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The Subtleties of Retention

A Human Resource Management Perspective

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Executive summary

Title: The Subtleties of Retention – A Human Resource Management Perspective

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Purpose: The purpose of this thesis is to discuss and explain the subtleties of retention in knowledge-based firms from a human resource management perspective. Furthermore, to investigate which employee demands firms should consider when formulating their retention strategies.

Realization: Initially, the thesis presents a theoretical study where existing theory of Human Resource Management and retention strategies is presented. Secondly, empirical evidence collected through interviews with so-called knowledge-workers and HR-managers is presented. The empirical evidence is compared to existing theoretical material and also between interviewees.

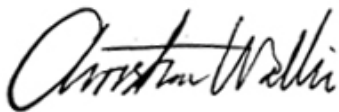
Results: The subtleties of retention present themselves in every aspect of the retention equation. From a resource-based view of the firm, retention of employees is of great importance in knowledge-based firms, as the human resources mainly constitute their competitive advantage. However, the degree of importance varies depending on factors such as organizational size, industry and labour supply. Employees have become increasingly flexible making it difficult to build sustainable competitive advantage on human resources, since people cannot be owned. We found that theory often neglects the social complexity of people and formulate retention strategies based on homogeneous groups. If retention is deemed of great importance we find that firms should consider the employee's individual demands, where challenging work, opportunities for learning and substantive rewards are usually deemed most valuable.

Keywords: Retention, Human Resource Management, Motivation, Resource-based view, Employee turnover, Knowledge-based firms, Knowledge workers.

Acknowledgement

Choosing the topic for a thesis can be an awkward business but for us our choice was clear from the start. Indeed, we chose from a number of alternatives we found all to be interesting but the area of Human Resource Management always shone the brightest. Luckily the choice of topic was simple since reaching the objective of our thesis was much more difficult. We would like to thank all our interviewees who took the time from their busy schedules to take part in our thesis. We would especially like to thank Zoran Covic for inspiring us and always being available to lend an ear. Many thanks to our supervisors Hervé Corvellec and Filippa Säwe for guiding and inspiring us during our sessions. Finally, we would like to thank our friends and families for their support and encouragement during our work on this thesis and also throughout our education.

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1. Introduction

Imagine a world where firms rigorously compete to employ the best workforce but where these skilled workers and managers place extortionate demands on their employers. In this world, knowledge of a firm and its practices is an invaluable asset that firms will strive dearly to contain within the organization. With this in mind, the question of retaining this knowledge embodied by key contributors in organizations, namely knowledge workers, is crucial for their survival and profitability.

In knowledge-based industries the knowledge embodied by the workforce, i.e. the employees mainly constitutes the firm's competitive capabilities. But, knowledge is like no other resource, it is constantly made obsolete, as today's advancements are tomorrow's ignorance. Accordingly, the knowledge needs of firms will change continually, implicating a need for highly knowledgeable workers able to adapt to shifts in relevant knowledge and unpredictable change. Knowledge workers when seen as firm's resources are highly complex and cannot be compared to other resources. For example, an office building cannot quit and move to a competing firm, demand higher wages, be unmotivated or not be satisfied with advancement opportunities.

Knowledge workers own the means of production, which makes them mobile; the knowledge is in their heads making them able to take it with them as they walk out the door each day, leaving employers with the question if they will return or not. As a result, people are more likely to identify themselves, not by the employers who pay them but rather by their own knowledge. Leo Tolstoy states in the introduction of *Anna Karenina* that "*Happy families are all alike*", this might be true but one can argue that employees are far from alike. If employers want to retain their key contributors they have to consider what they want. One underpaid employee might stay within a firm because of the career opportunities due to rapid growth while another is driven by the firm's competitive culture. A third values the salary and benefits provided by employment at a firm. It is difficult to disagree with the statement that people are different but the question if employers strive to reduce employee turnover considering this assertion remains, or if they even deem it necessary.

In this thesis these subtleties of retention in knowledge-based firms are examined and explained. First, we review existing academic Human Resource Management literature in order to create understanding of the field in which retention is relevant. Second, we compare Human Resource Management theory and retention strategies with empirical data collected through interviews with knowledge workers and Human Resource managers. This comparison is done in order to view which differences exist between existing theory and practical evidence and thereby bring to light the subtleties of retention. Finally, we discuss what importance retention has for today's labour market and knowledge-based firms in need of their most vital resource, their employees and the knowledge they possess.

1.1 Purpose

The purpose of this thesis is to discuss and explain the subtleties of retention in knowledge-based firms from a Human Resource Management perspective. Furthermore, to investigate which employee demands firms should consider when formulating their retention strategies.

2. Research approach

In this chapter we present the methods we have used in order to fulfil the purpose of this thesis and explain the decisions that have been made. First, the overall approach is described and the choice of literature is discussed. Secondly we describe the practical approach and the chosen method of interviewing.

2.1 Choice of subject

A number of scholars argue that an increasingly tough labour market is upon us where the workforce is placing higher demands on employers and where retention activities are of the utmost importance (Drucker, 2003; McGovern, 1995). Based on the recognition of the importance of Human Resource practices, particularly in knowledge-based firms, and an increasingly tough labour market it is evident that firms are presented with a challenge in the times to come.

The field of strategic Human Resource Management has received more attention recently much due to demographic changes. A great number of people born in the 1940s are up for retirement in the coming years and a lot of firms are noticing that the labour market cannot supply enough suitable employees. Global competition has also made its mark on the labour market, intensifying the shortage of knowledge employees and highlighting the importance of Human Resource Management (Bratton & Gold, 2003). The fact that employees are becoming more flexible and can move across the globe (McGovern, 1995; Coff, 1997) has also contributed to the outline of this thesis focusing on retention. These factors seem to have increased the discussion of retention among companies and their future efforts to maintain competitiveness. Many people argue we have entered a knowledge society where knowledge will be the most valuable resource (Tengblad, 2003). To study efforts and practices to retain this knowledge, the field of Human Resource Management can provide insight into how firms can foster committed employees.

2.2 Choice of Method

In this section we describe the techniques we have chosen to use when gathering data and the methodological approaches we have employed. Our research was composed of both a theoretical and an empirical study, where the empirical study consisted of qualitative interviews based on our choice of subject. The empirical study consisted of two studies, one with representatives from Human Resource departments and the other with a number of so-called knowledge workers. The purpose of choosing two different types of interviewees was to gather in-depth information in our field of research and increase the accuracy of our study. Investigating the differences in the perceptions of retention practices and their importance requires, in our opinion, a comparison of contrasting viewpoints. The purpose of the theoretical study was to increase our understanding of our chosen area of research and at the same time form a theoretical framework for the interviews held. Our intention with the empirical study is for it to illustrate the theoretical framework and thereby achieve a greater understanding of how the retention process in companies function in reality and which demands employees are making today. We have strived to be reflexive during our work and our primary frame of reference is based on research-based literature.

2.3 Theoretical frame of reference

The theoretical frame of reference that is used in this thesis was primarily collected from literature in the area of Human Resource Management. Retention can be studied from a variety of perspectives such as law and labour psychology but we chose Human Resource Management since it is known as the effective use of human resources in order to enhance organisational performance. Within the scope of Human Resource Management, issues such as compensation, organization development, benefits, employee motivation and training are discussed, which are relevant when examining which practices affect employee retention. We have also implemented other theoretical areas such as behavioural science wherein motivational theory is presented and discussed in order to clarify which employee needs affect their propensity to stay within a firm

The theoretical component of this thesis is structured as follows. Firstly, we present that which constitutes knowledge-based firms and knowledge-workers. We do so because the

retention of human resources is believed to be crucial in such environments wherein knowledge-workers mainly constitute the resources. Secondly, we present the resource-based view of the firm, which is based on the notion that a firm's competitiveness is built by its internal resources whereby we shall pay exclusive attention to human resources. Thirdly, we apply current theory of Human Resource Management within the resource-based view of the firm and continue to focus on retention strategies that are used to encourage retention of employees. When describing the various retention strategies presented in the reviewed Human Resource Management literature we have chosen not to delve into a discussion of the specific ways of how managers can implement retention strategies. We came to the conclusion that it is not, in this thesis, worthwhile or relevant to introduce schemes of this nature due to this thesis's theoretical nature. Instead, we describe the general functions of these strategies, why they are implemented and their consequences. The theoretical areas we have chosen to present are continually reviewed in a critical fashion in order to improve the study's quality and to ensure a certain level of depth and width.

2.4 Practical Approach

Our empirical study was conducted through a qualitative research method used to illustrate the theoretical framework. The empirical study includes six qualitative interviews with people either involved in Human Resource activities or so-called knowledge workers. Interviewing people with different viewpoints (top-down/down-up) enabled us to compare the demands and expectations and thereby distinguish the main differences in their perceptions. Subsequently we could investigate how these differences affect the way Human Resource managers conduct their practices and how it affects the employees. The interviewees are employed by IKEA IT Global, LogicaCMG, Öhrlings PriceWaterhouseCooper, Leadway and Sund Kommunikation. We chose the interviewees with management responsibilities since the companies they work for are regarded by their peers as well known and successful and tend to attract attractive employees. The interviewees for the employee perspective on retention were chosen since they matched the forthcoming description of what constitutes a knowledge worker and are regarded by their managers as highly competent employees.

2.5 Criticism of literature and sources

The literature chosen to outline the theoretical frame of reference in this thesis was done so by a thorough literature review based on the techniques provided by Chris Hart in his practical and comprehensive guide '*Doing a literature review*' (1998). The authors of this thesis have strived to be reflexive and disregard their own bias and those of the chosen authors. In order to do so, material from different authors with contrasting approaches and views of the subject under discussion was chosen. Both older and more *up-to-date* literature was reviewed in order to clarify changes in the understanding of the theoretical areas reviewed and identify which areas are considered to be of more or less importance. The chosen literary sources have been scrutinized to assure their validity and scientific soundness.

When choosing interviewees, i.e. our primary sources, we implemented the same level of scrutiny as with the literary sources. Early in the process of this thesis it was clear that we had access to a wide range of interviewees, which made the selection process more structured, as we had to discuss which ones to choose rather than taking what we could get. The choices we made were based on relevance for the thesis' subject, validity and easy access. We gained access to most interviewees through Zoran Covic (also interviewed), who functioned as a gatekeeper and provided us with his network of knowledge workers and Human Resource managers. All interviewees except Daniela Rogosic, who is a personal friend of one of the authors, were chosen from Zoran's network.

2.6 Interviews

The interviews were conducted in Swedish, which might have resulted in a loss of some information when translating it into English. But, the author's excellent understanding of both the English and Swedish languages helped to assist in minimizing this potential loss. Before the interviews were conducted a question guide was drawn up which served as a checklist used afterwards to check if any questions had been left out. If anything had been missed we complemented the interview by sending an email with the missing question. All interviewees approved of receiving complementary questions at some point during the

interviews. All interviews were recorded using a *Dictaphone* that assisted in minimizing the risk of misinterpretation and leaving out important data.

Kvale (1997) asserts that knowledge evolves through dialogue and the environment wherein interviews are held is important as it can affect the interviewee's sense of comfort while sharing their experiences and feelings. This led us to allow the interviewees to choose the interview locations. The interviewer made no interruptions, which is sometimes acceptable ensuring not to digress from the subject at hand (ibid.), since wanting to provide the respondents with a sense of flexibility and in turn provide quality answers. Also, there were no predefined timeframes for the interviews, which also helped instil a feeling of comfort and relaxation. After each interview we directly printed out the information word by word in order to increase the accuracy and document all the emotions we experienced during the interviews. Kvale (ibid.) asserts that the printout is very important and that it is reliable empirical material. The aim of the interviews was to delve into a discussion of possible contrasting views of Human Resource Management functions and the demands being made by employees today.

2.7 Summary

In summary of the research approach chosen for this thesis, we first provide the reader with relevant theories in the field of Human Resource Management and retention. We then present the empirical data, which is analysed by applying the theoretical framework. We then discuss our findings and summarize the discoveries most relevant. The first part of the theoretical framework that follows discusses knowledge as a resource used for competitiveness in knowledge-based firms.

3. Knowledge, a resource.

In this chapter we present the first of three parts in the theoretical framework. Initially, knowledge-based firms and knowledge workers are described. Furthermore, the resource-based view of the firm is presented and Human Resource Management is applied within it.

3.1 Knowledge-based firms

The focus on retention in knowledge-based firms in this thesis is based on a widely accepted notion that people in such firms are the most important resources (Bratton & Gold, 2003, Alvesson, 2000; Poole, 1999). The human resource is of utmost importance since it represents and embodies a firm's knowledge that constitutes their competitive strength. In knowledge-based firms it is therefore of great value to be able to retain that knowledge in order to preserve their competitive strength (Herling & Provo, 2000). In order to understand why people in such firms are valued as the main asset we first need to explain what knowledge firms are considered to be. Alvesson (2000) states that it is widely accepted by scholars that knowledge based firms consist of the following attributes:

- Great element of problem solution and non-standardized production.
- High creativity in both employee and organisation.
- High educational level and professional degree in the majority of employees.
- Traditional tangible assets are not central for delivering value. The central assets are instead employees, networks, customer relations and manuals.
- Strongly dependent on key employees and vulnerable if retention cannot be generated.

A problem with the term knowledge-based firms is that it is considered to be prestigious (Alvesson, 2000). Which firm does not want to be considered as a knowledge-based firm? Therefore, the term can be used all too often because it sounds good rather than demonstrates important capabilities. Presumably, the latter is of greater importance for the success of knowledge-based firms. Many knowledge-based firms are small and less

complicated to manage, which makes it wrong to automatically associate knowledge-based firms with the most prestigious knowledge- and management conditions in society, at least if we limit the contents of a knowledge-based firm according to the above cited attributes. Grant (1996) recognizes some difficulties with the term knowledge-based firms, as it is difficult to define what knowledge is, something that has even occupied some of the most famous minds and thinkers such as Plato. Grant also argues that all firms are based on some kind of knowledge.

Grant (1996) states that knowledge-based firms are those where vital input in production and the key source of value is knowledge, where employees embody this knowledge. Labour-intensive firms are more dependent on physical labour. Capital-based firms on the other hand rely on high degree of capital inputs in production of value, for example investment firms that generate return on investment (Alvesson, 2000). Garvey and Williamson (2002) suggest that knowledge-based firms are those that can differentiate their outputs based on the characteristics of their employees. Bratton and Gold (2003) define a knowledge-based firm as:

“An organisation that values the collection, dissemination and utilization of new knowledge, with a view to innovation and the development of what is known”

Alvesson (2000), in his attempt to describe knowledge-based firms uses a comparative approach by comparing industries and their characteristics and concludes that a knowledge-based firm is one in which the main assets used to deliver value are the human resources, i.e. the employees. Alvesson considers knowledge to be an abstract issue but explains what he considers a knowledge-based firm to be. *“A knowledge-based firm is one where knowledge is related to individuals/employees rather than the organisation, machines and technologies and where a great majority of the workforce has a high educational background”*. Instead of trying to define knowledge, Grant (1996) suggests that the important issue is *“the focus on the role of knowledge among firms which engage in production, mainly because this is the most important and complex means of value creation”*. Evidently the knowledge inherent in employees is the base for a knowledge-based firm’s competitiveness. People working in such firms are often referred to as

knowledge-workers, a term first coined by Peter Drucker (Yeh Yaying, 2007) and which we intend to describe in the following section.

3.2 The knowledge worker

Peter Drucker (1959) once predicted that a major change in society would be based on an increase in the flow of information. Knowledge would be the most vital resource and would know no geography and result in a large group of workers Drucker named knowledge-workers. The defining characteristic of these workers is their level of education, which makes education and development a central concern for society. Drucker's definition of the knowledge worker is one who works primarily with information to develop and use knowledge in the workplace. Micklethwait and Wooldridge (1996) describe the knowledge worker as a person who does not add value through labour as such but because of what they know and how it is refined.

“The word knowledge work is often used to define the shift from routine work to more varied and complex work” (Benson & Brown: 2007. p. 124).

Although there might be some proof that knowledge work is dominating in some areas there are debates as to whether the scope of knowledge work is being over emphasized. Alvesson (2004) claims that a lot of the work in knowledge-based firms is routine work and not complex. Fleming (2004) supports this assertion by concluding that much of the occupational growth in knowledge-based firms consists of routine tasks. In spite of debates about the scope of knowledge work it is still often related to high-tech and business informational service sector companies.

Aliaga (2000) argues that a knowledge worker is an individual who works with information rather than things. Alvesson (2000) goes on to state that knowledge workers are often individuals with high educational background and professional experience, they are creative and often involved in complex production of output that requires a high degree of knowledge. The professions that knowledge-workers are usually acquainted with are lawyers, software designers, engineers, accountants, consultants, R&D workers, specialists, analysts and scientists. People in these professions are identified as knowledge

workers because the tasks they perform often involve a great deal of problem solving. The problem solving element in these professions often requires employees to facilitate high knowledge as a main tool for production. For organisations that rely mainly on individual knowledge in their production, the main objective should be to retain these workers, as they constitute the primary organisational asset (Benson & Brown, 2007).

Peter Drucker (2000) claims that knowledge workers often know more about their job assignments than the manager does trying to manage them. This is often why they are considered so valuable to a knowledge firm. If the manager would know more, then the knowledge worker would not be a valuable resource to the firm. The manager could replace the worker and transfer his knowledge to another person. Drucker also describes knowledge workers as executives if, by virtue of their knowledge they contribute to organizational performance and its capacity to obtain results.

There is a strong rooted belief that we have entered a knowledge society, where supply of knowledge will determine the success of firms (Tengblad, 2003). Tushman and O'Reilly (1996) state that knowledge workers within a firm will increasingly determine its survival which makes it imperative to retain them as they are the key contributors to the firm's competitive strength. Yet these employees, i.e. the human resources, cannot assist in creating competitive advantage unless the firm adopts a strategic perspective of knowledge (Herling & Provo, 2000). In the following section we will present the resource-based view of the firm in order to develop an understanding of how human resources can help build competitive advantage in knowledge-based firms.

3.3 The resource based view of the firm

The resource-based view (RBV) of the firm has gained larger significance in Human Resource Management (HRM) analyses (Wright *et al*, 1994; Boxall, 1996). The RBV suggests that firms are bundles of resources that constitute their competitive strength (Barney, 1991). Though the RBV of the firm is important and useful it has a major shortcoming since it focuses on the source of competitive advantage as differences between firms (Boxall & Pucell, 2000). The RBV fails to notice that within industries there are similarities between firms in terms of what constitutes the key success factors

(Grant, 1996). Therefore, while using the RBV as a framework for this thesis, we remain aware of its limitations.

The resource-based view of the firm is fundamentally an assumption that organisations are successful if they gain and maintain competitive advantage through implementing value – creating a strategy, which cannot be easily copied, sustained and for which there is no substitute (Poole, 1999; Grant, 2005). Strategy should be based on the firm's capabilities that are in turn built by its resources (Grant, 2005; Bratton & Gold 2003). There are three types of resources associated with organisations; tangible, intangible and human resources (Grant, 2005). Tangible resources consist of financial and physical assets. Intangible resources often consist of technology, the firm's reputation and culture. Human resources are the productive services that employees offer to the firm in terms of skills and knowledge. However, human resources differ from the other two resources since human resources are not shown on a firm's balance sheet, as people cannot be owned. Instead, the company merely hires their services in order to be able to refine the tangible and intangible resources (Grant, 2005; Storey, 1995).

Knowledge is the base level of human resources and it is without question an organisational asset (Herling & Provo, 2000).

In discussions of human resources they are often referred to as the productive capabilities of people. Their skills, knowledge and experience have economic value to organisations since this enables the organisation to be adaptable and productive. Therefore, like other assets, human resources have value in the marketplace (Poole, 1999; 2). Investing in employees could therefore utilize the firm's ability to perform better than competitors. However, knowledge workers, i.e. human resources are complex and intangible assets due to their cultural and technical dimensions and cannot be managed like other resources (Herling & Provo, 2000).

According to Barney (1991) human resources have the characteristics of giving a firm a sustainable competitive advantage, although they are complex and present difficulties. From the resource-based view of the firm, in order for firms to achieve a sustainable competitive advantage based on their resources they need to be valuable, rare, non-

inimitable and non-substitutable. These characteristics will be examined and discussed as we apply Human Resource Management within the resource-based view of the firm.

3.4 HRM in RBV

The first major attempt to apply Barney's ideas of the RBV to the field of HRM was made by Patrick Wright (Wright *et al.*, 2001). Since the skills people possess vary as well as the jobs that firms offer they are in general heterogeneous in supply and demand, which constitutes why human resources are deemed valuable. The recognized spread in human abilities makes high quality human resources rare. Abilities are usually equally distributed in the population, but if a person is more knowledgeable than average it means they are per definition rare (Jackson & Schuler, 1995). If firms can retain the best and brightest workers this means that a firm's human resources are rare and therefore can contribute to a sustainable competitive advantage. The issue of inimitability is much more unclear. Barney (1991) argues that resources are difficult to imitate when they are socially complex. A complexity of human resources is that they are highly mobile.

The last criterion of building a sustainable competitive advantage is non-substitutability. When employees make the shift from physical labour to knowledge labour they are not easily substituted (Barney & Wright, 1998). Physical labour has in many cases been substituted by technology that systemizes the work. But work that includes problem solving is difficult to systemize. It is easy to substitute one physical worker for another because the systematization of the work process has minimized the human impact. In contrast, work that is dependent on problem solving depends on knowledge workers ability to impact, but at the same time all humans have different characteristics, which makes them non-substitutable. This being said, it is harder, if not impossible to substitute human resources with technology in knowledge-based industries and therefore human resources in such environments can be used to gain sustainable competitive advantage. Accordingly, the contribution of human resources to competitive advantage is felt to be just as significant as, if not more than, other resources (Marchington *et al.* 2003).

Although using the resource-based view to argue that human resources can be used to build sustainable competitive advantage, firms are still at risk by doing so. Human

resources cannot be owned, which makes sustainability difficult to achieve. Employees can leave the firm at any time. This is probably why many executives throughout the past have not based their strategy on human resources. They are reluctant to plan for the future based on something they cannot fully control (Snell *et al.*, 1996). Even if this has been the case historically, the executives of today are faced with new challenges when trying to sustain competitive advantage.

“Resources are much more accessible today than in the past and as a consequence there are fewer ways to gain and sustain competitive advantage, except through people”
(Snell *et al.* 1996)

Quality human resources seem to distinguish market leaders today, not physical or financial capital (Snell *et al.* 1996). If human resources mainly constitute the internal resources, as is in knowledge-based firms, it makes it evident to consider the importance of retention to ensure a sustainable competitive advantage. In summary, we believe that the resource-based view of a firm offers a suitable framework for discussing and theorising how the retention of human resources is managed. In the next chapter we describe retention as an HRM strategy and discuss motivational factors that can affect employees' propensity to stay with a firm. We also discuss various retention strategies and the consequences of implementing them.

4. The act of retention

In this chapter we describe retention as an HRM strategy. We also discuss motivational factors that affect employee retention and explain appraisal as a way of clarifying employee demands. We then discuss various retention strategies and the consequences of implementing them.

4.1 Retention, the act of retaining

In HRM literature one of the main issues is that employers should retain human resources in order to obtain competitive advantage (Storey, 1995; Poole, 1999; Lindmark & Örnevik, 2006). There are many reasons for this to be true but two main factors can be initially mentioned. First, knowledge workers are relatively scarce in quantity. Second, the knowledge and expertise these workers possess are vital for firm's competitiveness. Therefore, it is not unexpected to view retention as being of strategic importance because of the potential return on employee's expertise in the long term (McGovern, 1995). Treating staff as a long term resource accords with what Storey characterises as soft HRM, which focuses on carefully nurturing and investing in human resources to make them committed and thereby successfully retaining their knowledge. This stands in contrast to hard HRM that views human resources as an expense of doing business instead of the *"only resource capable of turning inanimate factors of production into wealth"* (Storey, 1995).

"Employee retention is king"

Frank et al. (2004)

The quote above is used to describe retention of key workers as the most critical factor to plan for and is viewed as the factor that could affect organization's effectiveness the most in the future (Frank *et al.* 2004; Buckingham & Vosburgh, 2001). Retention of knowledge workers is critical to organizations survival and profitability now that the world's economies are becoming incorporated into the information age (Lee & Maurer, 1997). In this brave new world of information, organizational profitability and individual well-being are connected to how well knowledge can be refined into creating competitive

advantage. The perception of the employee's current job in relation to alternatives affects a person's propensity to change jobs (Coff, 1997). This statement indicates that retention is highly dependent on either developing a motivating work environment or decreasing alternatives. The latter is not achievable and the focus should therefore be on developing retention strategies. Frank and Taylor (2003) argue that there is no issue of greater importance than employee retention and is a growing concern for many employers. To understand what encourages commitment and the retention of employees, it is relevant to understand motivational factors since motivation is a central field of HRM (Lindmark & Örnevik, 2005).

4.2 Motivational factors

Different things motivate every person; monetary rewards motivate some people while others are motivated by recognition or career possibilities (Kempton, 1995). Motivation theory is important for HRM because it helps understand which individual needs firms have to meet in order to satisfy workers. Abraham Maslow and Frederick Herzberg, two dominating scholars of behavioural theory (Kempton, 1995) while discussing the relationship between individual motivational factors and job satisfaction, claim that in order for firms to understand what motivates people and thereby increase retention rates they should understand basic human needs, both psychological and physical. If employees have needs that are not fulfilled it could be assumed that they will be dissatisfied and thereby eventually leave the organisation in search of fulfilment elsewhere.

Maslow identified five levels of human needs that will be presented in an organisational context to explain their relevance in HRM. In an organizational context Maslow's first level contains physiological needs, which can be viewed as physical comfort, pay and basic working conditions. The second level concerns safety and job security. Social needs, in the third level, relate to factors such as belongingness, friendship and having relationships in the workplace. The fourth level concerns esteem needs received by employees when the organisation and its members recognize a worker's achievements and thereby reach a certain level of status. Maslow's fifth and final level, the need for self-actualisation is reached when the worker feels that the job itself provides opportunities to pursue own goals and interests (Lindmark & Örnevik, 2005; Kempton, 1995). The logic

of Maslow's hierarchy of needs is that when needs in the lower levels are satisfied they trigger needs on higher levels in a sequential fashion (Flaa *et al*, 1998). For example, if the worker receives satisfactory pay it immediately triggers needs on the second level, namely job security. When the worker then feels secure enough it triggers social needs such as belongingness on the third level, and so on. Maslow claims that a person who succeeds in self-fulfilling him- or herself expresses the true human nature (Israel, 1999) but states that the effort of self-fulfilment is universal and independent of social, cultural and historical conditions. Israel concludes that Maslow's argument for the *needed* effort of self-fulfilment is not justifiable, even though many or even most people strive towards it, as it is not proven to lay in human nature.

Frederick Herzberg's *two-factor theory*, also known as *Herzberg's Motivation-Hygiene theory* (Kempton, 1995) is in an organizational context used to identify what motivates people to work and what makes workers satisfied or dissatisfied. The two-factor theory can be characterized as structural since the attitudes of workers are placed in direct relation with the workplace environment (Kalleberg, 1977). Kalleberg further argues that this view has great practical use for firms, because the firms can increase job satisfaction by manipulating job characteristics that are commonly under their control.

Herzberg provides a framework for understanding motivational factors divided into external and internal factors (Lindmark & Örnevik, 2005). The external factors are called *hygiene factors* and are often described as basic factors that need to be met in order not to create dissatisfaction. The internal factors are described as motivational factors, the factors that motivate people to be satisfied through personal growth (Lindmark & Örnevik, 2005). In order to foster motivation and satisfaction Herzberg argues that the internal needs have to be met while external needs should be satisfied in order not to have dissatisfied workers (Kempton, 1995). It is by Herzberg viewed not enough to satisfy external needs as salary, physical environment, company policy and other basic needs. If firms cannot provide employees with the possibility to fulfil internal needs of personal growth it will become very difficult to foster motivation and satisfaction (Kempton, 1995), thus making it more difficult to retain workers.

There are similarities between the two theorists on motivation and human needs. Herzberg's external factors have some similarities with Maslow's first three levels in the hierarchy of needs and the internal factors have similarities with the fourth and fifth level (Lindmark & Örnevik, 2005). We have combined Maslow's hierarchy of needs and Herzberg's two-factor theory in the model presented below, which is used during the forthcoming analysis to clarify and discuss which needs firms should satisfy in order to retain their employees.



Diagram 1: The combined hierarchy of needs and two-factor model

There are a number of objections against motivational theories and that needs within people control their actions (Israel, 1999). One objection arises from *biologism* closely related to *naturalism*, which regards man as a biological organism whose actions are caused by biological conditions. Another objection is of a methodological nature, which argues that motivational theories tend to lean towards circular reasoning, which occurs since there are no objective measures or observations of internal factors such as disposition or needs. However, Lindmark and Örnevik (2005) argue that organisations, which do not use human behaviour theories such as motivational theory risk having dissatisfied workers and which in turn, could make it more difficult to retain them. Kempton (1995) claims that motivation is a process of revealing needs and realising them. In organizations this is often done through appraisals, which will be described in the following section.

4.3 Appraisal

In order to identify and thereby strive to satisfy employee needs, employers should clarify which demands need to be met. Every individual has specific needs and for management the task is to recognize these needs in order to attempt to satisfy them by gathering information about what motivates an employee. The process of observing, assessing, reporting and discussing an individual's work is called appraisal. The purpose of appraisal is to improve the quality or quantity of the work being done but also to maintain or increase the individual's level of satisfaction (Randell, 1996). This definition might be too simplistic since it does not reveal the complexity of the surrounding process. The reason for an appraisal scheme is generally to improve the work being done by an employee and is most often deemed to promote cost-saving initiatives (Randell, 1996; Shipton, 2006). This can result in employees feeling an overbearing sense of their performance being measured instead feeling comfortable and secure while voicing their demands.

Randell asserts that appraisal is a fundamental component of HRM since it is due to this method that the information needed for systematic development of individuals, their training, rewards, careers and design of jobs is brought forth. The overall purpose for an appraisal scheme is making an organisation more effective by developing its human resources. Managers responsible for manufacturing, money or marketing resources need to actively manage them. By simply leaving them alone they might corrode, the money be devaluated or their market be invaded. Therefore, these managers are forced to guard and develop the resources. In the same way human resource managers need to develop the employees in order to sustain their competitiveness. Randell states “... *managers should appraise their staff for the purpose of what they should be doing differently next that would add to their performance in their existing job; and to discover what the organization should be doing differently for them that would add to their capacity to their job.*” This statement shows that the meaning of appraisals can benefit both the organization and the employee by considering how to more effectively reach organizational goals through employee satisfaction. According to Helen Shipton (2006) feedback provided through the appraisal process can indicate possible gaps between individual demands and organisational targets. Using appraisal, managers can provide employees with a clear view of how their role contributes and how they ‘fit’ within the

organisations agenda. Shipton also argues that appraisal can promote learning and growth and help employees to reinforce the necessary confidence to make use of opportunities for higher-level learning.

Appraisal is a common way for employees and management to discuss future development and clarify which individual needs firms should satisfy in order to retain employees. This information is therefore important when formulating retention strategies, which are presented in the following section.

4.4 Retention strategies

Few employees leave their jobs without due reason, be it either work related (internal) or personal (external) or even both. Personal reasons for leaving a firm include wanting to spend more time with friends and family or having to move since a spouse has a new job located in a different city. Employers have no control over such reasons but can tackle internal issues such as pay systems or development opportunities. Victor Vroom suggests after an extensive review of research on job satisfaction that people find jobs satisfactory when providing high pay, career opportunities, considerate and participative supervision, and the opportunity to interact with one's peers, varied duties and a high degree of control over work methods and work pace (Wright, 1996). This shows that there are numerous factors to consider when working with retention.

The rewards organisations offer their employees affect how motivated the employee is to stay within a firm (Lawler, 1983). Lawler asserts that organisations that give the most rewards tend to retain the best performers and most important workers. Even though HRM literature has acknowledged the need to develop reward and benefit systems in order to influence commitment and thereby insuring retention, there lacks an understanding of individual commitment factors that drive employee commitment. Miller (1996) claims that retention of employees is strongly influenced by their commitment level to an organization. Buck and Watson (2002) state that commitment can be significantly influenced by HRM activities, or more specifically, there are management practices that can strongly influence employee's level of commitment to a firm. Benson and Brown (2007) show that there is substantial research in the field on antecedents of

commitment but that it has not been recognized in the HRM literature. Morrow (1993) shows that factors such as age, tenure, education, job satisfaction and job security are consistent antecedents of commitment. This statement indicates that employee commitment levels vary depending on different factors, and should therefore not be treated as a homogeneous group (Benson & Brown, 2007).

Coff (1997) argues that human assets are complex, but that in many cases HRM ignores this and develops a general reward and benefit system used to commit employees and assure retention on the idea; one fits all. Lindmark and Önnévik (2005) have to some extent recognized the need to view commitment activities (reward and benefit systems) from an individual employee perspective. In order to develop effective reward and benefit systems by taking individual employee commitment factors into account, firms need to encourage dialogue between employees and the firm. In other words, if the organisation can consider individual preferences regarding reward and benefits they might also develop a more effective way of committing the employee, and in turn ensuring retention. Various retention strategies, found in table 1, which can be used to encourage employee retention, will now be discussed.

Retention Strategies		
Financial	Non-financial	Fit
Salary	Challenging work	Corporate culture
Benefits	Development	
Bonus systems	Career opportunities	

Table 1: Retention strategies

4.4.1 Financial rewards

Salary

Salary is a monetary compensation for an employee's effort to the firm; the employee performs a service and is paid for it accordingly (Bratton & Gold, 2003). Salary is often referred to as base pay, and can be based on two main approaches, market pricing or job evaluation (Bratton & Gold, 2003; Lawler, 1983). Using market pricing is to base salary on an industry rate for a specific job. The job evaluation approach is to base salaries by

determining a value for all the jobs in a firm before comparing them to the market (Bratton & Gold, 2003). This kind of policy implies that the person doing the job is only worth as much as the job itself is to the organisation. But, in many respects it also assures that the reward cost is similar to what other organisations are paying people doing the same kind of job, i.e. that the personnel costs are not out of line with those of the organisations competitors (Lawler, 1983). An alternative to base pay is performance pay including paying individuals for the skills they possess, often referred to as knowledge-based pay or skill-based pay (Bratton & Gold, 2003). Lawler states that using skill-based pay will not dramatically change the pay situation since the skills people have generally match the nature of the job. On the other hand it can result in identifying whether or not the employee has more or less of the skills needed for the job. This can be used to determine whether or not the employee is entitled to the pay offered, such as first entrees that do not have the skills and have to earn the right to be paid whatever the job-related skills are worth (Lawler, 1983). Using skill-based pay can produce a climate of rewarding when employees increase and develop their skills. This in turn can create a knowledgeable and flexible workforce. This flexibility often leads to lower staffing levels, fewer problems when turnover occurs and also a higher retention rate because employees like the opportunity to utilize and be paid for a wide range of skills (Lawler, 1983). A skill-based pay system can evidently be an effective means of retaining knowledge workers but is by no means a simple effort since skill assessment can be difficult to accomplish. A negative aspect of performance-based pay as presented by Bratton & Gold (2003) is of a symbolic nature, it can convey an absence of trust as people are only rewarded as they perform and must be measured for everything they do or do not do.

The determination and maintenance of a fair, equitable and effective pay system within an organisation is one of the most important and most difficult tasks facing human resource managers. If employees consider the pay system to be unfair it is unlikely that they will perform their best, and in some cases leave the firm (Pendleton, 1996; Coff, 1997). Therefore, differences in pay within a firm may be of greater importance than those in relation to the labour market. This implies that firms can increase wages or salaries without considering the norms of other employers. Pendleton (1996) opposes this implication by stating that employees usually use both the internal pay situation and within similar jobs in the wider labour market as the point of reference.

Concerning Herzberg, pay systems are just a way of ensuring that employees do not become dissatisfied, but are difficult to use in order to foster satisfaction and retention since a pay system does not offer scopes of personal growth (Lindamark & Örnevik, 2006). But even if pay does not offer scopes of personal growth it can create status among fellow colleagues. Some might value money as a status symbol and fulfil a need for recognition among fellow workers. In this case money could play an important role for retention, because it offers some workers possibility to satisfy needs such as recognition among organisational members. Even if this in many cases is considered shallow, it does not exclude that some people use money instead of job characteristics for satisfaction. Locke *et al.* (1980) state: “*Money is the crucial incentive because it is related to all of man’s [sic] needs*”. With this being said monetary rewards, such as salary should not be underestimated in fostering retention. But it has to be noted that in order to understand the relationship between pay and employee commitment, which is complex, it requires knowledge of individual context (Bratton & Gold, 2003).

Slater (1980) asserts, “*Getting people to chase money... produces nothing but people chasing money*”. Generally money is not viewed as an effective retention tool in the long run. Edward Deci (1972) states that monetary rewards can be counter-productive and lower employee motivation by reducing the intrinsic rewards they receive from the job. These rewards are those that arise directly from task itself, such as a sense of achievement, pride and accomplishment (Deci, 1972). Rewards such as these are awarded by people themselves and are therefore only achieved by designing jobs so that they offer employees the opportunity to experience for example challenges, responsibility, interest and achievement (Wright, 1996).

Bonus systems

A bonus system is an incentive for retention that is often based on some kind of performance. A goal is set and if reached is often rewarded in monetary forms (Firth *et al.* 1999). A difficult aspect of bonus systems is specifying what kind of performance is desired and how it is determined (Lawler, 1983). It could for example vary from being based on generated revenues, market share and other things that can be translated into value. Poorly designed and administered reward systems can do more harm than good but when performance can be effectively related to bonus pay it can help motivate, attract and

retain key contributors. However, Firth *et al* (1999) show empirical evidence that there is a weak link between performance and bonuses among top management. This can be used to demonstrate a system that does more harm than good as it drains firm's capital by giving employees more than they give back. Blakemore *et al.* (1987) concluded that firms that apply a bonus system could improve their retention ability when structuring it with base pay but that workers with risk-averse characteristics tend to be more attracted to such firms.

There are ways of relating pay to performance and also how the rewards are provided, such as stock or cash. Using stock options is a long-term incentive and can be used to bind an employee to the organization but also to perform and deliver results (Lawler, 1983). In this way both parties can gain from using bonus systems, firms by improving results and the employee by receiving monetary rewards and personal satisfaction for reaching targets. But, using a stock-based bonus system does not ensure longer commitment than the period of cash-in for the stocks options.

Benefits

Benefits are often considered to be an indirect monetary compensation. Even if they are not rewards given in cash they constitute an economic value to the recipient (Kempton, 1995). One way of describing benefits is to view them as activities used in order to satisfy employee demands and expectations of firms. Bratton and Gold (2003) state that benefits are a "*part of the total reward package provided to worker in addition to base and performance pay*". Benefits should match individual employee demands brought forth by documenting their needs. This can also add value to the recipient as it makes the employee participative and therefore more understanding of the value being offered. (Bratton & Gold, 2003) If firms can consider the diverse needs among workers when providing benefits they can enhance their value because they match the individual need. Traditional wisdom tells us that benefits can foster retention. However, Bratton and Gold (2003) state that there are issues about whether or not benefits are appropriate for retention. To date there is not enough research to draw this conclusion and due to an absence of empirical evidence managers constantly scrutinize benefits. But, Bratton and Gold still argue that benefits can be used in a proactive symbolic way by firms to show their care of employees.

In summary, remuneration plays a major part in an organisation's ability to recruit and retain top performing people. Most managers usually offer more money when faced with losing a valuable employee or not being able to entice a potential recruit. But, it is important to recognise that remuneration is only one aspect of the employment equation and can be viewed as a short-term solution when faced with losing an employee. These other aspects include non-financial factors such as; chances to contribute and to make a difference, autonomy, a positive collegial atmosphere, personal development, growth opportunities and challenging work.

4.4.2 Non-financial rewards

Challenging work

According to Jamrog (2002) knowledge workers are more interested in challenge than in tenure. For several reasons it is expected of workers with high levels of ability and experience to seek challenging work than other less knowledgeable workers (Trank, 2002). In order to increase an individual's level of competence after having attained a high degree of achievement the environment must provide additional challenges. High achievers may also prefer challenging situations because they provide them with the opportunity to differentiate and test themselves against their peers (Kanfer *et al.*, 1996). Providing challenges other than the work itself can be a way to stimulate high achievers, which can be done through opportunities such as further training and career paths (Trank *et al.*, 2002). Promotion is not only a way to provide employees with more challenging work but also a means to recognise them publicly which often motivates those who wish to be differentiated and are driven by competition (Trank *et al.*, 2002). There are recent trends among the younger employees that they put less emphasize on job security and more emphasize on having challenging work that provides them with a possibility to learn (Lawler, 2005). Lawler goes on by saying that today's global competition; the rise of technology and an increasing demand for knowledge workers has made loyalty contracts unrealistic. Today's employees are demanding substitutes for the security that loyalty contracts represent. They want jobs that give them the chance to develop skills and learn because this keeps them attractive in the market, should they want to change firms (Lawler, 2005). Developing employees as a retention strategy can seem contradictory in this sense, but at the same time firms must adapt to the changes of relevant knowledge in the market.

Development and Careers opportunities

Training employees has long ensured skilled, motivated and competent employees within firms and is an integral part of HRM (Frank *et al.* 2004). One way of evoking retention is to provide opportunities to advance within the organisation, enabling employees the chance to pursue a career (Lindmark & Örnevik, 2005). Hall (1984) describes the term career as “*the individually perceived sequence of attitudes and behaviours associated with work-related experiences over the space of the person’s life.*” Based on Halls description of career we find that development entails altering an individual’s perception and behaviour. Any activity that changes an employee’s performance, adaptability, attitude or identity is considered a development, be it job experience, assignments, feedback, socialisation or training (ibid.). We now find that development is not only bound to task-related activities but rather any change that enhances an employee’s career outcome.

A step in providing career opportunities is the development of human resources. In order to provide advancement within a firm there needs to exist empty positions to be filled. An issue that arises when discussing promotion-based reward systems is that organisational growth is required to provide carrier possibilities for employees. A system like that can be adopted in growing firms, but may not be applicable in firms that are shrinking or growing at a slow pace (Baker *et al.*, 1987).

Jamrog (2002) asserts that employees want good training opportunities in order to keep themselves up-to-date and survive in the labour market if needed. A usual logic applied in the discussion of development is that increasing employee’s attractiveness on the market through training is that they will leave when the opportunity presents itself. However, Jamrog argues that employees are more willing to stay within firms that provide training and that turnover commences when those opportunities cease to exist.

There are evident problems with using promotion for commitment in order to retain employees, but it is also evident that firms must address the problem in some way. In a survey carried out by Ebadan and Winstanley (1997) on the correlation between promotional opportunities and motivation the following question was asked; ‘*Would a decrease in promotion opportunities result in a decrease in your motivation and morale?*

60 percent of the respondents answered yes. Therefore, a decrease in morale may affect the commitment level of employees, an integral part of retaining workers.

4.4.3 Fit

Corporate culture

HR practices may provide significant competitive advantage opportunities when they are used to create a unique (difficult to imitate) organizational culture that institutionalizes organizational competencies throughout the organization (Bowen & Ostroff, 2004). Organizational culture is defined as the shared set of beliefs about how things work; values that indicate what is worth doing, and norms about how people should behave (Trice & Beyer, 1993). Culture may assist firms in heeding the threat of turnover because once employees acclimate themselves within the firm it may be difficult to leave and find a suitable fit within another firm (Coff, 1997). Chatman (1991) argues that fit between employee and organizational values has a great impact on retention.

It is unavoidable that employees will leave an organisation at some time or another but there are ways, strategies that can be used to encourage employees to stay longer (Sheridan, 1992). Sheridan researched the relationship between employee retention and organizational culture values. It is suggested that organisational culture influences human resource strategies such as employee development reward systems. These strategies in turn create psychological climates that influence the commitment level and retention of employees regardless of position or performance (Sheridan, 1992). It is further suggested that organisations with cultures that value teamwork, respect and security foster loyalty, commitment and thereby ensure a higher rate of retention. Other organisations value personal initiative and base rewards on performance, which Kerr and Slocum (2005) state suggests an entrepreneurial norm and thereby does not offer employees long-term job security. In such organisations those who do not perform well will presumably leave and those who do will stay on to make use of the rewards, at least until they can be found elsewhere. Therefore, the retention rate may be equally high regardless of employee's performance level in some organisational cultures but in others differ due to performance.

Generally it is more expensive to replace key contributors than weak performers, which suggests that a cost-effective HRM strategy should strive to retain those who drive the

company forward. Completely avoiding employee replacement costs is unavoidable but increasing the retention rate can delay them (Sheridan, 1992). Sheridan found that organizations that emphasize interpersonal relationships were more successful in minimizing employee turnover than those that emphasize work task values.

Employee turnover is commonly considered to be a negative issue that firms should strive to avoid. However, this might not always be the case. In the following section we shall describe the other side of retention where the potential benefits of employee turnover are discussed.

5. The other side of retention

In this chapter we discuss the other side of retention. We do so by discussing potential benefits from employee turnover, which opposes the aforementioned importance of retention in knowledge-based firms.

During the twentieth century, managers and researchers in HRM have had concerns about voluntary employee turnover (Lee & Maurer, 1997). Assuming that organizations have taken care to recruit their knowledge workers we might further assume they place a high priority on retaining them within the firm regardless of labour market conditions. McGovern (1995) assessed this assumption and found that some firms did not place a high priority on retention for two main reasons. First, firms with limited research and development opportunities were limited in the ways in which retention could have effect since they were not able to offer challenging work. Justifying new positions was difficult since existing work was enough for the firm's development. Second, when employees and their expertise were not difficult to replace and management did not depend on them, retention was not considered necessary. Contrary to the emphasis on retention in the managerial literature, McGovern found that some managers emphasised the positive aspects of a steady turnover. They also held an implicit notion of what constituted a suitable level of turnover, or equilibrium point, for their firm. There were, however, differences between industries in relation to their existing levels of turnover. One positive aspect of turnover was that it allowed ageing knowledge and declining enthusiasm to be replaced with new ideas from for example eager graduate recruits. One of the studied firm's managers explained:

“Turnover is good. It allows change to take place, it allows you to bring in new individuals and new blood into the organisation and it allows promotional opportunities and things that go with that and that's good. If it is stagnant and there is no one leaving and no change, I think that is the worst situation you could have.”

This makes it quite clear that companies can become too successful in attracting and retaining workers. When a degree of turnover is sought after, low levels can result in

increased stagnation as employees become too familiar with the work and less driven as time goes by. The workers lose the enthusiasm of their early years and therefore become less productive. Therefore, McGovern found that companies can fall victim to their own effective retention strategies. In spite of work becoming increasingly routine to workers, many may have become too comfortable with the compensation packages they are offered, and as some start families and take out mortgages they become even more dependent on their employers and therefore less inclined to be flexible and driven by new challenges. McGovern argues that this can entail new recruits not being able to enter the workplace with knowledge of up-to-date developments and experience of equipment that current employees might only have heard about.

McGovern's studies became emphasised on the benefits of staff turnover rather than retention and put it into a problematic viewpoint that is needed in this thesis as we strive to clarify the subtleties of retention. In summary, this viewpoint shows that some employers view turnover as beneficial since it ensures new blood that has more to prove and is more willing to take on extra work. Also, turnover can provide new recruits that bring latest development, for example graduates bringing the last advancements from the academic world. New recruits, especially if recent graduates can also reduce labour costs since they often enter at the bottom of the salary scale. The ways in which these above-mentioned firms viewed retention and turnover might be seen as exploiting prevailing labour market conditions. McGovern states that the process actually was much more subtle. Retention did occur but only when staff was considered to be particularly valuable due to their expertise and insight. Therefore it can be considered a strategy based on a mixture of market exploitation and selective retention.

These findings describe employers that do not fit the retention model presented in HRM literature where human resource planning is asserted to be critical for competitiveness (McGovern, see Storey, 1995; Poole, 1999). McGovern's research demonstrates that, in favourable labour market conditions, employers were inclined to make use of the benefits of existing conditions although remuneration packages were offered to employees considered to be invaluable.

Kempton (1995) describes a controversial use of reward systems. During the recession in the UK in the 1990s many firms used reward systems in a retention destructive way. These firms chose to encourage deliberate turnover in order decrease the number of employees. This was done by rewarding employees in key positions, which resulted in dissatisfaction of other employees. The other employees took their labour elsewhere and the firms decreased their labour costs. Even though this might be controversial it shows that it can be managed, although in this case, as mentioned before, in a destructive way. Turnover is generally considered as something costly and disruptive for organisations (Buck & Watson, 2002) but as was shown above is dependent on situational factors, in this case the business cycle. For the companies during the recession, turnover was a means of cutting costs and maintaining a competitive level. Therefore, retaining workers does not always ensure competitiveness, as it highly depends on situational factors.

This concludes the theoretical framework of this thesis where we have discussed what constitutes knowledge-based firms and the characteristics of knowledge workers. Furthermore, we have presented the resource-based view of the firm and applied human resource management within it and found that the retention of human resources is believed to be crucial in knowledge-based firms wherein knowledge workers constitute the main resources used for competitive advantage. We have also gained knowledge in which motivational factors can affect employee retention and discussed retention strategies that are used to encourage retention of employees and the consequences of applying them. Finally we have presented a contrasting view on retention where we have found that employee retention is not always sought after, as employee turnover can have its benefits depending on a firm's situation.

In the next chapter, we analyze the empirical evidence brought forth through qualitative interviews with HR managers and knowledge workers. The previous theoretical chapters and the opposing view of retention are used as a framework from which we base our comments.

6. Analysis and empirical study

In this chapter we present and analyze the empirical findings of our interviews based on the theoretical framework. First, brief portrayals of each company and interviewees are presented in order to provide the reader with a general idea of their nature and business areas. This information is useful when discussing the applied retention strategies and the perceived importance of knowledge workers within knowledge-based firms.

6.1 Company presentations

IKEA IT Global

IKEA IT is an expert and support function within IKEA that provides IKEA units worldwide with IT solutions such as architecture, infrastructure, service and support. They operate from Sweden, Germany, France, Singapore and the USA. The IT unit employs over 700 people who have the task of supporting IKEA's expansion and creating a common IT landscape for all IKEA units around the globe. Niklas Safi is the HR Manager at IKEA IT in Helsingborg; he has previously worked within IKEA Retail.

LogicaCMG

LogicaCMG, formerly WM-Data is a leading international provider of IT solutions. The company has 40 000 employees in 41 countries. LogicaCMG strives to support its customers in building and maintaining a leading position with help from LogicaCMG's deep industry knowledge and documented supply ability. The company provides business competence, system integration and outsourcing of IT and business processes in industries as telecom, finance, energy, utilities, manufacturing, retail, transport and the public sector. In Scandinavia the company has 9000 employees and operates under the brand name "WM-Data, a LogicaCMG company". Magnus Storelius is the HR manager at LogicaCMG's affiliate in Helsingborg. Zoran Covic is employed as a management consultant.

Öhrlings PricewaterhouseCoopers

Öhrlings PricewaterhouseCoopers is a Swedish section of the global company PricewaterhouseCoopers. Öhrlings PricewaterhouseCooper's business concept is to provide accounting and financial consultancy services for organisations and the public sector. They have 3000 employees and 125 offices in Sweden which is part of a large and global network with 140 000 employees in 149 countries. Dragan Cadjo is employed by PWC as a junior accountant.

Leadway

Leadway offers IT project management services in the Öresund region. Their main service is providing project managers with experience and leadership skills for hire. The company has 11 employees. Jan Rutberg has been involved from the start and is currently the managing director at Leadway.

Sund Kommunikation

Founded in 2003, Sund Kommunikation offers a total range of services in PR and communication. They have three business areas: Corporate communication, Marketing – PR and Publishing. The company has 39 employees with offices in Malmö, Stockholm and Gothenburg. Daniela Rogosic is employed as a PR-consultant and project leader.

6.2 Retention and Knowledge-based firms

All of the interviewed HR managers value their employees very highly and often view them as the firm's main asset. Leadway's managing director says: *"It is all about brainpower, we are nothing without our employees"*. IKEA IT's HR manager stated, *"Our most valuable resources are human resources, and without them we are nothing"*. The HR-manager at LogicaCMG, Magnus Storelius did not express himself in the same way but instead indicated that LogicaCMG views their employees, especially the key contributors as invaluable and strives to retain them using highly advanced retention systems. This clearly confirms theory of what constitutes a knowledge-based firm, which portrays the human resource as a decisive factor for competitiveness. Depending on the firm's business area the scope of knowledge work might be overemphasized as various work tasks, for example at IKEA IT, are routine and do not include a high degree of

problem solving. LogicaCMG and Leadway's consultant services require a high degree of problem solution and non-standardized production. These firms are also more vulnerable and dependent on key employees since they constitute their competitive strengths in the marketplace. IKEA IT is an internal support function within the global IKEA Corporation and are therefore not subject to a high level of competition. However, all the firms in our study involve complex production of output that requires a high degree of knowledge in their employees and therefore fit the description of knowledge-based firms as presented in the theoretical framework of this thesis.

IKEA IT does not seem to have difficulties with employee turnover as of yet but it is of a growing concern as turnover rates have started to rise, which according to Niklas is a result of an economic upswing and an reoccurring IT boom. Niklas states: "*Turnover is not always a bad thing; a certain level of turnover is needed.*" Turnover is in this case is sought after as it enables the firm to bring in new, enthusiastic knowledgeable workers that can contribute with knowledge and expertise not known to current employees. It can also be viewed as a way for firm's to remove unwanted staff and replace them with more suitable employees and thereby improve the quality of the workforce.

At LogicaCMG the goal is to have an employee turnover rate less than ten percent. A five percent turnover rate is considered good for a consulting firm but today the firm's turnover rate has risen to seven percent, which according to Magnus is the highest rate ever at LogicaCMG and is expected to continue rising. He considers the increased turnover rate being a result of the recent IT industry growth and a shortage of people. Since LogicaCMG's employees mainly consist of consultants it is the largest group of people they lose to competitors. However, other employees, such as salespeople and managers also leave the firm, mostly to clients. To follow the market's development LogicaCMG needs to recruit 400-500 new employees, a growth of ten percent. With the increased turnover rate and a shortage of qualified workers, Magnus believes that this will be very difficult to achieve. LogicaCMG does not settle for "*good-enough*" workers but instead demands knowledgeable and skilled workers, which makes recruitment even more challenging. Magnus describes this: "*To spend a lot of money on an employee that turns out not being what was expected is an investment gone wrong.*" We find that the retention of current employees here becomes essential, if they are considered qualified and

contribute to competitiveness, since the firm's goal is to recruit new employees during times of increased turnover rates, which might prolong the desired organizational growth.

From a resource-based view of knowledge-based firms we find that sustained competitive advantage is derived from attracting and retaining a highly knowledgeable workforce able to contribute to a firm's competitiveness. An obvious problem for basing corporate strategy on human resources is the question of sustainability, as people cannot be owned. Considering this and an increasingly intense labour market all the interviewed managers view retention of key contributors vital for their competitiveness. Niklas at IKEA IT states that in Sweden, 9000 system developers are needed in the market today but only 2500 graduate every year. This creates a lot of competition between firms striving to retain employees that have realised their attractiveness and therefore place higher demands on employers. Magnus at LogicaCMG states that the firm has understood the importance of being an attractive employer as the competition for knowledge workers, especially in the IT industry, is intense and employees are increasingly flexible. Since LogicaCMG's business area is based on providing consultants to external clients they run the risk of losing employees to firms that experience their capabilities at first hand. LogicaCMG is therefore constantly subject to the risk of losing employees, which has resulted in a highly developed retention system that considers individual employee needs. This however, does not assure that their employees will stay within the firm, but it provides LogicaCMG with effective ways of identifying individual employee needs.

The managing director at Leadway, Jan Rutberg confirms how fragile it is to base a firm's strategy on employees but at the same time says that it is the nature of the business: "*Quality people are what we do business with*". He states how important it is for Leadway to retain workers in order to have competitive capabilities. Jan says that as Leadway is a small firm with eleven employees, it would be disastrous losing an employee, mainly due to the loss of competence but also because of the high recruitment costs it would entail. By losing one out of eleven means that the firm would approximately lose 10 % of its capabilities and with it a number of clients. We now find that the size of an organisation affects the perceived importance of retention, as a smaller knowledge-based firm depends on few employees as basis for their competitive strength. Although it might be an all too simplistic way of describing the importance of retention

according to business size with arithmetical reasoning it does however clarify differences between firms according to organizational size.

It seems as if all the firms have based their strategies on their employee's abilities, which according to theory has both its advantages and disadvantages. Disadvantages seem to be derived from the social complexity of strategically managing human resources. The advantages can be related to the fact that human resources in knowledge-based industries are scarce and non-imitable; therefore the firm that can retain the best workers has the best possibility of fostering competitive advantage. All the firms that were studied seem to confirm this by stating that human resources are their main assets of production and at the same time state that they always risk losing qualified people. Concerning the importance of the key contributors, Magnus emphasizes the importance of retaining certain employees that receive an informal state of leadership, as it can deal with the difficulties of managing the social complexities of human resources. Other employees look up to these individuals and are influenced by their decisions. By retaining a key contributor firms can therefore also retain a cluster of co-workers since if this person decides to leave the firm it is likely that others will start to look for alternative employment possibilities.

Appraisals are used by all the firms, as a way to gather information about individual employee needs. The appraisal schemes are used to evaluate employee performance but also to provide employees with a clear view of how they fit in the organization and its agenda. The information gathered during appraisals is partially used to develop the retention strategies and remuneration packages offered to employees. IKEA IT applies an advanced system used to make the organisation more effective by developing the employees, which agrees with what Randell (1996) states is the purpose of an appraisal scheme. Appraisals seem to be a basic practice amongst firms used to clarify which retention strategies are suitable. Since the purpose of appraisals is also to evaluate performance the employee can feel discomforted when voicing demands due to their efforts being appraised at the same time. When gathering information about employee demands firms might consider doing so in an informal setting where the focus is on what motivates the employee and not what he or she has or has not done.

The various appraisal processes in the studied firms all inclined an attention for employee satisfaction and a desire to ensure retention. The ways in which appraisals were conducted varied but all strived to reveal what drives the employee to remain within the firm and use this information to discuss what the firm can offer to satisfy the expressed needs. The HR-managers emphasized the importance of recognizing individual needs whereas the needs of one employee were far different from another's. The HR-manager at IKEA IT deems the question of employer attractiveness as very important and thinks every manager should ask the question: *Why should employees want to work here?* A question such as this reveals a certain level of humility when faced with retention issues. Instead of asking what the employee can do for the firm the opposite is asked with the purpose of ensuring satisfied and retained knowledge workers. Appraisal, should as theory states, also provide a clear view of the fit between individual employee and organisational agenda. Zoran stated that one of the most important reasons for him to stay in a firm is the fit between his aspirations and where the firm is heading. This implies that the organisation's agenda affects the worker's willingness to stay. Even if a firm's agenda cannot be adjusted to an individual employee, the firm can, through appraisals, reveal differences between the employees and firm's agenda. The risk of losing an important worker can be decreased at an early stage by identifying what motivates the employee to stay with his or her employer.

6.3 Financial rewards

As was mentioned in the theoretical framework, financial rewards seem to encompass a monetary compensation for delivered effort to the firm. Herzberg's ideas concerning this form of retention strategy are that salary cannot satisfy employees, but can contribute to not having dissatisfied employees by satisfying their external needs. The managers state that they do not believe money to be an effective retention strategy if it is not combined with other rewards that provide possibilities for personal growth. Salary as a retention strategy is seen as less important than other factors, but not irrelevant.

“People want more, which is understandable since we do not offer an excellent salary while others do”.

Niklas states that salary is the largest complaint amongst employees at IKEA IT and admits that they do not offer a competitive salary. Niklas further speculates that money is essentially not what the complaints are about and says: *“If the degree of stimulation is high enough money will not matter as much”*. This, we feel, might be an all too simplistic way of viewing salary as a retention incentive as it can play a vital role when employees are faced with employment alternatives. For example, when two firms provide similar remuneration packages but one offers a slightly higher salary it can be argued that people tend to choose the more beneficial of the two alternatives. However, important factors such as corporate culture and management are here not taken into account. None of the interviewed knowledge workers valued salary as a critical factor for them staying with their employers but do feel the need to be provided with a fair salary, which is compared to market rates. Daniela expresses a need to receive the salary she feels she deserves which corresponds with the theoretical evidence that states that a fair pay system is of great importance. We find that employees who are dissatisfied with their salary tend to look elsewhere for other employment alternatives. However, those who are satisfied with their salary do not feel it increases their propensity to stay with their employers.

Salary also functions as a status symbol used to fulfil recognition needs among co-workers and therefore fits Maslow’s fourth level of esteem needs. Considering that salary could theoretically be used for recognition among colleagues we find that the needs within Maslow’s hierarchy do not need to be satisfied in a sequential order. In an organizational context Maslow’s hierarchy of needs only portrays salary as able to satisfy physiological needs and not psychological needs such as recognition. Locke’s statement: *“money is the crucial incentive because it is related to all of man’s needs”* implies that salary has the potential of satisfying needs of a psychological nature and can therefore not be dismissed as a tool for satisfying internal needs and thereby making it a more effective retention strategy.

Magnus believes that older employees tend to value money higher than young employees, but that it is difficult to determine who values money more since it is dependent on the person’s individual situation. All of the interviewed knowledge workers say that their needs, especially concerning salary, have or will change over time. That which Zoran Covic values the most at a firm has changed over time as he valued salary less as a

younger employee but now is more concerned with receiving a fair pay based on his experience and knowledge. In the beginning of her career, Daniela did not value salary as much as she does today since she was then mainly concerned with getting a job and developing her skills. Dragan is in the beginning of his career and is at the moment not all too concerned with his salary in spite of it being below market rates as he is focused on developing and becoming a chartered accountant. Dragan does however state that once his goal has been achieved he will demand a higher salary. We find here that age and personal situation are antecedents of salary used as a retention tool and that demands change over time. This implies the importance of continually gathering information about employee demands to keep up-to-date with what is valued by employees concerning their propensity to stay with their employer.

All the firms use various pay systems such as skilled-based pay and base pay. A skilled-based pay can create a flexible workforce and reward employees for attaining new skills that can contribute to company performance. However, in IKEA IT's case a skilled-based pay seems to be applied because they have limited opportunities to provide employees with careers. IKEA IT's employees are mainly constituted by specialists with inadequate managerial expertise and have limited opportunities to climb within the corporate hierarchy. Therefore, we find that firms can use salary to compensate their lack of being able to use other retention strategies such as career opportunities. Even if pay cannot substitute career possibilities as a retention tool it might offer the knowledge worker possibilities to satisfy needs outside the firm, which might substitute career needs. For example, a worker can show his status among friends by stating that even if he has not climbed the corporate hierarchy he still receives a competitive salary. Pay in this matter functions as a status symbol that might substitute the need to pursue career. Niklas states: "*Money creates possibilities*". With this being said, it could therefore be argued that pay could be important for retention, at least when considering IKEA IT's situation concerning limited career possibilities.

IKEA IT does not use a bonus system, as business performance in an internal support function is difficult to evaluate. Therefore, employee efforts are difficult to assess and relate to performance. This seems in line with theory of bonus systems practices, which states that in order for a bonus system to be rational it needs to be evaluated and related to

performance. It is, according to Niklas, difficult to evaluate how productivity within IKEA IT contributes to increased revenues in IKEA Retail, the unit that directly generates revenue. In this case we find that IKEA IT's ability to use a bonus system is limited. This might create retention problems as many other firms can offer bonus systems, but it might also foster a non-competitive environment, which could be preferred by some knowledge workers.

Leadway does not use a bonus system but applies an agile pay system used to reward employees for their contributions. LogicaCMG is the only firm in our study that uses a bonus system and bases it on company, group and individual performance. A poorly administered bonus system can do more harm than good but LogicaCMG has developed an advanced measurement system that can effectively relate bonus to performance. According to Magnus, this system helps motivate and retain their knowledge workers. As a bonus system needs to be related to some kind of performance its effect on retention is best viewed in firms with employees that are performance driven individuals.

The group based bonus system acts to enhance a feeling of cooperation and teamwork. Since LogicaCMG is mainly a group of consultants who rarely visit the firm's offices they strive to create a sense of belongingness through the group based bonus system. This fits well within our combined motivational model, as a group based bonus system can be used to encourage the satisfaction of employees concerning their internal needs of belongingness. Zoran considers the bonus system used by LogicaCMG to be an important part of his financial rewards as he enjoys the opportunity to directly affect his income while Dragan does not feel it to be important. Another way of relating performance to the rewards given to employees is by applying an agile pay system but as theory states this is more suitable in firms where workers have risk-willing characteristics since their salary is directly affected by their performance. Here we find that the financial reward systems used by firms should consider factors such as employees risk-willingness. Bonus systems used as a retention strategy seem to vary in importance based on the personal characteristics and employee's personal situation.

Benefits can play a major part in an organisation's ability to retain their knowledge workers but a lack of empirical evidence to confirm this makes managers constantly

scrutinize benefits. One HR-manager describes an admittedly harsh way working with retention as striving to make it difficult for employees to leave the firm. This is not how the retention process is portrayed but indeed does bring to light a retention strategy that might well be effective. By providing employees with benefits such as, beneficial insurance and pension plans, cars, home help and a broadband connection at home the firm in a way binds the employee close by creating a feeling of awkwardness should the employee consider switching firms and thereby also need to switch Internet service providers and insurance companies with less beneficial terms et cetera. According to Magnus not all employees consider it awkward to switch firms because of the benefits they are provided, while others view them as security and comfort issues difficult and costly to build up anew. Benefits can function in a proactive symbolic way for firms to show they care about their employees, something both Dragan and Daniela agree with, and serve to recognise employee's performance and status within the firm. As benefits are considered to be an indirect monetary compensation they constitute economic value to employees. However, since they are not directly financial it makes it difficult to place them within our combined motivational model at the lower levels. Instead we find that benefits serve to satisfy internal needs such as esteem and a desire to be recognised. The interviewed managers consider the benefits they provide more or less taken for granted by employees. This corresponds with the interviewed knowledge workers views on benefits, which show that benefits do not directly affect their propensity to stay with their employers as they assume that other employers provide the same offers.

6.4 Non-financial rewards

In the theoretical framework it is stated that knowledge workers are more interested in challenging work than tenure, something agreed on by all the interviewed managers. A firm's ability to retain their knowledge workers is therefore largely dependent on the availability of challenging work. Zoran says that he needs challenging work and does not perform well without it and would change employers were it not provided. He feels LogicaCMG understands this need and allows him to enjoy a so-called "*sink or swim*" approach to consulting where he is placed with an assignment with which he has had no previous experience and has to adapt to the situation quickly in order to perform as expected. This can be viewed as an extreme way of providing challenging tasks that

certainly proves LogicaCMG's willingness to satisfy employee needs concerning development and challenging work. This daring approach shows a high level of confidence in the employee's ability to perform well and which is also highly appreciated and a main reason why Zoran chooses to stay with his employer. Dragan states: *"If my goal was not to pursue career I would have chosen an easier profession"*. This indicates that he is driven by challenges, maybe not at the same level as Zoran, but still feels that challenges develop his skills and are a main reason why he stays within the firm.

Challenging work is seen as a form of development and a chance to improve skills and broaden the employee's skill set. Concerning the combined motivational model we find challenging work to fit within the higher levels of internal needs. Challenging work gives people the opportunity to test themselves against their peers and through it satisfy their esteem needs. Knowledge workers with high levels of ability and experience, such as our interviewees, constantly seek challenging work as it enables them to develop their skills and attain a certain level of self-actualization. Therefore, we find challenging work to be an internal motivational factor since it encompasses scopes of personal growth.

"No matter what they pay me, if I'm bored I'll probably start looking elsewhere."

The quote above is used by Daniela and represents her need for challenging work as well being provided with development opportunities. According to Hall (1984) any activity that changes an employee's performance, adaptability, attitude or identity is considered development. Therefore, there are numerous ways of providing employees with development opportunities. One often cited is that of challenging work. At Leadway the main route to development is viewed as on-the-job learning. The firm has been known to turn down assignments that are not developmental. Whenever an employee on assignment feels he or she is not being challenged enough, the firm considers the possibility to withdraw them from the project, of course considering the affects on the client. This shows how important is it for employees to be able to develop and feel challenged by their employer and the assignments they are given. By withdrawing a consultant out on assignment Leadway is taking a risk concerning customer satisfaction and therefore it can be argued that they focus more intently on employee needs than those of clients. Since Leadway is a small firm the importance of employee retention is a vital issue for their

competitiveness. This presents a problem, as another source of competitiveness is high quality services provided by the knowledge workers and in Leadway's case seems to be outweighed by the focus on employee satisfaction. There is therefore a silver lining to consider when dealing with retention and using development opportunities to satisfy employee needs, as firms must also consider customer needs and expectations which might be damaged when all too suddenly withdrawing the employee from assignment. However, this might only be the case in organizations that deal with consulting services or similar activities, as knowledge work sometimes is routine and does not require a specific knowledge worker to handle the assignment. For example, as an accountant Dragan does have specific assignments but should he fall ill it would not take all too long for a colleague to be able to perform the tasks in his stead. But for Zoran who has to familiarise himself to a certain degree with the firm he is currently assigned at, it would take far longer for a colleague to catch up and be able to perform his tasks.

Being a small firm, Leadway has limited career opportunities to provide their employees with since there are no empty positions to be filled, often a requirement. This shows that firms such as Leadway have to provide employees with other opportunities to compensate the lack of promotion if employees present such needs. However, according to Jan, Leadway mainly consists of older and more experienced employees who do not share the same desire for career opportunities as the younger workforce. Instead, employees deem the feeling of involvement and being able to affect the firm's decisions important. Jan admits this is achievable at the moment as they are a small firm but will be more difficult to handle as the firm grows. One difficulty at IKEA IT that affects their long-term retention plan is the limited amount of career possibilities they can offer their employees. However, IKEA is a large and global corporation that has the opportunity to offer its employees with work abroad and instead of promotion, employees can try out new fields of expertise and develop through attaining new skills and gaining experience of a variety of work tasks. We now find that the development and career opportunities a firm can offer its employees are highly affected by their organizational size and business area.

It could seem paradoxical concerning retention, to develop employees by giving them challenging work in order to learn and develop skills. Even if firms are meeting the demands of the knowledge worker they are also making him or her more attractive in the

labour market. When asking the HR managers, this seems to be one of the largest dilemmas of retention. All the managers state that no company can offer career possibilities to all their employees and therefore always risk losing knowledge workers to other firms. However, it seems that firms should strive to provide career and development opportunities since they are one of the most valued factors among knowledge workers. Zoran states, *“When the training and development my firm offers me ends I’ll probably start evaluating my employment alternatives.”* This quote proves it vital for firms to consider continual development of their employees as turnover can commence when these opportunities cease to exist.

6.5 Fit

Using corporate culture as an active retention strategy proves problematic, as it is difficult to modify the culture concerning individual employee demands. Zoran, when asked if corporate culture is important for him to stay says: *“I believe that loyalty is one of the most over estimated words that exist”*. He does not believe that culture can influence loyalty. He goes on by stating: *“Cut the salaries in half and see how many would stay”*. Even if this is an extreme way of testing employee loyalty it gives an indication that culture is not important to everyone, and that it might be overemphasised as a retention strategy. Even if Zoran does not value culture as a determinant for loyalty, the company environment still encourages him to stay. His employer has developed a challenging environment, which was deemed as being important for him to stay. Zoran does not believe loyalty can be fostered, and argues loyalty in his generation does not exist. *“To base loyalty on the belief that employees are thankful to have a job does not work in my generation”*. He says that if a firm can offer a more beneficial remuneration package including opportunities to explore personal growth he would not be reluctant to consider switching employers. Zoran also states that he does not feel obligated to the firm based on what they have done for him in the past. With this being said, culture is not a way of fostering retention, retention is fostered by being able to have an environment that can meet individual needs of the knowledge worker. However, as shown in the theoretical framework, culture can influence human resource strategies such as reward systems. The applied reward systems we find create a certain climate within organisations. For example, firms that base rewards on performance tend to create a more competitive

environment that affects some employee's propensity to stay, as some prefer such an atmosphere.

Delivering results is an integral part of LogicaCMG's corporate culture that portrays itself in a highly competitive environment where employee performance is in focus. Employees who do not value such environments will have difficulty in acclimatising themselves into the organization and will therefore be inclined to leave in search of a more suitable fit. For Daniela, corporate culture plays a very important role for her to stay and says that culture is probably one of the most important things, to have a good atmosphere and a culture that promotes teamwork. For her it is very important that her employer shares her values. Therefore, we find that she would not be suitable in an environment such as LogicaCMG. While recruiting new members into the organization Niklas at IKEA IT searches for people who share the firm's values, such as honesty. When the right fit has been found Niklas feels that employees are more inclined to stay with the firm, which shows that corporate culture can affect the retention rate.

Retention is an issue for managers to consider after recruitment since the issue is to keep workers and not attract new ones. We find that corporate culture is more an issue whilst recruiting knowledge workers instead of retaining them since the fit between employee and organizational values needs to be considered before employment commences. Culture can be used as a retention strategy if it is based on recruiting people that share the same values as the firm. As Dragan stated, one of the decisive factors for him choosing PWC was that he believed the corporate culture would fit well with his personal values. Although other firms attempted to hire him he did not feel comfortable with their cultures. If employees do not share the same values as the firm, culture could have the opposite effect, making them more difficult to retain. So, it seems that, in order for culture to be an effective retention strategy employers need to find knowledge workers who share the firm's values, often done during the recruitment process. However, acclimatizing can occur after recruitment but can be a lengthy process that can result in the employee leaving the firm before the process has run its due course. This concludes this chapter, which has presented empirical evidence that has been analysed based on the theoretical framework. The next and final chapter contains the concluding discussion.

7. Concluding discussion

In this final chapter we conclude the findings of our research and discuss our conclusions based on the theoretical and empirical framework. We also summarize the discoveries of most relevance for firms to consider when formulating their retention strategies.

Knowledge is like no other resource, it is constantly made obsolete, as today's advancements are tomorrow's ignorance. Accordingly, the knowledge needs of firms will change continually. We find that the quality of an organization's employees and how well they retain them will increasingly be a decisive factor for sustainable competitive advantage in the 21st-century marketplace. A shortage of knowledge workers can bring about a shift of power where employees take control. Still, there is time for businesses to shape and reform their practices to ensure they are prepared to satisfy employee needs and accommodate their values. Knowledge workers are on the move. Loyalty based on being grateful for having a job does not exist anymore to the same extent. Instead, people are looking out for themselves and do not want to be worse off than others. The fact that people today seem to be less loyal to their employers also presents a challenge when formulating and executing strategy based on human resources. For example, if consultants drop their assignments they directly impact the firm's strategy. This is a strong argument for firms to develop retention strategies and not rely on employee loyalty. If you cannot make employees loyal you can at least keep them satisfied.

The subtleties of retention present themselves in every aspect of the retention equation. Having a high retention rate as a goal might result in decreasing the entrance of new knowledge and highly enthusiastic employees into the firm. However, an all too high turnover rate can result in a loss of valuable knowledge workers who contribute to the firm's competitiveness. The ways in which firms strive to retain their knowledge workers vary according to availability and are affected by factors such as organizational size and situation. Smaller firms, we find, value their employees highly since the firm's capabilities are spread over few employees. Therefore, the loss of a knowledgeable employee can directly affect the firm's revenues. Smaller firms or firms with a stagnant or slow growth rate will find themselves having difficulty in providing career opportunities

or challenging work as there needs to exist empty positions to be filled and justifiable development and research opportunities. In larger firms however, a higher turnover rate is more acceptable and the focus on identifying and retaining key contributors is of greater consequence.

In the theoretical and empirical evidence in this thesis we have found an inclination towards a heightened demand for challenging work and development opportunities. But, providing these opportunities does not assure a high retention rate, since once these opportunities cease to exist employees will start to look elsewhere for new challenges. This flexible workforce does not rely on employers to take care of them and it can be argued that the training and development employees go through are only used as a means to increase their attractiveness in the labour market. We also find that firms can become too effective with their retention strategies as employees can become too comfortable and lose their initial enthusiasm. As organization's information needs change, all too effective retention strategies might result in not being able to recruit eager new talents that bring with them the latest developments and experience of equipment that current employees are not familiar with.

Retention is a tricky business, as firms need to consider both retention as a decisive factor for sustainable competitive advantage and also becoming too successful in their efforts. Employees can exploit these efforts as they use the provided development opportunities to increase their attractiveness in the labour market but are solely provided by firms in their attempts to develop and retain employees. Therefore we find that firms will increasingly need to consider the subtleties of retention. One of the most crucial subtleties of retention is, no matter what a firm offers and what their efforts include to retain an employee it still does not assure the retention of employees. There may always be some other firm that can offer more. This fact also compromises sustainability of competitive advantage, as people are not completely sustainable within a firm. It can be argued that firms in knowledge-based industries should not try to achieve sustainable competitive advantage, but instead focus on having a competitive workforce. Even if human resources have the characteristics of offering a sustainable competitive advantage it is by no means a sustainable approach to strategy formulation and execution.

Although retention strategies can help deal with the challenge of motivating an employee to stay, theory seems to generalise individual needs. Pay is considered not to satisfy internal employee needs. However, we find that the perceived importance of salary as a retention strategy is highly dependent on an employee's personal and social situation. For example, an individual with high debts would presumably value the opportunity to pay off his or her loans and therefore consider salary to be a decisive factor for their retention. On the other hand, an employee whose social situation is not dependent on increased wages will tend to value other things such as career opportunities and challenging work. These two examples show a polarised view of salary as a retention strategy but we find that one strategy does not exclude the other. What is offered to employees should be considered as a bundle of various rewards and offers that match individual employee demands. Even though this might entail administration costs, since it is no simple effort to map individual needs, they are far less than recruitment costs. We find that the most effective retention strategy is one that attentively considers individual employee needs.

We found that working proactively and integrating HRM in the overall business strategy is needed in order to be an effective and competitive organisation in a knowledge-based industry. Many executives are reluctant to work strategically with human resources, even though they often state that the people are what constitute the organisation. Executives seem to be afraid to address the issue of managing human resources strategically because they cannot control humans as they do capital assets. Even if there are large global companies that have addressed this issue there is still a majority of organisations that seem to talk the talk, but not walk the walk. We never know what the future might hold, but if Peter Drucker is right we will experience a demographic time bomb which will affect many firms. With a growing shortage of people not being able to take over after the baby boomers, retention of employees is going to be a very important competitive factor in the future. One major subtlety of retention is that the importance of retention seems to rely heavily on the business cycle. If the economic development is positive then a shortage of knowledge workers may arise. However, if negative a situation can arise with an oversupply of knowledge workers because many firms might be forced to downsize. We find that the importance of retention of knowledge workers is highly dependent on the traditional economic relation between supply and demand.

Although it is not presented in the theoretical framework of this thesis, it is suggested in HRM literature that it is management's responsibility to deal with issues such as retention. We have found that the managers have also become more flexible and place higher demands on their employers. This presents a problem for firms, as those who are meant to encourage retention are also on the move. A fundamental question which here presents itself, and which we do not intent to answer is: if managers as well as employees are constantly looking for employment alternatives, what then constitutes a knowledge-based firm and its sustainable competitive advantages if not the knowledge inherent in its employees?

This thesis has ranged over the many issues surrounding retention. It has not put forward a set of proposals that would enable an instant retention strategy scheme to be installed. Instead, by considering the subtleties of retention it has laid down the principles that should guide the design and implementation of a retention strategy.

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Interviews

Dragan Cadjo, Junior Accountant, Öhrlings PriceWaterhouseCooper, 2007-05-02

Zoran Covic, Management consultant, LogicaCMG, 2007-05-07

Niklas Safi, HR-Manager, IKEA IT Global, 2007-05-09

Magnus Storelius, HR-Manager, LogicaCMG, 2007-05-11

Jan Rutberg, Managing Director, Leadway, 2007-05-14

Daniela Rogosic, PR-consultant, Sund Kommunikation, 2007-05-17

Appendix

Appendix I: In-depth interview questions for Management

1. Do you consider your firm to be a knowledge-based firm?
2. Which are your responsibilities as a manager?
3. Which resource would you say is valued the highest within your firm?
4. What are your views on employee turnover?
5. How does your employer view employee turnover? Turnover/Retention rate?
6. Do you strive to identify key contributors? In what way?
7. Do you use appraisals? How and why?
8. Which strategies are used for retention?
9. What is your reward system based on?
10. Which employee demands do you feel are of greatest importance? Why?
11. How would you define the importance of HRM in your firm?
12. Please describe the corporate culture in your firm.
13. Do you think corporate culture affects retention?
14. What are the main reasons for employees staying in or leaving the firm?
15. Which development opportunities are provided at your firm?
16. Have you noticed any change in employee demands?

Appendix II: In-depth interview questions for Knowledge-workers

1. Are you satisfied with your current employment?
2. How did you come to be employed at your firm?
3. Are you satisfied with your current salary?
4. What drives you to stay with your employer?
5. What do you value the most with your employer?
6. Do other firms or head hunters ever contact you?
7. Are you inclined to consider their offers? Why/Why not?
8. Do you feel appreciated by your employer? In what way?
9. Other than salary, how does your employer compensate you? Remuneration package?
10. Which factors affect your choice of employer? Why?
11. Is your salary based on the job you have or the skills you possess?
12. Would you prefer a skill-based or a job-based pay? Why?
13. Do you compare your salary to competing firms? How does that affect you?
14. Do monetary compensations create intrinsic rewards?
15. How do you perceive the corporate culture? Does it affect your propensity to stay within the firm?
16. Have your demands/needs changed during your career?