

Beacon Group, LLC
Staffing & HR Solutions

RETENTION STRATEGIES



This form doesn't help without time to follow-through options carefully.

The laws are constantly changing and changes may apply which are not shown in this sample. Consult with an HR professional and/or attorney for questions about a specific situation. When you become a Beacon Group client, the laws for this particular topic may apply differently to your organization.

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Retention Strategies

Step 1

Implement a Defensive Strategy: As the Baby Boomers retire, the national labor pool shrinks, and the number of highly skilled workers entering the workforce diminishes, the competition will heat up among employers to find and attract the most skilled workers. It stands to reason that if there are not enough highly skilled workers to meet the demand generated by a strong economy, growing companies will have limited options for expanding their workforce.

One option may be to hire lesser skilled workers and prepare to train them. Another may be to adopt a "head hunter" mentality and identify the companies who employ individuals with the needed skills and offer those employees attractive incentives to leave their current employers.

A WORD TO THE WISE...Your top performers may be the target of another company's recruiting strategy. So the best retention strategy should begin with an assessment of the positions which are most critical to your business success, identification of the top performers in those positions, and implementing a retention strategy to reduce the risk of losing those valuable employees.

Retention Strategies

Step 2

Make a Business Case for Reducing Turnover: How much is turnover really costing me? In order to answer this question and conduct an objective analysis of any retention program, a company needs to establish a "starting point." This "starting point" is referred to as a baseline, and will be used as a comparison point for future analysis. The baseline should never change, whether a comparison is done after one year, ten years, or more. If a company significantly changes its retention program, a footnote can be added to the numbers explaining the changes. The original baseline should be kept intact. However, in some extreme cases (change in ownership), it may be desirable to have a secondary baseline.

Note that some companies find it prudent to establish multiple baselines to monitor. For example, a company may want to establish an overall baseline, then separate sub-baselines for certain departments or job levels (such as management turnover, professional turnover, non-exempt turnover, etc.). These sub-baselines can be especially useful in companies where turnover levels vary drastically between different departments or job levels.

Calculate Turnover Percentage: The turnover percentage is a critical number when compared to the appropriate standards. Since businesses can vary widely, turnover percentages also vary widely. A well-established white-collar office environment may have a very low percentage as a comparison point. While a fast food restaurant chain will have a high percentage as a comparison point. The key is to find meaningful numbers to compare. Some sources of this information include trade associations, professional societies, Chambers of Commerce, or calling up competitors to share that non-proprietary information.

The turnover percentage is calculated by determining the total number of employees on payroll during the past year divided by the total number of employees currently on payroll. Multiply this number by 100, then subtract 100 to obtain the Turnover Percentage.

Calculate Total Cost of Turnover: Most companies do not realize how much turnover is costing

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them. The Analysis Form included will help a company quantify this cost. This is much more than just the cost of placing a classified ad. It also includes all advertising costs; recruiting fees; replacement personnel; the time cost of having existing employees cover a vacancy; the time cost for resume review, interviews, paperwork processing, conducting orientations, and other selection costs; training costs; the time cost for training activities; and other intangible productivity costs.

Retention Strategies

Step 3

Identify Turnover Issues & Possible Solutions: Employers typically make two mistakes in identifying employee concerns – they forget about the employees who left (the most important ones to ask) or they ask existing employees in a non-confidential manner.

For former employees, ideally an exit interview would have identified specific reasons why they left and what they were dissatisfied with. Even if an exit interview was not done, an employer can still ask a former employee for their opinions, or contract a third party to get this done. To effectively design a retention program, it is vital to understand why employees are really leaving. Remember that current employees may be unwilling to identify concerns that former employees will readily identify.

For existing employees, a confidential climate survey should be taken. Despite what many employers suspect, salaries are usually NOT the top concern of employees (and often don't even make an employee's top 5 concerns). The survey should allow the employees the flexibility to add comments and suggestions. An employer may be surprised to find out that their employees want something as insignificant as a new vending machine because the office next door has one. An employer needs to be open minded to address employee feedback. Other issues that might come up include telecommuting, day care options, training, tuition reimbursement, flextime, additional benefits, parking, gym memberships, more paid time off, less overtime, more recognition, more job security, appreciation for long-timers, carpools, direct deposit, credit union membership, confidential counseling (EAP), relocation payback, relaxed dress code, sponsorship of after-hours activities (bowling team, kid's little league), donations to non-profits, better supervisor/management training for "my manager," etc.

In addition, a company should conduct periodic wage & salary surveys to ensure their compensation levels are in line with the local market and any direct competitors. There are several ways to accomplish the survey. The easiest is to get one already completed from a trade association, a local Chamber of Commerce, a local personnel agency, or some other reliable organization. A company can also get this information from perusing the classified ads in the local newspaper, or by calling other companies and simply asking about salary ranges. A similar exercise can be done regarding benefits offered to employees.

Once an employer has determined that their wages and benefits are competitive, it is much easier to address those issues when they come up. Employees typically will be much more easily appeased if they believe their employer is keeping on top of the market and compensating them fairly.

Retention Strategies

Step 4

Review Corporate Culture Documents: If there is a retention problem, it may be rooted in the

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corporate culture. Review the company vision, philosophy, and mission statements. Do they reflect a company that employees would want to work for? What about the company's goals and objectives? Are there any directed toward keeping employees happy?

Review Employee Input: Coordinate all the employee input from Step 3 with your analysis and review of the company's corporate culture documents. Everything needs to be in sync in order to develop an effective retention program.

Determine Program Goals: All retention program goals need to be based on measurable numbers. Using the numbers calculated in Step 2, a company needs to compare those numbers to comparable averages obtained from their trade associations, professional societies, or other sources. Then quantifiable goals can be established, such as holding supervisors/managers accountable for reducing turnover percentage for the next 12 months down from 20% to 15%, and reduce turnover cost/employee from \$5,000 down to \$4,500. These goals lay the foundation for creating a cost-effective program.

Retention Strategies

Step 5

Design the Retention Program: Once the concerns are identified, then it's time to design the actual program. Many concerns can be addressed for little or no cost – DO THOSE! Some of the other concerns may require a cost-benefit analysis and management approval. Use the Retention/Turnover Analysis Baselines from Step 2, along with the goals determined in Step 3, to communicate the programs to management in quantifiable terms.

HRPowerHouse has several resources to help a company design a program. Visit our HR Classic sections on Recognition and Rewards, Compensation, Corporate Culture, Coaching, Training, Employee Relations, and any other section of HRPowerHouse that can help reduce your turnover and make your company more profitable!

Retention Strategies

Step 6

Track Retention Program Costs: Make sure to keep track of how much any implemented programs cost for Step 7. If a company isn't sure how much a program cost, it can't determine if it is worth keeping or if it needs to be modified.

Retention Strategies

Step 7

Analyze Program Results: The moment of truth! Recalculate the figures from the Retention /Turnover analysis Form. Hopefully it will reflect a significant improvement. These numbers then need to be compared to the costs expended for the retention programs (Step 6). Ideally, the company will be able to quantifiably show that the retention programs helped the bottom line and made the company more profitable!

Retention Strategies

Step 8

Modify Program as Needed: Perhaps the financial results were not as stellar as management

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had hoped. Perhaps circumstances (big change to company profit level, lost or new major customers, different management, unionization, etc.) warrant a significant revision to the program. Or maybe everything went as planned or better! Either way, just go back to step 2 and follow the process again.

Recruiting & Selection

Step 1

Recruiting Plan: Hiring and retaining quality employees is the initial step to any organization's success. Effective recruiting methods can produce an abundance of qualified applicants to fill current and future job vacancies. Uniformity in the recruiting process helps minimize the potential for claims of legal misconduct. Therefore, a clearly written and communicated recruiting policy should be developed and reviewed by legal counsel. One department, usually the Human Resource Department, is designated to maintain and administer the recruiting program to ensure consistency in the recruiting process. This increases the potential of selecting an individual with the skills, knowledge and experience to be a successful employee and an asset to your company.

Define position needs: The first step in the recruiting process is to evaluate the need to hire a new employee. If this opening is the result of a termination, the company should consider whether this position can be absorbed by other positions, eliminated altogether, made part-time or filled temporarily? If a new position is created as a result of additional responsibilities or increased workload, the company should ask if this is a good time to consider restructuring for greater efficiency and use of current personnel.

Create job description: Companies should have a process that identifies and prioritizes job openings. Record keeping is an important element in recruiting. Accurate records should be maintained for each of the recruiting steps: current job description, recruitment methods used, applications received, candidates interviewed, candidate selected, and reason for selection.

Recruiting records provide evidence of the valid selection criteria used by a company to make hiring decisions, which help reduce the risks of discriminatory hiring practice claims. Click related links for information on Job Descriptions.

Determine salary: Salary determination is based on many factors, including candidate experience, job requirements, etc. Our section on Compensation discusses this further.

Prepare interview questions: Many costly hiring mistakes can be avoided with efficient interviews. Ask questions that tell you about the applicant's past performance, and formulate questions that relate directly to essential job functions. These types of questions can help you learn about how an applicant works with others and will increase your knowledge about the applicant's level of experience and skills.

Recruiting & Selection

Step 2

Find applicant source: Look internally, existing applicants, "friends of friends," job hotline, internet, schools, job fairs, professional organizations, outplacement candidates, advertising, recruiting firms.

Select advertising media: The number of advertising avenues open to organizations seeking new recruits has exploded with the advent of the internet. Traditional avenues, newspapers or

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headhunters now compete with 24/7 web sites specializing in recruiting. Determine your recruiting needs; how rapidly you need someone, the anticipated salary range, and skill sets, and take a stab at selecting an advertising medium. The best strategy could well be to choose more than one method.

Recruiting & Selection

Step 3

Review resumes: Pre-screening Applicants, do it fast; Pre-Screening is possibly the most underutilized step in the recruiting process. If you do an effective job of pre-screening, you can cut your recruiting time in half! Resume review; look for gaps - you'll need to question these. Sort the resumes into "Wants", "Don't Wants", and "Maybes".

Do look at your "Don't Wants" more than once! Many applicants have their resume professionally written. In order to evaluate their written communication skills, you might require your top candidates to write you a letter on why they believe they are the best candidate for your position.

Telephone screening: **You may want to** conduct a phone interview prior to setting a personal interview with a candidate. This is an effective screening tool. You can tell a lot about a candidate during a ten-minute phone screen! Prepare a list of questions to determine if the candidate has the key qualifications required and to also verify the candidate is within an appropriate salary range. Also ask about their availability!

Personal Interviews:

- **Application.** Always have the applicant complete an up-to-date application in full. An application has information that you won't get from a resume, like salary requirements and supervisors' names. It's black and white - not fluff. A legally sound application will authorize the company to check references, conduct pre-employment drug screens, notify the applicant of consequences of falsified information, and explain your rights to terminate employment at any time. Make sure the application is signed and dated. The application must be in compliance with the ADA and other laws. For a sample application, [click here](#).
- **Interview Questions.** Prepare a list of legally sound questions to ask every candidate during the personal interview. Leave space under the questions to write down the applicant's answers on the list. These questions must be job-related, as well as related to the written job description. For sample interview questions, [click here](#).
- **Listen.** The candidate should be doing most of the talking. A good interviewer listens the majority of the time.
- **Be Prepared.** Have complete information about the job that the candidate needs to make a decision; essential job functions, hours, start date, benefits, etc. Also be prepared to answer questions about the Company in general.
- **EEOC Guidelines.** It is illegal to discriminate in hiring on the basis of race, color, creed, national origin, religion, age (over 40), sex, sexual orientation, marital status, or physical or mental disability in accordance with applicable federal and/or state laws. Do not ask questions pertaining to these classes. See Acceptable Pre-Employment Inquiries under

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EEOC Guidelines. For information on EEOC Guidelines, [click here](#).

Consistent Hiring Practices: Don't interview drop-in applicants unless you are prepared to interview ALL drop-in applicants. This could lead to discrimination complaints if you are treating applicants differently.

Pre-Employment Testing: Pre-employment testing should be used only as one of the recruiting tools available. When properly implemented and utilized in conjunction with other normal hiring and interviewing tools, these testing instruments will strengthen the hiring authority's position to ensure that applicants and employees are treated fairly without regard to race, color, creed, national origin, religion, age (over 40), sex, sexual orientation, marital status, or physical or mental disability in accordance with applicable federal and/or state laws.

Background Checks: Employers who **use** consumer reports for employment related purposes must comply with significant new federal statutory requirements. In addition, employers who **provide** information to consumer reporting agencies are subject to the provisions of the federal Consumer Credit Reporting Reform Act of 1996.

- **Investigative Consumer Report** – According to Section 603(e) Fair Credit Reporting Act "as a consumer report ...in which information on a consumer's character, general reputation, personal characteristics, or mode of living is obtained through personal interviews with neighbors, friends, or associates of the consumer reported on or with others with whom he is acquainted or who may have knowledge concerning any such items of information."
- **Types of Investigative Consumer Reports**
 - **Criminal History Search** – Determines if the applicant's background includes misdemeanor or felony criminal activity including a series of confirmation checks on the applicant and the social security number to identify all residence locations per county checked.
 - **Credit History** – Uncovers the applicant's spending habits along with any debt or financial problems that could lead to dishonesty while employed with your company. To be used only if applicant will be handling money or finances.
 - **Employment History** – Identifies dates of employment, skills and abilities, attendance, performance, and overall work attitude.
 - **Education** – Verifies institutions attended, date of graduation, degree acquired.
 - **Motor Vehicle History** – A report disclosing D.W.I. (Driving While Intoxicated), and D.U.I.D. (Driving Under Influence of Drugs) incidents along with moving violations, accidents and license suspensions.

Written Disclosure and Authorization

Before an employer can get a consumer report for employment purposes, the applicant must be notified in writing. This notice cannot be incorporated in any other document. In addition, the applicant's written authorization must be obtained before a CRA is contacted with a request for a report.

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- **Adverse Action Procedures:** The background check may turn up concerns for you as a potential employer. The weight to be given to reports containing Convictions and Deferred Adjudications with a probationary period *currently* pending should be determined by the following criteria:
 - The relevancy of the unlawful behavior to the job (the nature or gravity of the offense);
 - The amount of time that has elapsed since the date of the unlawful behavior;
 - The likelihood that the environment in which the applicant would work might induce the individual to engage in further unlawful behavior; and
 - Safety considerations.

These same criteria should be used for concerns on other types of reports as well.

Recruiting & Selection

Step 4

Making the Hiring Decision: Did you feel comfortable with the individual's strengths and weaknesses, reliability and punctuality? Did they seem interested in the position? Did they ask relevant questions? Did they seem qualified and motivated to do the job? Have you considered the candidate's performance on any validated and reliable pre-employment tests as only one part of the decision? Have you checked references? Conducted background checks based on job-related criteria? Talked to previous supervisors? Verified dates of employment, salary, eligibility for rehire, and reason for leaving?

Recruiting & Selection

Step 5

Packaging The Offer: After making the decision, take the necessary steps to get the hire – fast! In a tight market, top candidates will not sign on without an attractive package. Check industry standards and see if they are in alignment with what is being offered. In making an intelligent offer, keep in mind the company's goals, budgetary constraints and ability to deliver the package. And, don't send out rejection letters to other applicants too soon, have an alternate candidate lined up. For a sample rejection letter, [click here](#).

Once you come to agreement, confirm the agreement with a welcome letter. For a sample, [click here](#).

Post-offer Drug Screening: Many companies are seeing a need to conduct post-offer drug screens so that they do not end up with the candidates who could not get a job elsewhere because they could not pass the drug screen there! REMEMBER: *Drug screens may be done after a job offer has been made, not before.*

Recruiting & Selection

Step 6

Orientation: Plan ahead! What impression does your company want to give to this very important new addition to your team? Most new employee turnover happens in the first few weeks of employment, and most of that turnover can be stopped with a well-planned orientation. Having no orientation or a poor orientation, reduces a new employee's initial productivity while adding to the

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rate of errors, not to mention deflating their enthusiasm. Remember, the most highly motivated employees are usually the newly hired employees. The orientation program, then, should pay attention to the new employee's need to understand and bond with the company culture.

Sample Welcome Letter

{Date}

{Applicant Name}

{Address}

{City, State Zip Code}

Dear {Applicant Name}:

This letter serves to confirm {company's name} offer of employment for the position of {position title}.

Your immediate supervisor will be {supervisor name and title} who will orient you to your job and our company. This letter confirms that you are to report to {supervisor name} on {date} at {time} at {location}. Your initial work schedule will be {number} days per week, {scheduled work days, i.e. Monday through Friday}, {scheduled work time, i.e. 8:00 a.m. through 5:00 p.m.}. Your starting salary will be {state compensation for a non-exempt position as a dollar amount per hour, i.e. \$10.00 per hour} {state compensation for an exempt position as a dollar amount per pay cycle, i.e. \$2,000.00 per month}, and because your position is classified as {select either exempt or non-exempt}, you will {select either be or not be} eligible for overtime pay. This letter is not to be considered a contract guaranteeing employment for any specific duration. As an at-will employee, both you and the company have the right to terminate your employment at any time.

During your first day of employment you will be provided additional information about the {company name} objectives and policies, benefit programs, general employment conditions and completion of employment and benefit forms. To fulfill federal identification requirements, you should bring documentation to support your identity and eligibility to work in the United States. For example, a valid U. S. passport or Alien Registration Receipt Card are acceptable documents to establish both identity and employment eligibility. Additionally, a current driver's license or voter's registration card **in addition to** a social security card or a certified birth certificate copy will establish identity and eligibility to work. The types of acceptable documentation are listed on the Form I-9 of the Immigration and Naturalization Service. Please contact me if you have any questions about which documents are acceptable to verify your identity and eligibility to work in the United States.

We are pleased to have you join our organization as a member of what we feel is a company that offers each employee an opportunity for personal and professional development. I look

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forward to working with you in the future, and hope you will find your employment with {company name} a rewarding experience.

Sincerely yours,

{Contact Name}

{Contact Title}

Climate Survey Step 1

Triggers for Conducting Climate Surveys:

Employee climate surveys and the action plans they generate, can be used for estimating the effects of short-range organizational changes, for identifying immediate needs, and for long-range planning. The climate survey should be viewed as a decision-making tool, a management development catalyst, a mirror of employee morale and/or dissatisfaction, and ultimately as a resource for creating smoother running organizations by promoting clear communications and a focused Human Resources Department.

Properly conducting and acting upon climate surveys takes a lot of time and effort. It also will require complete management commitment in order to implement the findings. As a result, it is imperative to understand the best times to start the process. The five main triggers to conducting a survey are:

- **High Turnover**
- **Employee Complaints**
- **Customer Complaints**
- **Low Morale**
- **Low Productivity**

It is also critical to understand when NOT to start the process. The main times to avoid this process are peak production times, holiday & vacation periods, times of labor unrest, and periods of management or structural change. These are high stress times which will skew the results, and the likely lack of implementation (due to the circumstance involved) may send out the wrong signal and backfire.

Climate Survey Step 2

Determine Scope of Survey:

If a survey scope is not defined, an employer might as well just send out a blank piece of paper. Some people will send it back without anything of value contributed, while others may submit a whole stack of "suggestions" or complaints. Set the ground rules early by defining the scope of the survey.

- **Intended Audience:** Who will be participating in the survey, and who will be receiving the results? These factors will help determine what questions you ask, and how you

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word them. It will also affect what kinds of responses the participants give.

- **Subjects to be Explored:** It is important not to give "carte blanche" to the participants. It makes it much harder to effectively evaluate the results. It also can detract from the employees' productivity. Instead of them concentrating on the survey for a half-hour, they might end up losing a half a day of productivity instead, and also causing the analysis team to lose productivity because they have to filter through a bunch of useless input.
- **Details of Information:** As above, it is important to specify the amount of detail the participants are supposed to give. If they are to judge supervisory style, do you really want them to list 100 different things they don't like about their supervisor? For a question like this, perhaps specify that they should give up to three specific examples of things they don't like about their supervisor's style or that they think needs improvement.

Climate Survey Step 3

Determine Survey Methodology:

Methodology is key for a survey. The greatest pitfalls in conducting surveys are:

1. Failure to Respect Confidentiality;
2. Failure to Obtain Employee Feedback; and
3. Failure to Act on Survey Results

The first two pitfalls can be directly linked to the methodology. First and foremost, the organization's senior management must make a real commitment to the concept. If the organizational culture is such that upward communication is generally welcomed, a survey can help focus attention on problem areas. If a company is going to do a survey, it must commit to listening to what employees have to say, address their concerns openly and honestly, and make changes based on the survey results. Without that commitment, stop here, and go find something else to do. The worst thing a company can do is conduct a survey in an environment where upward feedback is not welcome. Employees are smart enough to see through a false commitment, and the company may only succeed in creating an employee relations disaster.

With a good, positive corporate culture, climate surveys can work wonders. Released from fear of retribution, employees tend to be candid about their concerns and suggestions for improvement. There are five types of survey tools used most often as noted below. Select the one your company can get the most accurate and complete responses from. Remember to always respect confidentiality, and strive for honest and open employee feedback from all participants.

- **Paper Questionnaire**
- **On-line Questionnaire**
- **Focus Groups**
- **One-on-One Interviews**
- **Anonymous Hotline Response**

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Climate Survey Step 4

Determine Method for Compiling Survey Results and Sorting Data:

Ideally a company does not want its management team sifting through data for a long time. The key is to set up and organize the method of handling survey results.

The first step is to make sure and get the results back. To avoid any problems, the simplest way to accomplish this is to put all the employees in a room, and not let them leave until they have finished the survey. That can work, but it also can sometimes tend to take away some of their openness if they feel under pressure. They may also come up with some good ideas if given time to think about it overnight.

In addition, the survey should be set up so that the data received can be sorted into categories for efficient analysis. Planning ahead can save hours of time.

Once this has been determined, the survey can be properly designed.

Climate Survey Step 5

Communicate Purpose of Survey and Request Employee Participation:

Remember the big 3 pitfalls:

1. Failure to Respect Confidentiality;
2. Failure to Obtain Employee Feedback; and
3. Failure to Act on Survey Results

Effective communication must be made to address these issues BEFORE they become a problem. Participation should be voluntary, but if communicated properly and with a sincere commitment from management, most employees will welcome being a part of "the solution.

Climate Survey Step 6

Conduct the Survey:

If all the previous steps were done properly, this step should go rather easily!

Climate Survey Step 7

Compile and Analyze Survey Results:

There is an old saying that one can make statistical numbers reflect anything they want them to reflect. That would obviously defeat the purpose of conducting the survey, so an objective analysis must be done.

There are five common mistakes made when analyzing data:

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1. "Rush to conclusions" syndrome. It is easy to draw preliminary conclusions from incomplete data and then continue to select subsequent data that support these conclusions. As an analysis draws to a close, there is a natural tendency to bring the project to a close, and less attention may be given to factors that if explored further may be significant. Try to refrain from drawing conclusions early in the analysis.

2. Graphical misrepresentation. Errors are often made in visually representing data. Check graphs, charts, or tables for accuracy. Redo calculations that were used to condense data.

3. Statistical analysis errors. Ensure that all of the statistical tests were performed correctly. In the case of employee climate surveys that are done at regular intervals, it is often best to replicate the original procedures.

4. "Analysis paralysis." It is often easy to go to extremes with data analysis. It is easy to apply a variety of statistical techniques just to see what kind of results can be obtained. However, over-analysis can focus on issues that have little significance to the overall study. Do not let the analysis phase go on indefinitely. Replicate all tests on the data to be sure that results are consistent. Remember that you are creating a baseline procedure for your next assessment.

5. Manipulated results. The results should be based on actual and not manipulated results. You may get pressure from someone within the organization to alter findings to conform to their point of view. However, the findings should be presented intact if the long-term results are to be satisfactory.

**Climate Survey
Step 8**

Report Survey Results and Analysis to Management:

Once the objective analysis has been completed, the results need to be presented to management so they can decide how to address the issues.

**Climate Survey
Step 9**

Create Action Plans to Address Issues Identified by the Survey:

Remember the final pitfall of the big 3 "Failure to act on survey results." It is critical for management to demonstrate their sincerity and strong desire to resolve issues by creating specific and measurable action plans.

**Climate Survey
Step 10**

Communicate Action Plans and Involve Employees in the Execution:

Once the action plans are formulated, they need to be communicated effectively to the employees and any other participants. If properly set up with specific and measurable goals and steps, it can be very productive and a boost to morale to get the employees involved. This empowers them to be "part of the solution."

**Climate Survey
Step 11**

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Monitor and Communicate Success of the Action Plans:

For those who are not directly involved with the implementation of the action plans, it is important to communicate the status and success of the action plans. Over time, many of the employees who didn't actively participate at first may be swayed to become more active, as they see management's commitment to improvement along with a positive, open corporate culture.

Climate Survey Step 12

Recognize and Reward Employees Who Played Leadership Role:

An ultimate goal of this process is to empower the employees to work with management to effect changes for the betterment of everyone. Part of the empowerment process is to publicly recognize and reward those who helped the process by accepting a leadership role. For more information on recognition programs, see our Recognition & Rewards section.

Recognition & Rewards Step 1

Determine Program Goals & Objectives: Think through why and how this employee recognition program will benefit the organization. Will it increase employee retention and loyalty? Will it increase employee morale and productivity? Will it ultimately contribute to making the organization more profitable? Be clear about the desired performance and behaviors the organization wants to encourage – this means clarifying corporate values. Remember - behaviors that are rewarded are likely to be repeated.

There are several sources to tap into in determining the program objectives. Talk to management and employees about their expectations from a recognition and rewards program. Talk to your competitors or other local businesses to determine what they are doing for their employees. Once you analyze all the information and decide on the objectives, touch base with your management team to see if they think the guidelines and/or measures are reasonable and will be perceived as worthwhile.

Recognition: Is mainly related to "awards" consisting of both non-cash or modest monetary awards derived from corporate values reinforced by desired performance or behavior. These are separate from the overall compensation model of the organization, and can be allocated in a lump sum figure under employee relations for purposes of the budget. The following is a starting point and should not be considered an all-inclusive list.

- **Longevity Awards:** This type of program recognizes service with the employer. This is probably the most common type of award and is usually conferred for increments of time (i.e., every 5 years, every year, etc.). This can be a component of your retention program, and is key to making long-time employees feel appreciated and valued. The recognition sometimes includes company-wide recognition in the newsletter or company intranet or LAN, and a letter from the head of the company. Often the award includes a pin, plaque, framed certificate, or the option to choose a gift from a company-approved catalog. These are having less impact today because employees are becoming "free agents". The loyalty contract was broken during the 80's with the widespread downsizing of companies.
- **Spot Awards (Spot Bonuses):** Another unique program is designed for immediate

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recognition for outstanding performance. One way to use this program is to instill the importance of a habit. For example, a delivery company may want to have a safety representative follow their drivers and randomly give out a "safe driving" bonus once a week to encourage safe driving. Another way to use this program is to give awards for a great suggestion that has (or is anticipated to) increase productivity and/or profitability. This can encourage others to actively participate in a suggestion program. A third way to use this program is to have a discretionary fund available to reward an employee who has gone "far above and beyond the call of duty" on a specific project and deserves immediate recognition. This type of program is designed to focus on a one-time achievement with instant recognition, rather than sustained performance over a period of time. A common award may be on-the-spot cash awards of anywhere from \$5 to \$100 depending on the policy, or it may be additional paid time off or some small gift award.

- **Noteworthy Performance Awards:** As the name implies, these types of awards are for outstanding performance. Unlike the spontaneous spot awards, these awards are usually based on performance over a period of time, or on a particular project the employees have been working on. In addition to some type of tangible reward such as cash or additional paid time off, there may be other appropriate intangible rewards, such as asking the recipients to offer tips or otherwise lead a group meeting, enhancing their perceived status and reinforcing their value to the company.
- **Peer Recognition Awards:** Another very common program is the "Employee of the Month" type of award. Usually this type of program is set up so that employees can nominate their peers, or managers can nominate their subordinates. Some employees feel this is more important than other awards because of the peer recognition factor. There may or may not be a tangible reward tied to it, but the employee (and their peers and customers) will get to see the employee's name (and sometimes their picture) posted on the company's wall.
- **Company Achievement Awards:** Usually reserved for management (but not always), these types of awards are designed to encourage productivity and teamwork. They are usually based on the company achieving some type of pre-determined goal, such as increasing revenues or profitability. Based on the level reached, the award level may also increase. Sometimes a company will allocate a percentage of the profits (over a certain baseline) to be shared among the participating employees. This type of award can be part of a retirement plan to avoid taxation, or it can be in the form of some type of cash, ownership, or additional perks or benefits.
- **Trophies or Gifts:** A low cost, but effective award, is to give a tangible item of recognition, such as a trophy, plaque, certificate, or other small gift or pin with the company's logo. Some companies set up an awards program where the employee has a choice of gifts out of a catalog, where their selection options are all in a similar price range. For example, a 5-year anniversary gift option may have a price range of \$80-\$100, and a 10-year anniversary gift option may have a price range of \$150-\$200.

Rewards: Usually have a direct tie to the total compensation package of the organization and for this reason, should be perceived as having notable value. Since reward programs are usually tied to total compensation, they should be budgeted appropriately.

- **Monetary Rewards:** There are several forms of monetary rewards to consider, but first, one must consider taxable and non-taxable issues. Although the non-taxable money, in the form of a contribution to a retirement plan, costs the employee less, an

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employer may often have to reiterate the impact to the overall compensation offering since the employee doesn't have ready access to the money. Other effective monetary rewards are immediate and taxable, including immediate cash, a bonus, a raise, or a new incentive plan. In addition, consideration should be given to whether the monetary rewards are to be based on individual achievement, company achievement, team or all of the above.

- **Ownership & Long Term Incentives:** Offering ownership in the company is a very powerful retention and performance enhancement tool. These types of rewards can come in the form of stock options, promotion to a partnership, or other form depending on the structure of the company.
- **Perks and/or Benefits:** There is no limit on the types of perks a company can offer. This can include a free lunch, a premium reserved parking spot, extra paid time off, a new desk, a new office with a view, a new title, membership in a gym or country club, and anything else that would serve as motivation to that employee and to others to repeat the behavior or performance.
- **Career Advancement:** Always an issue, job security and career advancement is a huge incentive. This may include a promotion, a contract extension, being given additional responsibilities & authority (without a promotion), being given extra training, being given opportunities for more visibility (paid trips to business conferences, company speaking opportunities), and other rewards that increase job security and help to advance career growth.

Define Eligibility Criteria: Clearly define all those eligible for each type of recognition and reward incentive. Do not leave any room for misunderstanding. Should all employees be eligible or not (consider part-timers, temporary or contract employees, management vs. non-management, etc.)? There is nothing that will destroy morale faster than to have an employee think he/she earned a reward (possibly already having decided how to spend the cash), only to find out after the fact they weren't eligible.

Determine Budget: Make certain the program is affordable before communicating it. Tip: always calculate the cost of the problems encountered before implementing the program, so that after program implementation, management can compare costs of the problem to cost of the solution. That's the best way to determine what the budget number needs to be!

Include General Policy Statement in Handbook: Avoid getting so specific that the handbook has to be continuously changed to accommodate changes to the program, but do include a policy statement in the company handbook that addresses strategic management commitment to employee recognition and rewards.

Recognition & Rewards

Step 2

Identify the Decision Makers: Specify who the decision makers will be, and what the consideration and determination process is. The "best" decision maker may vary with the objectives of each type of employee recognition program. Although determining 5-year anniversaries is relatively simple and objective, determining spot bonus/awards, for example are different. Who would be authorized to determine if employee warrants a spot bonus award?

Ideally, a company will be able to distribute the authority and responsibility for each program as widely as possible to get the most participation and acceptance by the employees. A wide

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distribution of authority generally helps to ensure timely and more objective recognition, which is extremely important for the program to be effective.

Recognition & Rewards

Step 3

Determine Recognition Timing: The purpose of the award should drive the timing. Anniversary awards should be on the anniversary, company achievement awards should be fairly soon after results are published, etc.

Attempt to encourage smaller awards more frequently, and as qualified situations arise. It is important to be prompt in saying "thank you". Otherwise, the effectiveness of the program is diffused.

Assign those awards of a competitive nature (i.e., Employee of the Month/Year) to a schedule. The more significant the award, the more likely the timetable for nominations, evaluation, final decisions, and the ultimate reward will be drawn out. Calendars with due dates and deadlines need to be set up to ensure timely recognition.

Recognition & Rewards

Step 4

Communicate the Recognition: Deciding how to communicate a recognition program will depend largely on the culture of the organization, including how comfortable the employees and managers are with being on display. In some corporate cultures, recognition by peer groups is important. In others, incorporating a written acknowledgement in the company newsletter will suffice. For some awards, such as spot awards, the award itself may be all that is necessary (let word of mouth take care of communication). Other types of employee recognition programs and cultures may require more elaborate ceremony by providing recognition at a company function in front of all employees.

Remember not to forget Human Resources and Public Relations. Any awards given should be noted in the employee's personnel file for consideration at performance appraisal time or promotion time. It may also be appropriate for certain awards to be acknowledged with a press release to local newspapers and other media sources.

Recognition & Rewards

Step 5

Review the Program: Is the company getting the desired results from the program(s)? This question should be asked on a regular basis to determine if there is a better way to recognize employees. Calculate the cost of the program and weigh its measurable value against the cost of the problems encountered before the rewards/awards programs were implemented.

If the program is not living up to expectations, it should be modified. Perhaps the program is working well, but circumstances (i.e., budget, number of employees, etc.) have changed that warrant a reconsideration of the program objectives.

Be prepared to change the employee recognition program as appropriate to the situation. Listen to the company's grapevine, employees, and managers to be ready to suggest alternatives and changes. Confidential climate surveys might be one way to check the effectiveness from the employees' perspective. All recognition programs should be reviewed periodically, but at least annually, to validate those that are working well, modify others, and reduce or eliminate those that are not working or are no longer needed.

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Compensation: Management Strategy

Mission, Values & Goals

Customers pay only for what they value. An organization's compensation plan should do the same. Determining what the organization's values are concerning pay is the first step in building a fair compensation plan. Employers that pay "SMART" adopt compensation philosophies that resemble their guiding business principles, beliefs and philosophy. Your compensation philosophy should lend itself to your organization's mission, values and goals. For example, if your organization's mission is to be the world's leading provider of widgets, then your compensation philosophy might include a commitment to attract and retain widget makers who demonstrate ability to produce the highest quality widget, becoming an 'Employer of Choice' for top widget makers. Knowledge of your organizational objectives, that is, what is to be accomplished by your organization over the next few years, is critical for building a compensation system. Want to know more about compensation values, [click here](#).

Compensation: Management Strategy

Department Goals & Objectives

Managers must translate the business objectives into specific departmental goals and objectives. These goals and objectives provide the framework from which specific job duties can be established.

Compensation: Plan Design

Job Analysis

Designing your compensation plan is not nearly as difficult as shaping people's perceptions of it and ensuring that the people it's meant to serve embrace it. An excellent way to begin this process is to get employees involved in job analysis – a systematic way to gather information about their jobs. For more on job analysis methods, [click here](#) . Getting employees involved in the compensation plan design process through job analysis does several things to help set the stage for a fair pay program:

1. The employee has an opportunity to participate in one of the most important steps in designing their fair compensation plan.
2. It validates the compensation plan design based on the actual jobs being performed.

During the job analysis process, information about each job is gathered through a number of ways to determine if the job meets the organization's needs. Job analysis is frequently conducted via job analysis questionnaires. Completed questionnaires can be validated by a supervisor of, manager of or subject matter expert on, a particular job and it's purpose. Depending on the job and time involved, organizations may chose to conduct job analysis by the direct observation method, personal interviews or any combination of other methods.

Compensation: Job Analysis Methods

Approach	Major Advantages	Major Disadvantages
Direct observation	Helps job analyst understand work being performed	Time-consuming

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Individual interview	Not dependent on incumbent's written communication skills	Time-consuming
Group interview	Same as above, but less time-consuming to interview several incumbents at once	May inhibit individual response in group setting May misclassify two jobs as one
Technical conference	Same as above	Same as above
Diaries/logs	Can provide complete picture of job	Time-consuming
Open-ended questionnaire	Quick turnaround time Inexpensive Flexible design Can Serve multiple purposes Can support other job-analysis	Sometimes difficult to get them all returned Limited usefulness with unskilled/semiskilled employees who have limited language skills Incomplete/inaccurate response requires follow-up Watch for inadequate responses or deliberate misstatements
Highly structured questionnaire	Can provide HR data for many purposes Level of detail may aid credibility of results	Time-consuming Expensive to develop or purchase

Adapted from WorldatWork formerly known as American Compensation

Compensation: Plan Design

Job Description

Next, a job description is prepared which summarizes the essential duties, requirements, scope of responsibility and other critical or desirable aspects of the job. The job description is critical because it helps the organization determine whether each incumbent or potential job candidate has the skills and qualifications for the job. In short, the job description serves as a tool to help ensure that the job is filled by candidates who can do what the job was intended to do. In the compensation program, the job description serves as the baseline for determining where pay for performance guidelines begin. Job descriptions describe a job's essential and nonessential functions as well as other job requirements and responsibilities. The job description is the end result of a job analysis and should be reviewed and updated as the organization, department and position needs change.

Compensation: Plan Design

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Job Evaluation

Employees in similar jobs are usually classified in job groups or job families that are treated in the same manner for compensation purposes. Each job family or group is usually valued according to the skill, responsibility, and certain other 'compensable factors' used to determine the value of jobs within an organization. To determine the value of jobs within the organization, many HR professionals conduct a job evaluation process which gives a certain weight or value to jobs which have the same level of skill, knowledge, responsibility, effort or working conditions. Job evaluation helps to provide employees with a baseline of how their jobs will be treated fairly and similarly within an organization. This is especially important when employees complain of other employees in the organization who get paid more for performing the same job. Employees frequently compare compensation with those in equivalent positions. Those who believe they are being treated unfairly might seek a raise, look for a new job, or lose motivation. Organizations that are attentive to these types of issues frequently use job evaluation as a tool to systematically review individual jobs to determine their comparable worth within the company. Because most organizations do not rely solely on external equity considerations or market pricing strategies to dictate their compensation plan, the job evaluation is also helpful in this manner. Job evaluation, then is simply assigning a given number or weight to a job that helps determine the value of that job in comparison to other jobs within the organization.

Compensation: Plan Design

Market Wage Survey

What is your pay trend – lead, lag or mid-way?

One of the ways an organization can quickly check its compensation temperature is to conduct a market wage survey. Organizations who keep close tabs on what other industries are paying in the market can better gauge their ability to be competitive and retain top talent. Before a market wage rate can be determined, one must benchmark the position, that is, to find a market position that is comparable in terms of the job duties, scope of responsibility, and requirements for the job. Benchmarks can be grouped according to geographic region, industry, revenue, or any other factor that identifies an outside position as a potential match to the one in your organization.

Then, market wage surveys are usually conducted to give employers an accurate picture of what the wage rates are for that particular position. Pay rates for jobs are gathered in a survey and arranged from highest to lowest paid for that job. The object of this 'market pricing' strategy is to help you determine if you're going to pay lead, lag or mid-way the market. Most employers determine early on in the preparation phase if they are going to represent their base salaries as falling slightly above (lead), slightly below (lag) or directly meeting the market's average pay. Market wage rates are the most common salary drivers for small employers, employers undergoing rapid growth, and employers that must compete for a limited pool of technical or professional talent.

Should you benchmark every position in your organization? A good rule of thumb for compensation professionals is 20% of jobs represented in your workforce ranging at all levels of the organization or you can benchmark as many positions as you have comparable data.

Compensation: Plan Design

Pay Structure

A pay structure is a series of pay ranges or pay grades representing an arrangement of wage

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rates you are willing to pay for a job within that group. Using the job evaluation points and market pay rates for each internal job, a pay range is calculated to obtain minimum, maximum and midpoint salary rates. Although this is achieved using mathematical formulas and scatter plots in graphic form suggesting strictness and rigidity, actually your pay program, when complete, should be flexible allowing for necessary exceptions, but always consistent. The goal of your pay structure is to serve as a guide; it is not to be the all-knowing, answer all to every compensation challenge within your organization.

Compensation: Performance

Performance

A well-designed compensation plan can fall short of the goal of motivating strong performance if it fails to align strategies with desired performance results. When designing a compensation program, one of the basic decisions to be made is "What compensation strategy will be most effective in motivating employees to perform well?"

There are traditional systems that primarily focus on base pay, employee benefits and tenure. These systems stay heavily tied to the job description and employees are rewarded for meeting the requirements of the job in a satisfactory manner. These systems tend to work well with established organizations in the mature phase of their business life cycle in markets that are stable. Traditional plans mainly focus on merit pay increases, general increases, length of service increases, and cost of living adjustments.

Performance Standards

Performance standards (sometimes referred to as performance objectives) are the criteria by which performance is measured. Standards are always measurable, specific, and bound by a specific time period. They are achievements, not activities, related to accomplishment of a goal.

Compensation: Performance

Individual Performance Appraisal

Performance appraisal systems are the tools used for communicating ongoing performance expectations and for providing feedback regarding achievement of performance goals. Appraisals may be informal. However, in order to be effective, they must be conducted in a professional manner. Performance appraisals are the number one tool for supporting decisions regarding merit increases. Performance appraisal is most effective when performance expectations have been clearly communicated and performance goals have been established with employee involvement. It is also important for performance goals to be job-related. Employees must clearly understand the performance standards that they are expected to meet and have a reasonable opportunity to achieve the standards. Factors that employees have no control over should not impact their individual performance appraisal, and there should be meaningful distinctions between performance expectations for jobs with different skill levels. Good communications must exist in organizations where performance appraisals are used to communicate performance expectations.

Compensation: Performance

Merit Increase Guidelines

Merit increases are periodic increases based on ratings from individual employee performance appraisals. In a merit increase system, there is a certain percentage of pay for performance. The percentage of increase is determined by the employee's success in meeting performance goals as measured by the mutually established performance standards. The objective of merit pay programs is to motivate employees to improve performance of duties outlined in the job

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description. This strategy has the added value of supporting employee retention, controlling costs, and identifying poor performers. To be successful, merit increase systems have to be clearly publicized and communicated with employees in advance so that employees see a distinct relationship between their performance level and their potential increase in pay.

Merit increases must also be carefully constructed to account for increase limits, timing of increases, and amount of increases as they all relate to budgetary constraints. For this reason, many companies use distribution guidelines which offer supervisors and managers guidance in the number of employees they should have in each performance category, with special authorization required for policy exceptions.

Compensation: Performance

Alternative Rewards (Pay-For-Performance Systems)

Alternative reward systems are other variable plans that focus primarily on pay-for-performance strategies where more emphasis is placed on incentives, skill-based pay and bonuses. There is more variability in alternative reward systems. Because of this, they usually encourage more growth and learning across departmental boundaries. Dot.coms, start-up businesses, those with fluctuating markets, product lines or growth rates usually find alternative reward systems attractive because of their flexibility and their direct relationship to business performance. Since alternative reward systems allow for variations in line with the business cycle, they link compensation costs directly to business performance and success. Thus department teams or individual incentives usually drive these systems.

Note that many incentive pay systems may have the unintended effect of altering the hourly wage rate used to calculate overtime compensation for non-exempt employees. Many employers unwittingly fall into this without realizing the full impact of their actions.

To view more on incentive plans and other alternative forms of pay, [click here](#).

Incentive Plans

Incentive plans designed to motivate changes in employee performance focus less on traditional base pay arrangements and more on changing performance outcomes by linking salary to a variety of performance measures. Under incentive plans, employee increases are based on measurable contributions to business success and not simply performing the job as per the job description. Incentive plans can be designed to increase productivity, profits or some other measure of business success, like decreasing operating costs. The goal of a properly constructed incentive plan is to give employees some control over their salary because a portion of the pay is based on performance beyond the job description.

Traditional Pay Versus Incentives

A traditional pay position sets a fixed salary for a particular job. Raises come on the basis of periodic employee performance appraisals. These appraisals rate the worker through the eyes of a supervisor looking at the employee's job performance. The outcome of the appraisal dictates the level of base pay increase, called a merit increase, which the employee receives.

Incentive pay connects the employee's compensation with performance or results of an employee, the employee's team, the organization as a whole or some targeted project or goal. These results become the measures that are reviewed to determine the level of incentive pay.

Types of Incentive Pay

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A run down of common types of incentive pay:

Profit-sharing: Cash profit-sharing plans link compensation to organizational performance. Employees receive cash rewards (bonuses, etc.) based on established measures of the company's profitability.

Piecework: Production work. Compensation based on the number of units produced by an employee over a specified time.

Cash Bonus: Lump sum compensation, typically on a quarterly or annual basis, for achieving short-term goals. Cash bonuses can also reward targeted performance areas for individuals.

Skills-Based: Pay levels for an employee is based on the number of, or kinds of, jobs that employee performs. As in most incentive pay plans, the idea is to maximize contributions to the organization, in this case, through cross-training.

Gainsharing: Group awards. The thought behind gainsharing is that it builds supportive behavior among teams or groups of employees by focusing on efforts in cost savings, productivity, and quality which are measures only within the specific group or team.

Sales Commission: Compensation based on incentives is not new to sales. Employers have long seen the benefit of tying the financial self-interests of salespeople to the marketing objectives of the organization. Today, employers extend similar arrangements to employees in sales related (or support) positions.

Designing Incentive Pay

There are six issues that must be addressed when designing a compensation plan based on Incentives.

1. Participation parameters
2. Level of risk pay
3. Eligibility requirements
4. Time period for awards
5. Performance criteria
6. Communication

1. Participation Parameters

Will the basis for award be on group results, or an individual's performance? Typically rank and file employees and lower-level management are awarded by group, based on the success of an employee's team or group performance, while executives are more likely to see individual incentives based solely on their performance. (Caution, if you choose to implement individual incentive plans, have a mechanism in place to track each employee's plan and be aware of the administrative nightmare of tracking numerous plans.)

2. Risk Pay Levels

The percentage of potential pay should dictate the level of risk for that pay. Higher awards require more profitable, measurable outcomes. Such awards should be accompanied by the

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risk of little or no award if the measurable outcomes are not reached.

Designing such a plan will quickly delineate between the levels of risk. Jobs where the employees can exercise meaningful control of their performance targets can be ask, and may want, to assume higher levels of risk for pay. Typically these will be employees higher on the organizational ladder.

Jobs where employees exercise little control over their performance targets, due to outside influences, or other factors, should be offered lower or no risk levels for their pay. These incentives are found lower on the organizational ladder.

3. Eligibility

The job is important here. How does the job impact the organization's bottom line? And is that impact measurable? If there are many factors contributing to job performance that are beyond the employee's control, the employee may view a plan based on risk pay as prohibitive. Such employee's compensation should be included in a more traditional pay plan.

4. Time Period

The length of time in which to evaluate measurable results for determining the percentage of the incentive to pay should be based on the goals of the plan. Traditionally management has seen incentives based on long term growth, while lower level employees have short-term goals.

5. Performance Criteria

A sound incentive plan will lay out specific goals to be achieved to reap the incentive. Such milestones will be aligned to organizational objectives, and will be ambitious, yet realistic. These performance criteria can be determined on an individual or group basis, as determined by the participation parameters. A good rule of thumb is 70% achievable, 30% a stretch.

6. Communication

A plan can only be considered successful if it is well understood and appreciation by employees. The secret to this understanding is to clearly communicate the plan. To facilitate such understanding and appreciation, three things must be communicated to employees:

1. The basis for paying incentives
2. The reasons for withholding incentives
3. The goal of the plan

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