

People Retention: the Bane of HRM

By Philippe Leliaert

www.pandora.be

Over the last year I have spoken to many top managers about the importance of measuring and managing their companies' intangible value, i.e. their *intellectual* capital as opposed to their financial capital. In most cases they are quick to understand the *real* significance of “people are our most important assets” - a soundbite that, unfortunately, is all too often misused and misunderstood. They are quick to ask what they should do to retain their most valuable people, based on the assumption that they could identify these in the first place.

People retention, currently a hot topic with HR consultants and managers, is however a so-called ‘red herring’: inventing ways to retain your valuable people may provide short term relief but it also puts your company on the road to certain disaster because you will no longer focus on addressing the real issue ! You should focus on eliminating what causes the loss of intellectual capital, not on treating the symptoms.

If you're worried about people retention, you're missing the point.

Statements about people being one's most valuable assets do not reflect business reality: (i) people are still only treated as liabilities in financial statements; (ii) training & people development is the first budget item to be cut both in times of recession (for lack of money) and of strong business growth (for lack of time); (iii) the measurement of the value of these “assets” is mostly ad hoc and unreported, limited at best, totally absent at worst !

Initiatives such as the EFQM¹ model and the Balanced Scorecards² have at least already identified the need to include ‘people issues’ in a company’s Key Performance Indicators (KPIs). Typically these include ‘people turnover’ (or other proxies for employee satisfaction), ‘number of hours/days spent on training/coaching’, ‘number of lost time/absence hours’ (as a proxy of motivation or safety), etc.. But can you honestly say that these are real drivers for creating value - and revenue - in your company ?

Turnover among *key* staff will certainly have a more significant effect on company performance than that among other employees. But then: what are your criteria for identifying those key staff members. And how do you quantify their impact on your company performance and value, which could help in determining how far you should be willing to go in retaining them? When Oracle’s Vice-President, Gary Bloom, quit in November 2000 the company’s share price dropped 13%, wiping USD 22 billion off its market capitalisation³. Is that the value of Mr Bloom ? Of course not. But Oracle’s management could not prove otherwise, nor, I am sure, did they anticipate such a strong market reaction.

Could management have done more to avoid such destruction of shareholder value ? Definitely ! And putting on costly ‘golden handcuffs’ is not the answer.

In the end it is not about retaining or losing people: people will eventually leave anyway, be it through death or retirement. A company or organisation that cannot perform without its CEO, key researcher, key financial or operating officer, etc., is a poorly managed company indeed. It is not a company I would want to invest in. In sports this lesson is learnt the hard way whenever one key player is critical to the team’s performance. Any opposing team must only eliminate - or at least neutralise -

¹ The European Foundation for Quality Management have proposed a strategic management model that links business enablers to business results, included in which are “people & knowledge”

² The Balanced Scorecard (BSC) model was developed by Robert S. Kaplan and David P. Norton in 1992

³ Source: Heavens A., Financial Times 21-11-2000

that player to get the upper hand. The same applies to politics where winning or losing an election often hinges on an individual's persona rather than on political party programmes. It is the proverbial putting all eggs in one basket: a high-risk strategy.

The real issue is about retaining or losing the *knowledge and other intangible value* people bring to the organisation. Or: if one can safeguard that knowledge and intangible value, the company no longer depends on the presence or absence of specific individuals. This suggests two mutually supportive solutions: (i) structuralising your knowledge, which means ensuring perpetual access - not necessarily ownership; and (ii) minimising set-up costs for knowledge transfer.

As an example of the first, many armies draw on reservists when short of troops: these have been trained before and were at one point part of the army, but have since taken on civilian roles though always remaining 'on call'. The second is often used in educational institutions when substitutes replace absent teachers or lecturers at short notice, taking on a class in their stride.

Organisations where it is understood that the 'team' is more important than the individual will focus on understanding the value that each individual brings to the team so that *a replacement may be found as and when this is required*. They will focus on flexibility and speed with which to find and integrate other people into the organisation while keeping the team dynamics intact. And yes, while individual skills and competences may be missed and not be replaceable (in the short term), at least the team may adapt and refocus on its other key skills and competences.

But what no organisation can afford is having to spend time and energy on bringing the replacements 'up to speed' in order to integrate them in the team. Having already lost certain individual skills and competence this would further reduce productivity by diverting team resources to the training of the newcomers, i.e. to knowledge transfer. This 'set-up' cost is what brings management to focus on lowering personnel turnover. They should however take a lesson from Operations Management where the focus has

instead been on *reducing set-up times*, which is key to reducing production lot sizes and inventory towards just-in-time, made-to-order production!

Imagine, in other words, an environment whereby any staff could be replaced without it costing the organisation any time or energy yet without any (substantial) loss of knowledge.

Be careful to note that I am not suggesting that staff are by-product of business, a resource to be applied and discarded as need be. Quite the opposite. I am saying that success in business will fall to those that can safeguard their existing knowledge while compensating for any loss of knowledge yet can also quickly bring to bear and integrate any new knowledge at minimal cost; to those that are not hostages to a 'winning team' that cannot and must not be changed.