

## "Four Keys To Employee Retention – True Total Rewards"



### The Turnover Issue

"I'm moving on." That phrase is heard in businesses throughout the country every day. It is uttered when an employee has determined that the total value proposition being offered by his employer is not compelling enough to keep him with the organization. Unfortunately, employee turnover carries a heavy price tag. The average cost of replacing someone in your organization is 29% of their annual salary if they are a non-manager and 46% if they are a manager. And those replacement costs do not generally vary based on company size, revenue or public/private status.

It is certainly no secret that turnover is costly. The question is, therefore what? How does a company effectively stem the tide of turnover and do so in a way that creates happy, productive, contributing employees?

Why does any of this matter? Because long-term retention of committed, talented personnel means higher productivity – it's as simple as that.

### Reasons People Leave

In order to accept the "4 Keys to Retention," we should first understand the "4 Reasons People Leave." Although there are exceptions – the reasons that most employees leave can usually be attributed to one or more of the following responses:

1. "I'm not sure there's a future here for me."
2. "I just don't feel like this is the right place for me."
3. "I'm not sure I want to be doing this for the rest of my life."
4. "I think I can make more money elsewhere."

### The 4 Keys

With an understanding of the reasons people leave an organization, we can easily pivot to those areas of an organization's value proposition that need to be addressed if retention is going to be

achieved. The combined, effective application of these keys is essential to creating and sustaining a culture that is not copyable – which is critical to maintaining a competitive advantage in the market place.

For purposes of this discussion, we will define the "4 Keys to Retention" as follows:

1. **Compelling Future** – This means that employees perceive that the company is "going somewhere," it has ambitious but achievable goals for growth AND they (the employees) see themselves playing an integral role in that future.
2. **Positive Work Environment** – This key means that employees like the nature of the work they do as well as the team of people they work with, they feel there is enough support and communication to accomplish their role in the organization and there is a fit between the values of the organization and their personal values.
3. **Opportunities for Personal and Professional Growth** – Here we mean that individual employees feel as though their distinctive talents and abilities will not only be used in the organization, but will be enhanced and strengthened in a way that leads to expanded roles, responsibilities and opportunities. This implies not only that there is somewhere to go, but that the company knows how to get the most out of its people.
4. **Financial Rewards** – The meaning of this key is perhaps the most obvious. With this issue, employees want to know that if they achieve the expectations the organization has of them, they will be rewarded in a way that fulfills their current and future financial needs and goals.

In examining those four categories, it is easy to see that if any one of them is weak, the company's likelihood of retention is diminished.

As an exercise in this regard, you may want to determine what combination of these 4 keys is the reason YOUR key employees have joined your organization and remain there. To accomplish this, consider allocating a total of 100 points between the categories above for each of your key people. How would you "weight" the reason each of them came into your company and why they stay there?

As we have our clients complete this exercise in the context of a diagnostic process with which we help them, we often find large discrepancies between how employers allocate the (aforementioned) points for their key people versus how those same individuals weight each category for themselves. This is one of the reasons turnover is so high. Perception (employer) and reality (employee) seldom correspond.

## The Role of Compensation and Benefits

Certainly, all of the issues summarized under the 4 Keys above can not be addressed solely with compensation and benefits – no matter how effective they might be. However, that isn't the issue. The issue is whether compensation and benefits help to reinforce the vision, strategy, roles and expectations of the organization and its workforce. Compensation and benefits primarily deal with the Financial Rewards key mentioned earlier – however, their reach is really much broader than that.

Compensation is a tool for reinforcing vision, acknowledging and rewarding unique abilities and contributions, enhancing team or unit or company cohesion, cooperation and productivity and meeting the cash, security and wealth building needs of employees. And each of those issues are right in the "sweet spot" of the Total Rewards elements defined by the Four Keys summarized above.

As it relates to those the cash, security and wealth building elements of compensation, an organization should think in terms of eight potential components of a compensation "pie" that should be considered as part of the total financial rewards offering. These would include:

- Salary
- Short-Term Cash Incentives
- Long-Term Cash Awards
- Equity Awards
- Core Health and Welfare Plans
- Executive Benefit Plans
- Qualified Retirement Plans
- Non-Qualified Retirement Plans

Each of these components plays a different role in helping companies meet the cash, security and wealth building objectives and expectations of employees. (Each also has a different emphasis and "weighting" depending on the growth goals of the company and the focus required of especially the key people in the business.) You might think of these compensation and benefit elements being allocated among three categories relative to the needs of your employees. Once you make that allocation, you may want to determine which elements are most lacking in your organization's value proposition.

#### Cash Needs

- Salary
- Short-Term Cash Incentives

#### Security Needs

- Core Health and Welfare Plans
- Executive Benefit Plans

#### Wealth Accumulation Needs

- Long-Term Cash Awards
- Equity or Phantom Equity Awards
- Qualified Retirement Plans
- Non-Qualified Retirement Plans

## **Total Economic Value Proposition**

When looking at compensation and benefits within an organization, we are really examining a subset of a "Total Rewards" value proposition that must be effectively developed if retention and

sustained productivity are to be achieved. We might best call and define this as the Total Economic Value Proposition of the company. This issue is key in a retention effort. To know how your organization is doing in this regard, you should ask yourself the following questions:

- Is our total rewards package designed to appeal to the type of people we need attract and retain?
- Will it focus those people on our key desired results?
- Is the value of our package sufficient to drive behavior that is challenging?
- Does the (compensation) package properly reward people for long-term results (thereby keeping them focused on those goals and not just short-term goals)?
- Do we have long-term plans that result in "think about it" forfeitures that assist in retention?

At the core of your Total Economic Value Statement there must be a fundamental philosophy that guides what you do and the decisions you will make. That philosophy could be articulated as follows (as an example):

Fair salaries, strong benefits, great upside for short and long-term growth and profitability

A business addresses this issue because of three defining questions its employees will ask themselves about the company's Total Economic Value Proposition

- Does it meet my cash flow needs?
- Does it provide the level of security I desire?
- Does it offer a meaningful long-term wealth accumulation opportunity?

## **Communication, Communication, Communication**

Is it possible to apply all 4 Keys of a Total Rewards Value Proposition "in spades" and still fail to retain key people? Absolutely. In fact, attrition will be inevitable even in that scenario if you fail to do the following:

- Failure to effectively and consistently communicate the company's vision of the future
- Failure to communicate the opportunities for growth
- Failure to communicate the total rewards proposition

Great companies not only develop a compelling value proposition for their employees. They reinforce and communicate it on a number of different levels – and they do so consistently, cohesively, coherently and compellingly.

## In Conclusion

Retention of key employees is not a complicated issue – just a neglected one. Once a company realizes the range of factors that have to be planned, initiated, managed and reinforced, they can organize an effective effort to build a compelling value proposition. Doing so is worth the investment of time, focus and energy. To do otherwise is to perpetuate an outcome that can be costly and drain the company of its highest potential for growth and productivity – it's people.

VisionLink is a national compensation consulting firm focused on helping companies envision, create and sustain compensation strategies that will be key drivers of results and increase the productivity of employees.



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