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CHAPTER 5

Individual/ Organization Relations and Retention

Learning Objectives

After you have read this chapter, you should be able to:

- **LO1** Discuss four different views of motivation at work.
- **LO2** Explain the nature of the psychological contract.
- **LO3** Define the difference between job satisfaction and engagement.
- **LO4** Identify a system for controlling absenteeism.
- **LO5** Describe different kinds of turnover and how turnover can be measured.
- **LO6** Summarize various ways to manage retention.

WHAT'S TRENDING IN INDIVIDUAL/ORGANIZATION RELATIONS AND RETENTION

HR professionals should develop workplace approaches that build stronger connections with employees. They must also be aware that organizational characteristics directly affect employee motivation, work attitudes, and engagement. Absenteeism and turnover often occur when organizations are not managed well, while high retention results when a satisfying work environment is created. Given these issues, here's what's currently trending in the area of individual/organization relations and retention:

1. Fostering employee motivation is always an ongoing concern for HR professionals. Companies are finding ways to enhance employees' work attitudes so that they are motivated to perform at high levels on the job.
2. Employee engagement often leads to greater loyalty and job performance. HR departments are trying to develop programs that get workers involved in ways that help organizations improve.
3. Employee withdrawal is a constant challenge for companies in a variety of industries, particularly those in the service sector. Unfortunately, such withdrawal, which is often precipitated by an undesirable work environment, can lead to excessive absenteeism and turnover. By partnering with line managers and senior leaders, HR professionals can focus their efforts on creating a workplace that discourages employees to leave their jobs.
4. The retention of employees is something that all organizations want to improve in both the short term and long term. Psychological contracts, work requirements, and other employment arrangements are being developed in different ways to enhance retention.

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HR HEADLINE

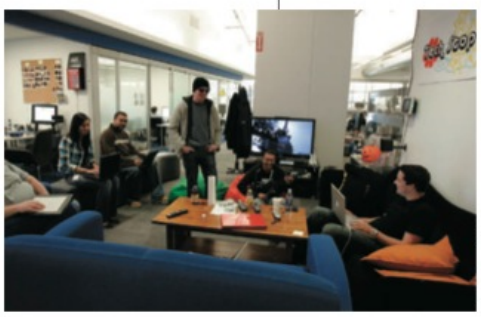
Networking Engagement at Google and Yahoo

A network-based culture can be used to build greater employee engagement in organizations. Companies must therefore develop the right conditions that motivate employees to network more effectively with each other so that innovation, creativity, and positive decision making is fostered. In particular, by cultivating trust in the workplace, employees can build critical relationships and reach out to their colleagues in an effort to improve the organization.

The following strategies can be used to increase positive networking in companies:

- Get employees to feel comfortable about networking by emphasizing how learning is enhanced when it occurs. In this sense, networking is viewed as an individual competence that can help improve people *and* the workplace.
- Encourage employees to self-assess their own networking proficiencies. Once they know where they stand, help them determine how they can better engage with others through positive networking.
- Teach people to recognize defining moments that call for networking. These situations can make a difference in employees' successes.
- Help employees understand that networking can benefit the entire company, not just the individuals doing the networking.

A number of companies are capitalizing on some of these ideas and opportunities. For instance, the layout of Google's new worksite is designed so that people can interact more



Erin Siegal/Reuters

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freely and randomly, which creates opportunities for innovative decision making in a more casual setting. Yahoo also buys into this kind of thinking; the company recently dropped its work-at-home programs in favor of requiring all employees to report to corporate offices to have more "face time" with each other. The basic idea is to create networking opportunities in a traditional workplace that enable workers to share more ideas and be more creative.[1]

Ideally, organizations are comprised of employees who have the ability to keep the company successfully moving forward. However, the value of employees is based on the level of their job performance. This performance depends on the effort these employees put into work, their ability, and employer support. Effort is in part determined by motivation, a topic that is worthy of consideration here. An individual's expectations about work, job satisfaction, commitment, engagement, and loyalty are some of the variables that can influence motivation, effort, and job performance.

These factors can also influence two potentially expensive HR challenges, absenteeism and turnover. Both factors represent withdrawal from the organization, which involves employees' feelings of separation. Understanding why people stay with an organization (called retention) or choose to withdraw requires organizational leaders to consider how companies treat employees. Desirable rewards, opportunities for development, reasonable HR policies, effective management of job and work–life issues, and workplace collegiality can enhance such treatment. The basics for understanding the relationships between employees and employers, as well as the associated consequences, are covered in this chapter.

LO1 Discuss four different views of motivation at work.

5-1 Individuals at Work

The relationship between individuals and their employers helps explain why people might choose to leave particular jobs or stay. For an employer to want to keep an employee, the individual must be performing well and making valuable contributions to the workplace.[2] Several factors affect the performance of employees, including individual abilities, the amount of effort expended, and the organizational support received. The HR unit exists in part to analyze and address these areas so that performance is enhanced and retention is increased. Exactly what the role of the HR unit "should be" often depends on the expectations of upper management, as well as the culture of the organization. As with any management function, HR management activities should be developed, evaluated, and changed as necessary so that they can contribute positively to the performance of individuals in their jobs, as well as enhance organizational performance overall.

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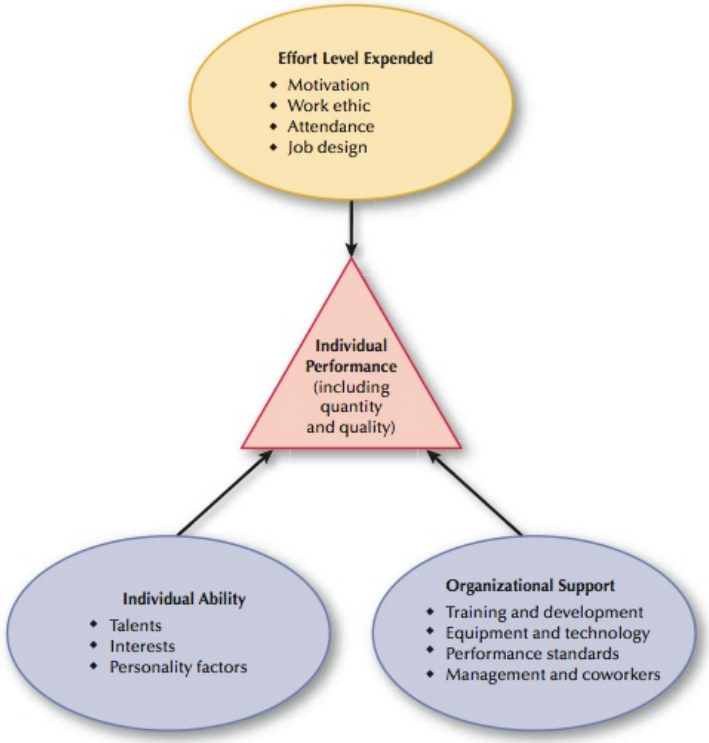
5-1a Individual Performance Factors

The three major factors that affect how a given individual performs are illustrated in Figure 5-1. They are (1) individual ability to do the work, (2) effort expended, and (3) organizational support. The relationship of those factors is broadly defined in management literature as follows:

Performance *(P)* = Ability *(A)* × Effort *(E)* × Support *(S)*

Individual performance is enhanced to the degree that all three elements are present within an individual employee, but performance can be diminished if any factor is reduced or absent. For instance, assume that several production workers have the ability to do their jobs well and work productively, but the organization provides outdated equipment and/or the supervisors' management style causes negative reactions among the workers. These conditions would likely result in low job performance because the work environment is managed ineffectively.

FIGURE 5-1 Components of Individual Performance



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Another example involves a customer service representative in a call center who has both excellent abilities and support. However, the individual dislikes "being tied to a telephone cord" all day and is frequently absent because of low satisfaction with the requirements of the job, even though the position pays well. In both cases, individual performance is likely to be lower compared to employment situations where all three components are present in a positive manner. Individual motivation is often a predictor of effort expended, so a brief overview of motivation as it affects performance is presented next.

5-1b Individual Motivation

Motivation
The desire that exists within a person that causes that individual to act

Motivation is the desire that exists within a person that causes that individual to act. People usually act for a number of reasons, but they are often tied to goals that have been set by themselves or by others around them. Thus, motivation is a goal-directed drive, and the process seldom occurs in a void. The words *need*, *want*, *desire*, and *drive* are all similar to *motive*, from which the word *motivation* is derived. Understanding motivation is important because compensation, turnover, and other HR concerns are related to it.

Approaches to understanding motivation vary because many theorists have developed their own views and models. Some approaches focus on intrinsic motivators that are inside an individual, while others concentrate on extrinsic factors that enhance motivation externally. Each approach has contributed to the understanding of human motivation. Four approaches are examined briefly in the following sections.

Need Theory The theory of human motivation developed by Abraham Maslow has received a great deal of attention in academic and practitioner settings. This need theory of motivation assumes that only unsatisfied needs motivate individuals. Maslow classified human needs into five categories that ascend in a definite order. Until the more basic needs are adequately met, a person will not fully strive to meet higher needs. Maslow's well-known hierarchy is comprised of (1) *physiological needs*, (2) *safety and security needs*, (3) *belonging and love needs*, (4) *esteem needs*, and (5) *self-actualization needs*.

An assumption often made by those using Maslow's hierarchy is that workers in modern, technologically advanced societies have basically satisfied their physiological, safety, and belonging needs. Therefore, they will be motivated first by the needs for self-esteem and the esteem of others, and then by self-actualization. Conditions to satisfy these needs should therefore be present in the workplace to enable the job itself to be meaningful and motivating to employees.

Two-Factor Theory Frederick Herzberg's motivation/hygiene theory assumes that one group of factors, *motivators*, accounts for increases in individual motivation because of enrichment and other positive work characteristics. Alternatively, *hygiene factors* can cause employees to become dissatisfied with work if these basic expectations are not adequately addressed; however, hygiene factors do not directly motivate employees.

Motivators	Hygiene Factors
• Achievement	• Interpersonal relationships
• Recognition	• Company policy/administration
• Work itself	• Supervision
• Responsibility	• Salary
• Advancement	• Working conditions

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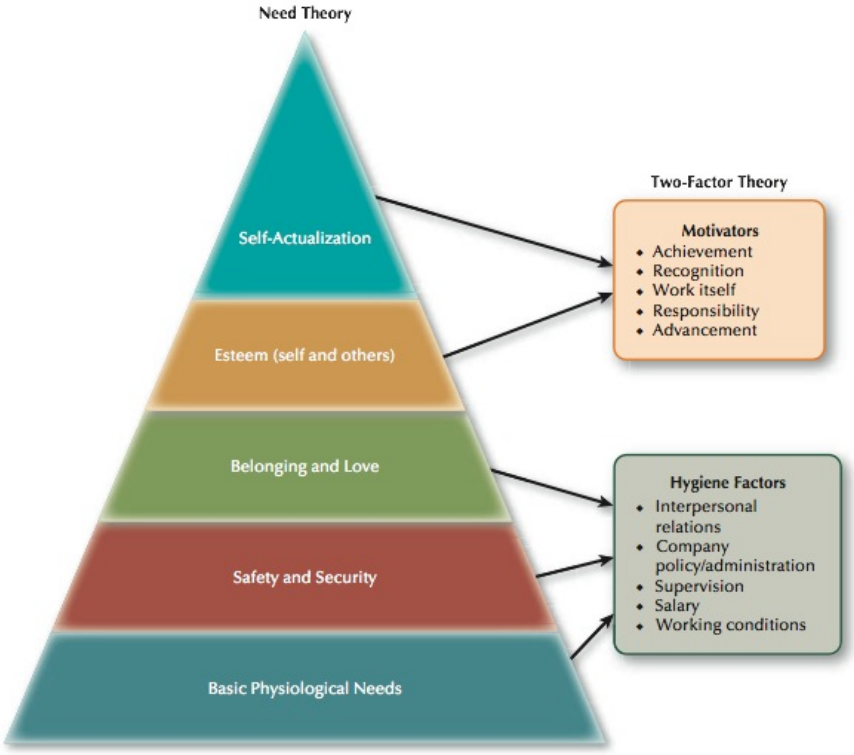
FIGURE 5-2 Need Theory and Two-Factor Theory Compared



The implication of Herzberg's research for management and HR practices is that even when managers carefully consider and address hygiene factors to avoid employee dissatisfaction, employees may not be motivated to work harder. The two-factor theory suggests that only motivators cause employees to exert more effort and thereby enhance employee performance. Subsequent research has questioned whether the two groups of factors are really as distinct as Herzberg thought. Figure 5-2 shows a comparison of needs theory and two-factor theory.

Equity
The perceived fairness of what the person does compared with what the person receives for doing it

Equity Theory People want to be treated fairly at work, which is the basic underlying theme embedded within equity theory. Equity is defined as the perceived fairness of what the person does compared with what the person receives for doing it. *Inputs* are what a person brings to the organization, including educational level, age, experience, productivity, and other skills or efforts. *Outcomes* received by a person are the rewards obtained in exchange for all these inputs. Outcomes include pay, benefits, recognition of achievement, prestige, and any other rewards received.

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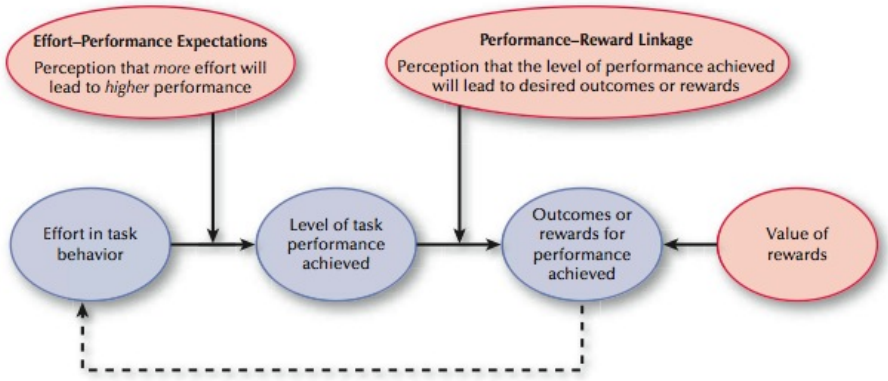
FIGURE 5-3 Simplified Expectancy Model of Motivation



An outcome can be either tangible, which can include economic benefits (such as money) or intangible (such as recognition or achievement).

The employee's view of fair value is critical to the relationship between performance and job satisfaction because one's sense of equity is an exchange-based and comparative process. Assume an employee is an information technology (IT) specialist who exchanges talents and efforts (inputs) for the tangible and intangible rewards (outcomes) the employer provides. To determine perceived equity, the employee compares his or her talents, skills, and efforts to those of other IT specialists, both internally and at other firms. That perception, whether it is correct or incorrect, significantly affects that person's evaluation of the inputs and outcomes. A sense of inequity occurs when the comparison process results in an imbalance between inputs and outcomes, which can lead to negative results at work.

Expectancy Theory Lyman Porter and E. E. Lawler suggest that motivation is also influenced by what people expect. If expectations are not met, people may feel that they have been treated unfairly and consequently become dissatisfied. This theory states that individuals base decisions about their behaviors on their expectations that one or another alternate behavior is more likely to lead to desired outcomes. Figure 5-3 shows the three aspects of the behavior-outcome relationships.

- *Effort–performance expectations* refer to employees' beliefs that working harder will lead to high performance. If people do not believe that working harder leads to high performance, then their efforts may diminish.
- *Performance–reward linkage* considers individuals' expectations that high performance will actually lead to rewards. The performance–reward relationship indicates how instrumental or important effective performance is in producing desired results.
- *Value of rewards* refers to how valuable the rewards are to the employee. One determinant of employees' willingness to exert effort is the degree to which they value the rewards offered by the organization.

This model of motivation suggests that employees' levels of effort (motivation) are not simply a function of rewards. Employees must believe that they have the *ability to perform the tasks well*; they must expect that *high performance will result*

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in receiving rewards; and they must *value those rewards*. If all three conditions are met, employees will be motivated to exert greater effort on the job.[3]

5-1c Management Implications for Motivating Individual Performance

There is a motivating effect associated with making successful progress in meaningful work. Some would argue that this is the most powerful basis for motivation.

HR ETHICS

Working with Slackers Hurts Motivation

Research suggests that a large majority of employees report having to deal with slackers who intentionally don't work hard enough, making this issue a key ethical concern that relates to both workplace justice and fairness. Unfortunately, only a small percentage of individuals actually "cry foul" on colleagues who shirk their work responsibilities, which can perpetuate the problem and harm the motivation, satisfaction, and performance of other workers. Coworkers also end up working about four to six more hours each week to make up for the allocation of work that slackers don't complete, which can harm their own ability to perform at high levels.

But why don't people report slackers so that something can be done? At a minimum, employees should confront individuals who don't do their assigned work. Quite often, it's just easier for people to look the other way because they believe confrontation isn't worth the hassle. Unfortunately, most hardworking employees overlook all the risks associated with letting slackers get away with their selfishness and poor performance.

Companies much teach employees how to respond to workplace loafing. Situations should be handled diplomatically, but shirkers need to be "called on the carpet" for their lack of conscientiousness. In particular, training can be provided to help workers address slacking so that their motivation remains high. Companies should consider the following issues as they provide training to help employees deal with slackers: coworkers:

- *Don't be judgmental.* Start talking to your slacking coworker with an open mind and a curious demeanor. The individual might not understand how his or her slacking negatively affects you.
- *Make you coworker feel comfortable.* Show respect and describe how there are work objectives that you share in common.
- *Share your perceptions.* Talk about the behaviors you are witnessing in an impersonal way and convey how such conduct is not meeting expectations.
- *Talk about the challenges.* Describe how the slacking behavior is adversely impacting your own efforts and productivity.
- *Ask for feedback.* Determine if your coworker views the situation in a different light. You may not fully understand some of the circumstances that lead to the slacking behavior.[4]

Slacking is a common problem in business, and HR professionals should be sensitive to the inherent challenges so that these issues can be effectively addressed. Consider the following questions:

1. What kinds of signs might you look for when determining whether slacking is a problem? How should you encourage employees to report such poor performance?
2. Besides the training already discussed, what do think companies and HR departments can do to reduce the likelihood of coworker slacking?

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Managers can undermine the meaningfulness of a person's work and therefore motivation by dismissing its importance, moving people off work before they finish it, shifting goals constantly, or neglecting to keep people updated on changing priorities. All these can diminish the motivation associated with meaningful work.[5] The behaviors of coworkers can also harm motivation. The preceding "HR Ethics: Working with Slackers Hurts Motivation" feature explores how employee loafing/shirking is a critical concern that can negatively affect individual motivation.

Organizational values, or the particular issues that companies address, may be important tools that can be used to motivate employees. A recent survey determined that being appreciated and respected in the workplace, being able to utilize personal capabilities, and liking the job were the top values that motivated workers. Other motivational issues included pay, employment security, good managers/leaders, and positive HR practices such as performance feedback, training, and benefits.[6] This research suggests that companies should improve these areas to increase employee motivation.

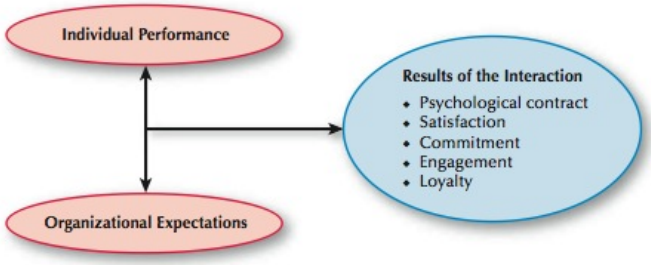
Many organizations spend considerable money to "motivate" their employees by using a wide range of tactics. For example, some firms use motivational speakers to inspire employees. Other employers give T-shirts, mugs, books, and videos to employees as motivators. However, the effectiveness of these expenditures has been questioned, particularly given the short-term nature of many of these programs and rewards. Managers and HR professionals would be better served by focusing on more substantive employment factors that have the capacity to increase individual motivation in the long term. Whatever issues are considered, answering a question often asked by managers,—How do I motivate my employees?—requires diagnosing employees' efforts, abilities, and expectations, as well of those of the organization.

LO2 Explain the nature of the psychological contract.

5-2 Individual Workers and Organizational Relationships

The relationship between individuals and their employers can be affected by HR practices and can vary widely from favorable to unfavorable. Important elements of these relationships include the psychological contract, job satisfaction, commitment, engagement, and loyalty (see Figure 5-4). Understanding these factors is more than just academically interesting. The economic health of organizations depends on the

FIGURE 5-4 The Individual–Organizational Relationship



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efforts of employees, which are driven by their ability and motivation to perform well. Employers must find ways to positively affect elements of individual–organization relationships so that work gets done.

5-2a Psychological Contract

Psychological contract The unwritten expectations employees and employers have about the nature of their work relationships

A concept that has been useful in understanding individuals' relationships with their employers is the psychological contract, which refers to the unwritten expectations employees and employers have about the nature of their work relationships. Psychological contracts can create either positive or negative relationships between employers and individuals, so companies have a vested interest in cultivating appropriate and reasonable expectations to improve these ties. Psychological contracts are based on developing trust, building commitment, and improving loyalty with the ultimate goal of meeting both the employer's and employee's needs.

Unwritten psychological contracts between employers and employees encompass expectations about both tangible items (e.g., wages, benefits, employee productivity, and attendance) and intangible items (e.g., loyalty, fair treatment, and job security). Employers may attempt to detail their expectations through employee handbooks and policy manuals, but those materials are only part of the total "contractual" relationship. It is important to understand that significant parts of psychological contracts are often perceived rather than explicitly stated.

The Changing Psychological Contract Employees usually expect to exchange their efforts and capabilities for secure jobs that offer competitive pay, desirable benefits, opportunities to learn and develop, and career progression, among many other positive factors. But as some organizations have changed economically, in an effort to be more efficient, they have downsized and eliminated workers who had given long and loyal service. Consequently, a number of remaining employees in these firms question whether they should remain loyal to and stay with their employers. In other words, the contract has been altered in many organizations.

Despite these changes, employers must still make efforts to strengthen psychological contracts. Doing so requires HR professionals and line managers to focus on several elements of these arrangements. A psychological contract often involves the following expectations:

Employers Will Provide	Employees Will Contribute
• Competitive compensation and benefits	• Continuous skill improvement and increased productivity
• Flexibility to balance work and home life	• Reasonable length of service
• Career development opportunities	• Extra efforts and results when needed

Psychological contracts can be strengthened and employee commitment enhanced when the organization is involved in a cause that is important to the employee. Companies may also improve employment relationships by focusing on developing altruism in the workplace. This can be done by creating positive work norms, focusing on fairness and responsibility, and offering employees more autonomy.[7] Leadership styles also need to be better matched with HR strategies to help craft positive psychological contracts among employees.[8] Finally, the results of a recent study of science-oriented university faculty members working for a Latin American institution suggest

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that managers should build more positive social networks among employees so that they perceive psychological contracts more favorably. Better communication about rewards and more recognition in the workplace should also help.[9]

ETHICS

Conversely, psychological contracts can be violated—not only by personal mistreatment but also by a perception that the organization has abandoned an important principle or cause. For instance, when unethical or illegal behavior is committed by upper management, the psychological contract is violated and employees may feel anger, distrust, reduced loyalty and commitment, and increased willingness to leave. Serious ethical scandals may be particularly damaging to psychological contracts because awareness of unethical behavior is so widespread.

GLOBAL

Global Psychological Contract Concerns With many organizations having global operations, the psychological contract becomes more complicated. Employees in foreign countries and expatriate employees from the United States have varying psychological contract expectations. If organizational expectations are not made clear prior to relocation of expatriates, there is a greater chance that the assignment will be cut short or the employee will quit upon returning home.[10]

An additional concern for multinational firms is the need to meet the diverse psychological contract expectations of individuals in different cultures and countries. Consider the number of jobs that have been shifted from the United States and Europe to China, India, Romania, Mexico, the Philippines, Brazil, and other countries with different cultures. Being aware of varying psychological contract issues with international employees is important if global HR efforts are to succeed.

5-2b Job Satisfaction and Commitment

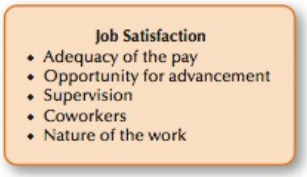
LO3 Define the difference between job satisfaction and engagement.

Job satisfaction
The positive feelings and evaluations derived from an individual's employment in a job

In its most basic sense, job satisfaction involves the positive feelings and evaluations derived from an individual's employment in a job. For example, recognizing an employee for a job well done by providing time off from work is likely to promote job satisfaction. There are many things a company can do from an HR perspective to increase employee job satisfaction such as providing fair pay and benefits, offering opportunities for promotion, training and developing workers, and communicating work expectations with regular performance appraisals. Figure 5-5 shows some of the most commonly recognized components of job satisfaction.

Alternatively, job *dissatisfaction* occurs when work experiences are negative and expectations are not met. An employee who expects clean and safe working conditions will likely be dissatisfied if the workplace is dirty and dangerous. The different

FIGURE 5-5 Components of Job Satisfaction



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ideas managers and workers have about career development can also lead to job dissatisfaction among employees because work assignments don't always meet their income and growth expectations.[11] Employee job satisfaction is declining due to the changing nature of employment in companies, a shift that is often driven by global commerce, corporate restructuring, the growth in service-sector jobs, and decreased union presence. Employees are also pessimistic about government and business being able to address economic problems, among other issues.[12]

Many organizations and researchers study job dissatisfaction. At any one time, from 15% to 40% of working people across the nation are dissatisfied with their jobs. Higher unemployment rates usually mean more dissatisfied workers in the workforce because it is more difficult to change jobs, and people stay longer with jobs they do not like. Managers directly impact job satisfaction, and younger employees tend to have lower job satisfaction than older employees.[13]

Sometimes job satisfaction is called *morale*, a term usually used to describe the job satisfaction of a group or organization. A workplace that develops and emphasizes fair policies, organizational justice, ethical practices, teamwork, and a positive culture is in a good position to improve employee morale. Factors that can decrease morale include demanding and stressful work, poor management–employee interactions, undesirable rewards, work–life conflicts, and a lack of enrichment at work. It is also speculated that declines in overall earnings and the increasing income growth differences between the middle class and wealthy will erode morale. HR professionals need to ensure that profits are distributed to managers and employees in a fair manner.[14]

Poor morale and job satisfaction among employees often lead to attendance problems, low work performance, and retention issues. This is why HR professionals and operating managers must properly evaluate and manage employee work attitudes to ensure good retention. One way employers do this is by regularly surveying employees. One specific type of survey used by many organizations is an attitude survey, which focuses on employees' feelings and beliefs about their jobs and the organization. An annual employee survey of federal workers determined that 80% claimed they liked their job situations, and 60% felt engaged at work. However, only 67% of them would recommend their agency to others, down from the previous year. In addition, only 68% were satisfied with their jobs, and 59% were satisfied with the organization, both down from the previous year.[15]

Attitude survey
A survey that focuses on employees' feelings and beliefs about their jobs and the organization

Management can respond to survey results after they are compiled. If the employer takes responsive actions, employees may view the employer more positively. However, if management ignores the survey results, such inaction can lead to lower job satisfaction. This is why HR professionals must be proactive about partnering with managers to address the opportunities and challenges identified in employee surveys.

The degree to which workers believe in and accept organizational objectives and want to remain employed at a company is called organizational commitment. Job satisfaction influences organizational commitment, and both of these factors can in turn affect employee retention and turnover. It is the interaction of the individual and the immediate work context that determines levels of job satisfaction and organizational commitment. Managers and HR professionals must therefore create employment situations that prompt positive work attitudes and get employees engaged in the workplace.

Organizational commitment
The degree to which workers believe in and accept organizational objectives and want to remain employed at a company

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5-2c Employee Engagement, Loyalty, and Organizational Citizenship

Employee engagement The extent to which an employee's thoughts and behaviors are focused on his or her work and their employer's success

Employee engagement is the extent to which an employee's thoughts and behaviors are focused on his or her work and their employer's success. Interest in employee engagement has been growing in the field of HR management because the process can affect many important performance outcomes. For instance, engaged workers are more productive, exhibit greater dedication, perform at higher levels, and show higher retention than do unengaged workers.[16] Descriptions of engaged employees and disengaged employees are shown in Figure 5-6.

The concept of engagement is positive because it suggests that workers can contribute much more effectively to organizational results if there are attempts made to better connect them to the workplace.[17] Unfortunately, recent Gallup research suggests that employee engagement is a challenge in many firms, with only 31.5% of employees being engaged with their work, 51% not being engaged, and 17.5% being activity disengaged.[18] An HR department should therefore work with managers and employees to find better ways to improve engagement levels throughout an organization. Engagement can be enhanced by emphasizing the company's culture and practices during interviews, having managers support this culture in a consistent manner (such as during orientation), and providing employees with a supportive group of coworkers who make them feel part of the team. Providing challenging and dynamic employment opportunities, a respectful work environment, chances for promotion, and monetary incentives are also ways that employers can increase employee engagement.[19] Encouraging more idea entrepreneurship can be another way to enhance engagement. Idea entrepreneurs have a passion for certain issues, and they become highly involved in the workplace (they invest time, get others on board, etc.) to create positive change in firms.[20] The following "HR Competencies & Applications: Defeating Unengaged Employee Zombies" feature investigates other ways companies can prevent unengaged employees from acting like the zombies found in Hollywood movies.

Loyalty Many employees still want security, stability, a supervisor they respect, competitive pay and benefits, and the opportunity to advance. But competition and increasing costs of doing business have led companies to trim payrolls and to no longer offer some employment opportunities. As a result, the era of company loyalty might have passed, as people are more inclined to move between companies.[21]

FIGURE 5-6 Engaged and Disengaged Employees

Engaged Employees	Disengaged Employees
• Put in extra effort	• Simply put in time
• Are highly involved in their jobs	• Do not do best work
• Employ both effort and thought	• Are "checked out"/apathetic
• Are active/busy	• Do only their basic jobs
• Are fully invested in their jobs	• React only to pay

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Loyalty
Being faithful to an institution or employer

Loyalty can be defined as being faithful to an institution or employer. Loyalty is a reciprocal exchange between organizations and their workers. Employees' loyalty to a company depends on their perceptions of the company's loyalty to them. The trend toward employees bearing more of the financial risk for retirement savings, health insurance, and career development has sent a clear message that the employee must control his or her own future because the employer is not loyal.[22] Evidence suggests that some employees unfortunately don't believe that their companies reciprocate the loyalty that they show.[23]

But there may be unique ways for managers to improve loyalty in organizations, as well as engagement. Employees are more loyal when their managers are humble, reserved, and trustworthy. For instance, apologizing to employees when mistakes are made can build trust in the workplace. A recent Forum Corporation survey found that managers claimed that they apologize much more frequently at work than their employees indicated. The results also showed that a majority of employees believed that trust in management was very important, while a little less than half of managers believed that it was important for management to be trusted by employees. Finally, the survey determined that lying, stealing the ideas of others, gossiping, and other communication problems were considered to be significant concerns about management, and such misbehavior is arguably caused by a low regard for trust.[24] Managers should be proactive about apologizing to employees when they make mistakes in order to build trust, loyalty, and engagement.

Organizational citizenship behavior
Occurs when an employee acts in a way that improves the psychological well-being and social environment of an organization

Organizational Citizenship Related to both engagement and loyalty is the concept of organizational citizenship. Organizational citizenship behavior (OCB) occurs when an employee acts in a way that improves the psychological well-being and social environment of an organization. Research suggests that individuals have many different motives that may encourage them to exhibit OCBs at work, some of which focus on employers and some of which focus on coworkers.[25] One study determined that Confucian Asians believe more strongly than do Anglos that OCBs are part of their jobs, and that OCBs benefiting others are considered part of work more so than are OCBs prompting organizational change. In addition, the more individuals think that OCBs are part of work, the more they act as citizens on the job.[26] Examples of citizenship include helping a coworker complete a work activity so that a deadline is reached and cheering on a colleague for receiving a reward. Other examples are getting involved and engaged in a project that helps the company's bottom line and volunteering to be on a committee that creates positive organizational policies. Organizational citizenship behavior generally leads to a more desirable workplace, more positive social interactions, and higher job performance.[27]

Employers might be able to encourage OCBs with the proper work characteristics and approaches. One study found that gratitude is positively related to OCB, which suggests that companies can treat employees in a manner that builds greater appreciation and recognition and prompts citizenship.[28] Citizenship fatigue may be another issue in companies, so HR professionals should focus efforts on developing a work context that supports employees, builds teamwork, and avoids pressuring individuals to exhibit OCBs.[29]

Work attitudes, engagement, loyalty, and citizenship are all factors that can influence decisions to remain with or leave an organization, and ultimately they are reflected in employee retention and turnover statistics. Individuals who are dissatisfied with their jobs or not committed to a company are more likely to withdraw from an organization. Disengaged and disloyal employees who are not citizens are

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also unlikely to perform well or be recognized in their jobs, also leading to withdrawal. One kind of withdrawal is turnover, which means an individual leaves an organization. Another kind of withdrawal is absenteeism, which involves failing to report to work when scheduled. Absenteeism is covered in the next section.

COMPETENCIES & APPLICATIONS

Defeating Unengaged Employee Zombies

For many reasons, employees can act like zombies in organizations that do not take the proper steps to increase engagement. A big part of this stems from the technology used by workers today, which encourages them to act in a brainless way when it comes to decision making, interpersonal communication, and group processes. There are several things that leaders can do to reduce these trends, but in particular, they need to find creative ways to engage individuals in the workplace. Like in a Hollywood movie, both leaders and employees have to work together to defeat the zombie hoards of the unengaged.

What makes unengaged employees act like zombies? First, unengaged workers have limited vision because they tend not to be future oriented, and they lack a clear focus, very similar to zombies. Second, they often lack a higher degree of coordinated effort in the workplace, so the left hand doesn't know what the right hand is doing. Once again, this mimics the behavior of zombies. Third, unengaged workers have the ability to slow down the work and movements of other productive coworkers, one more thing that people do to others when they change into zombies. Finally, they can distract employees from focusing on more promising endeavors at work by creating roadblocks to success (e.g., lots of meetings, bureaucratic processes, too much communication), much in the same way that fighting zombies takes time and resources away from other important survival needs.

How can employers effectively battle unengaged zombies? There are several things companies can do, including the following actions:

- Company leaders need to create a proper vision for success.
- Empower employees to implement the vision in a way that fits their preferences.
- Don't worry if you don't get everyone onboard with the new vision.
- Get managers involved in implementing any new strategies developed to support the vision.
- Managers need to develop meaningful communication about the company's strategy without overdoing it.
- Keep people up to date about the progress of planning and implementing the strategies.
- Support the people who are behind the vision by making sure that they have the tools to help each other.[30]

As an HR leader, you will likely be given the opportunity to help unengaged employees. Consequently, consider the following questions:

1. As an HR professional, how would you encourage workers to be more engaged in the workplace instead of acting like zombies?
2. What if your initial efforts didn't work? How would you improvise and strategize to make the situation at work better? Who could you turn to for assistance?

KEY COMPETENCIES: Leadership and Navigation (Behavioral Competency) and People (Technical Competency)

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LO4 Identify a system for controlling absenteeism.

Absenteeism
Any failure by an employee to report for work as scheduled or to stay at work when scheduled

5-3 Employee Absenteeism

Employees who are absent from their work and job responsibilities create major issues in the relationship between an employee and employer. Absenteeism is any failure by an employee to report for work as scheduled or to stay at work when scheduled. Being absent from work may seem like an insignificant matter to an employee. But if a manager needs 12 people in a unit to get the work done, and 4 of the 12 are frequently absent, either the output of the unit will decrease or additional workers will have to be hired to meet needs. For some employers, productivity losses due to absenteeism can be very expensive. The average daily cost is 1.3 times the wages of the absent worker.[31] Some people are also not concerned about arriving at work on time. Tardiness can be closely related to absenteeism.

5-3a Types of Absenteeism

Employees can be absent from work or tardy for several reasons. Clearly, some absenteeism is inevitable because of illness, death in the family, and other personal reasons. Though absences such as those that are health related are unavoidable and understandable, they are still very costly. Many employers have sick leave policies that allow employees a certain number of paid days each year for *involuntary* absences. However, much absenteeism is avoidable, or *voluntary*. Absence can also be planned (the least disruptive), unplanned, incidental (less than a week), or extended (lasting beyond a week).

Many employees see no real concern about being absent or late to work because they feel that they are "entitled" to some absenteeism. In many firms, a relatively small number of individuals are responsible for a large share of the organization's total absenteeism. Regardless of the reason, employers need to know if someone is going to be absent so that they can make adjustments. Organizations have developed different ways for employees to report their absences. Some companies have established automated systems in which employees can call a special phone number and alert managers about their possible absences. Special electronic notification email accounts could also be used.

5-3b Controlling Absenteeism

Effective absence management involves striking a balance between supporting employees who are legitimately unable to work and meeting operational needs. Voluntary absenteeism can be more effectively controlled if managers understand its causes and the associated costs. Figure 5-7 shows some of the direct and indirect costs associated with absenteeism. Once the causes and costs are understood, managers can use a variety of approaches to reduce it, including attendance rewards, paid time-off programs, unused leave buyback policies, illness verification, and disciplinary actions. Other more general approaches can be used to improve the workplace and reduce absenteeism, for example, improving the availability of employment opportunities, providing more generous compensation, and promoting work–life balance. A study found that meaningful work was associated with increased engagement, which led to reduced absenteeism.[32] Regardless of the strategies utilized, organizational policies on absenteeism should be stated clearly in an employee handbook and consistently enforced by supervisors and managers.

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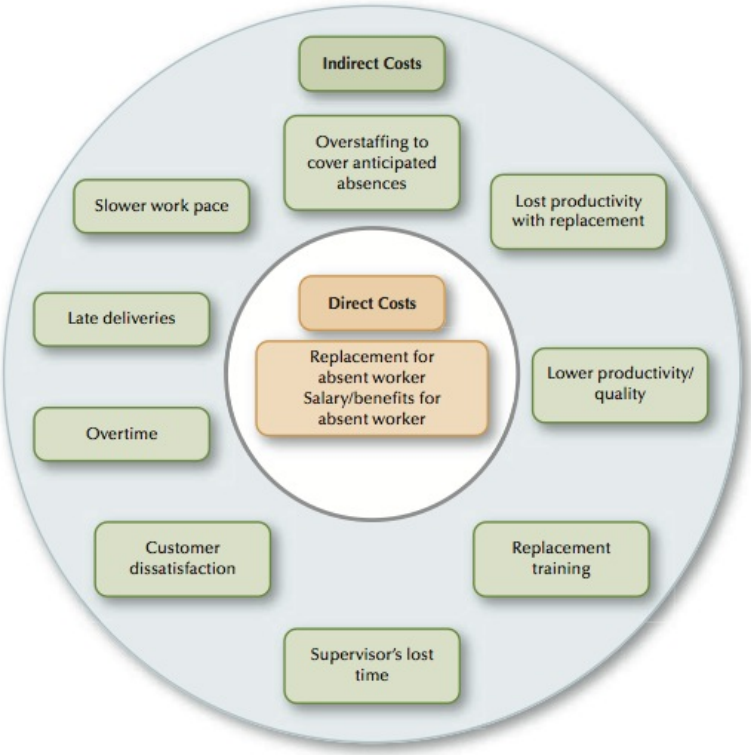
FIGURE 5-7 Sources of Direct and Indirect Costs of Absenteeism



Employers use methods such as the following to address absenteeism:

- *Disciplinary approach:* Many employers use this approach. People who are absent the first time receive a verbal warning and subsequent absences result in written warnings, suspension, and finally dismissal.
- *Positive reinforcement:* Positive reinforcement includes actions such as giving employees cash, recognition, time off, and other rewards for meeting attendance standards. Offering rewards for consistent attendance, giving bonuses for missing fewer than a certain number of days, and "buying back" unused sick leave are all positive reinforcement methods of reducing absenteeism.
- *Combination approach:* A combination approach ideally rewards desired behaviors and punishes undesired behaviors. This carrot-and-stick approach uses policies and discipline to punish offenders and various programs and rewards to recognize employees with outstanding attendance. For instance, employees with perfect attendance may receive incentives of travel and other rewards. Those with excessive absenteeism would be terminated.

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- *No-fault policy:* With a no-fault policy, the reasons for absences do not matter, and the employees must manage their own attendance unless they abuse that freedom. Once absenteeism exceeds normal limits, then disciplinary action up to and including termination of employment can occur. The advantages of the no-fault approach are that there is uniformity in the ways absence is handled, and supervisors and HR staff do not have to judge whether absences count as excused or unexcused.
- *Paid-time-off (PTO) programs:* Some employers have paid-time-off programs, in which vacation time, holidays, and sick leave for each employee are combined into a paid-time-off (PTO) account. Employees use days from their accounts at their discretion for illness, personal time, or vacation. If employees run out of days in their accounts, they are not paid for any additional days missed. PTO programs generally reduce absenteeism, particularly one-day absences, but they often increase overall time away from work because employees use all of "their" time off by taking unused days as vacation days.

MEASURE

5-3c Measuring Absenteeism

A major step in reducing absenteeism is to decide how the organization will calculate and record absences and then how to benchmark those rates. Controlling or reducing absenteeism must begin with continuous monitoring of the absenteeism statistics in work units. Such monitoring helps managers pinpoint employees who are frequently absent and departments that have excessive absenteeism. Various methods of measuring or computing absenteeism exist. One formula suggested by the U.S. Department of Labor is as follows:

$$\frac{\textit{number of persons} - \textit{days lost through job absence during period}}{\textit{(average number of employees)} \times \textit{(number of workdays)}} \times 100$$

The absenteeism rate can also be based on number of hours instead of number of days.

One set of metrics that can be calculated is the rate of absenteeism, which can be based on annual, monthly, quarterly, or other periods of time. Other useful measures of absenteeism might include the following:

- *Incidence rate:* The number of absences per 100 employees each day
- *Inactivity rate:* The percentage of time lost to absenteeism
- *Severity rate:* The average time lost per absent employee during a specified period of time (a month or a year)

Additional information can be gained by separating absenteeism data into short-term and long-term categories. Different problems are caused by employees who are absent for one day 10 times during a year and employees who are absent one time for 10 days.

Turnover
The process in which employees leave an organization and have to be replaced

LO5 Describe different kinds of turnover and how turnover can be measured.

5-4 Employee Turnover

Turnover is the process in which employees leave an organization and have to be replaced. Many organizations have found that turnover is a very costly problem. For instance, health care firms in one state experienced over 30% turnover annually. The turnover cost in the state for nursing jobs alone was more than $125 million per year, with individual nurse turnover costs being $32,000 per person who left.[33]

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The extent to which employers face high turnover rates and costs often varies by organization and industry. For example, the Society for Human Resource Management (SHRM) calculates that the average for all industries is 15% annual turnover. But companies in service industries such as restaurants have an average annual rate of 35%. Entertainment and recreation has 27% turnover and retail 22%. Health care and social assistance have 20% annual turnover.[34]

Research shows that many factors can lead to turnover. For instance, job dissatisfaction, low levels of various kinds of work commitment, work–life conflict, and decreased justice can encourage people to quit their jobs. Forces such as the availability of other employment opportunities and unemployment rates are also tied to employee turnover.[35] Turnover typically goes up as unemployment rates drop and dissatisfied employees can find other jobs.[36] Research also indicates that individuals who provide advice to their colleagues believe that they are not appropriately compensated for doing so, which results in stronger intentions to leave.[37] The means that companies need to pay close attention to how they recognize and compensate employees who help their coworkers. Another study determined that *boomerang employees* (individuals who leave a firm but are reemployed later) often quit because of personal reasons or events, while alumni (individuals who leave for good) often quit because of negative work experiences; boomerang employees also quit their jobs sooner in their employment tenure than do alumni employees.[38]

Organizations must be proactive about managing turnover so that the work environment is not adversely impacted. In particular, HR professionals and line managers must look for signs that point to possible turnover among employees. Some of these signs include:

- Low interest in getting promoted within the firm
- Low motivation to keep managers happy
- A reluctance to be involved in long-term work opportunities
- Decreased motivation to be enrolled in training and development opportunities
- Fewer contributions in meetings
- Just getting by or working only enough to get work done[39]

A good example of how turnover can be effectively managed involves the Atlanta-based Boys & Girls Clubs of America, which has almost 400 corporate employees. The organization determined that turnover is highest among employees with one to three years of service. Through exit interviews the organization determined that the most frequent reasons people left were bad job fit and poor job experiences (i.e., expectations were not met). As a result of its analysis, the HR department implemented a "more high-touch" recruiting system to reduce the number of poor hires. This included multiple on-site interviews. Further, recruiters changed how they measure recruiting success to include finding a *good* candidate, rather than just any candidate. Historically, they looked at time to fill vacancy but now focus on quality of hire. Supervisors evaluate quality of hire, and HR looks at performance reviews of new hires. Among 82 new hires, the organization kept 93% in the first two years of the new approach, and the overall turnover rate dropped from 11% to 9%.[40] For another example of how turnover can be managing effectively, see the following "HR Perspective: Rosemont Center Takes Care of Turnover" feature.

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HR PERSPECTIVE

Rosemont Center Takes Care of Turnover

Rosemont Center, Inc., in Columbus, Ohio, is an agency that provides mental health and social services to youths and low-income families. These include outpatient therapy, foster care, day treatment, and mental health services.

At one point, annual employee turnover had reached 72%. The 62 employees included therapists, counselors, and social workers. At its peak, the staff numbered 150, but funding cuts led to elimination of some programs. During the ensuing layoffs, voluntary turnover jumped. Low morale and motivation became a problem for the survivors, and the quality of services was affected.

The HR Director checked the turnover metrics and put together a task force to identify causes. They identified the following issues:

- Demanding work
- Work–life balance: night work and weekends
- Low salaries
- On-call responsibilities without compensation

Exit interviews and employee satisfaction surveys were reviewed, and managers of similar agencies in Ohio were interviewed. These interviews were conducted to help improve employee satisfaction and reduce turnover. The task force's recommendations to the board included:

- *Career development*: Internal job bidding for promotions and transfers; create an internal list of people who would consider jobs at Rosemont
- *Rewards*: A salary study to make sure salaries were competitive
- *Management and organization*: Develop a system of support for directors and supervisors to reduce recruiting and orientation costs for new employees; encourage open communication with employees
- *Work–life balance*: Promote employee assistance programs and provide work–life balance training

With backing from the board of directors, the resulting program reduced turnover to 48%, and morale and service improved. The job bidding process was key to this success. Compensation was increased based on the salary study, and employees were given more benefit choices. Rosemont generated a list of candidates who wanted to work at the agency. When a position opened, several candidates were available. Formal training for managers had a positive effect on staff, who felt more supported by their supervisors. The company developed a training agenda that received funding. Finally, quarterly all-staff meetings and other events fostered a more open culture.[41]

Based on these approaches, consider the following questions:

1. Did the social services nature of this organization make the turnover situation any different compared to in a private company? Why or why not?
2. Have you seen similar efforts occur in places where you have worked? Describe them and comment on their success.

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5-4a Types of Employee Turnover

Turnover is classified in many ways. One classification uses the following categories, although the two types are not mutually exclusive:

- **Involuntary Turnover**
  Employees are terminated for poor performance or work rule violations, or through layoffs
- **Voluntary Turnover**
  Employees leave by choice

Involuntary turnover is triggered at all levels by employers terminating workers because of organizational policies and work rule violations, excessive absenteeism, performance standards that are not met by employees, and other issues. Voluntary turnover can be caused by many factors, some of which are not employer controlled. Common voluntary turnover causes include job dissatisfaction, pay and benefits levels, supervision, geography, and personal/family reasons. Career opportunities in other firms, when employees receive unsolicited contacts, may lead to turnover for individuals, especially those in highly specialized jobs such as IT. Voluntary turnover may increase with the size of the organization, most likely because larger firms are less effective in preventing turnover.

Another view of turnover classifies it on the basis of whether it is good or bad for the organization:

- **Functional Turnover**
  Lower-performing or disruptive employees leave
- **Dysfunctional Turnover**
  Key individuals and high performers leave

Not all turnover in organizations is negative. On the contrary, functional turnover represents a positive change. Some workforce losses are desirable, especially if those who leave are lower-performing, less reliable, and/or disruptive individuals. Of course, dysfunctional turnover also occurs. That happens when key individuals leave, often at crucial times. For example, a software project leader leaves in the middle of a system upgrade to take a promotion at another firm. His departure causes the time line to slip because of the difficulty of replacing him. Further, other software specialists in the firm begin to seek out and accept jobs at competitive firms because he left. This is truly dysfunctional turnover.

Employees quit for many reasons, only some of which can be controlled by the organization. Another classification uses the following terms to differentiate types of turnover:

- **Uncontrollable Turnover**
  Employees leave for reasons outside the control of the employer
- **Controllable Turnover**
  Employees leave for reasons that could be influenced by the employer

Some examples of reasons for turnover the employer cannot control include: (1) the employee moves out of the geographic area, (2) the employee decides to stay home with young children or an older relative, (3) the employee's spouse is transferred, or (4) the employee is a student worker who graduates from college. Even though some turnover is inevitable, employers recognize that reducing turnover saves money, and they must address turnover that is controllable. Organizations are better able to keep employees if they address the concerns of those individuals that might lead to controllable turnover.

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Churn
Hiring new workers while laying off others

Turnover and "Churn" Hiring new workers while laying off others is called churn. This practice raises a paradox in which employers sometimes complain about not being able to find workers with the right skills while they are laying off other employees.

As organizations face economic and financial problems that result in layoffs, the remaining employees are more likely to consider jobs at other firms. In this situation, turnover is more likely to occur, and efforts are needed to retain existing employees. HR actions such as information sharing, opportunities for more training/learning, and emphasis on job significance can be helpful in lowering individuals' turnover intentions.

5-4b Measuring Employee Turnover

Turnover is a considerable challenge for organizations, and to make matters worse, many companies do not formally measure employee separations. A survey conducted by a division of the American Management Association determined that 42% of the 977 business professionals sampled claimed that their companies had a formal approach for assessing employee turnover. Almost 30% claimed to have an informal approach in place for evaluating turnover, 12% indicated that their employers do not monitor quitting, and 17% didn't know if turnover was monitored at all.[42] This is a serious concern given that the U.S. Department of Labor estimates that the cost of replacing an employee ranges from one-half to five times the person's annual salary, depending on the position.[43]

The turnover rate for an organization can be computed on a monthly or yearly basis. The following formula, in which *separations* means departures from the organization, is widely used:

$$\frac{\textit{number of employee separations during the year}}{\textit{total number of employees at midyear}} \times 100$$

Turnover rates vary widely among industries and organizations, ranging from almost 0% to more than 100% a year. As a part of HR management information, turnover data can be gathered and analyzed in many ways, including the following categories:

- Job and job level
- Department, unit, and location
- Reason for leaving
- Length of service
- Demographic characteristics
- Education and training
- Knowledge, skills, and abilities
- Performance ratings/levels

Two examples illustrate why detailed analyses of turnover are important. A manufacturing organization had a companywide turnover rate that was not severe, but 80% of the turnover occurred within one department. Specific actions such as training supervisors and revising pay levels were needed to resolve problems in that unit. In a different organization, a global shipping/delivery firm identified reasons for turnover of sales and service employees and was able to focus on those reasons and reduce turnover in that group. The actions taken reduced turnover significantly, which contributed to an annual savings of several million dollars in direct and indirect costs. In both of these examples, the targeted turnover rates declined as a result of employer actions taken in response to turnover analyses.

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5-5 HR Metrics: Determining Turnover Costs

A major step in reducing the expense of turnover is to decide how the organization will calculate and record employee departures, as well as how to benchmark the turnover rates. Determining turnover costs can be relatively simple or very complex, depending on the nature of the efforts made and the data used.

Figure 5-8 shows a model for calculating the cost of productivity lost to turnover. Of course, this is only one cost associated with turnover. But it is one that is more difficult to conceptualize. If a job pays $20,000 (A) and benefits cost 40% (B), then the total annual cost for one employee is $28,000 (C). Assuming that 20 employees have quit in the previous year (D) and that it takes three months for one employee to become fully productive (E), the calculation results in a per-person turnover cost of $3,500 (F). Overall, the annual lost productivity would be $70,000 for the 20 individuals who have left (G). In spite of the conservative and simple nature of this model, it easily makes the point that productivity lost to turnover is costly.

5-5a Detailing Turnover Cost

In addition to lost productivity, other factors to be included in calculating detailed turnover costs include the following:

- *Separation costs*: HR staff and supervisory time, pay rates to prevent separations, exit interview time, unemployment expenses, legal fees for challenged separations, accrued vacation expenditures, continued health benefits, and others
- *Vacancy costs*: Temporary help, contract and consulting firm usage, existing employee overtime, and other costs until the person is replaced
- *Replacement costs*: Recruiting and advertising expenses, search fees, HR interviewer and staff time and salaries, employee referral fees, relocation and moving costs, supervisor and managerial time and salaries, employment testing costs, reference checking fees, pre-employment medical expenses, relocation costs, and others

FIGURE 5-8 Model for Costing Lost Productivity

Job Title: _____

A. Typical annual pay for this job	_____
B. Percentage of pay for benefits multiplied by annual pay	_____
C. Total employee annual cost (A + B)	_____
D. Number of employees who voluntarily quit the job in the past 12 months	_____
E. Number of months it takes for one employee to become fully productive	_____
F. Per person turnover cost ([E ÷ 12] × C × 50%)*	_____
G. Annual turnover cost for this job (F × D)	_____

*Assumes 50% productivity throughout the learning period (E).

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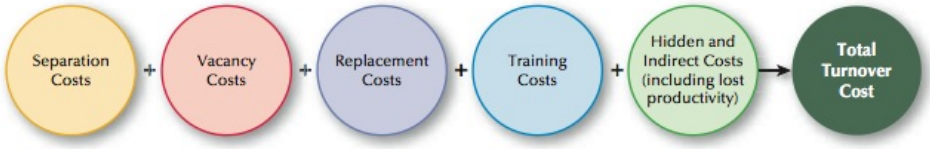
FIGURE 5-9 Components of Turnover Cost



- *Training costs for the new person*: Paid orientation time, training staff time and pay, costs of training materials, supervisor and manager time and salaries, coworker "coaching" time and pay, and others
- *Hidden/indirect costs*: Costs that are less obvious, such as reduced productivity (calculated above), decreased customer service, lower quality, additional unexpected employee turnover, missed project deadlines, and others

Turnover metrics illustrate that turnover is an expensive HR and managerial issue that must be constantly evaluated and addressed. Figure 5-9 summarizes the costs of turnover.

As noted, not all turnover is negative. Losing low performers should be considered positive. There may be an "optimal" amount of useful turnover necessary to replace low performers and add part-time or contract workers with special capabilities to improve workforce performance.

MEASURE

5-5b Optimal Turnover

Even though turnover is a key concern for companies, some managers don't know how much turnover is optimal for their particular workgroups. A survey showed that nearly one-third of managers didn't have an idea about optimal turnover. Almost half believed that optimal turnover should be 10% or less.[44] This means that HR departments should partner with managers to help them determine what their optimal turnover rates really are.

Turnover costs and benefits can be calculated separately for various organizational segments. HR departments frequently strive to minimize all types of turnover, but in some cases, more turnover activity can be better. For example, reducing turnover makes sense when it is very expensive, when those leaving are more valuable than their replacements, or when there may not be suitable replacements. However, more turnover activity in certain segments of the organization may make sense if it costs very little, those leaving are less valuable than their replacements, or there is certainty that good replacements are available.[45] Another solution is to calculate the financial impact of different types of turnover and attach a dollar cost to it to determine the optimum level.[46]

5-6 Retaining Talent

In one sense, retention is the opposite of turnover. However, the reasons key people choose to stay with an employer may not be the opposite of those that compel others to quit. Retaining top talent is a concern for many employers, and understanding retention is the key to keeping more of those top performers.

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5-6a Myths and Realities about Retention

Keeping good employees is a challenge for all organizations and becomes even more difficult as labor markets change. Unfortunately, some myths have arisen about what it takes to retain employees. Some of the most prevalent myths and realities that exist are as follows:

1. *Money is the main reason people leave.* Money is certainly a powerful recruiting tool, and if people feel they are being paid inadequately, they may be more likely to leave. But if they are paid close to the competitive level they expect, other aspects of the job become more important than the pay they receive.
2. *Hiring has little to do with retention.* This is not true. Recruiting and selecting the people who fit the jobs and who are less likely to leave in the first place, and then orienting them to the company, can greatly increase retention. It is important to select for retention. Do not hire people with a history of high turnover.
3. *If you train people, you are only training them for another employer.* Developing skills in employees may indeed make them more marketable, but it also tends to improve retention. When an employer provides employees with training and development assistance, job satisfaction may increase, and employees may be more likely to stay, particularly if they see more future opportunities internally.
4. *Do not be concerned about retention during organizational change.* The time when organizational change takes place is exactly when employees worry about their future. Although some people's jobs may have to be cut because of organizational factors, the remaining employees that the company *would like to keep* may have the most opportunity and reason to leave voluntarily. For example, during a merger or acquisition, most workers are concerned about job security and their employer's future. If they are not made to feel a part of the new organization early on, many may leave or evaluate other alternatives.
5. *If high performers want to leave, the company cannot hold them.* Employees are "free agents," who can indeed leave when they choose. The key to keeping high-performing employees is to create an environment in which they want to stay, grow, and contribute.

5-6b Drivers of Retention

Employee retention can be affected by a variety of job-related and personal factors. For instance, if employees choose to leave an organization for family reasons (e.g., because a spouse is transferring or to raise children), there may be a limited number of actions the employer can take to keep them on the job. However, there are significant actions that an employer can take to retain employees in many other circumstances. If employees want work–life balance in their careers or opportunities for training and development (i.e., personal growth), there are steps companies can take to address these preferences.

The actual reasons that people stay or leave may also vary by job, industry and organizational issues, geography, and other factors. Yet, many of these factors are within the employer's control. Figure 5-10 illustrates some of the drivers of retention, or areas in which employers can take action to increase the probability of keeping employees.

Organizational and Management Factors Many organizational and management factors influence individuals' job satisfaction and their decisions to stay with or leave their employers. Organizations that have clearly established goals and

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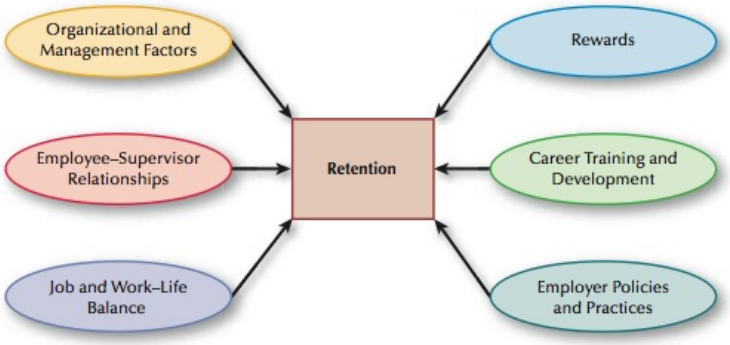
FIGURE 5-10 Drivers of Retention



hold managers and employees accountable for accomplishing results are viewed as better places to work, especially by individuals wishing to progress both financially and professionally. Further, effective management provides the resources necessary for employees to perform their jobs well.

Other organizational attributes that affect employee retention are related to the management of the organization. In some organizations, external events are seen as threatening, whereas in others, they are seen as challenges requiring responses. The latter approach can be a source of competitive advantage, especially if an organization is in a growing, dynamic industry. Another organizational factor that can affect employee job performance and potential turnover intentions is "organizational politics." This can include managerial favoritism, having to be involved in undesirable activities, taking credit for what others do, and other actions that occur in many departments and organizational settings.

A final factor affecting how employees view their organizations is the quality of organizational leadership. Evidence suggests that the degree to which supervisors treat employees fairly can have a significant impact on retention.[47] A study of first-time mothers found that breaches of family-based psychological contracts increased women's intentions to quit, but that supervisors' management of fairness could weaken this desire.[48]

Employee–Supervisor Relationships Work relationships that affect employee retention include *supervisory/management support* and *coworker relations*. A supervisor or manager builds positive relationships and aids retention by being fair and nondiscriminatory, allowing work flexibility and work–family balancing, giving feedback that recognizes employee efforts and performance, and supporting career planning and development. One study found that servant leadership as well as a climate that allows workers to share concerns about family could be used to improve identification with a company and the degree to which work enhances family roles,[49] factors that could also encourage retention.

Additionally, many individuals build close relationships with coworkers. Such work-related friendships do not appear on employee records, but these relationships can be an important signal that a workplace is positive. Various survey results show

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that the development of friendships may be an important consideration when managing worker retention, particularly among Millennials.[50] Overall, what this means is that it is not just *where* people work but also with *whom* they work that affects employee retention.

Job Security and Work–Life Balance Many individuals have experienced a decline in job security during the past decades. All the downsizings, layoffs, mergers and acquisitions, and organizational restructurings have affected employee commitment, loyalty, and retention. As coworkers encounter and cope with layoffs and job reductions, the anxiety levels of the remaining employees rise. Consequently, employees start thinking about leaving before they also get laid off. Companies that focus on job continuity and security tend to have higher retention rates.

Some jobs are considered "good" and others are thought to be "bad," but not all people agree on which jobs are which. As mentioned previously, the design of jobs and peoples' preferences can vary significantly. Job design factors that can impact retention include the following:

- A knowledge, skills, and abilities mismatch, either through overqualification or underqualification, can lead to turnover.
- Job accomplishments and workload demands that are dissatisfying or excessively stressful may impact performance and lead to turnover.
- Both timing of work schedules and geographic locations may contribute to burnout in some individuals but not others.
- The ability of employees to balance work and life requirements affects their job performance and retention.

Rewards The tangible rewards that people receive for working come in the form of pay, incentives, and benefits. Employees often cite better pay or benefits as the reason for leaving one employer for another. Employers do best with retention if they offer *competitive pay and benefits,* which means they must be close to what other employers are providing and what individuals believe to be consistent with their capabilities, experience, and performance. If compensation levels are not close to market, often defined as 10% to 15% of the market rate, turnover is often higher. Some companies also use retention bonuses to encourage employees to stay; flat dollar amounts that are given in lump-sum payments are the most common forms.[51]

Another reward is *employee recognition*, which can be both tangible and intangible. Tangible recognition comes in many forms, such as "employee of the month" plaques and certificates for perfect attendance. Intangible and psychological recognition includes feedback from managers and supervisors acknowledging extra effort and performance even if monetary rewards are not given. Other kinds of rewards include perks of different types—usually used to retain employees with skill sets in short supply. For examples, see the following "HR Perspective: Aspenware Uses Perks to Help Retention" feature.

Career Training and Development Many employees in all types of jobs consistently indicate that organizational efforts to aid their career training and development can significantly affect employee retention. *Opportunities for personal growth* lead the list of reasons individuals took their current jobs and why they stay there. Personal growth might include personal rebooting as well for software developers. A software firm developed a "paid, paid vacation." Employees get $7,500 extra pay to take their paid vacations. The only catch is that they must unplug and actually go on vacation. The company received 2,500 applications for eight positions since the

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HR PERSPECTIVE

Aspenware Uses Perks to Help Retention

Aspenware, a software developer in Denver, goes beyond free lunches and days off for skiing. It offers employees free time to pursue projects that have potential as a startup, subsidiary, or new line of business. Janet McIllece recently spent 10 to 20 hours per week for six months trying to find ways to explain complex data on the health of a stream to nontechnical audiences. Aspenware freed her to work on the project with her brother, a biologist with the U.S. Fish and Wildlife Service. They also paid for a three-day visit to Spokane for the project. Financing would have been available had the project turned into a business, with ownership stakes for McIllece. But that did not occur.

The market for software developers is very tight, forcing employers to devise ways to retain them. Some notable perks include pet-sitting services, in-house chefs, and a lifetime supply of Pabst Blue Ribbon beer. But the in-house incubation program at Aspenware goes beyond that, allowing employees to discover their entrepreneurial and creative nature. The company carves out time and provides financing for ideas that may lead to a new line of business or a spin-off start-up.

Aspenware's founder stated, "Any of our people can get a job anywhere given their talent. . . . There are lots of things we have to try to make sure this is an environment people want to be in."[52]

These words highlight how companies must provide the kinds of perks people want to improve employee retention. Based on these ideas, consider the following questions:

1. How would you evaluate Aspenware's use of perks to help improve retention? Is there anything you would do differently?
2. What other perks could be used to drive employee satisfaction and retention? Could these perks be offered in companies that are different from Aspenware?

"paid, paid vacation" idea went viral. The CEO says the perk was driven by competitive demand for software developers, but he had no idea the reaction would be so strong.

Training and development efforts can be designed to demonstrate an employer's commitment to keeping employees' knowledge, skills, and abilities current. Also, training and development can help underused employees attain new capabilities. Such programs have been used successfully in many different organizations such as Southwest Airlines, Hyatt Hotels and Resorts, and the U.S. armed forces.

Organizations address training and development in many ways. Tuition aid programs, typically offered as a benefit by many employers, allow employees to pursue additional educational and training opportunities. These programs may contribute to higher employee retention rates because the employees' new knowledge and capabilities can aid the employer. Also, through formal career planning efforts, employees and their managers discuss career opportunities in the organization and career development activities that will help them grow.

Career development and planning efforts can include formal mentoring programs. The efforts should also focus on providing professionals with the right opportunities that help advance their careers, opportunities like working in other areas of the firm or getting promoted.[53] For instance, IT organizations are using career development programs so that technology-savvy employees can expand their skills outside of technical areas. Programs in some firms focus on developing the competencies that employees need in managerial jobs.

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ETHICS

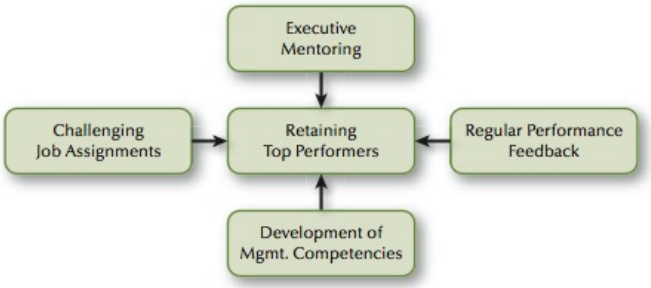
Employer Policies and Practices Other factors found to affect retention are employer policies. For instance, the reasonableness of HR policies, the fairness of disciplinary actions, and the means used to allocate work assignments and opportunities all affect employee retention. If individuals feel that policies are unreasonably restrictive, are unethical, or are applied inconsistently, they may be more likely to look at jobs offered by other employers.

The increasing demographic diversity of U.S. workplaces makes the *nondiscriminatory treatment* of employees important, regardless of gender, age, and other characteristics. The organizational commitment and job satisfaction of ethnically diverse individuals are affected by perceived discriminatory treatment. Many firms have recognized that proactive management of diversity issues affects individuals of all backgrounds. Companies should also consider the unique needs of diverse employees. For instance, employers can better retain Millennials by providing a more flexible workplace, as well as focusing on opportunities that allow the company to give back to various stakeholders.[54] The cultural diversity found in global workplaces also requires special consideration when developing retention policies. A study found that expatriates' retention was affected by adjustment to the new work environment and by being embedded in the workplace, which were in turn influenced by different demands and tactics. The implications of these findings is that HR professionals should provide language, cultural, and relationship training so that expatriate retention is improved.[55]

5-6c Retention of Top Performers

Organizations that cannot consistently retain their top performers have a less qualified workforce, and perhaps are understaffed as well. Consequently, HR professionals must develop creative ways to retain high-performing employees. Just as Figure 5-11 indicates, HR professionals can focus on providing work opportunities that position high-performers to move up in the company. These opportunities can include mentoring with executives, challenging job assignments, development opportunities that build managerial competencies, and regular performance feedback. Organizations should also consider using *rerecruiting* to enhance retention. Rerecruiting is a strategic HR approach that involves getting outstanding employees to further connect with employers by focusing on the opportunities that initially attracted them to the organization.[56] Such discussions can encourage high performers to commit to the organization in a long-term capacity.

FIGURE 5-11 Retaining Top Performers



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LO6 Summarize various ways to manage retention.

5-7 Managing Retention

The foregoing sections have summarized the results of many studies and popular HR practices to identify factors that can affect retention. Retention is important because turnover can cause poor performance in otherwise productive units. The focus now turns toward the keys to managing retention as part of effective HR management.

MEASURE

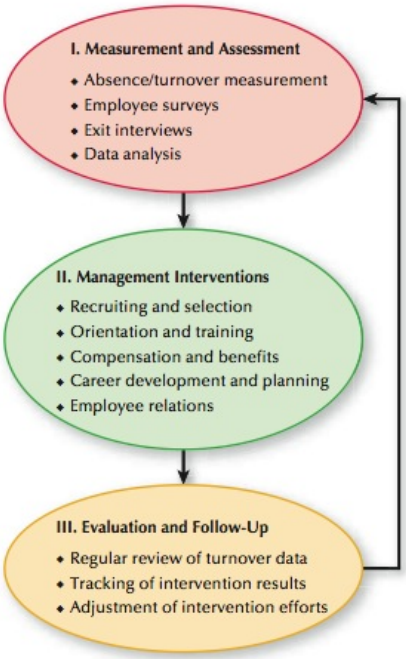
5-7a Retention Assessment and Metrics

Calculating both turnover and retention statistics provides a better picture of the movements of employees. The turnover formula was discussed previously. Retention rates can be calculated as the percentage of workers who remain in the firm from one point in time to another point in time.[57]

To ensure that appropriate actions are taken to enhance retention, management decisions require data and analyses rather than subjective impressions, anecdotes of selected individual situations, or panic reactions to the loss of key people. Examples of a process for managing retention are highlighted in Figure 5-12.

Analysis of turnover data is an attempt to get at the cause of retention problems. Managers should recognize that turnover is only a symptom of other factors that may be causing problems. When the causes are treated, the symptoms may be eliminated. Some of the first areas to consider when analyzing data about retention include the work, pay and benefits, supervision, occupations, departments, and demographics of

FIGURE 5-12 Process for Managing Retention



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those leaving and those who stay. Common methods of obtaining useful perspectives are employee surveys, exit interviews, and first-year turnover evaluations.

Employee Surveys As previously mentioned in this chapter, employee surveys can be used to diagnose specific problem areas, identify employee needs or preferences, and reveal areas in which HR activities are well received or viewed negatively. Considering that morale does not necessarily equate to positive employee retention, companies can use surveys to evaluate the attitudes of employees so that the proper steps can be taken to keep workers satisfied.[58] Whether the surveys cover general employee attitudes, job satisfaction, or specific issues, the survey results must be examined as part of retention measurement efforts. For example, a growing number of "mini-surveys" on specific topics are being sent via email questionnaires, blogs, and other means.

Regardless of the topics in a survey, employee input provides data on the "retention climate" in an organization. By obtaining data on how employees view their jobs, their coworkers, their supervisors, and organizational policies and practices, these surveys can be starting points for reducing turnover and increasing the length of time that employees are retained. Some employers conduct attitude surveys annually, while others do so intermittently.

By asking employees to respond candidly to an attitude survey, management builds employees' expectations that actions will be taken on the concerns identified. Therefore, a crucial part of conducting an attitude survey is providing feedback to those who participated in it. It is especially important that even negative survey results be communicated to avoid fostering the appearance of hiding the results or placing blame. Also, leaders should develop actions plans for how results can be used in a strategic manner to positively change how organizations function.[59]

Exit Interviews One widely used means for assisting retention assessment efforts is the exit interview, in which individuals who are leaving the organization are asked to explain their reasons. Exit interviews can also be used to identify the types of "shocks" (or serious events) that may have encouraged employees to quit an organization.[60] HR must regularly summarize and analyze the data by category (e.g., reasons for leaving, department, length of service) to provide managers and supervisors with information for improving company efforts.[61] As described in the following "HR Competencies & Applications: Conducting Exit Interviews" feature, the exit interview process should include certain elements. Some HR departments contact former employees who were valuable contributors, as they may be willing to provide more information on email questionnaires or in telephone conversations conducted some time after they have left the organization.

Exit interview
An interview in which individuals who are leaving an organization are asked to explain their reasons

First-Year Turnover Evaluations A special type of retention assessment focuses on first-year employees. It is not unusual for turnover to be high among employees during their first year. Sometimes, the cause of departure is voluntary; for example, individuals may identify a mismatch between what they expected in their jobs and managers and what actually occurs, or between their perceptions of the new job and its reality. Other times, individuals are involuntarily removed for poor performance in the first year. Some causes can be excessive absenteeism and mismatches with job requirements, or conflicts with other employees and managers. If these situations occur too often, HR may need to reevaluate recruiting and selection processes, as well as its job previews to make sure they are realistic.

Overall, focus on first-year retention and turnover is useful because individuals who stay for a year are more likely to extend their employment and have greater retention beyond the first year. Also, effective first-year efforts may lead to future career development, higher performance, and other positive retention factors.

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COMPETENCIES & APPLICATIONS

Conducting Exit Interviews

Departing employees may be reluctant to divulge their real reasons for leaving. A skilled HR interviewer may be able to gain useful information that departing employees do not wish to share with managers and supervisors. The following suggestions may be useful when conducting exit interviews:

- Decide who will conduct the exit interview and when the discussion will occur. These interviews can occur on the last day or so of a departing individual's employment, but it might be better to conduct them a few days before because an employee will be less distracted by the upcoming change.
- Emphasize that the information provided by the departing employee will be treated confidentially and used to make improvements.
- Utilize a checklist or a set of standard questions so that the information can be summarized. Typical areas covered include reasons for leaving, supervision, pay, training, liked and disliked aspects of the job, and details on the organization to which the employee is moving.

When doing the actual exit interview, numerous questions can be asked. Those typically asked include the following:

[Q]: Why are you leaving?
[Q]: What have you liked and disliked about your job and managers?
[Q]: What company actions have made you and other employees more or less positive?
[Q]: What would or would not lead you to recommend this employer to future possible hires?
[Q]: Did you receive adequate training and support? Please explain.
[Q]: Did the job match your expectations when you were hired? If not, what failed to meet your expectations?
[Q]: What was frustrating about working here?
[Q]: What suggestions do you have to improve working conditions?
[Q]: Do you believe that any decisions or actions regarding your employment were discriminatory or unfair? Please explain.

Based on these suggestions, consider the following questions:

1. How would you conduct useful exit interviews?
2. What of kinds of questions would you ask?

KEY COMPETENCIES: Communication (Behavioral Competency) and Organization (Technical Competency)

5-7b Retention Evaluation and Follow-Up

Management can take numerous actions to deal with retention issues. The choice of a particular action depends on the analysis of the turnover and retention problems in a particular organization and should be custom-tailored for that organization.

Tracking of intervention results and *adjustment of intervention efforts* should be part of retention evaluation and follow-up. Some firms use pilot programs to see how changes affect retention before extending them to the entire organization. For instance, to test the effect of flextime scheduling on employee turnover, a firm might try flexible scheduling in one department. If the turnover rate in that department drops in comparison to the turnover rates in other departments still working with set schedules, the firm might extend the use of flexible scheduling to other departments.

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SUMMARY

- Individual performance is captured by the formula:
  performance = ability × effort × support.
- Motivation is explained by many theories—some of the most commonly used are needs theory, two-factor theory, equity theory, and expectancy theory.
- Psychological contracts are unwritten expectations that employees and employers have about the nature of their work relationships.
- The interaction between individuals and their jobs affects both job satisfaction and organizational commitment. The extent to which employees feel linked to organizational success can affect employee engagement and loyalty.
- Employee engagement is the extent to which an employee's thoughts and behaviors are focused on the employer's success.
- Loyalty to an employer depends on the employee's perception that the employer is loyal in return.
- Absenteeism and tardiness are related, and both require analysis and management.
- Absenteeism has both direct and indirect costs that add up to an expensive problem.
- Getting accurate measures on absenteeism is the beginning of solving the problem.
- Turnover occurs when employees leave an organization and must be replaced. It can be classified in many ways, but it should be measured and its costs determined.
- There is an optimum level of turnover that is likely *not* zero.
- Drivers of retention include organizational, managerial, and job factors that may affect employees' work–life balance, compensation and other rewards, career training and development, and employer policies and practices.
- Retention of employees is a major focus of HR management efforts in organizations.
- Retention is assisted by the use of retention measures, including employee surveys and exit interviews.
- Managing retention should include evaluation and tracking of both retention actions and turnover follow-up.

CRITICAL THINKING CHALLENGES

1. Describe your expectations for a job. How well does your employer meet the expectations you hold about the psychological contract?
2. If you became the new manager at a restaurant with high employee turnover, what actions would you take to increase retention of employees?
3. As the HR Manager, you must provide the senior management team with turnover costs for the following high-turnover position. Use websites such as www.talentkeepers.com and www.keepemployees.com, to calculate turnover and analyze the variables involved. Also identify any other data that might be relevant and then discuss how you would reduce the turnover.

   Position: Machine operator

   Number of employees: 250

   Number of turnovers: 85

   Average wage: $11.50/hour

   Cost of benefits: 35% of payroll
4. Your company has reaped the benefits of having long-term, tenured employees, but many of them are now approaching retirement. It is anticipated that approximately 20% of the company's workforce will retire in the next three to five years. In reviewing the remaining workforce through HR planning efforts, you have become aware of work–life balance issues that need to be reviewed and addressed. The company president has requested that you prepare a retention plan outlining these issues as well as ways to address them. Resources to help you address the issues in the retention plan can be found at www.workfamily.com.

   A. What steps will you take to identify key priorities in the work–life balance issues?
   B. How will you present a business case to gain management support for addressing those issues to help retain existing workers and to fill the positions vacated by retiring employees?

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CASE Carolina Biological Uses Survey to Assess Worker Engagement

Carolina Biological Supply, a Burlington, North Carolina provider of science and math educational products, uses a survey platform called Net Promoter System to track customers' impressions of the service provided by the company. However, the system has also enabled Carolina Biological Supply to assess the degree to which employees are engaged with workplace processes and activities. According to Katina Richmond, PHR, the information provided by the survey enables company leaders to identify key challenges associated with certain positions and work areas, which helps them develop useful solutions to problems. The instrument is anonymous and does not use the typical items and rating scales that are found on many other surveys. Even more importantly, it takes only about five minutes to answer the survey, which has driven the response rate up to around 80%.

The Net Promoter System is anchored by the question, "How likely would you be to recommend this company to a friend or family member?" Customer responses are provided on a 10-point scale, and individuals are placed into one of three groups: Promoters score a 9 to 10, Passives score a 7 to 8, and Detractors score a 0 to 6. The overall classifications enable companies to develop what are called Net Promoter Scores. HR professionals can use a variation of this question to evaluate employee engagement. The question is, "How likely would you be to recommend working at this company to a friend or family member?" There are other questions that can be used to measure both customer and employee satisfaction with a particular company. Survey participants can also provide written comments that provide richer data that can be analyzed.

Katina Richmond supervises the survey policy at Carolina Biological, including coordinating some of the administration, developing time lines, designing the survey, and communicating the purpose and expectations. This shows that it is typical for HR professionals to be highly engaged in the survey process, despite the involvement of a third-party provider. HR is also involved in developing plans that address any challenges highlighted in the survey data. A program called Carolina Cash was developed to reward employees for providing excellent ideas that benefit the organization.[62]

QUESTIONS

1. Since surveys can be important tools for obtaining employee feedback, how can HR professionals use them more effectively? What else could Carolina Biological do to get useful feedback from its employees?
2. What is your opinion of the Net Promoter System? What do you think are the advantages associated with this survey system? What are the potential disadvantages?

SUPPLEMENTAL CASES

The Clothing Store

This case describes one firm's approach to improving employee retention. (For the case, go to http://www.cengage.com/management/mathis.)

Accenture: Retaining for Itself

This case describes what a large consulting company does to help retain a virtual workforce. (For the case, go to http://www.cengage.com/management/mathis.)

Alegent Health

This case discusses how Alegent, a large nonprofit health care system, improved employee retention and reduced turnover. (For the case, go to http://www.cengage.com/management/mathis.)

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