HCM LIFECYCLE

RECRUIT

MANAGE

ENGAGE

DEVELOP & RETAIN

OFFBOARD

Human Capital Management Report

Analysis: Developing Effective Frontline Managers

WORKFORCE INSTITUTE AT KRONOS

Adapted from *Creating the Workforce — and Results — You Seek* by The Workforce Institute™ at Kronos Incorporated.

David Creelman
CEO, Creelman Research

Steven Hunt, PhD, SPHR
Senior Vice President, Customer Value, SAP

Give your frontline managers the tools, training, and latitude they need to **hold on to your best hourly workers.**

It's often said that employees don't quit companies, they quit managers. Although there's often a lot of truth in that statement, just pointing a finger of blame is not helpful. Dig a little deeper and you'll find that there are specific things that managers do — or don't do — to create employee dissatisfaction.

In many cases, frontline managers feel constrained by the limits of their authority. How can your frontline managers be expected to keep your people happy when their hands are tied by those in positions of greater authority? A frontline manager doesn't control compensation, determine working conditions, set the targets, or write policies. In other cases, managers don't know how to act. Perhaps they haven't been told that managing retention is important, or taught how to do it; maybe they haven't been given feedback as to how well they are doing. By giving your frontline managers the tools, training, and latitude they need to hold on to your best hourly workers, you can expediently improve retention, reduce the drag on your business caused by needless turnover, and save a substantial amount of money in the process.

How important are your hourly workers?

In many industries, turnover among hourly workers is very high. Recent research by Equifax Inc. determined that more than half of all employees who left their jobs within the previous year did so within their first 12 months of employment.[1] They noted that: "…the Retail and Leisure industries — which have a high volume of hourly and seasonal workers — experienced a large percentage of fast turnover. However, Business Services (e.g., Temporary Staffing) and Transportation have comparable percentages of fast turnover as well."[2]

In addition, a recent monthly report from the U.S. Bureau of Labor Statistics showed that industries with the highest levels of turnover include trade, transportation, and utilities (including retail); professional and business services; and leisure and hospitality.[3]

First, reject the idea that the turnover of hourly workers is unimportant or uncontrollable. Many companies keep their hiring and training costs low and simply accept high turnover as one of the costs of doing business — but while the cost of replacing an hourly worker may be less than that of replacing a professional or manager, it is not insignificant.

So just how much is it costing employers? A study by the Center for American Progress discovered the following patterns within the cost of turnover based on employee wage and role:

- In high-turnover, low-paying jobs where employees earn less than $30,000 per year (which includes more than half of all U.S. workers), the typical (median) cost of turnover is 16 percent of an employee's annual salary.[4] Based on this percentage, for an employee earning $10/hour, the employer's turnover cost would be $3,328.

[1] Equifax Inc., *Workforce Insights: Turnover* (2015), found at http://www.talx.com/benchmarks/turnover/index.asp.

[2] Ibid.

[3] U.S. Bureau of Labor Statistics, *Job Openings and Labor Turnover* (May 2015), found at http://www.bls.gov/news.release/pdf/jolts.pdf.

[4] Center for American Progress, *There Are Significant Business Costs to Replacing Employees* (2012), found at https://www.americanprogress.org/wp-content/uploads/2012/11/CostofTurnover.pdf.

For an employee earning $100,000+/year, the employer's turnover cost could be **as much as $213,000.**

- In mid-range positions where employees earn between $30,000 and $50,000 per year, the typical (median) cost of turnover is 20 percent of an employee's annual salary.[5] Based on this percentage, for an employee earning $40,000/year, the employer's turnover cost would be $8,000.
- For very highly paid senior/executive positions, the typical (median) cost of turnover is up to 213 percent of an employee's annual salary.[6] Based on this percentage, for an employee earning $100,000+/year, the employer's turnover cost could be as much as $213,000.

In addition to the costs associated with recruiting new employees, money is lost every time you hire someone. It is going to cost you money to get each new person up to speed. Turnover results in other negative consequences as well, including the disruption of work processes, added stress on employees who must cover for others due to being short-staffed, and the subsequent negative impact on customer service levels.

Is turnover the line manager's fault?

There are line managers who intentionally practice the burn and churn method. They treat employees poorly, squeezing everything they can out of them until they burn out — and then hire a new victim. Other managers may not be quite so intentional about it, but may achieve much the same result by treating employees with a thorough lack of respect. "I'd ask for time off, but my wishes were never a factor. I'd be refused time off even when I needed to go to a wedding," said Frank, a warehouse worker.

Companies can control a large percentage of turnover by being careful about whom they select as managers in the first place. Cases of egregious behavior on the part of managers abound. As one retail clerk explained, "My boss was an alcoholic and not a happy drunk. He would shout at people on the sales floor, and pass out on the job." Although someone like this should never have been placed in a supervisory role, scenarios like this are not uncommon.

It's easy to come up with a list of competencies that managers should have, but it's not always so easy to find people who possess those competencies. For example, your company may not always have a great pool of talent from which to draw first-line supervisors. Nonetheless, your managerial selection process, even at your lowest levels of management, should include checking for derailers. If a prospective candidate shows disrespect for your hourly workers, this should be enough to eliminate that candidate from consideration.

Your human resources department needs to play an active role in getting the right selection processes in place and auditing them to be sure they are followed. While an auditing procedure may seem like extra work, examining even a small sample can send a clear signal that your company is serious about these processes.

[5] Center for American Progress, *There Are Significant Business Costs to Replacing Employees*.
[6] Ibid.

Reward those rare and valuable managers who not only keep turnover low, but **consistently develop their hourly employees into future managers.**

Human resources should also track the turnover within the company and report on it, making it a point to highlight the names of any managers whose turnover is above normal levels. You should also include the estimated cost of excess turnover in this report, which can be framed as "areas where we can save money."

Penalize or move managers who generate excessive turnover. Be sure to make it clear that managers who drive staff out the door will be following them soon if they don't clean up their acts. Conversely, managers who keep turnover low should be given significant financial rewards. If you really want to send a message that you care about how managers treat your employees, you might also reward those rare and valuable managers who not only keep turnover low, but consistently develop their hourly employees into future managers. After all, these managers are saving the company considerable sums of money.

A recipe for creating bad managers

While some managers are born bad, others have inadequacy thrust upon them. Here are some common reasons why good managers go bad:

- **Too wide a span of control**

  A manager who has too many direct reports cannot give the direction, feedback, and support needed to get people to stay. Effective management requires the ability to regularly talk to employees on a one-to-one basis. Managers who have dozens of direct reports do not have enough time to truly act as managers to their employees.

- **Too much pressure**

  Everyone is under pressure, but when organizations put too much emphasis on short-term targets they can unintentionally encourage bad or even unethical behavior, which will eventually affect all employees. Managers who are forced to achieve short-term results by requiring employees to work long hours with little rest can cause long-term losses by creating employee burnout, resentment, and turnover.

- **Too much administrative work**

  A hefty load of administrative work comes along with any management role, but organizations should try to minimize management time spent on paperwork in favor of time spent managing people.

- **Poor leadership**

  One reason managers may display poor behaviors is that they report to senior level managers who model these behaviors. If your district managers are abusive and insensitive to your store managers, for example, do not be surprised if your store managers pass this behavior on to their frontline staff.

While these are tough issues, they are not irresolvable ones. Excessive control can be mitigated by creating the role of Team Leader to handle some elements of supervision. Managers of managers should be alerted to cases in which too much pressure is interfering with performance. Technology can greatly reduce administrative work. Finally, the focus on performance quality should be applied consistently and diligently up the entire line leadership chain — from the entry-level hourly employees all the way to the regional vice president.

Even good managers face turnover

Hourly employees quit for many reasons that have nothing to do with the manager or the company. For example, students graduate and pursue professional jobs, workers find other jobs that are closer to home or pay better, and people who take on part-time jobs to supplement their income may reach a point when the extra income is not needed. Others just get bored. One 27-year-old woman said she had already held 59 jobs because she wanted to experience as many different roles as possible so she could discover what she wanted to do in life.

Ask yourself, "Why should an employee work for my company when he or she can get the same pay rate at the company across the street?"

Granted, a substantial amount of turnover is uncontrollable. However, that's not a valid excuse for ignoring controllable turnover. Determine whether company-induced demands are actively undermining your managers' ability to retain staff. Another way to minimize controllable turnover is to ask yourself, "Why should an employee work for my company when he or she can get the same pay rate at the company across the street?" The answer to this question will help you focus on creating an attractive workplace.

Also consider how your jobs fit in with the interests and desires of your employees, instead of the other way around, since most hourly employees want jobs that support their interests outside of work. Don't assume that all of your hourly workers share identical needs and motives. An employee may hold a job because the schedule fits her lifestyle, because it is close to her home, or because it provides needed benefits. As soon as the job conflicts with a person's nonwork goals, he or she may quit.

Knowing what makes people stay

It's frequently instructive to ask a flip-side question to gain a new insight. We've discussed why employees leave, but let's probe into the matter of why they stay. The answers are actually not that mysterious. "He was willing to work with my schedule, and he was patient as I learned the job. He had no trouble sitting down and taking time to train me," said Kate, an office clerk. Even when there are temptations to leave, people keep jobs for reasons including:

- Good pay
- Good benefits
- Career opportunity

- Convenient commute
- Flexible hours
- A supportive boss who takes time to show an interest in employees
- Good workplace atmosphere (friends at work)
- Enjoyable work (including bonds to customers and clients)

Go through this list to see which levers are available within your company. You might be able to make a case that higher compensation is a good investment because it will reduce turnover, but most managers don't have that option. Still, every manager can strive to be supportive and encourage a good workplace atmosphere. Ideally, this feedback from Jim, an employee in a store that made and sold trophies, is the kind you want to hear: "It was a great experience; my boss was funny and laid back. There was a lot of respect and autonomy, and there was always something to learn."

Handing out the tools to retain people

You can help your frontline managers retain your hourly workers by providing the latitude and tools they need to do so. One obvious tool is incentives. If a manager has the latitude to buy the team a pizza, that may help buy loyalty. However, the organizations that do empower managers to give out incentives are usually quite timid about it. What would happen if you upped the ante and gave your managers the authority to give exceptional rewards from time to time? For example, one casual dining chain arranged karaoke competitions between restaurants and flew its employees on the top teams to a competition in a resort town. They discovered that some employees stayed with the company largely so they could participate in this annual competition.

Other companies set up programs to provide financial assistance to employees who apply for company-sponsored scholarships and grants. Just knowing that the company offers this sort of support to its hourly staff can be a powerful tool to increase employee loyalty.

Benefits are routinely cited as a tool for retention.

Benefits are routinely cited as a tool for retention. But frequently, employees are not aware of the benefits their companies offer or of their value. Managers need tools, such as a well-designed handbook or a web page, so they can easily show employees what benefits are available, who is eligible, and how to enroll.

According to the Center for American Progress, offering workers low-cost benefits, such as sick days and a little flexibility, can significantly lower turnover.[7] Therefore, frontline managers should proactively encourage employees to take advantage of the benefits and support the initiative to retain employees through their words and deeds. Good examples of this include helping employees overcome inertia (as in, "Oh, yeah, that's a good idea, I should sign up…") and guiding workers to take the steps they need to take to get on board. Being proactive shows hourly workers that the boss really does care, and simultaneously gives the person an increase in total rewards.

[7] Center for American Progress, *There Are Significant Business Costs to Replacing Employees*.

Setting the right tone

Managers should have some reasonable degree of latitude in what they can do to keep employees. The more flexible they can be in assigning tasks, setting schedules, giving rewards, and creating team-building events, the better they will be able to retain their staff. Companies must provide leadership support, create the policies and the tools, and provide training in how to use the tools and apply the policies. Finally, leadership has to follow up with frontline managers to find out if the tools are working for them.

There is an underlying assumption that, as the leader, you will automatically support your supervisors and managers in these efforts. Few leaders would say retention of hourly workers doesn't matter, but be careful: You can quite clearly send the signal that your hourly workers really don't count. For example, if a frontline manager mentions he is short-staffed, will you step in to volunteer advice on how to improve retention? If a manager is filling vacancies, will you say, "Go get five more bodies" or "Let me help you find five winners"? Will you take the time to talk to your hourly workers? This is a meaningful signal to let your employees know they are important.

Once your managers have a retention mind-set and the tools to improve retention, the next step is to **focus your retention efforts on those employees** who are most valuable.

Focusing retention where it matters

So far, the assumption has been made that all hourly workers are equally valuable, which any manager can tell you is far from the truth. Once your managers have a retention mind-set and the tools to improve retention, the next step is to focus your retention efforts on those employees who are most valuable.

While this process should happen fairly naturally, you can facilitate it by asking your managers: "Who are your best people? How do you assess the risk that they will leave? What are you doing to keep them?" To make sure this conversation occurs, you should put these questions on your quarterly to-do list.

The other way to help your frontline managers retain your best people is to teach them to better identify who the best people are. Humans tend to like people who are most like themselves. After asking "Who are your best people?" you can probe with such questions as: "Why do you think those people are the best?" or "Let's go through the names of people who *aren't* on the list; what are *their* strengths?" The goal is to push back a little so that the manager will become more reflective and less biased when determining which employees are the most valuable.

Traits of great managers

Making jobs enjoyable can be a challenge, but Marcus Buckingham gives an interesting suggestion in his book *The One Thing You Need to Know*. He describes how great managers swap around tasks so that employees can do what they do best. For example, if one retail employee is great at setting up displays, let him spend a disproportionate amount of time engaged in that activity. If another employee is great at customer service, make sure she is out in the aisles where she can help people. Great managers figure out where each employee excels and then do everything in their power to take

advantage of those unique strengths. If the one thing you need to know is that you should tweak jobs to take advantage of each individual's strengths, the one trick you need to know is that you have to spend time with your hourly workers. You can't know their strengths, what is driving them to leave, or what is making them stay unless you talk to them and observe what's going on.

Gary Latham, a professor of psychology who teaches at the Rotman School of Management at the University of Toronto, likes to ask people, "Is there something I ought to know?" This question is best posed in an informal environment, such as when walking to the parking lot. In an informal setting, employees feel more comfortable about expressing whatever is on their mind, which will typically be the things that are going off track. Beverly Kaye, author of *Love 'Em or Lose 'Em*, advocates the "stay interview," which is simply a matter of asking employees, "What is it that makes you stay here?" If you don't ask, you may never know.

It might seem that the steps to retain hourly workers will require your managers to take on more work, but the overall trade-off will more than balance out. If managers are going to spend more time talking to employees, what are they going to spend less time doing? In this case there is a straightforward answer: If they spend a little time on retention, they will spend less time interviewing to fill vacancies, training new people, fixing problems, and doing work that could have been done by capable employees.

In many industries, there will always be fairly high turnover of hourly workers, but a company that empowers its frontline managers will be able to lower its turnover rate substantially. Helping your frontline managers retain your staff can yield bottom-line benefits, but that's not the only reason to do it. Taking care of your hourly workers can actually make their lives better. As leaders, we believe it's a responsibility that we own. That's a goal worth pursuing — and one that can provide enormous rewards to all involved.