A Strategic Approach to Employee Retention

BY JOHN GERING AND JOHN CONNER, PhD, MA

In September 2000, Paul Rutledge, president, MidAmerica Division of HCA, Nashville, Tennessee, initiated action to become the employer of choice. Previous tactical programs to retain employees had proven to be ineffective. Turnover rates averaged 30 percent, and the average tenure of employees who left was about two years. Across the company, 20 percent of departing employees had tenure of 90 days, and 70 percent of departing employees had tenure of six months or less. The cost to replace staff continued to rise, and the number of qualified replacement candidates continued to decline.

MidAmerica implemented a comprehensive, mission-oriented employee-retention strategy that included a business plan, a value proposition, progress measures, and management influences designed to secure sustainable employee-retention gains.

MidAmerica established a long-term target of meeting the national healthcare turnover rate, which was 19.2 percent at the time compared with the division’s turnover rate of 30 percent. A year after implementing the retention strategy, MidAmerica improved its employee-retention rate by 42.3 percent and employee-retention cost by 26.7 percent.

The Importance of Retention

Retaining good workers is critical to the U.S. healthcare industry. Literature and best practices indicate that if employers treat their employees as valued contributors, the employees will stay. To this end, companies train, their managers, offer competitive compensation plans, and increase benefits to secure their employees’ loyalty. Despite these efforts, many healthcare organizations experience a shortage of employees and high turnover rates.

Healthcare organizations expend considerable effort in marketing their facilities to patients and physicians. The same type of effort should be directed at attracting and retaining employees. To attract the best talent, an organization needs to be viewed as the “best place to work.” A high employee-retention rate implies that the organization is the employer of choice.

A retention strategy should specify a quantified problem and measurable objectives. Good managers use a process approach to solving problems. To achieve worthwhile results, recruiting and retaining good employees should be treated the same way. A retention strategy should include a business plan, a value proposition, progress measures, and management influences.

Business Plan

The first step in developing a retention strategy is to create a business plan. The purpose of the plan is to help managers understand the cost and consequences of employee turnover, indicate whether a retention problem exists, and, if so, determine whether the cost of resolving the problem outweighs the turnover cost.

Calculating the cost of turnover is necessary, although difficult to pinpoint, because actual costs are not shown in financial reports. Many consulting firms have calculated the cost of turnover, but to gain agreement from all the parties involved, MidAmerica used a conservative formula: 50 percent of the annual salary and benefits for exempt employees or 35 percent for nonexempt employees. HCA’s corporate leadership later established a cost of 100 percent of annual salary and benefits as the standard business-plan guide.

FOCUS AREA

BUSINESS

ISSUES AND ACTIONS

A sound retention strategy should incorporate a business plan, a value proposition, progress measures, and management influences.

- The business plan will indicate whether a healthcare organization will achieve a return on investment for its effort.
- A value proposition will showcase an organization’s strengths and differentiate it from its competitors.
- Measuring progress toward meeting retention goals at regular intervals will help keep an organization on track.
- The best managers require accountability, rewarding employees for their successes and taking corrective action as necessary.
- Retention rate targets must be at a level that will achieve a competitive advantage in the served market.

HEALTHCARE FINANCIAL MANAGEMENT

NOVEMBER 2002

40
Employee Retention

Many factors contribute to this cost (e.g., contract labor, PRN, and overtime). These factors inevitably occur while a position is unfilled. H*Works determined that 79 percent of the cost of nursing turnover is productivity-related.a Employees who are planning to leave become less productive, and new employees require time to reach optimum productivity. The productivity of other employees may decline as they spend time training and serving as a resource for the new team member. Part-time replacement personnel typically are not as productive as full-time, tenured employees. In some cases, quality of work could be affected during the transition.

Retention costs also include search-firm fees, training, severance, sign-on bonuses, recruitment and interview time, and legal costs.

The financial impact of turnover on revenues should be evaluated. For example, if physicians routinely see the same staff members and have confidence in their ability, physicians likely will continue to send patients to the institution. High turnover, on the other hand, may lead physicians to direct patients to competing institutions.

The financial impact of turnover on market share also should be calculated. For example, if a healthcare organization has annual revenues of $300 million and a 30 percent market share, each market-share point is worth $10 million. If employee turnover could cause physicians to send patients to competing hospitals, the business plan must reflect the financial consequences.

After turnover costs have been determined, the financial benefits of reducing these costs become apparent. Furthermore, reducing high employee turnover can improve patient care. Long-term employees gain considerable experience in patient care. The longer employees remain with an organization, the greater the potential benefit to patients.

Because employees want their personal and practical needs to be met, employers need to offer the compensation, benefits, and scheduling that employees desire.

Next, the cost of implementing a retention strategy must be determined. These costs include items such as compensation, management development, and marketing communications.

Compensation. Competitive compensation packages are imperative. Employers must know how the compensation they offer for critical positions compares with compensation for similar positions at other organizations in the served market. If a healthcare organization is perceived to be a great place to work in terms of such factors as training, resources, technology, work environment, staffing, and scheduling, the organization may be able to pay less than its competitors do (within an acceptable range).

If competitors are viewed more favorably as an employer, on the

---

12 Questions to Measure Employee Satisfaction

1. Do I know what is expected of me at work?
2. Do I have the materials and equipment I need to do my work right?
3. At work, do I have the opportunity to do what I do best every day?
4. In the last seven days, have I received recognition or praise for doing good work?
5. Does my supervisor, or someone at work, seem to care about me as a person?
6. Is there someone at work who encourages my development?
7. At work, do my opinions seem to count?
8. Does the mission/purpose of my company make me feel my job is important?
9. Are my coworkers committed to doing quality work?
10. Do I have a best friend at work?
11. In the last six months, has someone at work talked to me about my progress?
12. This last year, have I had opportunities at work to learn and grow?


---

Employee Retention

other hand, the organization will need to use compensation as its leverage. However, any retention strategy based solely on compensation will not succeed in the long run. A successful strategy combines market-rate compensation and a work environment that is competitively distinctive.

Management development. Exit interviews have shown that many employees harbor negative feelings about their managers' abilities. Consequently, management development is essential to an effective retention strategy. Management training not only should focus on skills such as coaching, delegating, and communicating, but also should prepare managers to meet and be accountable for specified standards of performance. Training costs can be determined by capturing the cost of curriculum and materials, printing, instructors, facilities, time away from job (and possible back-up requirements), and travel.

Marketing communications. Organizations must make their employees feel valued to earn their loyalty to the organization. One effective tool for this purpose is marketing communications, which can be used to inform employees of the organization's vision, direction, and guiding principles. Effective organizations use marketing communications to tell employees whether the organization is meeting its goals and, if not, what needs to be done to get back on track. Marketing communications costs involve such factors as creation time; execution elements, such as web site, print, direct mail, posters, and focus groups; and recognition efforts.

Once turnover and remedy costs have been validated, return on investment can be computed for varying levels of turnover. Conservative short- and long-term goals can be established to measure the effectiveness of the strategy.

Value Proposition

A value proposition puts forward the organization's strengths. It identifies the needs that the organization can satisfy and how the organization differs from its competition. To help pinpoint its unique competitive characteristics, the organization can conduct employee focus groups and/or review exit-interview data to determine employees' initial perceived attraction to the organization and whether this perception proved true.

Exhibit 1 shows results of one study that demonstrates the relationship between specific satisfaction factors and retention. If needs such as those shown in Exhibit 1 are met, employees will want to stay with their current employer; if the needs are not met, employees will look elsewhere.

To reduce turnover, managers must show a genuine interest in their employees' development and success. Employees want to feel that their contributions are important and want employers to demonstrate their commitment to stated corporate values. In addition to their technical skills, employees want to be appreciated for their work ethic, working well with customers and coworkers, and performing high-quality work.

Development programs prepare employees to perform their jobs satisfactorily and be accountable for their job performance. Employees need to be rewarded for their achievements and provided an opportunity for advancement.
Employee Retention

The Hay Group reported that more than half of the employees surveyed said they believe their companies routinely tolerate poor performance.\(^b\)

The best employees would rather assume more responsibility than work with those who care little about the company, customers, and others. The best employees want to win, and winners want to work with winners.

IHC determined through exit interviews that people joined the company because they sought good career opportunities. Ironically, one of the top reasons they left was for "better career opportunity" along with manager/supervisor issues.

An effective retention strategy rests on a combination of factors. Employees want their personal and practical needs to be met: personal needs such as compensation, benefits, and scheduling; practical needs such as development, resources, tools, and technology. They also want to feel valued by the organization. Therefore, these imperatives become the foundation of the value proposition, as evidenced by the organization's vision, mission, values, and strategies.

Progress Measures and Management Influences

Progress toward meeting retention goals should be measured regularly. One tool for such measurement is the Gallup Organization's 12 questions to measure employee satisfaction (see sidebar, page 41). After surveying hundreds of thousands of employees across numerous industries, Gallup has been able to accurately correlate responses to the questions and the predictability of these questions predictably perform very well, while low scores confirm poor performers.

Other indicators of employee retention also should be tracked and reviewed. Indicators of the long-term success of a healthcare organization's retention strategy include:

---

Employee Retention

- Low absenteeism and tardiness;
- Recruitment of friends to work for
- In addition, organizations

In addition, organizations can increase retention by using effective performance management. Performance management should clearly communicate expectations and motivate and develop employees.

Conclusion

Taking a strategic approach to employee retention, the best managers:

- Plan and expect an acceptable return on investment;
- Provide compelling reasons for employees to be a part of the organization;
- Satisfy the personal and practical needs of employees;
- Demonstrate the value of each employee;
- Execute management processes that provide daily engagement and advancement for employees;
- Provide focused reward and recognition; and
- Act on unacceptable performance, dealing equally with technical and behavioral deficiencies.

Organizations may achieve short-term success with quick fixes, but only a strategic approach will achieve long-term, sustainable, marketable success. The goal is a culture change to sustain and grow the organization's business.

John Gering is a partner, Conner & Gering Associates, Brentwood, Tennessee.

John Conner, PhD, MA, is a partner, Conner & Gering Associates, Brentwood, Tennessee.

Questions or comments regarding this article may be sent to John Gering at john.gering@cgaa.biz.

Health Care Financial Services
A division of Team Health
www.teamhealth.com

Ft. Lauderdale / Knoxville / Akron / Tampa / Jacksonville / Livermore