DIAMOND CORPORATE SERVICES, INC.

September, 2005 Volume 3, Number 3

# Focus on Human Resources

## UNDERSTANDING TURNOVER

By Ronald Rice, Diamond Corporate Services

Many companies have a higher turnover rate than they realize. What's your companies' rate? The best way to calculate is the take the number of W-2's you did last year. Then subtract the current number of employees you have. The number of termed employees divided by the number of active employees times 100 is your turnover %. For example, if you have 10 employees and there were 20 W-2's last year, then you had 100% annual turnover. Your PEO can help you calculate the turnover %, which may surprise you because business owners usually forget some short-time employees they had last year. Unfortunately, many types of businesses have annual turnover rates of 100% or more. This is especially true in industries, such as restaurants, construction and cleaning companies.

Turnover is a huge cost to any business. Consider the following costs: training, orientation, sharing confidential information, uniforms, tools, recruiting, new hire reporting, benefits administration Additionally, there can be negative effects on the remaining employees. Reducing turnover is an obvious way to make your business more profitable. Anytime an employee leaves, it is essential that the separation reasons be properly documented in order to control increases in the state unemployment tax rate. Sometimes the reason documented is "employee quit" or "employee walked off job". But what really caused the turnover? As you will see below, I've listed some of the causes and made suggestions for improving these areas.

### The Causes of Turnover

**(a) Employees' expectations** are a major cause. A recent survey of high school graduates asked for their definition of a long-term job opportunity. Their answer was one year. My how times have changed! If the person expects to change jobs every year it will be hard to retain them. The employer should

***"Your rate of turnover may be higher than you think. A good start towards reducing turnover is understanding why it is happening."***



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ask about the employee's expectations in the interview process. The employer can also assess the prior job experience to see if the person is a job-hopper.

**(b) Employer's expectations:** the employer may expect the same discipline, dedication and loyalty as they had in their own career. When they don't see these qualities in employees, they become frustrated and have little tolerance. The same survey of high school graduates had them rate excellent attendance and they thought missing 3-4 days per month was still "excellent". The employer should discuss attendance requirements of the job before hiring, and should be realistic about their expectations.

**(c) The Fun Factor:** It seems to me employees have a higher expectation that the job be enjoyable. If the job is too tense, too structured and co-workers aren't fun, they will probably leave. Hire for a team personality and a person having a proven record of working well in a group. Some organizations have a personality profile test they have applicants take. Add elements of fun wherever you can, in good taste of course.

**(d) It's Real Work!** Some inexperienced workers are surprised how difficult it is to work full-time. They want to be successful, but in the end they lack the discipline, energy and passion to overcome challenges and perform at an adequate level. As under-performers they are a frustration to the manager and are soon termed or quit. Hiring young inexperienced workers is a risk. Assess these applicants carefully. After hiring, assign them a mentor to help them learn how to be successful. Good training and orientation into the team can motivate these workers during the first 90 days during which the realities of hard work are setting in.

**(e) Employee Cheating:** Some employers make it easy for employees to cheat and, essentially, steal from the owner. When workers are caught breaking the rules, or being dishonest, the owner has little choice but to have a confrontation, which usually leads to a resignation or termination. The employer should have structure and controls in areas such as: time clocks, reporting hours, cash drawer, counting inventory, verifying work performed, tracking performance compared to others, etc. Controls in these areas will minimize the opportunity for employees to be dishonest.

**(f) Background Checks:** Calling prior employers and personal references is an excellent way to assess an applicant. If the employee cannot accurately list prior employers and dates worked, it shows dishonesty, or at least a lack of attention to detail. If you can verify a few items on the application, you can establish some credibility and pick up on subtle attitudes about this applicant. Any input can be factored into your hiring decision. Doing background checks also helps protect you in the event of a negligent hiring lawsuit.

**(g) Coaching for Performance:** Many owners and managers are weak in their ability to coach employees in a way which leads to improved performance. I have written other articles on this topic. Employees should be given feedback about the things they are doing well and the things which can be improved. Sometimes employees are totally unaware of the areas where they are underperforming. Just bringing the issue to light can make a huge difference. Positive reinforcement and morale building are other aspects of successful coaching.

**(h) Employee Handbooks and Work Rules:** Employee must be trained on the work rules and the list of unacceptable behaviors. An employee should sign a statement verifying they have received an Employee Handbook, had an opportunity to read it, and an opportunity to ask questions about company policies. At least annually, the policies should be reviewed in meeting with all employees. Understanding the rules will help employees stay on track with the employer's expectations, reducing turnover.

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# RETENTION STRATEGIES

**By Allan Milder, SP3 Group**

## MORE SMALL BUSINESSES PLAN TO INCREASE HIRING AND SALARIES!

***"Praise and recognition are great strategies to improve retention."***

A recent study of small and mid-sized businesses identified the following for 2005:

- 62% expected to increase salaries, up considerably from last year;
- 33% expected to increase hiring while only 4% expect to decrease it

The implications for small business owners are serious. There is going to be greater competition for qualified workers, and pay rates are likely to rise.

Turnover will raise its ugly head. Research studies have shown that when good employees leave, the cost to a business can be anywhere from one third to five times the person's annual pay. This includes direct as well as intangible costs associated with hiring a replacement, reduced customer service, diminished employee morale among those still employed, learning curves and training costs for the new hire to get up to speed, diversion of managements' time from business operations to hiring and replacing lost employees, etc.

Many entrepreneurs and managers work on low margins and can ill afford losing their good employees. Here are some things you can do to minimize turnover:

- Review each employee's pay and make sure that your rates are competitive for the area in which you source your employees.
- Consider any "promises" you may have made about pay reviews and ensure that you are keeping your word. Unkept promises are a sure way to alienate employees.
- Ask whether you are making effective use of retention methods that do not cost money. It is important to understand that while people think pay is important most people rate other values equally high or even higher. For example, in a study that was originally conducted in 1949 and has since been repeated several times, most recently in 2003, the results were consistent. Of the top ten things that employees wanted from their jobs, good wages ranked fifth. The top four were:
    1. Appreciation for work done
    2. Feeling "in" on things
    3. Sympathetic help on personal problems
    4. Job security

- Five top retention methods that help prevent turnover, in a study conducted in 1991, were found to be, in order of importance:
    1. Personal thanks
    2. Written thanks
    3. Promotion for performance
    4. Public praise
    5. Morale building meetings

- Since three of the top five relate to saying thank you, here are some tips on using thank you effectively:
    - Many managers feel that it is not necessary to thank people for doing what they get paid to do. This is false. As renowned author and management consultant, Rosabeth Moss Kanter, has stated, "Compensation is a right; recognition is a gift."

When you make people feel good about working for you through thank you's and other forms of non-monetary recognition they are much more likely to stay. Furthermore, the behaviors and results that you recognize are much more likely to be repeated…creating an upward spiral of performance.

- When saying "thank you", be specific about the behavior you are recognizing with your thanks. Make sure they know what they did right and they are more likely to do it again.
- Explain why the behavior or result you are thanking them for is important, helping them understand how they are contributing to your business' success.
- Provide the thank you as immediately as possible to when the event occurred. Evidence suggests that the more immediate the acknowledgement of their contribution the more positive the impact it has on them.

*This article was contributed by Allan Milder, Vice President of HR Services for SP3 Group, Inc., a Human Resources Consulting firm. They are available for advice on Human Resources topics at no cost to clients of Diamond Corporate Services. Contact Ron Rice for further details.*

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## TIP REPORTING:
## WHAT THE IRS SAYS ABOUT TIPS

The following are segments from the IRS web site:

***"As an employer, when you don't enforce the IRS tip reporting rules, you may have some expensive consequences."***

As an employer, do I have any liability if my employees receive tips but don't report them to me?

Employees who customarily receive tips are required to report their cash tips to their employers at least monthly, if they receive $20 or more in a month. Cash tips are tips received directly in cash or by check, and charged tips. You have a liability to withhold and pay Social Security and Medicare tax on your employees' reported tips, to the extent that wages or other employee funds are available. If the employee does not report tips to you, it places you at risk of possible assessment of the employer's share of Social Security and Medicare taxes on the unreported tips. If you are a large food or beverage establishment (more than 10 employees on a typical day and food or beverages consumed on the premises), you are required to allocate tips if the total tips reported to you are less than 8% of gross sales. Report the allocated amount on the employee's W-2 at the end of the year.

Effective January 1, 1988, IRC section 3121(q) provides that employers pay their share of FICA taxes on tips reported by their employees in the course of employment. Such remuneration is deemed to have been paid at a time a written statement including such tips is furnished to the employer. If no such statement is furnished (or to the extent the statement is incomplete or inaccurate) such remuneration shall be deemed to be paid on the date on which notice and demand for such taxes is made to the employer.

**Tax Tips –Reporting Tip Income –Cosmetology**

Tips are not gifts. Tips employees receive from customers are generally subject to withholding. Employees are required to report all tip income over $20.00 a month to their employers by the 10th of the following month. Reportable tips include gratuities received from clients in the form of cash, charges, and non-monetary payments.
Employee Requirements: Employees must report tip income on Form 4070, Employee's Report of Tips to Employer, or a similar statement. This report is due on the 10th day of the month after the month the tips are received. (ed. note: consistent tip reporting immediately after each pay period is most effective) This statement must be signed by the employee and must show the following: the employee's name, address, and SSN, the employer name and address, the month or period the report covers, the total tips received.

An employee who receives tips of less than $20 in a calendar month does not have to report the tips to his or her employer; however, the tips must be reported as other income on the employee's income tax return.

Employers must collect income tax, employee social security tax and employee Medicare tax on tips reported by employees. You can collect these taxes from an employee's wages or from other funds he or she makes available.

(From IRS web site)

## SAVE MONEY ON YOUR OFFICE SUPPLIES!

Everyone has a budget for office supplies, such as paper, pens, file folders, envelopes, print cartridges, etc.  If you are buying these items from a retailer, you are probably paying 20% more than necessary.  The major retailers, such as Staples, OfficeMax and Office Depot have a large overhead invested in their real estate, inventory and staff.  Retailers buy from wholesalers and mark up the price 50-100% before selling to you.

Diamond Corporate Services has made an alliance with Lone Star Supplies.  This company has no retail operations for support.  They buy directly from wholesalers and have the product shipped overnight by UPS straight to your door.  The products they sell are the same name brand manufacturers you find at the retail stores.  Ordering directly from wholesalers cuts out the retailer and gives you and average discount of around 20%.  They even give you free overnight shipping, provided your order is at least $35.

Lone Star Supplies has an online catalog available at www.lonestarsupplies.com.  You will need to call them first to get a login and password.  The phone # is 1-888-811-7855.  Let them know you are part of the Diamond Corporate Services buying group to get the lowest group prices.  They can also send you a printed catalog, if you wish.  Call them now to save time and money on your office supplies!

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