FIGHTING THE GREAT RESIGNATION

How to Maximize Employee Retention in the Face of Macroeconomic Headwinds

CONTENTS

INTRODUCTION

The lifeblood of any professional services organization is the passion, the skills, the diligence, and the expertise embodied in its consultants. Within our own client base, we witness this talent resulting in world-changing initiatives—from rolling out micro-loan programs in Sub-Saharan Africa to standing up field hospitals in the fight against COVID. From building cutting-edge virtual reality experiences for Lamborghini to building the very technical infrastructure upon which our entire information economy relies. Without this talent, however, the very ability for those services firms to *be* in the first place simply ceases to exist.

It's no wonder then that services firms are so focused on finding, hiring, developing, and retaining the best talent available on the market. This white paper focuses on arguably the most critical and controllable aspect of that process...maximizing employee retention.

Not having control over turnover, whether it comes in the form of staff attrition or employee churn, can sound the death knell for the unwary professional services organization. Replacing a consultant can cost $150,000 or more after recruiting, ramp-up, and knowledge transfer are taken into account.[1] While employee turnover has long been a key concern of consulting firms, this piece explores some of the macroeconomic headwinds that have exacerbated this problem just in the past few months.

This white paper presents findings from some primary research Projector PSA has undertaken to explore how these trends have affected real businesses in the professional services industry. Perhaps more importantly, it takes those findings and shows how smart services firms can actually turn those challenges into a competitive advantage. It provides some practical advice on the data, the processes, and the tools that executives at professional services organizations can use to minimize turnover.

We hope this combination of market-wide perspective, primary research, and practical advice serves as valuable input as you think about your own employee retention strategies.

Happy reading,

Denis and Steve

Denis Whelan
CEO, Projector PSA

Steve Chong
COO, Projector PSA

TURNOVER COSTS

Replacing a consultant can cost $150,000 or more after recruiting, ramp-up, and knowledge transfer are taken into account.

[1] Service Performance Insight, *2020 Professional Services Maturity Benchmark*, Feb 2020, p. 109.

MACROECONOMIC HEADWINDS

Much has been written about the STEM talent gap, which is the shortage of candidates who possess the skills in Science, Technology, Engineering, and Math so critical for roles in the professional services industry. Some estimates project that 80% of future professions will require this sort of expertise across the board.[2] Given the heavy reliance consulting firms have on knowledge-based workers, it's no surprise that the STEM talent gap is of particular concern.

One of the factors contributing to the dearth of qualified employees in the marketplace is insufficient exposure to these subjects in early education coupled with the years of ongoing training required to develop proficiency. According to the Bureau of Labor Statistics, over 99% of STEM occupations require some level of postsecondary education.[3] With the costs of such education ballooning 41% in the last decade, the shortage of STEM talent is expected to continue into the foreseeable future.[4]

The second major macroeconomic trend affecting professional services firms is one that is not unique to the industry. It is, however, having a disproportionate impact on consulting firms whose business models are based on a smaller number of highly paid, senior-level experts supported by a base of up-and-coming, younger, and more profitable recruits.

PERFECT STORM

The STEM talent gap, demographic changes in the workforce, and The Great Resignation are contributing to the most challenging macroeconomic environment faced by the services industry in decades.

This demand is increasingly being satisfied by the Millennial generation which, according to Pew Research, only recently eclipsed Baby Boomers and Gen Xers as the predominant generation in the workforce.[5] A recent report by Gallup highlighted the differences between Millennials and older generations and emphasized the importance of work-life balance and professional development in their work.[6] In fact, flexibility is so critical to younger workers that 80% of them say that one of the most important considerations is choosing a job is how the role will affect their work-life balance.[7]

Finally, the third major trend worth surfacing is one that may have been brewing for some time, but has just recently exploded to dominate the headlines in the past few months. While the STEM talent gap and demographic shifts in the workforce have been slow but steady pressure points, the reaction of the workforce to the post-COVID environment has been a shock to the system. In the midst of the pandemic, businesses and employees alike were forced to confront a new reality of efficiently working in remote, hybrid, and other non-traditional environments. Whether or not you like the term "digital transformation," the investments made to technology-enable virtual workspaces, communication channels, and business processes allowed the masses to survive and the fortunate to thrive.

[2] Institute of Electrical and Electronics Engineers, *Should You Be Worried About the Engineering Talent Shortage?*, Jun 2019.
[3] U.S. Bureau of Labor Statistics, *STEM occupations: past, present, and future*, Jan 2017.
[4] McKinsey & Company, *Rising costs and stagnating completion rates: Who is bucking the trend?*, Apr 2020.
[5] Pew Research Center, *Millennials are the largest generation in the U.S. labor force*, Apr 2018.
[6] Gallup, Inc., *How Millennials Want to Work and Live*, 2016.
[7] Forbes, *Millennials Want A Healthy Work-Life Balance. Here's What Bosses Can Do.*, Jul 2020.

Those same investments, along with the geographic freedom and physical independence that they enabled, allowed the pent-up job switching pressure to release as soon as COVID restrictions eased. Known as The Great Resignation, the sudden increase in job mobility in the workforce has employers scrambling to implement strategies to stem employee churn.

A recent study in Harvard Business Review (HBR) found resignations increasing in most industries, with the technology industry leading the pack at a 4.5% increase in churn.[8] According to Price Waterhouse Coopers' latest Pulse Survey, whether you know it or not, as many as two-thirds of your workforce may be out looking for a new job.[9] The underlying reasons? HBR's research cited increased workloads and burnout as two of the largest contributors to voluntary turnover.[10]

These macroeconomic headwinds together represent a perfect storm of factors that the Work Institute calls a "turnover tsunami." Their image of a mammoth, unstoppable wave may seem like hyperbole, but their findings that the number of people quitting their jobs as of June 2021 represented a 44% increase from 12 months earlier and a 25% increase from just five months earlier bring the serious nature of the trends home.[11]

[8] Harvard Business Review, *Who Is Driving the Great Resignation?*, Sep 2021.
[9] Price Waterhouse Coopers, *PwC US Pulse Survey: Next in work*, Aug 2021.
[10] Harvard Business Review, *Who Is Driving the Great Resignation?*, Sep 2021.
[11] Work Institute, *2021 Mid-Year Employee Retention Report*, Jul 2021.

CONTROLLING THE TURNOVER TSUNAMI

Fortunately for the services industry, while these macroeconomic factors present a challenging environment, all is not lost. To one extent or another, the STEM talent gap, the emergence of Millennials as the dominant generation in the workforce, and The Great Resignation are broad enough that they are affecting everyone...including your prospective clients and your competitors. For the consulting industry as a whole, these trends actually represent an opportunity as businesses struggling to cope with these changes increasingly turn to external expertise. For the *well-run* services firm, these trends can even represent a competitive advantage if the business can capitalize on its ability to adapt quickly to changing market conditions and satisfy needs that its competitors are leaving on the table.

Part of the secret to this adaptability is understanding some of the underlying reasons employees leave a company and separating those reasons into those that are controllable versus those that are not. One of the most consistent sources of this sort of insight is the annual Retention Report by the Work Institute.

CONTROL

Only about 20% of the reasons people leave is outside a company's control, leaving 80% at least partially influenceable.

This survey is based on over a decade of exit and stay interviews and categorizes reasons for leaving into a consistent set of 10 root causes. These categories are then divided into those that are more preventable and those that are less preventable:

MORE PREVENTABLE	LESS PREVENTABLE
Career development	Relocation
Work-life balance	Retirement
Manager behavior	Involuntary
Job characteristics	
Well-being	
Compensation and benefits	
Work environment	

When all the results are compiled and the reasons tabulated, it turns out that only about 20% of the reasons employees leave their jobs is outside of an employer's control, leaving the remaining 80% at least partially influenceable by companies.[12] The obvious questions, then, are "what are those reasons?" and "what can be done about them?"

[12] Work Institute and Center for Organizational and Human Resource Effectiveness (COHRE), *2022 Retention Report*, 2020.

DETERMINING THE CAUSES OF TURNOVER

There are a myriad of methodologies to understand, measure, and predict turnover, each with their own pros and cons. The tried-and-true exit interview can provide very relevant insight to your particular business, but can be plagued by interviewees' hesitation to be transparent, small sample sizes, and a necessarily retrospective nature.

On the other hand, data that encompasses the entirety of a country's economy, such as that available from the Bureau of Labor Statistics, can provide insight into broader demographic and societal trends. But, it would be natural for some doubt about its relevance to emerge when you realize that the Professional and Business Services sector happens to include firms involved in Waste Management and Remediation Services.

Projector PSA prefers using data sourced from systems specifically targeted at managing the operations of the industry in question—in this case, Projector's Professional Services Automation platform. Because it's used in a consistent manner across hundreds of companies and tens of thousands of consultants in the professional services sector, it strikes an effective balance between having a large enough dataset to be statistically significant without being so broad as to lose relevance.

MARKET BENCHMARKING

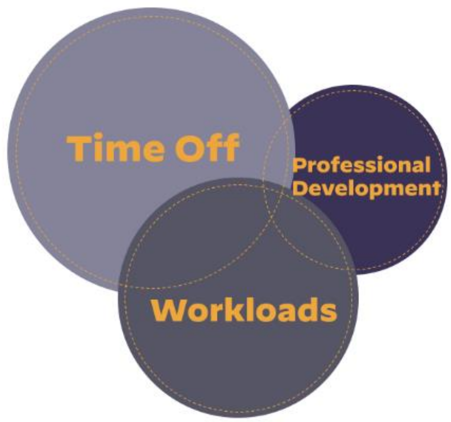
Market benchmarking can be a real challenge trying to balance a statistically significant sample size with data relevant to your industry. Data mining industry-specific systems can be a real game-changer.

WHY PEOPLE LEAVE

To look at what was correlated with high turnover, we did just that: performed some data mining and exploratory data analyses into a subset of the data managed in Projector. Specifically, we used some machine learning algorithms to surface some of the factors that were significant in differentiating consultants who left their companies as compared to those who were still employed. Using this technique, we came up with three main factors, roughly in the following descending order of importance:

- Time off
- Workloads
- Professional development

Our analysis didn't have access to definitive job performance data (other than what can be inferred from the workload metrics described in more detail below), so it can't tell whether a consultant quit or was fired, laid off, or forced out. However, given the consistently low percentage of consultants who leave involuntarily in the Work Institute studies,[13] we've made the simplifying assumption here that all turnover is undesirable.



In addition, this shouldn't be taken as an all-encompassing approach as it doesn't consider some of the important but harder to quantify aspects of reasons people leave. These may include things like confidence in the direction of the organization's strategy, relationship with the person's immediate manager, company culture, and more.

Time Off

Time off is one of the main quantitative indicators that provides some insight into work-life balance, but is by no means the only one. There are many reasons employees may take time off, such as for bereavement, sick leave, or to care for an ailing family member, all of which were significant contributing stressors during the COVID pandemic.

For our purposes, we intentionally focused on restorative time off such as vacations as much as we could. In our analyses, we found that there wasn't a significant difference in the *amount* of time off taken by people who left as compared to ones that stayed. What we did find is that for consultants who left, over half of them had not taken a vacation day in over four months as compared to a median of two months without time off for employees who stayed. So, *frequency* and *recency* matters.

TIME OFF

Curiously enough, *frequency* and *recency* of time off mattered more than the *amount* of vacation time taken.

What this suggests is that burnout is a significant factor that caused people to leave their jobs. A recent study by Robert Half suggested that one in four workers forfeited paid time off they were eligible for in 2020. This was likely due to the increased stressors and more limited opportunities to travel during lockdown.[14] Our research shows, however, that at least for the

[13] Work Institute, *2021 Mid-Year Employee Retention Report*, Jul 2021.

[14] Robert Half, *Burnout Building For 44% Of Workers, Robert Half Research Shows*, May 2021.

professional services industry, this is not a new phenomenon brought on by COVID, but one which has been a part of the life of the consultant for some time.

Workloads

The second main factor that was flagged in our turnover risk model was how busy people were in the months prior to leaving. Professional services organizations often use a metric called utilization percentage to measure how busy people are. While there are multiple ways that systems like Projector can measure utilization, all the data pointed to the fact that people who left were between 18% and 23% busier than people who stayed.

These heavier workloads for people who left reinforce the thesis that burnout was one of the major drivers of turnover. Limeade, an organization dedicated to researching and improving employee well-being, examined the reasons why people switched jobs specifically during The Great Resignation in their latest Employee Care Report. Of all the reasons studied, burnout topped the list, being cited by 40% of survey respondents as their number one factor.[15]

A subtle point, but one worth mentioning in the context of the professional services industry, is that the consultants who left were the ones that showed higher billable utilization than those that stayed. That is, these are the people who are working the highest number of billable hours and therefore producing the most revenue for the company. The billable utilization numbers also reinforce the simplifying assumption that the vast majority of the turnover examined here was voluntary. Services organizations are less likely to proactively terminate a highly productive, billable resource that is generating revenue for the firm.

WORKLOADS

Consultants who left had workloads that were between 18% to 23% heavier than those who stayed.

Professional Development

Of the three main factors examined in this white paper, professional development was the hardest to quantify. Based on the data we had, it was a difficult to infer how much investment organizations were making into their employees' professional development not to mention assessing the quality of that investment.

One way to get a rough idea is how recently each person's skills were updated in Projector's skills database. While we couldn't examine the quality of the investment in training, skills upgrades, or certifications, we could try to understand the frequency and recency of that investment.

For more than half of the people who left, their skills hadn't been updated in the prior nine months or more as compared to a median timeframe of six months for people who stayed.

That makes a lot of sense when viewed in light of the aforementioned Gallup study summarizing the factors that

PROFESSIONAL DEVELOPMENT

Consultants who left received professional development 50% less frequently than those who stayed.

[15] Limeade, *The Great Resignation Update: Limeade Employee Care Report*, Aug 2021.

Millennials value in their roles. Rather than working for a just a paycheck, this generation wants a purpose and development. Rather than having bosses, Millennials want coaches. Rather than sitting through periodic annual reviews that highlight their weaknesses, this demographic wants ongoing conversations to help them develop their strengths.[16]

Red Herrings

What's interesting about this data is not only understanding the factors that were identified to be more significant in differentiating consultants who left versus those who stayed, but also seeing the factors that didn't have as much of an impact. Unexpectedly, the *type* of person was less of a significant factor than the drivers mentioned above. That is, whether the person was principally in a billable role or not, or whether they were an hourly contractor versus a salaried employee wasn't as much of a predictive indicator.

[16] Gallup, Inc., *How Millennials Want to Work and Live*, 2016.

PRACTICAL STEPS

OK, now that we've got all of the machine learning and the exploratory data analyses and the median correlations—all of the theory—out of the way, the natural next question is, "what can we do with this insight?" We asked ourselves just that question and next turned our attention to helping services organizations implement some practical next steps on improving employee retention.

The aforementioned study in the Harvard Business Review recommends that organizations take "…a data-driven approach to determining not just how many people are quitting, but who exactly has the highest turnover risk, why people are leaving, and what can be done to prevent it."[17] It turns out these sorts of data-driven approaches are exactly what Projector is good at.

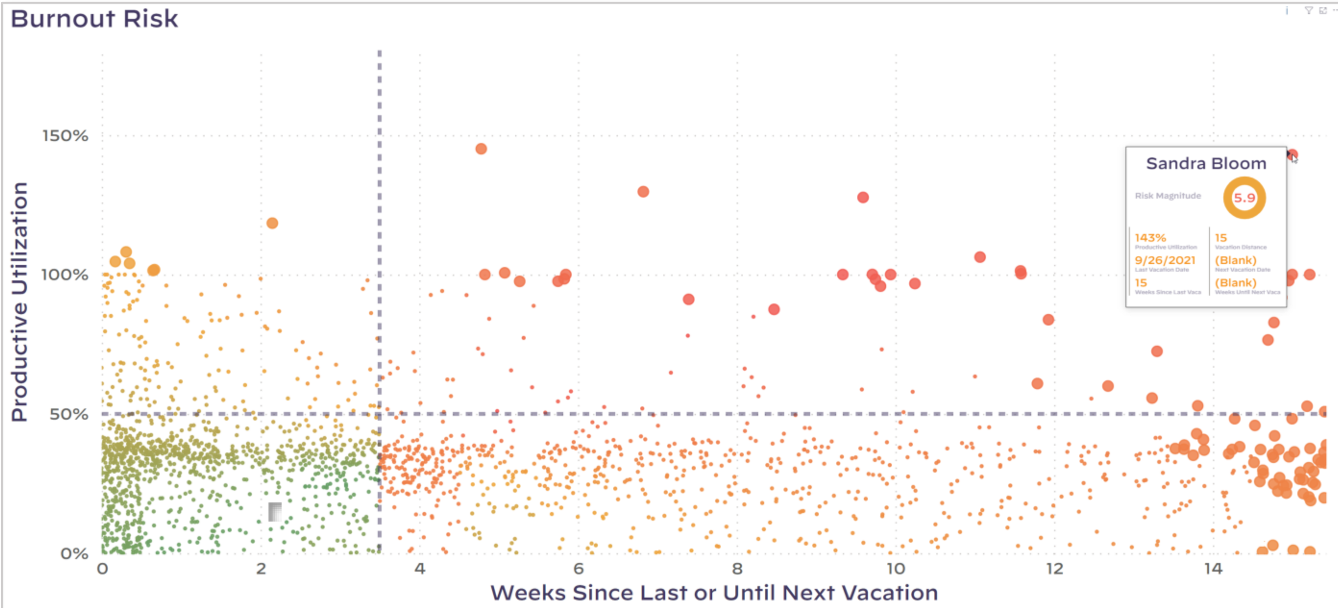
The first step in this data-driven approach is making sure you have the base data needed to work with. That data needs to be clean, trustworthy, impeccable data. And, that data needs to be in one place or at least able to be aggregated into a single place easily and repeatably. You don't have to be using Projector necessarily (although, we'd love it if you did), but you do need to be able to access information about the factors that can help predict burnout and turnover.

One of the mechanisms inside of Projector that we use to surface this sort of information is through building Business Intelligence (BI) dashboards. These dashboards provide easily consumable visualizations of the key predictors identified in the previously mentioned market-wide data analyses. One such dashboard is a burnout risk scoring model that incorporates the top two contributing factors, time off and workload.

In this model, time off is represented as the number of weeks since the last vacation or the number of weeks until the next planned vacation (since clients can also use Projector to project forecasted staffing data). Workload is represented as one of the types of utilization we can track, which we call productive utilization. (See our blog post about the differences between the various flavors of utilization Projector understands and when each variant is appropriate.)

[17] Harvard Business Review, *Who Is Driving the Great Resignation?*, Sep 2021.

The idea here is to plot each employee within the organization along these two axes and identify the outliers that managers should worry about:



We also can examine some trends around whether particular managers, individual departments, specific locations, or other factors have a disproportionate number of employees with high burnout risk scores. We can give users the ability to tune the model to be more sensitive to the high workload aspects of the risk assessment or the time-off factors. Finally, this dashboard allows the organization to tune its risk tolerance to a higher level thus flagging fewer employees, or to a lower level and flagging more people.

By tracking workloads, historical vacation time taken, and future time off planned in a single system, this model allows for constant data-driven vigilance of burnout risk. This quantitative perspective can be combined with good solid qualitative personnel management techniques. It can also be extended to incorporate other factors tracked within Projector such as investment in professional development, time since last promotion, diversity of project experiences, and more.

CONCLUSION

To summarize, this is a challenging time for firms in the professional services industry. Triple macroeconomic headwinds including a shortage of STEM talent, predominance of Millennials in the workforce, and The Great Resignation have combined to make minimizing employee turnover one of the key watchpoints services firms must pay attention to.

Consulting firms can turn these trends from seemingly insurmountable challenges into competitive advantages by effectively measuring, understanding, and managing the causes of churn that can be quantified. This alone won't stop employees from leaving, but will provide leading indicators to managers who are empowered to take corrective action. The right data, in the right hands at the right time will create a positive result.

The keys to reducing employee turnover are:

1. Capturing the appropriate data that can be predictors of turnover
2. Ensuring that data is impeccable and easily aggregated
3. Incorporating that data into a burnout risk scoring model that is appropriately tuned for your business
4. Combining that data with good basic personnel management techniques

Of course, Projector's Professional Services Automation software makes it easy for its users to capture, aggregate and model data. We're entirely confident of your ability to supply the fourth.

Looking beyond consulting and other services firms, the takeaway is simply this: while the factors that cause an employee to quit are many, some in particular can and should be prioritized. Regardless of your industry, understanding how your workforce spends their time and whether that time is productive from both a company and employee perspective is key to reducing churn. Most companies will have software tools that track working hours, training time and vacation, it is possible that a few simple pivot tables can provide the analysis you need to understand your risks.

We hope you'll find your way toward turning these macroeconomic headwinds into competitive advantages. Best of luck with your efforts to minimize employee turnover and as always, if you're a consulting or services firm looking to optimize every aspect of your operations (including improving employee engagement and reducing churn) we're here to help at any time.
