



Recruit, Reward, Retain: A Look at Strategic and Operational Issues in Building the Right Workforce

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Building a high-performing workforce has always been essential to maintaining a competitive edge — but it's about to become even more critical.

Seismic shifts in the U.S. workforce are creating a shortage of qualified workers — a trend that will only continue as baby boomers retire. A shrinking pool of workers, growing demand for talent... forces are aligning to reignite the “war for talent.” As a result, the race to recruit, reward, and retain the best employees is intensifying.

How can companies compete? By examining the recruit-reward-retain cycle from two angles: *strategic and operational*. Are the right strategies in place — and are they supported by the right operations? How can technology improve both areas?

Exploring these questions can help your organization maintain a competitive edge in the face of new business challenges. Ignore these realities, and you'll put your organization at risk of losing key talent at a time when it's needed most. Over time, this undercuts your competitiveness and can erode your market share, among other issues.

Changes Ahead: A Look at Tomorrow's Workforce

A few major trends are unfolding to reshape the workforce of the future:

- Potential labor shortages
- Changing demographics
- Declining morale

Workforce Dwindling?

As the baby boomer generation inches closer to retirement, the U.S. moves ever closer to a potential labor shortage. According to the Bureau of Labor Statistics, between 1950 and 2000 the U.S. workforce added 79 million workers — an annual growth rate of 1.6 percent. However, between 2000 and 2012, this annual growth rate is expected to fall to 1.1 percent — and down to 0.6 percent when the timeline is stretched to 2050.¹

¹ Jay M. Berman, “Industry Output and Employment Projections to 2012,” Bureau of Labor Statistics, February 2004.

Age Range Expands

With baby boomers retiring later, the workforce will become increasingly multi-generational. Different generations expect different rewards, and are motivated by various factors. More than ever, employers will need to customize job opportunities, learning strategies, and reward systems to meet the needs of different demographic groups. They will need to ensure that they are engaging employees at all levels, no matter what their age.

Satisfaction: Low

Another trend is worker dissatisfaction. A 2004 report from The Gallup Organization showed that only 30 percent of employees were “engaged” in their work, 54 percent were “not engaged” and 16 percent were “actively disengaged.” That means 70 percent of employees are not engaged on some level — an eye-opening statistic to be sure.

Consider what this means in terms of productivity. Unmotivated workers are not concerned with becoming efficient or productive — and they drag down the potential of the entire organization. In addition, employees who are not satisfied are likely seeking other opportunities. When they leave, they take their intellectual capital with them; another hit to the organization’s health.²

Against the backdrop of these three trends, the U.S. economy is expanding, and workers are becoming “more confident in their ability to obtain alternative employment opportunities,” according to a 2006 report from Monster.com.³

What does all this mean? Increasingly, companies are finding themselves in a race to recruit and hire the best candidates. Smart companies will take time *now* to examine their recruiting and retention activities and ask, “What changes can we make today to be an employer of choice tomorrow?”

It’s a question with concrete business implications. Retention costs can directly impact the bottom line. “Most HR managers typically only cite the overt costs such as advertising and recruitment fees to replace an employee,” notes Monster.com in a 2006 report.

² Gallup Q12 Engagement Index 2004, Gallup Organization, 2004.

³ “Retention Strategies for 2006 and Beyond,” Monster.com, 2006.

However, these costs are just one slice of the overall picture. Other “hidden” costs include lost productivity, loss of organizational knowledge, missed deadlines, loss of client relationship, and disrupted department operations.

By estimating the *true* cost of turnover, human resources managers not only gain insight into how to improve, they can also gather data to support additional investments in recruiting.

In this white paper, we examine three critical activities — recruiting, rewarding and retaining — and discuss the strategic and operational elements of each. We also discuss the powerful role that technology can play in streamlining processes and enhancing strategies in each area.

Recruiting the Right Fit — and Fast

Two major sets of activities fall under the area of recruiting:

- Hiring the best fit for the job — before a competitor takes them off the market
- Making sure the new hire is productive as quickly as possible

Complete these actions enough times and it becomes a compelling strategic advantage. Miss these opportunities and you dangerously undermine your organization’s ability to compete.

The key is to examine both the *strategic* elements of recruiting, and the *operational* elements — to ensure they are working in synch and leading your organization down the right path.

Recruiting: Strategy Side

An effective recruiting strategy begins with an assessment of business needs — now and in the future.

Questions include:

- What are the organization's long-term strategic goals?
- What are the quarterly and annual goals?
- What changes are ahead? Is the organization planning to introduce a new product? Are there plans for a merger or acquisition?
- What type of human resources and knowledge, skills, and abilities does the organization need to meet the business goals? Are the resource needs well defined?

With this input, you can begin to envision the workforce required to meet organization goals — next quarter, next year, and farther into the future. In essence, you can sketch the “organizational chart of the future” and determine where the gaps lie.

Further, by defining the required skills and open job slots, you can assess which jobs can be filled by an internal transfer and which jobs require a search outside the organization. And this is where the operations side comes into play.

Recruiting: Operational Side

It's not hard to imagine this scenario: You are working hard to get all the signatures required for an offer; meanwhile, a competitor quietly whisks the talented candidate off the market.

To capture the best talent, your recruiting operations need to be efficient and streamlined. These qualities also help you control costs for the entire organization. With the right data, you can size the workforce precisely to meet your organization's needs — without hiring too many full-time equivalents (FTEs) or leaving critical gaps. You can also effectively manage the hourly workforce to ensure the right people are in the right place at the right time. Today's technology tools allow you to track productivity, predict your needs, and assign just the right number of employees to each activity.

Becoming Efficient

When it comes to recruiting, it can be easy to sink into a sandpit of paperwork, resumes, and labor-intensive manual tasks. Some level of automation can offload manual work and allow everyone to redirect time and energy to more valuable activities.

Opportunities for automation include:

- Job postings, both on public websites and for internal mobility
- Filtering for the right skills
- Tracking the results of testing

Ideally, a company will maintain a central repository of information about interviewees — a database that hiring managers and HR professionals alike can access. There, companies can store all the information related to each hire and see immediately if there are any outstanding action items.

This kind of technology-enabled improvement not only speeds work for HR, it encourages participation from hiring managers — one of the most important elements in an effective recruiting process. Action items are easy and clear. Instead of thinking, “I’ll get to that later,” managers can see qualified candidate information directly and complete their recruiting tasks immediately.

Becoming Streamlined

Streamlining begins with an honest assessment of your current recruiting process. Which steps can be combined? Which can be eliminated?

For many companies, technology is essential to streamlining operations. In fact, *technology* ranks as the number-one operational staffing priority for companies, according to Staffing.org’s 2006 Recruiting Metrics and Performance Benchmark Report.⁴

⁴ David Group, Ph.D., Joshua Joseph, Ph.D., “2005-2006 Recruiting Metrics & Performance Benchmark Report,” BNA and Staffing.org, 2005.

Why? Because companies can use technology to:

- Speed the interview and approval cycle
- Easily report and comply with regulations like the Equal Employment Opportunity Commission
- Align training to fill specific skill gaps

Managing Costs

To manage recruiting costs, you need insight into what's driving expenditures and where you're seeing return on investment (ROI). With a true picture of costs, you can determine which recruiting strategies are paying off, and which should be phased out. Which recruiting channels offer the best ROI? Are your budget dollars being put to the best use?

ROI also comes into play with onboarding. By accelerating the time-to-productivity, companies can maximize the contributions of the new hire. For example, maintaining a streamlined training process — one that assigns exactly the right learning and skills — can help new hires become productive as quickly as possible.

Similarly, a smooth orientation process can boost productivity. Even basic issues such as making sure the new employee has the right equipment or a computer on day one make a significant impact.

In some cases, it may be a matter of automating processes; in other cases, you may simply want to better define hand-offs or expectations. Either way, examining your recruiting activities now can ensure that when a talented candidate is on the market, you get the hire.

Rewarding Performance, Improving Job Satisfaction

Reward and recognition may seem like a relatively straightforward operational concern, but in the big picture a reward system can have far-reaching effects on who stays and who goes, who steps up to lead the company, how motivated employees are, and how productive the workforce is across the organization.

Rewarding: Strategy Side

Rewarding employees is not a one-size-fits-all endeavor, especially given today's multi-generational workforce. A younger worker simply may not value the same things as a more senior employee.

The first reward most people think of is salary — the most central and visible element of a total compensation package. From a strategic standpoint, salary-related issues include:

- Are your organization's salaries aligned with industry standards? (Benchmarking can help with the answer.)
- Internally, what is happening with salaries across various departments in your company?
- What effect do hiring sources or tenure within the organization have on salaries?

This is one area where the ability to analyze data is key. With a technology that can measure compensation trends over time and across departments, you can quickly pinpoint any issues and respond appropriately. Instead of working in the dark, you have solid data to guide you.

Of course salary is just one piece of a total compensation package. Benefits are critical as well. Workers want to see options such as health savings accounts, and they want a plan that fits their needs. Younger workers may want a higher deductible; older workers may want additional coverage for dependents. Again, the multi-generational workforce comes into play.

The problem: Employees expect a variety of plans, yet companies are under growing pressure to keep costs as low as possible. Many companies are finding that a proactive communication strategy — telling employees how much the organization contributes to benefits — is one way to increase satisfaction.

Another important strategy is customizing rewards. For many younger workers, training is a key motivator, whether it's in the form of a class, a stretch assignment, or a job rotation. Older workers may also value training as a means to keep work interesting. It's a win-win for companies and employees — as these workers build their skill sets, the organization strengthens its succession planning.

For other workers — such as those with families — time off or flexible schedules can be a highly motivating reward. Still for others, formal recognition is a top priority. Strategically, the goal is to understand what employees value, and then make sure your reward structure is broad enough to meet those diverse needs.

Rewarding: Operational Side

It can be complicated to manage compensation, absences, benefits, training, and the host of other components in a reward system.

Manual processes in these areas drag productivity levels down, inflate costs unnecessarily, and increase the risk of human error. In response, many companies have turned to technology.

Improvements might include importing aggregated market salary spreadsheets and mapping them to organization jobs. Automating this laborious task can make a powerful difference when it comes to tracking internal trends and benchmarking with other employers.

Improvements can also be more sophisticated, such as administering benefits, calculating eligibility or coordinating open enrollment. (In the area of open enrollment — with all its complexities — automation should become a given.)

Training is another area where complexities can multiply quickly — and technology can deliver compelling benefits. Companies can rely on software that houses the training catalog, manages the lists of skills and competencies in the organization, tracks completion, and more. HR can also run reports for auditors to demonstrate the training employees have completed.

When it comes to payroll operations, companies sometimes struggle to track employees' work and pay from source to gross to net — and ensure that proper taxes are paid for over 10,000 jurisdictions in the United States. By automating these functions, they can reduce payroll errors and comply with ever-changing laws. Over time, this generates significant savings.

Ultimately, efficient operations don't just speed back-office processes and save money, they also strengthen employee satisfaction. Worker satisfaction can take a quick hit if there's a persistent error on the paycheck, for example.

When operations are running smoothly, employees are satisfied, and human resource and payroll professionals have time to focus on more valuable activities, such as long-term planning.

These are the organizations that can think ahead, look ahead, and build the work force they need to reach their goals. Without efficient operations, it is far too easy to become bogged down in paperwork, correcting mistakes and trying to clear backlogs of work. And that's not an ideal position from which to compete.

Retaining the High Performers

Your organization has lots of superstar performers. The question: how do you keep them? And even broader than that, how do you prevent mass exodus of employees?

According to a survey by Monster.com, 45 percent of firms surveyed said that retaining workers today is a "high" or "very high" challenge. And 55 percent predict that workforce retention will be a "high" to "very high" challenge in the next five years.

But it's not just a matter of identifying and keeping high performers. To compete, your organization also needs to plan for higher numbers of employees leaving the workforce. When baby boomers exit, they take significant institutional knowledge with them. This is already problematic; but with weak retention programs, you run the risk of losing many of the most knowledgeable workers at the same time.

It is a never-ending process to measure, evaluate, and adjust your company's retention plan. As in other areas, activities can be viewed through two lenses: *strategy* and *operations*.

Retaining: Strategy Side

Strategies that can drive retention include: work-life balance, goal-setting, performance reviews, and compensation management.

Work-life Balance

As competition for the best employees intensifies, one compelling strategy is to encourage work-life balance. Does your company offer flexibility when it comes to time off and scheduling? How do you stack up against competitors? Does support exist in some areas of the organization, but not others?

Workers of all ages — men and women — appreciate the flexibility to arrange their schedules so they can attend to important matters outside of work. And when entertaining other job options, employees may ask, “Will I enjoy the same work flexibility at another company?” If the answer is no, this is a compelling advantage for your organization. Beyond salary and benefits, it could very well tip the scales and convince a high performer to stay.

Goal-setting

Goal-setting is another contributor to job satisfaction. Earlier, we noted the low levels of employee engagement — a phenomenon that is far more prevalent when goals are not well defined. If employees feel they are playing an essential role in the company’s future, that creates a reason to stay.

Goal-setting has broader implications as well. According to Watson Wyatt’s Work USA Survey 2002⁵, three-year total shareholder returns are *three times higher* at organizations with open communications. In addition, when employees feel connected to the targets, organizations can deliver a 21 percent return to shareholders, compared to a five percent return when they feel disconnected.

Do managers communicate clearly in your organization? Do employees understand how their work helps the organization reach its objectives? What more can be done to draw a clear line between corporate accomplishments, department targets, and individual goals?

Manager feedback and communication is critical in retaining employees — and discussions about goal-setting help foster this two-way communication. They also help employees feel more confident in the direction of their day-to-day work, another element that strengthens retention.

Performance and Compensation Reviews

These questions lead to another critical tool for retention: the performance review. During this discussion, goals can be clarified and managers can better understand which rewards will motivate their staff members.

Strategically, it’s important to capture the outcome of performance reviews, since this can give the organization a deep view of its talent. The structure for rating performance does not need to be complex — the key is to collect information regularly. Over time, you can build a deep picture of your workforce, and use the information to make strategic decisions about hiring.

⁵ *Work USA Survey*, Watson Wyatt Worldwide, 2002.

Compensation is another essential strategic concern. Many factors come into play when you examine your overall compensation program. Is it competitive in each segment and location of the business? Does the structure allow you to appropriately reward top performers? Is it flexible enough to meet the needs of different workers (i.e. technical employees vs. administrative staff)?

To create more accountability among employees, companies have been tightening the link between performance and compensation. Some companies have even taken compensation planning out of the “back office” and encouraged managers to play a more active role in the process.

For instance, by relying on technology, companies can empower managers to propose, approve and implement a comprehensive compensation strategy that motivates the top performers and meets the budget.

Indeed, technology can take performance reviews and compensation — processes that can be slow and discouraging to both managers and employees — and transform them into strategic opportunities. When the processes are simplified and automated, employees become more engaged. This enhances the organization’s ability to align its workforce with company objectives.

Yet another important strategic decision: how to deal with low performers. There is nothing less motivating than seeing low performers rewarded at the same level as high performers. It’s not only damaging to morale, it can become a motivating factor for the best and brightest to leave.

Retaining: Operational Side

In some cases, strategies that improve retention can create new operational challenges. For instance, if you allow flexible scheduling or more time off, you need to make sure you still have the people in place to hit your productivity goals.

Absence management plays a key role. When employees are absent from work, it can damage your organization’s ability to meet its commitments in the short term, and reach its goals in the long term.

According to the 2004 CCH Unscheduled Absence Survey, published by CCH Incorporated, the rate of unscheduled absenteeism has climbed to a five-year high. And the average annual cost to employers of last-minute no-shows is \$610 per employee. For large organizations, the cost of unscheduled absences can tally up to more than a million dollars annually.

Compounding the issue, few organizations have a strategy for managing employee absences. It's powerful to track all types of absences in one place — including scheduled absences and unscheduled absences. In fact, simply measuring this information helps control absenteeism across the company. But for many companies, this “big picture” view is elusive, since absenteeism is tracked by multiple departments using various tools (spreadsheets, hand-written notes, etc.).

Once you see the big picture, you can quickly identify gaps caused by absent employees, and take action to fill these gaps. With this strategy, companies have found that they save time and lower costs since they can manage their workforce more efficiently.

On top of this, they reduce the risk of human error (and associated costs). One example: if absence management (including long-term leaves such as the Family and Medical Leave Act) is not properly administered, it can lead to lawsuits and other negative attention.

Finally, in the area of performance reviews, operational concerns might include the review form itself. Is it effective? Consistent across departments? Does it gather the data you need to make decisions?

One road to efficiency is to automate performance-review reminders and workflow for approvals. This can lead to numerous benefits that speed workflow, including the ability for managers and employees to “sign” forms electronically.

Implementing Technology: Five Points to Consider

At many points during the recruit-reward-retain cycle, technology has the ability to streamline processes, boost productivity, and deliver information that enhances strategic planning. But what level of technology is right for your organization? And how do you go about selecting the most appropriate system?

There are five points to consider:

Functionality

Many companies face a similar problem when it comes to automating HR processes: they have several systems that don't talk to each other.

In order to realize the greatest return on investment — and a measurable impact on performance — it's best to acquire a single system to manage all recruit-reward-retain activities. After all, these activities are intricately linked, and improvements in one area often significantly impact another area.

Specifically, a single system can:

- Eliminate manual efforts and errors
- Support consistent reporting and analysis to drive the business
- Remove integration headaches and costs
- Remove duplicated or inconsistent information silos that give an incomplete picture or skewed analytics

Technology

For most companies, the best bet is a system built on an industry-standard, proven, cost-effective platform (such as Microsoft). This will make it easy to implement and upgrade the software, and it will allow the system to integrate easily with other applications. It's cost effective because the hardware and software required for the system — and the accompanying technical support staff — likely already exist at your organization.

Does the solution need to be a large, monolithic software system? No. In most cases, a moderately-sized software suite will work quite well — and give you just the functionality you need, without reaching into unrelated areas of the business.

But again, you want to make sure the system is broad enough to stand on its own. You don't want to acquire a niche tool that will only satisfy a small portion of your overall needs.

Service

You should expect vendors to provide an up-front business assessment — then use this information to determine if there are best practices or process changes that will benefit your organization.

It's also important to ask if the vendor has a proven implementation methodology. You might be impressed by bells and whistles, but when it comes to the actual implementation, will your expectations be met?

The best strategy is to check references and investigate the vendor's reputation. Have they received high customer-satisfaction rankings? Are they recognized as a leader in their space? Will they be around for the long term? There are many companies that appear on the scene and generate great excitement, only to disappear quickly.

Education

You should also expect the vendor to train all users to get the most out of the new system and processes. This not only includes HR and payroll personnel, but managers and executives as well.

The implementation of a new system will be a critical turning point for HR and for your organization as a whole — and management buy-in will be critical. Will the system offer people an easy user interface? Will there be job aids, training, e-learning tools, tips, and more to make it easy for managers to understand the new system?

If managers perceive the system to be difficult, it will be an uphill battle to convince them to use it, greatly undermining your return on investment.

Investment

Finally, make sure that you structure the contract to suit your needs. For some organizations, it makes sense to license software, since this often costs the least over the life of the product. For companies with more limited capital, leasing may be an option — or a subscription model might be the best fit.

Considerations include:

- **Installed software:** since you “own” your system, this gives you the most control over the implementation and upgrades. It also gives you the best return on investment over three to five years. Best fit for an organization with capital and IT support.
- **Hosted software:** like a lease, this allows you to purchase the solution via monthly payments. Ideal for organizations with sufficient IT support, but limited capital.

- **Subscription model, or Software as a Service (SaaS):** you typically pay a subscription per employee, per month. This relieves Information Technology pressures and upfront capital pressures. Best for organizations with limited IT support and limited capital.

Putting the Pieces Together

Ultimately, to recruit, reward, and retain the best employees, you need a well-thought-out strategy backed by efficient operations. The two are inextricably linked: With efficient operations, you can gather the data you need to make strategic decisions. And once you fine-tune your strategy, you can rely on your operations to get the work done.

To be sure, there are complex issues involved in recruiting, rewarding, and retaining employees. But by streamlining operations and relying on technology to automate labor-intensive work, you can begin to transform difficult processes into valuable tools. Benefits enrollment, training, timekeeping, payroll — with automation, these tasks can become windows into how the company is running, and where improvements can be made.

Conversely, if handled manually these activities become overwhelmingly time-consuming and inefficient. Your organization will always be working to catch up — unable to find the time or gather the data to strategize successfully.

If the prevailing philosophy during the Internet boom was “hire as fast as possible,” now the pendulum has swung back to “retain the right workforce — as quickly as you can.” By fine-tuning your strategies and operations *today*, you can position your company to be the employer of choice *tomorrow*.

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