

EFFECTIVE RETENTION STRATEGIES FOR IT PROFESSIONALS

By Adele Kimber

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This white paper looks at the issue of **staff retention** in an increasingly competitive market for IT professionals.

The content is based on a recent seminar organised by The IT Job Board and recruitment consultancy Progressive and features input from the main speaker Edward Gallagher Recruitment Manager for EMEA at Openwave alongside market information from Ray Duggins managing director of The IT Job Board and Tim Lloyd managing director of Progressive. It includes input and reflections from delegates at the seminar – a cross-section of IT managers and HR professionals responsible for the attraction and retention of IT professionals across British industry.

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About the author

Adele Kimber has been writing about the world of work since she joined the launch team of Personnel Today in 1987. She became editor of Personnel Today in 1990 when she also launched its supplement, Training. Her subsequent career took in a regular stint covering careers for the Daily Mail, working as launch editor on leading careers and jobs website, totaljobs.com, and managing a relaunch of IRS Employment Review. She now runs Working Week Communications, a niche publishing business that focuses on work and careers.

1. WHY RETENTION IS IMPORTANT

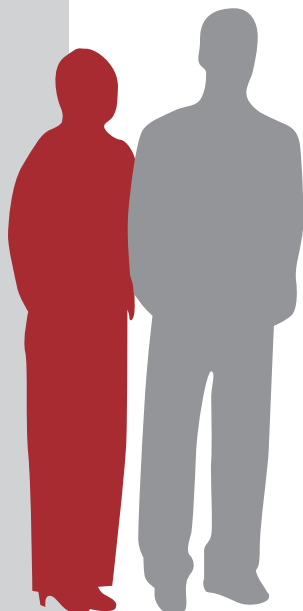
The cost of recruitment

The cost of high staff turnover is substantial. It includes not only the direct costs of replacing people but knock-on effects such as the loss of key skills, disruption to projects and a significant burden on line managers dealing with replacing and training staff.

Retention needs a broad long-term plan and must be integrated into recruitment planning. Holding on to staff begins long before individuals join an organisation. The image an organisation portrays is important and will impact on the type of people recruited and the likelihood that they will stay.

Research from the Chartered Institute of Personnel and Development (CIPD) says that a great deal of employee turnover comes from people resigning or being dismissed in the first few months of employment. Poor recruitment and selection decisions are often to blame, along with poorly designed or non-existent induction programmes.

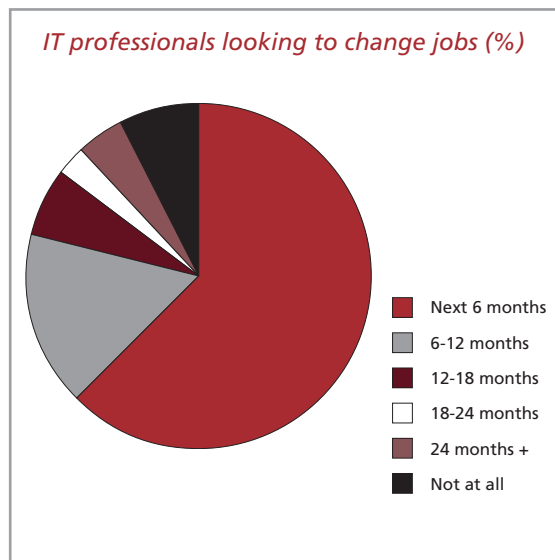
Organisations that successfully retain staff need effective policies ranging from recruitment through induction to career development, reward and working conditions. Employers who are good at holding onto their staff have well thought out strategies, based on solid data and feedback from staff that have the backing of senior executives. The best strategies will help organisations to compete for staff in an increasingly competitive market.



The IT recruitment market picks up

The recent increase in recruitment activity in the IT sector threatens a return to the battle for skills witnessed in the late-1990s in technology with counter offers and multiple job offers available to the best candidates and companies fighting for smaller numbers of available staff.

Recent research from The IT Job Board among 3,000 IT professionals has found that 54 per cent are looking to change jobs in the next six months. The figure signals a steep change in the jobs market. If anywhere near this number of people manage to move it would create a rapid increase in recruitment activity and a major challenge for employers. Compare this to the high point of 48 per cent of staff who changed jobs in one year in the South East at the height of the dotcom boom.



"The churn is coming – we are seeing it already. The war for talent is back in IT," says Ray Duggins, managing director of The IT Job Board.

Duggins reports a serious skill shortage also developing in the contractor market, where

contract rates are starting to go up again. This in turn creates a worry that a skills gap will reopen within the permanent workforce.

For example IT banking recruitment consultants report that around half of all candidates who are offered new jobs, are getting counter offers from their existing employers. IT professionals are being offered an average 25 per cent hike in salary to stay.

Tim Lloyd, managing director of IT recruitment consultancy, Progressive says his experiences match The IT Job Board research. Progressive had 67 per cent more jobs registered in February 2006 than in the same month in 2005. Lloyd says that in September and October last year, the firm saw activity start to increase but it was still not sure that the market was recovering. However, the high number of jobs coming through in the first few months of 2006 has made recovery much more certain. Lloyd points out that Progressive does a lot of advertising and is suddenly having to work hard to find candidates.

A substantial increase in recruitment activity in the IT market will be driven by renewed confidence among both recruiters and candidates. There is clearly growing confidence within organisations with more IT projects winning backing and therefore more skills and candidates in demand. Lloyd argues that candidates are also more confident and this makes employees more likely to move on. As activity picks up, holding onto staff will become a huge issue.

2. DEVELOPING A BUSINESS CASE FOR RETENTION POLICIES

A more competitive recruitment market means that employers need an integrated solution for recruitment and retention. Without an effective strategy in place, employers face a revolving door with experienced and skilled employees tempted away as quickly as new staff are recruited

Understanding the market

Ed Gallagher, head of staffing for EMEA at technology company Openwave argues that retention must be the number one topic on the agenda for HR professionals in IT.

The importance of retaining staff is driven by several factors. These include: a significant improvement in the IT and telecoms market; the slow market conditions of previous years; lower volumes of available skilled workers; the high percentage of skilled workers needed; and the expense of training, replacement and cover.

Gallagher argues that a stable employment market in previous years with little job movement has made employers complacent about looking after their staff. There have not been many vacancies in the market and many have ignored career development.

"The market is now like a coiled spring. Employees knew there was nothing out there and so stayed in their jobs and HR got lazy. Now there are far more companies looking for staff, and employees are ready to listen" he says.

Alongside the challenges likely to be created by increased recruitment activity lies a smaller pool of potential recruits. Several factors are combining to create a skew in the total numbers available – many people have moved out of IT, lower numbers have been going to university, and there are lower numbers wanting to go into what is still considered an unstable sector.

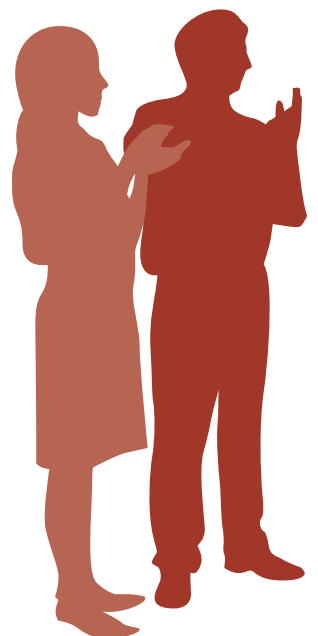
The internet is also adding power to the candidates. With instant access to job opportunities and information on prospective employers, they can find out precise details on what they should be paid, what skills they require and how to put together a winning CV. All this information makes them more likely to have the confidence to move jobs.

Measuring Turnover

An effective recruitment and retention strategy needs evidence, a bespoke plan and long-term commitment. It is vital to understand as much as you can about how you recruit, where you recruit from and just how effective and efficient your recruitment activities are. Information about your ability to retain staff is just as crucial.

Detailed understanding of staff turnover rates across an organisation and within individual departments is important. It helps to convince senior management of the merits of a recruitment and retention strategy and helps to win real backing to make it work in practice.

Establishing a clear method of calculating current staff turnover is a useful starting point to predict what will happen in the future, to understand what is happening department by department, and to monitor the success of retention policies. There are a variety of formula to help track turnover rates and calculate turnover costs.



Calculating Turnover Rates

1. The Crude Rate:

The crude rate gives a simple indication of turnover and is the easiest figure to calculate.

$$\frac{\text{Total leavers year to date}}{\text{Total no. employed at date}} \times 100$$

2. The Stability Rate:

The stability rate is a more useful measure. This takes out early leavers and gives an indication of the rate at which experienced staff are leaving. It treats early leavers as a separate issue.

$$\frac{\text{Total staff > 1 yr's service}}{\text{Total staff employed 1 yr ago}} \times 100$$

3. Blended Stability:

This helps to estimate future turnover and includes a weighting which assumes employees who have worked at the company longer are more valuable. This is often the case in IT where specialist skills are built up within organisations.

$$\frac{\text{Total length of service of all staff at date}}{\text{Total length of service if no turnover year to date}} \times 100$$



Theory into Practice

Imagine an organisation with 200 staff and an average salary of £40,000 a year, where recruitment costs on a conservative estimate are 50 per cent of salary to replace each leaver. If turnover rates reach 30 per cent it would then face a £1.2m bill in one year to replace staff who leave.

Calculating recruitment costs

It is useful to measure the full cost of recruiting a replacement to demonstrate the true cost of staff turnover.

Direct costs can include:

- Recruiting a replacement.
- Inducting and training a new person.
- Cover while a job is vacant – such as overtime costs.
- HR and line manager time used – such as recruiting and exit interviews.

But there are also indirect or intangible costs.

These include:

- Inefficiency prior to resignation and while there is a vacancy.
- Knowledge, training and experience lost to a competitor.
- Customer or business lost/poor impression created.
- Inefficiency of new starter.
- Inefficiency of colleagues while training a new person.

The total costs of recruitment are complicated and depend on the skills, role, the type of organisation and its recruitment set-up. Economists estimate that it costs between 50 per cent and 200 per cent of annual salary to replace an individual.

It is important to estimate as accurately as possible what it costs your company each time a new IT professional needs to be replaced. Come up with some hard and fast figures and remember this will often be the lowest possible cost.



Gathering employee feedback

Once you have calculated your levels of turnover and the cost to the organisation, try to assess exactly why people leave. Remember that some employee turnover helps an organisation. Moderate staff turnover helps replace poor performers, welcomes fresh blood and allows a reduction in staff costs when business levels fall.

Recent research from the CIPD suggests that push factors are more significant in resignations than managers appreciate. It is relatively rare for people to leave jobs in which they are happy, even when offered higher pay elsewhere. Most staff prefer stability.

Openwave's Gallagher argues that exit interviews, one of the most popular measures of assessing why people leave, are a poor tool, especially when used alone. Often staff are anxious not to burn their bridges with a current employer as they may look for references in the future. In these circumstances the true reasons and flaws are less likely to come out.

Gallagher advises to consider not having an HR manager or line manager to carry out an exit interview. Never use anyone who might write a reference. Find someone who is independent, who will get to the reasons for leaving and be able to stress the confidentiality of their feedback.

Staff attitude surveys, run by an independent company can also be a good way of getting at the truth. Ask whether staff are thinking about leaving and if so why? What is the organisation doing badly? Often the only way to get at the truth is to use an independent source or an online questionnaire.

Other research options include using a consultancy to run independent follow-up questionnaires asking former employees for feedback once they have moved on. Surveys of current employees on why they stay, what they like about their job and what they value in the organisation can be just as valuable.

It is useful to target the opinions of key staff groups; for instance identifying groups of staff who are stars of the future or looking at departments with high turnover where dissatisfaction can be expensive. Also think about targeting staff who have key knowledge or who are costly to train and replace. For example, Openwave is developing new technologies and has staff with rare skills that have been developed in-house. Replacing these staff can be expensive or even impossible.

Top Tips for Gathering Feedback:

- Staff attitude surveys
- Independent follow-up questionnaires
- Target opinions of key staff groups

3. DEVELOPING A RETENTION STRATEGY

Figures on rates of employee turnover, evidence on why employees leave and clear estimates on the business costs of recruitment and retention will all help to build an effective recruitment and retention policy.

This information can be used to build a realistic but stretching plan to improve all stages of the recruitment process. Feedback from staff can then form the backbone of policies to improve working life in your organisation. Think carefully how each HR policy encourages staff to stay with you and give their best.

Getting recruitment right

Successful staff retention needs to be backed up by effective recruitment. When an organisation takes on an employee with not only the right skills but the right personality fit, they are much more likely to stay in a job.

In a buoyant recruitment market, clarity and honesty with candidates, a broader and deeper assessment of applicants and innovations in candidate sourcing will all impact on who you can recruit.

The quality of candidates is critical. Difficult-to-find skills, jobs in unusual locations or volume recruitment often require a sophisticated advertising and marketing mix to find the right applicants. Think about employer branding and the way your organisation sells itself to potential recruits. Recruitment experts recommend that employers compare their own branding to one in a consumer market – if the product or service isn't up to scratch, potential recruits won't be tempted to join.

In tough markets, many organisations are unrealistic with candidates when they are desperate to sell a role. Make sure you have an accurate and open recruitment process. It is important to be clear, honest and realistic with potential recruits and to push all your line managers to do the same, particularly when there are fewer candidates in the market.

Review your recruitment suppliers and the rates you pay. Think carefully about who is doing a good job and what sources of candidates are the most successful. Sophisticated recruiters record and analyse which recruitment source new employees come from and how long they stay in the company.

Current employees are one of the most useful sources of candidates. At The IT Job Board's recent seminar on IT retention, over half the delegates ran an employee referral scheme where employees are paid a cash sum to recommend a new recruit. Schemes varied dramatically, paying bonuses from £250 to £5,000 for each successful employee-recommended appointment.

Keeping in touch with former employees is also important. Figures from Cranfield School of Management's Recruitment Confidence Index show 23 per cent of employers say they have some sort of process for tracking and re-recruiting former staff. A growing number of large employers are now building databases to keep in touch with this group.

Whatever recruitment methods are used, in a tough market, innovation is key. Openwave, for example, runs an external talent programme, talking to skilled people outside the organisation even when it doesn't have a vacancy. Gallagher says this type of contact with potential recruits will be important as recruitment gets tougher.

Testing is a useful tool with which to assess values and behaviour and to look for people who best fit the business. Employers need to use as many methods as possible to recruit the types of people who will stay. A mix of competency interviews and bespoke testing can be used to measure how well people will fit into the organisation, measuring much more than skills and experience.

Focus on exactly what skills are required in candidates and review your criteria for candidate assessment. In difficult markets, there is a danger that IT employers become desperate for staff and lower standards but this will only damage quality and retention in the medium/long terms.

Case Study

At Perot Systems Europe, an employee referral scheme pays for each referral that results in someone being recruited. The scheme is well-established and is publicised internally every four weeks. It is based on an employee recommending someone they know for a vacant position. The employee is responsible for giving the candidate a job profile and briefing them on the organisation.

Employees at Perot Systems are in competition with agencies to place their candidates and will soon be able to track the progress of the referral online. Bonus is payable after three months in post and the passing of a probation period.

Perot Systems says the scheme has many advantages. It brings in higher quality recruits; creates networks in the company; offers new staff a realistic view before they start; saves money; and motivates staff, encouraging them to think about their personal networks to the company's advantage.

3.

Induction: make a good first impression

Ensure people are welcomed into the organisation on day one. Line managers must be there, ready to go and clear about the development process. Induction on the team, the organisation and the role should all be done on the first day when new employees need direction on exactly what is expected of them.

Take time to help your new recruit settle into your organisation. Creating a bad impression on the first day can undo much of the positive work you have done throughout the recruitment process. A good induction programme will make new employees feel welcome and ready to contribute fully. Many companies use a buddy system, where an established employee helps new recruits to find their feet.

Retailer Harvey Nichols recognises the importance of helping new recruits to understand the culture of the business and the part people can play. It works hard to integrate new IT staff, taking them to the shopfloor to meet people involved in the customer-facing side of the business.

Career development: keep people on board

The latest CIPD research shows the top two reasons for leaving an organisation are promotion outside the organisation and lack of development and career opportunities. Effective training, development and career management are obvious ways of holding on to staff. Think carefully about what IT professionals want from your organisation and try to make sure it is on offer. This is likely to include developing their knowledge, helping them to become a specialist or to do varied and interesting work

Consider how your organisation can become more proactive with identified talent and offer key staff succession and career planning; opportunities to take part in fast-track development programmes; or the chance to attend regular and specific meetings and seminars.

Consider how well your organisation consults with staff about their career aspirations. Openwave's Gallagher argues that employers miss out on the opportunity to capitalise on career development by combining the discussions with annual evaluations. He recommends splitting evaluation and development meetings and processes.

Training and development not linked directly to the current job can be a costly exercise for organisations, particularly smaller employers. Many offer support for new qualifications as a partnership with the employee in some cases paying for the first take of exams but not a resit, or paying costs if an employee studies outside work time. Agreeing a deal for payback of training costs can stop an employee writing his CV. *"Often, all we are trying to do is to talk people out of a quick decision to leave,"* says Gallagher.



Reward: setting salary and benefits

Make sure you have up-to-date market intelligence on pay rates. Investigate what your competitors are paying and think about where you want to position yourself as an employer.

The IT Job Board for example has just published its salary survey for 2006 which offers an accurate idea of typical salaries, depending on skill set, seniority, industry sector and region.

Remember that research shows pay is rarely the primary motivator for leaving. Recognition reward system such as bonuses or a flexible benefits scheme where staff can buy and sell benefits are just as important as getting basic salaries right.

But you must review salary levels regularly to ensure competitive rates. The IT Job Board's survey gives detailed average salaries for permanent and contract staff. It also looks at the benefits on offer across different sectors. Contributory pensions, private medical insurance and flexible working hours top the benefits in most sectors. In banking and finance and the IT and software sectors bonuses are also popular benefits.

Case Study:

Oil giant, Shell, recognises that its high-performing IT group needs people who have marketable skills and it works hard to help its IT staff gain external qualifications. Shell's IT department has created its own career ladder with a structure compatible with the British Computer Society's model IT professionals can progress up the career ladder on either a technical or project management route. Shell works to ensure that staff can develop their career development plans with their line manager but at the same time wants to ensure that structures are not hierarchical. For instance, some of the more experienced staff have an acknowledged part of their role as coaches for a few other staff, enabling senior managers to devolve management and coaching down the line without creating formal tiers of management.

Working conditions: creating a positive culture

Working conditions and company culture are likely to be key factors in holding onto staff. Your corporate environment needs to be a more attractive offering than that offered by competitors.

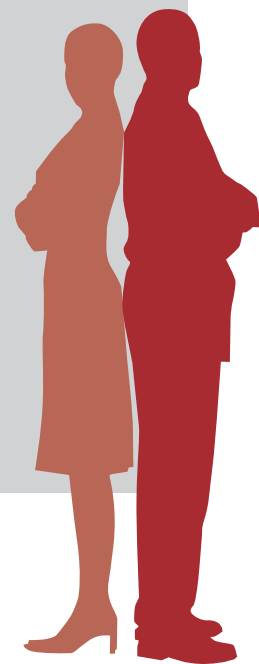
Think about where else you would work and what your perception is of that environment. Does it offer key benefits not on offer at your organisation?

Consider flexible working carefully. Delegates to The IT Job Board's seminar expressed widespread dissatisfaction with the success of flexible working within IT. Often technology and the ability to work outside the office has become a double-edged sword. Several organisations report it encouraging presenteeism and a culture that employees are always at work, answering e-mails and calls during the evening and at weekends.

Helping IT staff to get a picture of the whole business is also a positive benefit. Effective ideas include offering all new vacancies internally first or offering job rotation or shadowing where people spend some time seeing what others in the organisation do. Retailer Harvey Nichols for example runs regular job sharing days when staff from different sides of the business take time to understand each other's jobs.

Top Tips:

- Make sure you have up-to-date information on IT market conditions.
- Calculate turnover and its impact on your business.
- Use turnover data and accurate recruitment costs to get support for your retention plans from top executives.
- Gather accurate information on retention issues affecting your organisation.
- Build a realistic but stretching plan to improve all stages of your recruitment process.
- Analyse all HR policies that impact on working life in your organisation. Do they encourage staff to stay with you and give their best?
- Revisit your recruitment and retention activities regularly. Evaluate them and improve them where necessary.





About The IT Job Board

The IT Job Board has rapidly become one of the leading IT specific job boards in the UK and Europe. They have built up a monthly user database of over 350,000 IT professionals who consider the service an essential resource when job hunting.



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