Bulletin

Retention of Professional Staff

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INTRODUCTION

High employee turnover of professional staff is a major issue facing the mechanical contracting industry today. It can have a massive impact on a contractor's productivity and bottom line. This bulletin outlines specific strategies that contractors can implement to increase their ability to retain employees as well as metrics that can be used to measure the effectiveness of these initiatives.

IMPACT OF EMPLOYEE RETENTION

The issue of employee turnover has raised valid concerns in the construction industry due to both short-term and long-term effects on productivity. It is a known fact that employees are important stakeholders in the firm, but unfortunately after limited resources have been used in recruiting, training and developing employees, they leave for other organizations.

Studies have shown that the average cost of onboarding a new employee is approximately 20% of the departing employee's salary. However, conservatively speaking, the actual cost to the business of replacing that employee is 1.5 to 2.0 times the annual salary. These costs can be broken down into two categories: direct and indirect costs.

DIRECT COSTS

Direct costs may include the following:

- **Separation costs** such as exit interviews, severance pay, and higher unemployment taxes;
- **The cost of temporarily covering an employee's duties**, such as overtime for other staff or temporary staffing;
- **Replacement costs**, such as advertising, search and agency fees, screening applicants (including physicals or drug testing), interviewing and selecting candidates, background verification, employment testing, hiring bonuses, and applicant travel and relocation costs; and

- **Training costs** such as orientation, classroom training, certifications, on-the-job training, uniforms, and informational literature

INDIRECT COSTS

Indirect costs may include the following:

- Lost productivity for the departing employee;
- Reduced morale of coworkers;
- Lost productivity due to the need to hire temporary employees; and
- Costs incurred as the new employee learns his or her job, including reduced quality, errors, and waste.

While every single expense cannot be captured or some of the intangible costs like impact on employee morale cannot be measured, we can get a good sense by analyzing four major categories:

- Cost of hiring **(H);**
- Cost of onboarding and training **(O);**
- Cost of learning and development **(D);** and
- Cost of time with unfilled role **(T).**

Using these four categories and the below formula, we can begin to appreciate the actual cost of employee turnover.

(H + O + D + T) x (# of employees x Annual Turnover %*) = Annual Cost of Employee Turnover

*Annual Turnover % = # of Separations per month / Avg. # of Employees x 100

RETENTION STRATEGIES

Retention of professional employees is affected by nearly every aspect of business life. Strong consideration should be given to the following strategies:

- **Culture** – playing a direct role in retention and recruitment, the culture of a company can affect employee attitude, mental health, and level of engagement. Communication, trust, empowerment, initiative, creativity and other positive company attributes are also directly impacted by a company's culture. Involving employees in identifying and implementing company strategic initiatives is a common method of influencing the company culture. Creating a daily atmosphere that is inviting and enjoyable is more important to young workers today than previous generations and has proven to be highly effective in recruitment and retention.

- **Benefits and Compensation**
  Common causes of turnover—benefits and compensation—are the most transparent means for employees to gauge their relative position in the market. Employers who lead their market in pay scale and/or benefit packages generally have higher retention of qualified professional staff. However, high pay alone is not an effective retention strategy.

- **Employer Engagement**
  Managers and leaders who show pride and interest in their employees are generally more respected and have superior team performance. This strategy requires active listening and effort. Recognition of birthdays or employment anniversaries, milestone project accomplishments, mastery of new processes and/or successful implementation of change are all reasons to celebrate. Many companies use regular newsletters, mass emails, awards, or miscellaneous "perks" to recognize employee achievements and engage with them on a more personal level.

- **Employee Engagement**
  Employees who participate in activities outside their normal business activities, such as strategic initiatives, charity work, health and wellness challenges, have increased pride and satisfaction in their job. Company sponsored events, such as recreational sports teams, fitness competitions, cook-offs, conferences and educational classes, encourage employee engagement, improve employer/employee relationships, and improve the overall company culture.

- **Training and Development**
  Employees receiving training applicable to career advancement are more likely to remain with their employer as they have a sense of empowerment and control over their future. Effective development and training programs enable professional staff to excel in their current position and prepare them for their next step, which leads to increased job satisfaction and pride. These programs are also integral to succession plans for company sustainability.

- **Health and Wellness**
  Employees need to know that their employer is interested in their mental and physical well-being. Healthier employees are happier, more productive and more engaged. This strategy may include fitness or weight loss competitions, massages, mental or emotional coaching sessions, and healthy cooking competitions. Partnering with your corporate healthcare provider may provide resources such as reduced gym memberships, free wellness checks and in some cases, reduced premiums for employees who meet specific criteria. Inspiring employees to higher health and wellness standards will lead to improved performance while reducing the cost of sick days and healthcare.

Companies can evaluate the strengths and weaknesses of their retention strategies through performance reviews, customer and client surveys, anonymous employee surveys and general open communication. Exit interviews should also be considered in weighing the performance of departments, leaders, or the company as a whole.

CASE STUDIES

Carmax

Several years ago, around the time of the 2008 recession, the used-car retailer restructured its philosophy and invested more heavily in its employees. The company enhanced its training programs to help develop personnel, allowing them opportunities to more rapidly advance within the company. Benefit plans were expanded to support the diverse needs of their workforce (e.g. flexible time, adoption assistance, domestic partner health care coverage, and more). Carmax also began recognizing individual ideas and accomplishments, encouraging a culture of innovation. As a result of these changes, Carmax saw its sales grow 116% over an eight year period[1] and voluntary turnover drop by 50% in three years.[2]

Sargent Corporation

The Sargent Corporation, a contractor based in central Maine, holds an annual eight-day retreat for its field management team where they focus on training and team-building activities. Topics covered include communication, conflict resolution, and decision-making, among many others. As a result, they have seen significant improvement in employee morale, teamwork, ownership at every level, and project profitability.[3]

USS Benfold

Commander Michael Abrashoff set the bar for how to lead from the deck of a U.S. Navy warship. He empowered his crew

aboard the USS Benfold to be the key decision-makers, establishing a culture of teamwork rather than obedience. He recognized his sailors as individuals, getting to know each by name and understanding what they liked about their ship and what they wanted to see changed. Commander Abrashoff embraced those ideas, implementing improved policies for sailors' communication with their families, shore leave, and food quality/preparation on the ship. Not only did the USS Benfold become the model of performance, but it achieved 100% retention amongst its career sailors, compared to the navy's average of only 54%.

From car retailers to contractors to Navy ships, the common thread when it comes to successful employee retention is a keen focus on the happiness and well-being of workers. Whether it's through training, recognition, advancement, or creating an enjoyable workplace, companies that express appreciation for their employees' individual contributions will find improved longevity within the company.

METRICS FOR RETENTION

Many companies use a combination of soft and hard metrics to measure the effectiveness of their retention strategies. Soft metrics consist of non-quantitative measures whereas hard metrics use formula based ratios to evaluate retention.

Soft Metrics

Soft metrics are judged through observation and direct contact between management and staff. Below are some approaches that should be considered when choosing to evaluate the success of your retention strategies:

- Engage employees with direct interviews and periodic reviews in a non-confrontational setting. These should consist of a free-flowing

exchange of ideas with active participation from all sides.
- Use of tools such as employee satisfaction surveys to assess if staff are either bored with the ease of their tasks or overwhelmed with too much responsibility.

Hard Metrics

Aside from the human touch approach of soft metrics, there are hard metrics which deal with concrete numbers of employee retention. There are two main calculations to consider: employee retention percentage and turnover percentage.

> **Employee Retention %[4] = (# of employees remaining after time period) / (# of employees at the start of time period) x 100**

For example, if we looked at a one-year period, and we started the year with ten employees and ended the year with eight, the percentage of employees retained over that period would be calculated as follows: (8 / 10) x 100 = 80%

This formula can be used to compare fiscal years or quarters to identify major factors that may have contributed to employee retention.

> **Turnover %[5] = (# of employees who left) / (average # of employees during period) x 100**

For example, if we looked at a one-year period and we started the year with ten employees, and ended the year with eight, the turnover percentage for that period would be calculated as follows:

(2 / 10) x 100 = 20%

Turnover percentage is a valuable metric because the financial health of an organization may be thriving, but if turnover is higher in a particular division, it points to a problem with the results of the retention efforts in that division.

Both of these formulas allow employers to track and follow how implemented strategies perform over a period of time. These indicators will help pinpoint successes and failures of retention strategies throughout an organization, leading to further development and improvement of those strategies.

CONCLUSION

Implementing effective employee retention strategies is key to a contractor's long-term success. Considering the expense of replacing an employee, it makes good business sense for contractors to invest in retention initiatives. Contractors should also employ measures to determine the effectiveness of their retention initiatives and identify areas for improvement. Ultimately, successful companies focus their retention strategies around the happiness and well-being of their employees.

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Additional Resources:

Effective Employee Retention Strategies, Robert Half, April 24, 2017. https://www.roberthalf.com/blog/management-tips/effective-employee-retention-strategies

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