

The Race for Talent: Retaining and Engaging Workers in the 21st Century

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As the 21st Century unfolds, major changes are beginning to occur in today's workplace. A growing awareness of unavoidable demographics is creating a greater urgency for HR professionals everywhere to focus more attention and energy on retaining talented employees and keeping them actively engaged in their work. New strategies are emerging that go well beyond traditional solutions, holding much promise in the effort to keep and engage well-performing employees.

Employee retention is king. And employee engagement is not far behind. CEOs of the nation's fastest growing companies overwhelmingly cite retention of key workers as the most critical factor to plan for in the next year ahead (PricewaterhouseCoopers, 2004). Similarly, the number one priority on the HR agenda is still to attract and retain key talent (Towers Perrin, 2004). Or, said differently, among all the factors that could influence the effectiveness of organizations in the future, the foremost driver is talent (Buckingham & Vosburgh, 2001).

What about the jobless recovery? It may not be here much longer. Research from Manpower shows that, at least in the short term, job growth is anticipated in 18 of 19 surveyed countries (Manpower, 2004). In the United States, while job-creation remains below expectations partly as a result of continued layoffs, the economy added approximately 1.03 million jobs in the first half of 2004. (U.S. Bureau of Labor Statistics, 2004b)

The issue of the jobless recovery is minor, compared to what is about to come. Take this statement (Webber, 2004) from Alan Webber, founding editor of *Fast Company* magazine:

This beneath-the-surface issue isn't jobs. It's work. Specifically, it's the growing recognition by workers that corporate leaders have so abused them during the recent recession, that when a job-producing recovery really kicks in, as appears to be happening, companies will suffer a tsunami-like wave of employee defection. The disruption will be enormous; the costs astronomical. And the signs are already there that foreshadow just how serious the problem could become.

This is echoed by the national (U.S.) 2003 Spherion Emerging Workforce Study: "Our study reveals ...workforce that is poised to walk out on employers at the first opportunity." The problem is about to become world-wide, if it hasn't already. India, for example, which has garnered considerable attention in recent years as a center for outsourcing, is starting to experience significant increases in turnover and accompanying costs (Scheiber, 2004).

Employee engagement is joined at the hip with employee retention. A lack of engagement

has serious consequences for the economy. For example, in the United Kingdom, the cost of disengagement is calculated to be in the billions of pounds. The U.S. economy is estimated to run at only about 30 percent efficiency because of a lack of engagement (Bates, 2004).

This article provides an overview of both employee retention and engagement, what has caused the present state of events, solutions both traditional and innovative for improving retention and engagement, recent research, what the future portends, and what we must do as HR professionals to combat turnover and disengagement.

Employee Retention and Turnover: An Overview

Employee retention can be defined as the effort by an employer to keep desirable workers in order to meet business objectives. Turnover, on the other hand, is most often used to describe the unplanned loss of workers who voluntarily leave and whom employers would prefer to keep. In statistical terms, measuring employee turnover is comparatively straightforward and is tracked by most organizations. In a 2004 study of 351 companies representing a wide range of sizes and industries, 87 percent reported that they track turnover at the overall organizational level and 54 percent monitor turnover at the leader level (TalentKeepers Research Report, 2004).

Companies initiate "involuntary turnover" of employees who are poor performers, violate company policies, participate in illegal activities, and the like, but it is the unplanned, voluntary turnover that companies strive to control. Unplanned, voluntary turnover is most often associated with high labor costs, defeat of skills and company knowledge, low morale, poor customer satisfaction, and financial losses (Hay Group, 2001). Planned, involuntary terminations such as layoffs in response to shifting strategies or business conditions are considered to be appropriate and necessary management practices and are generally not considered part of an organization's effort to control unwanted turnover; however, these moves have doubtless had a direct impact on

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an organization's culture and morale and contribute further to the unplanned exit of talented employees.

The financial model of some businesses requires a baseline of turnover that is considerably above zero for financial objectives to be realized. In the food services industry, for example, if too many of the hourly employees are above the minimum hourly wage, the organization is less likely to be profitable. Thus some level of turnover is expected and desired to maintain the "average" wage that is critical to meet the organization's financial goals. Conversely, it is critical to manage effectively the turnover rate of the workers in the hourly crew who are so experienced and competent that the organization cannot afford to lose them. In other words, the organization must endeavor to retain its top performers.

A particularly vexing aspect of employee turnover is job abandonment. Often referred to as "no-call/no-show," policies vary widely on what constitutes job abandonment. State of New York employees can be absent without notice or contact for up to 15 days before the job is considered abandoned. The Nebraska Health and Human Services System, on the other hand, allows just 24 hours. Among many HR and legal experts, there is growing consensus about the "three-day rule." If there is no contact for a three-day period, the job is considered abandoned (Erase-Blunt, 2001). Regardless of the actual operational definition of job abandonment, clearly this aspect of turnover is particularly disruptive, as having team members just not show up impairs the effectiveness of the team, leader, and organization.

Talent and Labor Crisis

Of paramount importance when discussing turnover is the coming talent and labor crisis. An extensive review was provided by Frank and Taylor (2004). Some of the more critical information cited by Frank and Taylor is highlighted here along with additional information from government, business, academic, and popular press sources.

While the last few years of a down economy might suggest that turnover has not been a problem, this has not been the case. From September

2002 through August 2003, a period best characterized as a downswing in the economy, annual turnover for the United States as a whole, across all jobs, was 19.2 percent (U. S. Department of Labor, Bureau of Labor Statistics, 2003). This is true globally as well; for example, Latin American employers during the slow economy of 2002 had a difficult time retaining workers (Watson Wyatt, 2002).

Today, a confluence of forces makes the retention problem critically important. The major force is the labor and talent shortages. The Bureau of Labor Statistics projects a labor shortage of 10 million workers in 2008 (U.S. Department of Labor, Bureau of Labor Statistics, 2003). As *The New York Times* reports in its October 12, 2003, issue, "conditions in the late 90's may have been a reflection of job markets to come. And they are coming very quickly" (Brock, 2003).

Data provided by The Rand Corporation show that the growth of the U.S. labor force has been slowing down over the past 20 years (Karoly & Panis, 2004). This along with shifts in age characteristics of the workforce presents significant challenges to the United States. A major factor is that the big baby-boom generation is starting to retire. According to childstats.gov, in 1964 the percentage of children in the population under the age of 18 was 36 percent. By 1999, that number dropped to 26 percent of the population and will continue to fall until at least 2020. At the other

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Brock (2003)

end of the population curve, as boomers age, the share of the population aged 65 or older is projected to increase from 12 percent in 2000 to about 20 percent in 2030 (U.S. Census, 2000). "There simply aren't enough workers behind the boomers in the labor supply pipeline to fill their jobs" (Brock, 2003). And the labor shortage will be here soon, if it is not here already. By 2005, the impact of the shortage will be very apparent, as there will not be enough labor available to meet the needs of the economy (Kaihla, 2003).

The impact will be felt globally as well. Labor shortages in every industrial country will hamper economic growth (Hewitt, 2002). On a global scale, "the major social crises of the twenty-first century will be the byproduct of labor shortages" (Hewitt, 2001). To maintain current workforce levels, each woman in Europe needs to average

2.1 children; currently that average is 1.2 (Whiteford, 2004). China's baby boomers are producing children significantly below the rate necessary to maintain the country's population; the rate required is 2.1 children per mother compared to the actual rate of 1.3 to 1.8 children (Kahn, 2004). In just 10 years, the working population in China will begin to shrink (Jackson & Howe, 2004). By 2006, more workers will retire in France than will enter its workforce. Germany, in particular, will feel the impact of labor shortages. The demographics in Germany are stunning. By 2028, 71 percent of Germans will be retirees (Sadin, 2003). In India today, the situation is somewhat different. There are currently no shortages of either jobs or qualified people. Yet the fact there are so many opportunities and so many people results in higher turnover as individuals "shop" their skills for incrementally higher pay. (Over time, this may adjust itself because the key to the job growth in India has been the lower cost of labor. As that labor becomes more expensive, the number of jobs created may lessen, reducing the amount of turnover.)

Looking at specifically the talent shortage, e.g., in skilled workers, the shortage will even be more pronounced. And globalization of the workforce is leading to a greater need to compete effectively against competitors in the battle for talent (Grantham, 2003; Patel, 2002).

As the economy improves, there are indications that employees will be leaving in droves. "It appears every man, woman and child is ready to quit their current job at the first opportunity" (Sullivan, 2003). Sibson predicts employee turnover in U.S. companies will *double* as the economy recovers (Raphael, 2003). More dire is a 2003 Society for Human Resource Management and *Wall Street Journal* Job Recovery Study wherein 83 percent of employees surveyed said they were likely to seek new employment actively once the job market and economy improved. This is buttressed by the Conference Board survey (2003) that found that employee discontent is the highest since the survey began in 1995. Said differently, "The minute the labor market rebounds, they're gone — just at the time we're entering this period of labor shortage" (Kaihla, 2003).

In summary, the demographic time bomb fueled by aging baby boomers is not a guess—it is an actuarial fact. Any kind of demographic

projection with respect to people who have already been born is notoriously accurate. As former U.S. Treasury Secretary and Harvard professor Larry Summers has said, these projections are "all but inevitable" (Kaihla, 2003).

What makes the issue of turnover so serious is that the costs of turnover are significant and far-reaching. Much more than the past, these costs are being quantified. For example:

1. Turnover costs the U.S. economy an estimated \$5 trillion annually (*Journal of Business Strategy*, 2003).
2. Turnover results in reduced earnings and stock prices; these have been documented to decrease by an average of 38 percent as a result of employee turnover (Sibson, 2000).
3. Not only does retention reduce turnover costs and increase productivity, it is also correlated with high customer loyalty and greater profitability (Dresang, 2002).

Turnover clearly has a tremendous impact on individual companies and the economy as whole.

Employee Engagement: An Overview

Along with employee retention, employee engagement is emerging as the one of the greatest challenges facing organizations in this decade and beyond. One fairly descriptive definition of engagement is "bringing discretionary effort to work, in the form of extra time, brainpower and energy" (Towers Perrin, 2003).

The notion of engagement, like many psychological constructs, is simple to understand yet more difficult to define and measure. Other definitions of engagement include cognitive, affective, and behavioral components. For example, emotional components or beliefs—how employees "feel" about their employer, its leaders, working conditions—and behavioral components—measures of intent to act in certain ways, skills they choose to bring to bear, to go the "extra mile"—are often included in measures of employee engagement.

Employee engagement has its roots in classic work done in employee motivation, in the form of intrinsic motivation (Maslow, 1943; White, 1959; McGregor, 1960; Herzberg, 1966; Alderfer, 1969). "Intrinsic motivation is said to exist when behavior is performed for its own sake rather than to obtain material or social reinforcers" (Bateman & Crant, 2003). Although Deming placed great weight on the "system," he also acknowledged



the vital role of intrinsic motivation and the need to engage workers in their work (Deming, 1993; Behavioral Science Technology, 1999). Employee engagement is strongly linked to the work of classic motivation theorists and researchers.

Employee engagement has been tied directly to business financial performance. For example, in a study using data from over 360,000 employees from 41 companies, those companies described as having low overall engagement lost 2.01 percent operating margin and were down 1.38 percent in net profit margin over a three-year period. During that same period, high-engagement companies gained 3.74 percent operating margin and 2.06 percent net profit margin. Engaged employees, the study argues, clearly contributed to the bottom line of their companies (ISR, 2003). Other research has demonstrated employee engagement's relationship with customer engagement, that is, willingness to make repeat purchases and recommend the store to friends (Bates, 2004).

In a study of engaged HR functions, HR-professional survey respondents who work in an engaged HR function seem to place more emphasis on improving the way they work through technology and process redesign compared to colleagues in a disengaged HR function. They also place greater value on who does the work, based on staffing profiles and competencies. Interestingly, respondents with engaged HR functions were more likely to say that retaining existing talent was critical to the business (Towers Perrin, 2003).

An estimated 75 percent of the workforce of most companies is not fully engaged on the job (Loehr & Groppe, 2004). The percentage and the cost of disengaged employees are on the rise (Gopal, 2003). Two examples are the United Kingdom and Singapore. More than 80 percent of British workers lack real commitment to their jobs and a quarter of those are "actively disengaged," or truly disaffected with their workplaces. "Estimates of the cost of disengaged workers on the British economy range between £37.2 billion and £38.9 billion per year" (Flade, 2003). In 2003, 17 percent of employees in Singapore were defined as disenchanted or disaffected, up five

percentage points from the previous year. Estimates of the cost of actively disengaged employees on Singapore's economy vary from between \$4.9 and \$6.7 billion annually (Flade, 2003).

Employee willingness to deliver is neither infinite nor self-renewing. The flip side of the coin—diminishing engagement—is all about risk for the employer; risk that the moderately engaged will slide toward increasing disengagement, according to the Towers Perrin talent report. "Engagement is a mutual contract between the employee and the employer. Employers have a responsibility to train leaders and build a meaningful workplace, and employees have a responsibility to contribute to an engaging workplace"

(Towers Perrin Talent Report, 2003). The following statement captures the essence of the engagement challenge (Bates, 2004):

"Engagement ultimately comes down to people's desire and willingness to give discretionary effort in their jobs. Employees are reminding us that the heart is a tougher battlefield than the mind."

Bates (2004)

The engagement challenge has a lot to do with how an employee feels about the work experience, how he or she is treated. Engagement ultimately comes down to people's desire and willingness to give discretionary effort in their jobs. Employees are reminding us that the heart is a tougher battlefield than the mind.

Retention and Engagement

As has been discussed, issues associated with retention and engagement are critical and are likely to be of crisis proportions. Beyond the labor and talent shortages impacting retention, the factors affecting retention and engagement are mostly the same.

Waves of employee reductions in recent years are taking a toll on the American workplace. "Cuts, lay-offs, outsourcing and downsizing have decimated the workplace, and, taken together, they represent a wholesale indictment of the way corporate America has managed its workers during the past three years" (Webber, 2004).

Since 2001, Americans have lost 2.3 million jobs as a result of layoffs (McGinn, 2004). Many have psychologically left the organization, or, in other words, have become disengaged, waiting for prospects to improve, so they can flee their present situations. With the exception of the projected talent and labor shortages (in the case of

retention), nothing has affected retention and engagement more than the loss of trust and consequently the erosion of loyalty.

As Lawler has stated, there has been a transformation in the implicit employer-employee contract. The “old deal” of the employment contract can be characterized by a fair day’s work for a fair day’s pay. The “new deal” implies that employees are expected continuously to develop and apply skills that the company needs, and in turn, the employer will provide a challenging work environment. There is not a guarantee of continued employment at the same company, but by supporting the development of skills, the employer enables its workforce to become employable by other companies (Aksehirli & Lau, 2002). To the extent that retention and engagement are related to security and loyalty, they have been eroded by this new contract.

Loyalty, engagement, and employee retention are intertwined. While loyalty itself does not guarantee engagement and employee retention, it certainly is an influence. And all are on the decline. In terms of engagement, one recent study found only 17 percent of today’s workforce is highly engaged (Raphael, 2003). This is echoed by discouraging findings with respect to loyalty. Seventy-seven percent of HR professionals surveyed believe their workers’ loyalty has decreased over the past five years based on changes in turnover rates and opinion surveys (Jamrog, 2001). Others as well have found loyalty lacking in the workforce (e.g., Creelman, 2004). What accounts for this erosion of loyalty? Loss of trust.

Loyalty starts with trust and trust is clearly on the decline. Nothing speaks to this more directly than a book recently published by The Human Resource Planning Society entitled *Restoring Trust: HR’s Role in Corporate Governance* (Stopper, 2003). Whether resulting from the corporate scandals emanating from the highest levels in organizations (Kelly, 2003; Googins, 2003; Jacobe, 2002), or from the lack of trust a team member feels for his/her direct manager (Taylor, 2003), it is clear that trust has weakened. Trust in management continues to fall in almost every profession (*Wall Street Journal Online*, 2002). Research indicates that employee mistrust will be the leading cause of employee turnover as the job market gains momentum (Pennington, 2004).

A major factor in the decline of trust has been the layoffs of the last number of years. Without

knowing when the ax is going to fall again, seeing cherished co-workers being laid off has had a profound impact on trust and consequently loyalty. Accompanying layoffs has been outsourcing and particularly offshoring. The most recent concern for workers is that their jobs will be outsourced to other countries, where the cost of labor is much cheaper. Although offshoring has garnered far more publicity than the actual numbers would suggest, it certainly has had a significant impact on employees’ feelings of trust and security.

Data regarding how many jobs have been “offshored” and how many will follow in the future are inconsistent but overall estimates place the annual number of U.S. jobs sent off-shore to be 300,000 to 600,000 (McGinn, 2004), with India accounting for about 200,000 of these (Slavin, 2004). Compared to 138 million total U.S. workers (U.S. Bureau of Labor Statistics, 2004) the numbers of lost jobs seem small (Thottam, 2004). The Labor Department reported that only 2.5 percent of the workers who lost jobs in layoffs during the first quarter of 2004 were out of work because their jobs were sent abroad (Hagenbaugh, 2004). But for the typical employee, the degree of loss is in the “eyes of the beholder.”

Forrester Research, a Cambridge, MA, research firm, predicts that U.S. technical jobs alone that migrate overseas will take with them \$186 billion in wages by 2015 (McCarthy, 2002). Perhaps worse, economists at the University of California, Berkeley, have predicted that 14 million U.S. jobs could be at risk including white collar jobs such as radiologists, accountants, and engineers (McGinn, 2004). The Berkeley projection would affect a staggering 11 percent of existing jobs in the United States today (Thottam, 2004).

A small number of exported jobs have returned. Both Dell and Lehman Brothers have returned jobs stateside in order to improve service to their customers (Read, 2004). And India, which recently has become the focus for outsourcing, is experiencing its own turnover problems. “But the data from India show that, to some extent, the off-shore outsourcing phenomenon may be self-correcting. Though outsourcing shows no sign of fading, rising wages and rapid turnover in Indian hubs may reduce the savings American companies reap when they send work abroad” (Scheiber, 2004).

Looking at the United States, and separating truth from myth, it appears that regardless of how



Turnover Cost Continues to Rise

The direct expenses associated with separation, recruitment, training, and placement of new workers are generally included in the costs of turnover. But for most organizations, the indirect costs of turnover have more serious implications for business success.

Both direct and indirect costs of employee turnover continue to rise. In a 2004 TalentKeepers study just completed covering 240 organizations encompassing a wide range of sizes and industries, 70 percent of the organizations report increased recruitment and training expenses and poor customer service as areas directly impacted by turnover. More importantly, the majority of organizations, 78 percent, report that turnover's greatest impact is in lost organizational knowledge and lower employee morale, two areas that directly affect team and organizational productivity.

Poor service, lost customers, and falling employee morale are just some of the effects when employees leave. Reduced profitability was cited by 54 percent of the respondents as a consequence of turnover. The areas most impacted by the unplanned loss of employees are illustrated in Exhibit 1.

Any accurate calculation of the cost of losing a talented employee must include both the direct costs associated with acquiring new employees plus the indirect costs of lost knowledge and experience.

Direct turnover costs include expenses for:

- Exit interviews
- Employment advertising
- Recruitment and screening
- Applicant testing, assessment, and background checks
- Interviews
- Travel and relocation
- Orientation and training

Indirect costs include:

- Lost productivity
- Time-to-productivity measures for new hires
- Lost customers
- Missed and lost sales opportunities
- Erosion of customer service
- Employee morale
- Lower profitability

It comes as no surprise that high overall costs are reported when employees who interact directly with customers leave. This study shows:

1. Losing a valued customer service employee costs more than \$10,000 for 58% of the organizations in this study that calculate costs.
2. 42% of organizations have costs that exceed \$20,000 when they lose a customer service representative.

Losing a sales person is even more costly. At the high end, the loss of an established financial broker or seasoned pharmaceutical representative can cost the organization hundreds of thousands of dollars in terms of lost revenue alone. In this study:

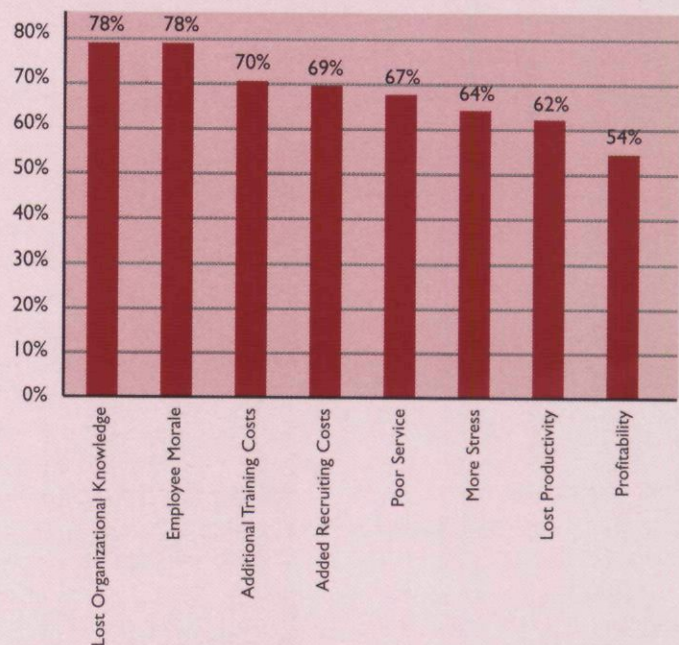
1. 60% of reporting organizations reported losing a sales person costs more than \$20,000
2. 39% of organizations experience a cost of more than \$35,000 when they lose a sales person

Lastly, here is what can be thought of as the turnover litmus test. Turnover costs reach all the way to the shareholder. Seventy-six percent of the respondents in this study believe turnover has a direct impact on shareholder value. (TalentKeepers, 2004)

Employee Turnover Trends: Survey Report, TalentKeepers, April 2004.

EXHIBIT 1

Organizational Factors Most Impacted by Turnover



Source: TalentKeepers, 2004

many jobs are dispatched to other lands, ultimate job prospects in the United States are strong. *The Economist* (2004) concluded "The image... of a hollowed-out America, with relentlessly rising unemployment, is not just false but absurd." Other reports predict that jobs offshored will be replaced by new ones that require more skills, as in the past, where transitions occurred from farming to manufacturing to technology (Wessel, 2004). But long-term news provides no comfort to those workers who fear losing their jobs today and it has contributed to the current state of events: a loss of trust and an erosion of loyalty.

In summary, layoffs and the offshoring phenomenon have directly affected both employee retention and engagement.

Retention and Engagement: The Relationship and the Role of the Economy

The relationship between retention and engagement is an interesting one. Here are some popular beliefs (which tend not to be borne out by data):

1. *Lack of engagement always leads to employee turnover.* Actually, an employee may be disengaged but because of lack of viable options may remain with the organization, i.e., is "deadwood."
2. *Highly engaged employees rarely leave the organization.* Highly engaged employees may leave the organization for a variety of reasons such as a leader they do not trust or an opportunity where the work is even more engaging.
3. *High-retention organizations are always characterized by highly engaged workforces.* Given poor economic conditions, organizations may have high retention but also a high number of disengaged workers who choose to stay on with the organization because they have few options or management has not detected a problem.
4. *The factors and solutions relating to employee retention are identical to those of engagement.* They are similar but not identical. Training leaders in trust is appropriate for improving both leadership and engagement, but compensation typically only affects retention.

What is apparent regarding the relationship between retention and engagement is the critical role of the economy. In bad economic times, there may be high rates of employee retention but engagement may vary from worker to worker. In good economic times, there may be relatively low rates of employee retention but, again, engagement may vary from worker to worker. In other words, the economy is directly linked to employee retention but may have little to do with engagement. In the years ahead, the overall economy may play a lesser role, given the overriding effects of labor and talent shortages.

Solutions for Employee Retention and Engagement

What steps are employers taking to retain and engage their employees? Historically, they have taken the traditional "fix." The Society for Human Resource Management (SHRM)

periodically surveys employers on retention initiatives. Its most recent survey indicates that the most common employee retention program is tuition reimbursement, followed by competitive vacation and holiday benefits, and then competitive pay (Collison & Burke, 2003). Other organizations have looked to improved employee selection, but in a survey of HR professionals, only 13 percent found selection to be an effective way to improve retention (Jones, 2001). And selecting employees on the basis of how likely they are to be engaged is problematic at best.

That is not to say that organizations are not trying to be innovative when it comes to traditional fixes. In terms of retention, organizations are attempting to be more strategic and innovative in how they design reward programs, focusing on such tactics as (Towers Perrin, 2004):

- Segmenting the workforce by functions and individuals;
- Designing customized reward programs for these groups;
- Introducing more variable pay into the reward mix.

Given poor economic conditions, organizations may have high retention but also a high number of disengaged workers who choose to stay on with the organization because they have few options or management has not detected a problem.



Strategies vary somewhat from country to country, influenced to a degree by country-specific laws and culture. For example, in India, the top outsourcing firms in business processing reached an informal agreement not to take employees from one another. Other retention measures include clauses in employment contracts to require each new worker to conform to a three-month cooling-off period after the hiring date before accepting another job offer. But the major method for retaining workers in India has been the traditional one: wage increases (Scheiber, 2004).

Overall, traditional HR programs often miss their mark when it comes to retention and

engagement. Walker Information surveyed workers in 32 countries and found the factors that most influence commitment are fairness, care and concern for employees, and trust (Walker, 2000), elements most influenced by one's direct leader or boss. So while employers rely on the more traditional HR programs such as compensation, commitment seems to be on a more personal level, and subject to positive influence by one's leader.

The Critical Role of the Front-Line Leader in Retention and Engagement

The role of the front-line leader as the driver of retention has been well recognized (Frank & Taylor, 2004; Leonard & Dwight, 2004; Society for Human Resource Management, 2000; Buckingham & Coffman, 1999). Employees will stay if they have a good relationship and open communication with their immediate boss (HRI Institute, 2001). Said differently, employees typically see the organization as they see their supervisor (Tross & Egermann, 2004). As the job market improves and there are more employment alternatives, leaders will need to put more effort into retaining talent (Gantz Wiley Research, 2004). And there is a lot of room for improvement in leaders: A full third of employees rate their bosses or supervisors as fair or poor, according to a recent study by Hudson Research (Hudson Research, 2004).

Similarly, the role of the front-line leader is of critical importance in building engagement (Gopal, 2004; Grensing-Pophal, 2001; Bates,

2004; The Towers Perrin Talent Report, 2003; Welbourne, 2003). It is captured well in the statement "the root of employee disengagement is poor management" (Gopal, 2003). Employees need bosses that care about them, and will help them to achieve their goals" (Human Resource Institute, 2004). "Much of that (engagement) work must be done by first-line supervisors" (Bates, 2004).

Recent research indicates a linkage between leadership retention competencies, attrition, job abandonment rates, engagement as reflected by measures of team member satisfaction, and other on-the-job performance measures (Frank &

Stone, 2004). Leaders who have high scores on leadership retention competencies tend to have:

1. Low team-member attrition and abandonment rates;
2. Teams that are highly engaged; i.e., that have fewer team members who report decreases in satisfaction.

In turn, engagement has been related to measures of customer satisfaction and hard measures of on-the-job performance such as handling of customer service issues (Frank & Stone, 2004).

What are the critical retention and engagement leadership capabilities? Research indicates 10 capabilities are essential in order to retain and engage employees (Taylor, 2004):

1. Building trust between the team member and the leader;
2. Building esteem in team members;
3. Communicating effectively to team members regarding retention and engagement issues;
4. Building a climate that is enjoyable and fulfilling;
5. Being flexible in recognizing, understanding, and adapting to individual needs and views;
6. Talent developing and coaching of team members to help them grow, resulting in greater commitment and loyalty to the organization;
7. High performance-building to reinforce high levels of team member performance, particularly with respect to top-performing team members;

Whether it is called retention leadership training or employee engagement training, training managers in retention and engagement leadership competencies makes a difference.

8. Retention and engagement knowledge that are necessary to build a committed team;
9. Monitoring retention and engagement team member issues so that preemptive action can be taken before someone leaves or becomes disengaged;
10. Talent finding or, when given the opportunity, choosing team members who are likely to stay on the job and be engaged.

Research by others supports the relevance of these capabilities to retention and engagement (Towers Perrin, 2003; Greshing-Pophal, 2001; Wellins & Concelman, 2004; Coffman, 2003). This research indicates that the leader attributes necessary for retention, such as building trust, are necessary for engagement as well.

These are the core leader competencies for retention and engagement, but can you train for them? Yes, according to recent research. Training in retention leadership competencies is related to higher retention leadership competency scores as well as measures of engagement, less likelihood of leaving the organization, and actual measures of on-the-job performance (Frank & Stone, 2004; Taylor, 2002). Whether it is called retention leadership training or employee engagement training, training managers in retention and engagement leadership competencies makes a difference (Bates, 2004). Such training is occurring globally in diverse settings: call centers, banks, the telecommunication industry, insurance, and even in gold mines in South Africa, where e-learning has had an impact on retention leadership talents (Allerton, 2004). Sprint has been able to reduce unwanted turnover through an e-learning program focusing on trust-building (Harris, 2004).

In addition to training leaders in retention and engagement leadership competencies, other innovative retention and engagement leader strategies include (Frank & Taylor, 2004):

1. Holding leaders accountable for the retention and engagement of employees;
2. Selecting leaders based upon retention and engagement leader talents;
3. Using metrics to document the impact of leaders on attrition and engagement.

The Emerging Role of the Team Member in Retention and Engagement

As retention and engagement become more significant, retention and engagement agents

will take on greater value in the workplace. The greater value associated with being a retention and engagement agent is already being realized in that the role of the team member in retention and engagement is becoming much more central to the overall strategic retention and engagement initiatives of organizations. These initiatives include:

1. Training team members as retention and engagement agents. Training them to deal with their own feelings of restlessness and to listen to and advise fellow team members who are thinking of leaving. This is done in the context of "we're all in this together; if your fellow team member leaves, this could result in more work for you as a fellow team member, could jeopardize our team bonus, etc." (TalentKeepers, 2004).
2. Soliciting input from employees regarding how to encourage peak performance, that is, engagement. Intuit created focus groups of employees to obtain this sort of information (HR Focus, 2003).
3. Mutual commitment building, resulting in a "handshake" agreement between team members and the leader. Each new team member indicates the retention and engagement talents he or she most values as expressed on a short questionnaire, and the leader commits to express these talents in his or her everyday behaviors. Team members in turn commit to express any feelings of disengagement or thoughts about leaving on their part to their leader and to encourage their fellow team members to do the same thing (Harris, 2004).
4. Innovative employee orientation processes (Watson Wyatt, 2003).
5. Innovative "intra-team engagement processes." For example, because many of Pfizer's senior sales representatives had become less motivated, Pfizer created "self-reinforcing peer groups of four to seven senior reps" throughout the company that communicated via e-mail and phone (Byrne, 2003).
6. Mentoring programs focusing on engagement and retention. Pfizer created a mentoring program using mentors for younger colleagues, known as the Master's Group, named after the major golf tournament (Byrne, 2003).
7. Ensuring that employees are given opportunities to use their talents (Bates, 2004).



EXHIBIT 2**Evaluation of Traditional and Innovative Retention and Engagement Solutions**

Solution	Retention	Engagement
Tuition reimbursement	2	1
Job skills training and retraining (i.e., learning new skills for the present job and for redeployment)	3	4
Competitive vacation and holiday benefits	1	1
Competitive pay	3	1
Innovative reward program design	3	2
Overall benefits package (e.g., health insurance, stock options)	3	1
Schedule adjustments (e.g., job sharing, more schedule flexibility)	3	3
Employee selection tools	2	1
Internal job postings	3	1
Training of leaders in retention/engagement leadership competencies	4	4
Selection of leaders on retention/engagement leadership competencies	4	4
Leader accountability for retention and engagement	4	4
Use of metrics to document impact of leaders	4	4
Training team members as retention and engagement agents	4	4
Input from team members regarding engagement (e.g., what it takes to achieve peak performance)	3	4
Mutual commitment building between team members and the leader	4	4
Innovative employee orientation processes	3	3
Innovative intra-team engagement processes	3	4
Mentoring programs	4	4
Fostering conditions for team members to use talents	4	4
Use of technology to enable virtual teams	3	4
Use of technology to make work more fun	3	3
More appealing and welcoming environments	2	3
Career development and pathing	3	3
Rewards for length of service (future solution)	3	1

Ratings Key: 1 = not effective; 2 = somewhat effective; 3 = effective; 4 = very effective

8. Use of technology within the context of virtual teams, allowing more team members to work from home, recognizing the need for greater flexibility in the workplace.
9. Use of technology with younger workers, making work more fun and engaging. In general, workers expect their employers to help them to stay abreast of current technology (Human Resources Institute, 2001).
10. Structural modifications, e.g., flattening of the organization, job rotation to retain and engage workers.
11. Creating more appealing and welcoming environments for employees. For example, by using music and other design features, companies like Starbucks are able to create "more holistic experiences for people" (Zolli, 2004). Modern efforts such as these can be traced to the office culture created by the

famous Chicago architect of the late 1800s, Daniel Burnham (Larson, 2004).

Length of service with an organization is also expected to be rewarded explicitly as a separate business criterion in balance with performance contributions.

Exhibit 2 is a comprehensive list of traditional as well as innovative retention and engagement solutions, including an evaluation of each solution. The evaluations provided are based upon available research and experience of the authors as well as others. The last solution is not yet being used but is anticipated as a future strategy.

What the Future Portends and What We Must Do

If predictions hold true, HR professionals will be consumed by the twin business issues of employee retention and engagement. Turnover

is likely to be at unprecedented levels, with lack of engagement not far behind. As discussed, the culprits will be seemingly inevitable labor and talent shortages, compounded by trust at an all-time low, accompanied by the erosion of loyalty.

At its worst, the problems of turnover and disengagement may so preoccupy us that there will be little time left over to work on the other necessary and essential HR responsibilities. At a minimum, HR professionals will need to lead their organizations' efforts to combat the dramatically increasing costs of turnover and disengagement.

So how does this affect what we must do? Retention and engagement must be viewed as a broad organizational and cultural strategy involving all levels of the organization.

Leaders at all levels in the organization must become trust-builders, in order to combat the ravages of layoffs and fears of offshoring. To do this, they must be equipped with the leadership retention and engagement competencies critical for creating committed workforces. To ensure that leaders own the retention and engagement mission, they must be held accountable and be rewarded for retention and engagement.

All employees, including front-line employees, need to be retention and engagement advocates, encouraging colleagues to remain with the organization, communicating frustrations to their leaders, and helping to build a strong climate of trust and performance.

Plus, we must be metric-oriented as we continue to measure the costs and consequences of turnover and lack of engagement so that improvements can be quantified and evaluated.

Keeping ahead of the demographic trends will require new and imaginative ideas to keep people on the job as long as possible and actively engaged. In short, we must innovate. The "tried and true" programs for dealing with turnover and lack of engagement have been tested over time and have largely failed to deliver the results that will be needed in the future. New ideas will fuel creative solutions that will be instrumental in overcoming turnover and lack of engagement.

These mission-critical actions will not make labor and talent shortages disappear. But they will make the consequences of labor and talent shortages, specifically turnover and disengagement, easier to handle.

Biographical Sketches

Fredric D. Frank, Ph.D., is CEO of TalentKeepers, the award-winning employee retention firm. Fred has had over 30 years of experience in the human resources industry consulting with a large number of private and public sector organizations in the area of talent management. Fred is on The Human Resource Planning Society's Editorial Review Board for its Human Resource Planning journal, and responsible for its talent management knowledge area. In addition to TalentKeepers, he has founded two other HR companies, both of which were acquired. Subsequent to the acquisition of his second company by the Thomson Company, Fred was head of acquisitions for a division of Thomson. Fred has a B.A. from Michigan State University, and an M.S. and Ph.D. in industrial organizational psychology from Wayne State University. He was a professor at Bowling Green State University and The University of Central Florida, and is currently on the board of directors for Michigan State University's College of Arts and Letters. Fred is also on the board of visitors for Wayne State University's College of Science.

Richard P. Finnegan is chief client services officer of TalentKeepers. In his role, Richard works directly with executives of all TalentKeepers' clients globally, which include teleservices, insurance, manufacturing, finance, and other major industries. With over 25 years in the human resources industry, Richard has been both a Fortune 500 executive and an entrepreneur. Prior to TalentKeepers, Richard was with SunTrust Bank. He has consulted with organizations in the United States, South Africa, South America, Europe, Asia, and New Zealand. Richard holds bachelors and masters degrees from The Pennsylvania State University. He is a frequent speaker at national conferences, including those sponsored by SHRM, ASTD, and the American Bankers Association. He is also an active civic leader and has been recognized by the Orlando Sentinel for his frequent donations of professional services.

Craig R. Taylor is senior vice president of marketing for TalentKeepers, the award-winning employee retention firm, where he supports TalentKeepers' growth strategies and global employee retention research. Prior to joining TalentKeepers he was chief marketing officer for AchieveGlobal and vice president of marketing



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