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## Employee Retention: A Strategic Tool for Organisation Profitability

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### **Abstract:**

*During disruptive periods of organizational changes, Organizations tend to retain star performers and other rainmakers for its profitability. Employees are the lifeline of an organization and contribute effectively to its successful running and profit making. The biggest challenge for organizations is to maintain a stable workforce by reducing employee turnover through better benefits and flexible workplace policies which makes results in significant cost savings. The present paper focuses on how employee retention can be a strategic tool for organization profitability.*

**Keywords:** Employee, Organization, Turnover, Retention, Profitability

### **1. Introduction**

Globally, organizations are facing multiple challenges around managing the complex issues of business performance. Organizations are refining their business to mitigate challenges and improve the business performance. In today's fast paced business environments where organizations are constantly striving to achieve business performance confronted by social developments such as globalization, technological improvements increasing global competition. These evolutions cause not only a shortage of workers, but also a risk of losing talented employees. This loss of talent increases the importance of retaining talent. Lockwood (2006, p. 2) describes talent as "... the vehicle to move the organization to where it wants to be". Accordingly, talent is becoming increasingly important and will continue to do so (Hiltrop, 1999). It therefore becomes increasingly important for organizations to retain talented and skilled employees in order to maintain their competitive advantage and improve the business performance. Losing such employees means a loss of investment in new employees to be hired and trained. Moreover, employees take their know-how with them and thus the company risks a potential loss of confidential information to competitors (Frank et al., 2004; Walker, 2001).

### **2. Employee Attrition**

Georgy P. Smith shows businesses how to build productive and profitable work environments that attract, keep and motivate their work force he says "Transforming your workforce from high turnover to high retention"

Once an individual is employed in an organization he usually remains married to the organization till retirement. There was hardly any occasion when the employee quit by himself. In recent times, Job hopping has become a concern for technological environment in which the existing job becomes obsolete and opportunities becomes limited so employee don't like to stay in the same company for longer period of time. Their aim is to take advantage of the present market to overcome this situation it has become imperative for organizations to look in to the causes of this high turnover.

Surely, as more and more qualified people find themselves up for grabs by employee hungry corporate, companies feverishly trying to retain their own people by hook or by crook. The attrition is like an atom bomb being dropped on the economy. Companies invest lots of time and money in training and educating employees. These companies are severely affected when employees check out, especially in the middle of some big company project or venture. Although employees most often prefer to stay with the same company and use their time and experience for personal growth and development, they leave mainly because of work related stress and dissatisfactions. More and more companies have now realized the importance of a healthy work culture and have a gamut of people management good practices for employees to have that ideal fresh work-life.

The cost of employee turnover for businesses is high, regardless of the level of wages being paid to the departing or incoming employees. Workplace policies that improve employee retention can help companies reduce their turnover costs.

### 3. Employee Retention

Managing attrition in the industry is important because the cost of recruitment and training is a huge expense for the most of the firms. Attrition affected the quality of services and also leads to higher training and development expenditure, affecting the overall performance and profitability of the organization. It is a process in which the employees are encouraged to remain with the organization for the maximum period of time or until the completion of the project. Effective employee retention is a systematic effort by employers to create profitable environment. It's cheaper to retain staff rather than employing new employee. Most of the companies are suffering from staffing difficulties, increasing the importance of employee retention. The question arises what it costs when you loose a valued employee, especially when your competitors are eager to hire the same people. However, employers are finding ways usually inexpensive to hold the interest and the loyalty of their people. In this era of high employee turnover, which causes workforce instability, reduced efficiency, lower effectiveness and creates a negative impact on bottom line impacts. Retention of Key employees is critical to the long-term health and success of any organization. Employee retention matters as organizational issues such as training time and investment; lost knowledge; insecure employees and a costly candidate search are involved. Hence failing to retain a key employee is a costly proposition for an organization.

### 4. Rewards

Rewards can be defined as the reward given to employees for the services rendered in a employer- employee relationship, which motivates the employees. It is an effective tool to reinforce positive work habits / performance among individuals or teams within an organization. Rewards encompass all the monetary provisions given to the employees i.e. cash pay and benefits like pension, paid leave and insurance. The terms 'compensation' and 'remuneration' are used interchangeably. The earlier term covers only the financial pay whereas the latter talks about benefits along with the pay. The main aim of the reward strategy is to attract, retain and motivate employees

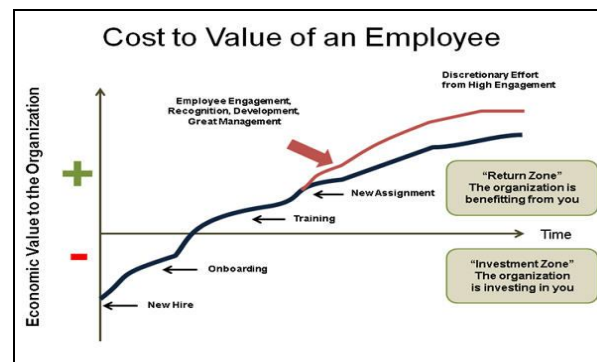


Figure 1: Economic Value of an Employee to the Organization over Time (C) Bersin by Deloitte

The different costs incurred by the organization when it loses one employee.

- Cost of hiring a new person
- cost of on boarding a new employee
- Lost productivity
- Lost engagement
- Errors in customer service
- Negative cultural impact

The hiring cost is ever increasing so as the overall on boarding cost is never the same and if the employee leaves the organization the cost becomes even higher. The returns for the organization set in after training and appropriate employee Engagement.

Hay Group's research indicates that there are five key factors driving staff retention:

- Confidence in leadership
- Opportunity for career development
- Autonomy
- Supportive work environment
- Appropriate compensation

All the above factors emphasize the strategic relevance of retaining employees to control the ever increasing total employee cost so as to maintain consistent organization profitability. People are the appreciating asset for organization when compared to the depreciating assets like machinery and etc. When they no longer stay with organization the profitability and the performance of the organization will have negative impact.

### 5. Conclusion

The adage "if you pay peanuts you get monkeys" is still very relevant in modern times. Corporate HR managers today are devising new and varied methods to retain the most talented employees by rewarding them in very many ways both financial and non financial.

The cost of retaining employees is though moving towards north. But it is worth the effort and cost involved as in the short and long run the profitability will enhance with a motivated and highly engaged work force.

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