. In other words, it decreases extrinsic de-motivators, while also increasing intrinsic motivators. Are you beginning to see a recurring pattern?

#### **Tactic #6: Listen intently**

A respected mentor and friend once told me, "The reason you have two ears and one mouth is because you should listen twice as much as you speak." Nothing builds rapport in relationships more than listening, in life, as well as in your dealings with your employees. Human nature says that we often rush to respond to what someone says (usually with the good intention to assist); unfortunately, we would be better off if we just listened. Usually the individual is not looking for a solution to their problem or dilemma, merely seeking a responsive ear.

If you recognize that you're not as good a listener as you should be, don't despair. Listening is a learned skill, and you can teach yourself to be a better listener. Practice this exercise to improve your listening skills. Find a speech or debate on radio or television that you're unquestionably *not* interested in. Set a timer for five minutes, and for this period of time, force yourself to listen to what the speaker is saying. Every time you realize that your mind has wandered, push your mind back to the speaker. The more you practice, the better you'll get. Promise.

Listen intently. Open your mind to your employees' suggestions and, more importantly, encourage input from all areas. Not only will you build relationships, but you'll also get valuable information about what's working or not, and what could work better within your department or organization. And here's a double bonus – when you follow this tactic, you'll also achieve Tactic #4; when you listen attentively, you'll also get to know your employees better.

#### **Tactic #7: Celebrate your successes**

It has been my experience that, far too often, we don't take the time to celebrate our accomplishments in organizations.

Now, I have never yet met a leader who didn't agree that organization and employee achievements should be celebrated. In fact, they always have the best intentions. However, Karl Marx once said, "The road to hell is paved with good intentions." The unfortunate truth is that we get busy; and as one project is completed or issue is resolved, we move on to the next one. We simply don't have the time to celebrate, unless of course we make the time.

Here's why you should be diligent in celebrating: it creates positive workplace relationships, it's a good management practice, and, if you're celebrating the elimination of unnecessary work, it encourages other people to come forward and do the same. In other words, it reduces the three top extrinsic de-motivators that we have been discussing through this entire article. And perhaps by now, not surprisingly, it's also an intrinsic motivator – it recognizes employees' achievements.

Here are some ideas. Say thank you verbally. Say thank you in writing (even an e-mail note will do). Have a senior manager say thank you verbally or in writing. At your next team meeting, go around the table and have everyone share a one or two minute "brag moment" where they can tell everyone one work-related thing that they are particularly proud of having accomplished. Create a celebration wall: a corkboard with pictures and goofy captions that celebrate something worth celebrating. Order in pizza or a sandwich lunch for the gang. Bring in doughnuts and muffins to celebrate the halfway point of an ongoing project. You get the idea! I hope you noticed that celebrating does not have to involve a big budget (even though occasionally it doesn't hurt to put some money towards it).

#### **The bottom line**

Turnover can be a significant cost to an organization. In an economy where employees who are not happy with their present state of employment can easily go elsewhere, the financial loss to an organization can be substantial. But don't lose sight of the real bottom line: employee retention and turnover are under the direct control of the organization's (or division's or department's) leaders. Leaders have direct control  
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FSD&A, the information provided must be balanced, addressing, for example, both positive and negative aspects of the government's performance in the period as well as both positive and negative financial trends.

### Responses to the Exposure Draft

The deadline for comment for the FSD&A Exposure Draft was September 26, 2003. Responses to the proposed recommended practices were generally positive and no major changes to the proposed practices are expected based on comments received.

Respondents generally concurred with the proposed status of the FSD&A proposals as recommended rather than required practices. Some raised questions as to whether they would be published in the CICA Public Sector Accounting Handbook or under separate cover.

Some respondents also questioned whether FSD&A must accompany the financial statements. I believe that PSAB is unlikely to change its position on this issue as the usefulness and accountability value of FSD&A is greatly enhanced if the information accompanies the financial statements it explains. If a government does not prepare an annual report, FSD&A information can be provided with the summary financial statements in the public accounts as done

by the federal government for its 2003 public accounts.

Some respondents commented on the risk that FSD&A information may not be comparable from jurisdiction to jurisdiction, noting that users' understanding might be impaired because, for example, they are not aware of differences between the reporting entities of different governments across Canada. Taken with the information in the financial statements and its accompanying notes and schedules, however, FSD&A should provide users with more complete and digestible information to compare and understand the differences between government finances across Canada. Given the complexity of government, when they are reviewed independently, neither the financial statements nor FSD&A sufficiently explain government finances to users. FSD&A brings the meaning behind complex financial statements into focus for users and thus would, unless it substantially repeated information from the financial statements, be considerably less useful on its own.

### FSD&A is already being done

The first published example of a complete FSD&A report by a government in Canada that formally adopts the proposals in the PSAB FSD&A Exposure Draft was

issued by the Government of Canada in October 2003 as part of its 2002-03 public accounts. The Government of Canada is to be commended for taking a leadership position in publishing FSD&A information, particularly as the FSD&A proposals were adopted at the same time as the government published, in advance of the standard's effective date, its first set of full accrual financial statements in accordance with the new reporting model approved by PSAB<sup>1</sup>.

In November 2003, the Government of Ontario published its *Annual Report and Consolidated Financial Statements* for 2002-03. Ontario also included some FSD&A in its report and made substantial progress in phasing in its adoption of the new reporting model. In addition, a few municipalities are working towards the inclusion of FSD&A information with their December 31, 2003 financial statements.

PSAB expects to review the proposed final version of the FSD&A SORP for approval in March 2004. ■

### Reference

- 1 The new reporting model should be applied for all fiscal years beginning on or after April 1, 2005. Earlier application of the Recommendations is encouraged.

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over supervisory practices and relationships with employees. Leaders have at least partial control over the bureaucracy associated with company policies and administration. Leaders also have the ability to impact an

employee's sense of achievement, recognition for those achievements, and job structure and content. If you are a leader in your organization, are you doing the right things to keep your employees, or are you inadvertently

sending them to the competition? This article has given you some ideas to keep your employees, but now it's up to you to put specific tactics into action. Let me know how you do. ■

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