Employee turnover is costly. When Kepner-Tregoe asked a number of companies, in a cross-section of industries, to calculate the replacement cost of various positions, the results were startling:

Each time a kitchen or counter person quits, it costs a fast-food chain $1,520, and yearly turnover among this group runs between 150 and 200 percent. Replacing a store manager costs $21,931.

A high-tech software company loses $32,215 each time a technical project leader moves to the competition, while replacing a systems engineer costs $34,397.

$85,556 comes off the bottom line when an insurance firm has to replace an administrative staff person.

At a machine works, losing one hourly journeyman machinist costs $58,732; replacement costs for his more experienced salaried counterpart is nearly double: $102,796.

Among the ranks of higher management, an automobile manufacturer can expect to pay $133,803 each time a human resources manager seeks greener pastures.
And these direct replacement costs are just the tip of the iceberg. They don’t include the many indirect costs: lost customers; lost opportunities, particularly in the development of new technologies and products; a decrease in the “bench strength” required for succession planning; the advantage competitors gain if job-leavers join them; decreased morale and increased stress among remaining employees; the negative effect on a company’s reputation; and, perhaps most detrimental of all, the loss of the brainpower on which the organization runs.

As the jobless rate has plummeted and new jobs have continued to be created, stemming the tide of turnover—especially among star performers—has become a critical business issue. Yet, in spite of a real “activity buzz” on the part of top management—trying everything from raising salaries to instituting flexible work schedules and allowing pets at work—Kepner-Tregoe’s research indicates that turnover remains an intractable problem.

Nearly two thirds of the 1,290 managers and hourly workers who responded to a Kepner-Tregoe survey on employee turnover said that, in spite of all of management’s efforts, turnover in their organization has increased in the last three years. More than half of each group said the departure of their high-performing coworkers had caused a loss of competitive edge, a decline in quality, and a decline in customer service.
Why Aren’t Retention Programs Working?

The responses to our survey indicate that many organizations approach employee retention as an ad hoc program or initiative. For example, over two thirds of our survey respondents said their organization had tried to find a monetary solution to the turnover problem. While no one would be foolish enough to argue that money doesn’t matter, much of the recent research—including our own—shows that when it comes to employee retention, money is not necessarily the deciding factor.

At the other extreme, 38 percent of our survey respondents reported that their companies have tried such frills as at-desk massages, laundry or concierge service, dog grooming, and the like. Yet, over 53 percent said these add-ons have not been effective in reducing turnover.

Our research and client experience tell us that the real issue is top management’s lack of attention to the basic blocking and tackling of good performance management. For example, a substantial number of survey respondents said their organization does not provide the following:

- Fair, uniform performance standards
- Enough resources (equipment, time, employees, etc.) to enable workers to do their job
- The information workers need to do their job
- Appropriate training/coaching for new hires
- Ongoing career development
- Useful, timely feedback on job performance
- Recognition for a job well done
- Financial rewards tied to good performance
The lesson: All the frills and Band-Aids don’t win the loyalty of star performers when the work environment is fundamentally flawed.

**Seven Lessons from Retention Leaders**

Kepner-Tregoe’s research included an in-depth study of the retention policies of 11 “Retention Leaders”: companies whose innovative approaches to retention have resulted in consistently lower-than-average turnover. The companies we studied were: AlliedSignal; Corning Incorporated; Hallmark Cards, Inc.; Hewlett-Packard; Johnson & Johnson; Marriott International, Inc.; Motorola, Inc.; Steelcase Inc.; TRW Inc.; Xerox Corporation; and a worldwide retailer that requested anonymity.

From information gathered during in-depth interviews at each of these companies, we identified seven practices common to all:

1. **Retention Leaders don’t manage retention, they manage people.** By managing people, we mean managing the entire context in which people perform. They focus on the work environment and ask: “How can we manage our environment to better leverage our human assets?”

2. **Retention Leaders have a culture of caring, balanced with a tradition of excellence.** The Retention Leaders we spoke to do not emphasize caring at the expense of business results or vice versa. To them, caring is good business. They realize that employees who are motivated and satisfied with their working conditions are more likely to produce satisfied customers. They treat people well, hold them to high standards, and share the resulting rewards with those who helped attain them.

3. **Retention Leaders provide for conflict resolution.** The relationship between an employee and his or her supervisor is
a common “flashpoint.” When there is unresolved conflict and no apparent way to resolve the impasse, many good employees, who are otherwise satisfied with their job, see quitting as the only solution. A common practice among Retention Leaders is to offer legitimate alternate avenues that allow employees to circumvent their immediate supervisor, if necessary, in order to get their problems resolved.

4. **Retention Leaders first take stock, then take action.** They know that overall turnover figures are rarely as useful as those for specific sub-populations, so they segment turnover data by education level, performance level, job classification, length of service, and as many other variables as provide useful statistics. Then, within each group where turnover is a problem, they look for the cause. Taking only the actions they know will eliminate cause keeps them from getting caught up in the costly and ineffective activity buzz. Retention Leaders also examine areas where turnover is exceptionally low, looking for causal factors that might be replicated to reduce turnover in other parts of the organization.

5. **Retention Leaders keep their eye on the high performers.** They focus their retention efforts on this group, where payback is greatest. They don’t need to be reminded that their “stars” set the tone and carry the load for the rest of the workforce. Retention Leaders are always vigilant in monitoring the satisfaction level of high performers and ensuring that superior results are recognized and rewarded.

6. **Retention Leaders view people management as a strategic business issue.** Retention Leaders know that in today’s business environment knowledge is the only sustainable competitive advantage. They have made the preservation and dissemination of employee knowledge a strategic imperative, and in each of them the high value placed on employees and the attention paid to their individual needs begins at the top.
7. **Retention Leaders are relentless in their pursuit of continuous improvement.** All of our Retention Leaders approach their relationship with their employees as a work in progress. They keep asking questions, soliciting feedback, and taking actions to maintain a high level of satisfaction among their employees.

**How Can You Become a Retention Leader?**

Kepner-Tregoe can help you join the ranks of your industry’s Retention Leaders. Our unique, three-phase approach to lowering turnover is based on 40 years’ experience in helping clients find their own solutions to business issues and transferring to them the skills they need to do so.

**Phase I:**

Kepner-Tregoe helps you collect and analyze the data you need to get a handle on your turnover problem. We recently led one manufacturer through a detailed analysis of its turnover statistics. The steps taken during Phase I of this project included:

*Step One: Identify an acceptable level of turnover*—one with a tolerable impact, financial and otherwise, on the overall organization. Led by Kepner-Tregoe’s expert facilitators, the top management team agreed that 12–percent was its acceptable turnover rate.

*Step Two: Look for deviations.* Turnover among the company’s permanent workforce had, for the past six months, been well within the 12-percent limit. But the analysis of turnover among temporary workers told a very different story: The rate for this group had soared to as high as 16.4 percent per week during the same period.

*Step Three: Look for possible causes.* The team was quickly able to eliminate scores on aptitude tests, shift, job function, and a
number of other variables as contributing factors. A detailed evaluation of the company’s expectations and support/reward systems also eliminated several possible causes: Most of the people who had left expressed no dissatisfaction with their training, wages, the physical and mental demands of the job, or the attitude of their coworkers. A large number did, however, complain about the long hours; the lack of flexibility in terms of hours, job assignments, etc.; and the lack of opportunity for long-term employment. The team began verifying these possible causes and taking action.

**Phase II:**

During the second phase of a Kepner-Tregoe consulting intervention we focus on helping you find the best solutions for the problems you identified in Phase I. Whether the causes you identified relate to your performance system, your organization’s culture, or your competitors’ practices, your management team will be able to use our proven process for alternative generation and decision making to arrive at sound, well-reasoned recommendations.

And, because Kepner-Tregoe professionals serve as consultant-facilitators, you develop your own solutions, based on your organization’s objectives and constraints. Before beginning Phase II, we ask your management team to invite all those information sources and stakeholders whose involvement is critical to the success of the project to attend solution-development sessions. A Kepner-Tregoe facilitator leads the sessions, but your employees develop the solutions. As a result, the members of your organization own the decisions and are highly committed to their successful implementation.

**Phase III:**

Unlike many large consulting firms, Kepner-Tregoe does not offer prepackaged, off-the-shelf solutions. If the third phase of our
involvement includes the development of a project plan, we will help you tailor a plan that will fit your specific needs and take into account your resource constraints. The analyses we help clients conduct during the first two phases typically indicate a need for action in the following areas:

- Development of instruments to measure turnover
- Development of employee-satisfaction metrics
- Strategy formulation
- Hiring practices
- Expectation systems (performance metrics for units and individuals)
- Compensation packages
- Nonfinancial consequences systems
- Feedback systems
- Career development or succession planning
- Mentoring and coaching
- Employee empowerment
- Core competency/skill development

No company can undertake initiatives in all of these areas—nor does it need to. Retention Leaders operate on this principle and so does Kepner-Tregoe. Our emphasis on breaking turnover problems down into manageable components allows our clients to deploy valuable resources in areas where return will be greatest.

Before Kepner-Tregoe consultants exit your organization, they will ensure that your employees possess the critical thinking skills to successfully implement your retention plans—however
extensive you have decided they should be. And our consultants are available to help out on an ongoing basis, providing practical advice and experience-based ideas to get your team over the hurdles that inevitably crop up during implementation.

**Advantages of Kepner-Tregoe’s Approach to Improving Employee Retention**

By facilitating rather than dictating, Kepner-Tregoe allows your managers to develop their own solutions, resulting in increased ownership and commitment on their part.

Because all of the organization’s stakeholders participate in the decision-making process, consensus is reached before actions are taken.

Our approach eliminates the characteristic—and expensive—random action included in most retention efforts.

The Kepner-Tregoe approach requires visible executive-level involvement.

We transfer critical thinking skills to your employees, giving them lasting tools that can be applied to all future projects.

A plan detailing specific steps, timing, and responsibilities is completed prior to our departure. This plan will enable the executive team to monitor progress toward specific objectives.

The plan is a “living document” that includes metrics and milestones against which the project team can evaluate progress and that can be updated as needed.

**What Is Your Organization’s Retention IQ?**

If your management team is considering embarking on an employee retention program, have they asked themselves:
What is the “acceptable” level of turnover for our organization?

What are the costs to us, both tangible and intangible, of excessive turnover?

What is distinct about our units or departments where turnover is not a problem? What can be learned from them and then transferred to other areas of our business?

Do we know what motivates our high-performing employees?

To what extent can we build into our performance management processes early-warning devices to alert us to the possible departure of high performers?

How will we know when we have achieved the right balance between financial and non-financial motivators?

How can we balance our obligations to long-term employees with the need to get rid of “dead wood?”

How can we minimize the negative effect that inevitably follows the departure of star performers?

Should we be taking a more integrated and less ad hoc approach to reducing turnover?

To what extent does the continual adding on of benefits create an unproductive entitlement culture?

How can we provide our employees, at every stage of their career, with a more effective support system?

How can we add to our competitive intelligence information about how our rivals are managing their people and performance system?
Kepner-Tregoe at a Glance

Kepner-Tregoe has earned a worldwide reputation for improving business results through people.

A global leader in effecting successful change and improvement, Kepner-Tregoe helps its clients achieve lasting results through a proven approach of Process, Facilitation, and Transfer.

Focusing on the needs of the organization’s people—their skills, capabilities, and performance environment—Kepner-Tregoe continues to find innovative ways to integrate human resources into an organization’s strategy, structure and systems, and the processes by which its goals are accomplished.

Working across boundaries, at every level of the organization, Kepner-Tregoe provides common processes and methodologies to implement successful change initiatives.

Through its focus on the human side of change, Kepner-Tregoe helps clients achieve a real and sustainable competitive advantage, one based on the collective knowledge, skills, and capabilities of their people.