

RETAINING EMPLOYEES:

How to be an employer of choice

The business world has redoubled its efforts on **retention**.

That's because businesses run on people, and the challenges of powering beyond the pandemic and competing in a tight labor market have spurred business owners to sharpen how they attract and retain employees.

Employers are boosting pay, adding benefits, and extending greater flexibility to woo workers.

We talked to business owners and business experts alike to create a step-by-step guide to help you sort through the many retention trends—and strategies in response.

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Business and academic sources:



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Human resources professional and director of total global rewards



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The urgency behind recruitment and retention

Attracting qualified employees and retaining them is a top concern of businesses and employees alike, according to May 2022 Principal research of small and midsize businesses (SMBs) and full-time employees.¹ But the two groups don't always agree on how to retain. Some topics, such as remote work, show that your perceptions as a business owner may not match those of your employees—gaps that could hamper your efforts to remain an employer of choice.

Concern	SMBs	Employees
⊕ Attracting/finding qualified employees	80%	84%
⊕ Employees leaving	76%	72%
⊖ Always offering a remote work option	17%	51%
⊖ Having to spend more time on remote employees and policies	24%	38%

+ SMBs and employees *more aligned*.

– SMBs and employees *less aligned*.

For the details of retention strategy, read on.

3 universal rules for retention

Whether the labor market is driven by employers or employees, three basic rules always apply, according to professional recruiter Peggy Shell.

1 Be a good employer.

Do right by your employees, always have your people first in mind, and figure out what that authentically means for your business.

2 Tell your own story.

Show the world what truly differentiates you as a great business. What will candidates find in your workplace to match their needs and expectations?

3 Know what employees expect.

Whether your business can compete with compensation and benefits, flexibility, or in other ways, know what your employees expect in those key areas—and then go above and beyond their expectations.

¹ Survey of 128 Principal business clients and 128 employees (of other companies), May 2022.

Creating a holistic compensation plan

Pay is powerful, but not everything. Human resources (HR) professionals and business research continually remind us that compensation is a key talent magnet. Employees themselves, according to a May 2022 Principal survey², say that increasing or offering competitive salaries is the No. 1 way to recruit and retain.

Here are ideas to help refine or rework your approach.

1 | Build a strategy unique to your workforce.

Start with a detailed portrait of your workforce:

- Do you employ a large share of hourly workers earning lower wages?
- Do you compete with tech-heavy roles in high demand?
- Do you rely on thought capital specialists requiring deeper experience and expertise?

“Each different type of employee group stereotypically has different wants and needs,” says Staci Cunningham, HR professional and director of total global rewards at Principal. “Pause and think about the true nature of your workforce and how that profile suggests your pay and retention priorities.”

If you’re competing in a hot labor market (such as tech roles or skilled trades) you may need to pay higher wages. Or you may want to target a raise at midyear or upon completion of a big project to show you’re making a special effort to retain.

Also consider how your business location affects competition for talent—with today’s added layer of far-flung opportunities for remote work. If you have remote employees scattered nationwide, scale compensation as needed to account for regional costs of living, while still maintaining an equitable org chart among similar levels of skill and experience.

It’s true that lack of attention to employee benefits, company values, inclusivity, and other areas of the employee experience can blunt the impact of competitive pay. But so can an inconsistent approach to how you handle compensation.

Benefits are part of a holistic compensation plan.

Tailoring your benefits offering to your employee base is an important part of your plan. Read more about building a benefits package unique to your business in “Extending benefits to all” on page 8.

2 | Align with your key partners.

The [four key groups guiding compensation](#) for your business, according to software company Payscale:

1. **Supervisors/people leaders** communicate most frequently and directly with employees about pay.
2. **HR professionals** (internal or external) support the supervisors and guide the pay infrastructure.
3. **Recruiters** must effectively communicate and sell your competitive pay strategy to the market.
4. **Your finance officer** (or team) must understand the compensation strategy and balance it among the entire business budget.

3 | Engage key employees and future leaders with bonus plans and incentive compensation.

A bonus plan designed for key employees—the ones who make significant contributions to the daily operation and ongoing success of your business—can involve a life insurance policy that funds the plan and provides retirement income, death benefit protection, and more.

² Principal survey of 128 full- and part-time employees (not self-employed), May 2022.

From an employee view, bonus plans help save for retirement beyond the limits of a 401(k). Or early distributions from the plan can support a child's education, a real estate purchase, or emergency expenses.

TIP: If you own a professional firm, consider offering incentive compensation sooner and to younger employees, says Mark West, national vice president of business solutions at Principal. This helps them feel more like co-owners as they work their way toward partner status. "You want employees to be focused on your business growth, so they're encouraged to make the right decisions to help get you there," he says.

Learn more: See how [bonus plans](#) can be a recruiting and retention tool for your key employees.

4 | Approach employee compensation and business succession through an ESOP (employee stock ownership plan)

For business owners, an ESOP can be a valuable piece of a succession plan. It can facilitate an efficient ownership transfer, letting you leave a legacy when you reach retirement or leave your company. You can exit on your timeline, not an outside buyer's requirement.

"I like to think about ESOP as a long-term wealth building plan—similar to a pension plan—where you come to a company, work there for your career,

the company values you, and you have a piece of ownership and get to walk away with a nice retirement," says Trey Winthrop, CEO of Bob's Red Mill in Oregon. His company became a 100% employee-owned ESOP in 2020 after a decade's transition instigated by company founder Bob Moore.

Some key qualities of an ESOP for the employees and business:

- Sense of ownership, pride in ownership
- Teambuilding ("My success is your success.")
- A consistent, long-term financial incentive for employees
- Security in the stability of company ownership

ESOP is a cultural asset, Winthrop says, with "the ability for us all to be rowing the same direction because we understand we all have a stake in the value of the company."

Learn more: [See five ways Bob's Red Mill supports its people through employee benefits—including ESOP.](#)

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TREY WINTHROP
CEO of Bob's Red Mill

Cultivating loyalty through a company culture that values employees

Employees ranked feeling valued as the No. 2 way to recruit and retain—behind only higher salary, according to a May 2022 survey of employees and Principal business clients.³ And many workers shaken by the existential crisis of the pandemic now crave a greater sense of purpose from their jobs and employer.

“People are making decisions from their heart,” says Peggy Shell, a professional recruiter. “They feel more empowered to leave a job or industry that doesn’t match their values.”

That’s why her firm seeks business clients based on their company values and culture.

“We’ve shifted our entire company mission at [Creative Alignments](#) to be about making the world better through having people work at places where they feel fulfilled and satisfied and go home happier,” Shell says. “People can make their communities better by bringing their positive energy.”

“And we start with our own culture.”

Learn more: [Five ways to lead with purpose](#)

Here’s how to help your employees feel valued.

1 | Provide quality feedback to your employees.

Focused, individual feedback is important to show employees their work is valuable to the business—a substantive way to encourage them to stay.

[A 2022 survey by Workhuman and Gallup](#) found that when employees receive the recognition they need, they’re:

- four times likelier to be engaged, and
- five times likelier to see a path for career growth within their organization.

“We can’t afford to lose our current employees and leave jobs open. I’m thinking about what we can do to keep our employees happy, what other employee benefits we can offer or improve, and how we can ensure they’re feeling valued and content with their work. And if they aren’t, how we can change that?”

MEG BURDICK

HR director of Soniq Transportation & Warehouse

2 | Focus on holistic employee well-being.

The business world recognizes how mental and physical well-being, health, wealth, and our work and home lives are interrelated, with both SMBs (70%) and full-time employees (75%) agreeing holistic well-being is important, according to May 2022 Principal research.

“Wellness at work initially focused on physical health—think of company fitness centers,” says Joleen Workman, vice president of customer care for Principal. “And now there’s greater recognition of the need to support employees’ mental well-being.”

An emphasis on holistic well-being can help employers better support their staff. An employee with a medical crisis, for example, may struggle to afford high health-care costs, in turn triggering mental stress.

Focusing on this interplay not only helps individual employees but also supports a company’s overall output. An employee dealing with anxiety and depression might not be able to fulfill their normal job duties. Conversely, an employee with physical, financial, and mental support may be able to improve their work performance and feel more creative and empowered.

³ Survey of 128 Principal business clients and 128 employees (of other companies), May 2022.

“Challenges and stress in our lives can’t always be neatly compartmentalized,” Workman says. “Employee support should reflect that by addressing all dimensions of wellness.”

3 | Cultivate true inclusion.

A culture of inclusion may have more impact on value—for not only employees but also your business—than you realize.

“The business case is glaring,” says Miriam Lewis, chief inclusion officer for Principal. “Diverse companies with inclusive cultures generally outperform more homogenous companies. Revenue, market share, smarter teams, retention—there’s just no lack of evidence.”

“While having a diverse, equitable, and inclusive culture is always the right thing to do, it’s also the profitable thing to do.”

MIRIAM LEWIS
Chief inclusion officer

A [2020 McKinsey study \(PDF\)](#) analyzing six years of data found that more ethnically and culturally diverse businesses are as much as 36% more profitable than the least diverse companies. The profitability gap widens to 48% between the most and least diverse businesses according to gender alone.

Diverse businesses are
36% more profitable
than the least diverse companies.⁴



How to assess your inclusion

McKinsey offers a model for [how to conduct an inclusion assessment of your business](#). The firm says that organizations with higher assessment scores are 45% likelier to retain employees.

The assessment accounts for how employees feel individually and how they perceive the organization as a whole:

Individual employees assess if they feel:

- a sense of belonging—connection to colleagues,
- encouraged to bring their full, authentic selves to work, and
- their work is meaningful and contributes to business success.

Employees evaluate across the company:

- how well employees work together toward shared goals,
- how well employees value and embrace diversity, and
- if employees receive equitable treatment and have a fair chance to succeed.

Organizations with higher inclusion assessment scores are
45% likelier to retain employees.⁵



Learn more: [Do you know what your employees really think about their jobs?](#)

How to listen to employees

Experiment with new ways of listening. The smaller your business, the more you can rely on routine personal conversations.

Business owner Peggy Shell and her business partner alternate weeks in which they host informal “coffee chats” to learn exactly what employees now expect, for instance, around dress codes or flexible hours—and how those expectations can cut differently across generations of employees.

But businesses of every size also can benefit from the blunt honesty of anonymous feedback. It can be as simple as using one of [these eight popular small business survey tools](#):

- | | |
|--------------------------------|--------------------------------|
| › SurveyMonkey | › Qualtrics |
| › Google Forms | › SurveyPlanet |
| › Typeform | › HubSpot |
| › LimeSurvey | › Mailchimp |

⁴ “Diversity wins: How inclusion matters,” McKinsey & Company, May 2020

⁵ “Inclusion doesn’t happen by accident: Measuring inclusion in a way that matters,” McKinsey & Company, Feb. 16, 2021

Flexing with your workforce in a hybrid work culture

Before the pandemic versus after the pandemic: Flexibility inevitably seems to be included in that conversation, if it doesn't dominate it.

"Remote work is the new normal—not an incentive," says Crystal Granger, a senior benefits administrator for Bob's Red Mill.

HR professional Staci Cunningham says that people are leaving jobs because they can have more flexibility in other places.

Here's how you can compete.

1 | Understand what employees really mean by flexibility.

Flexibility involves much more than freedom from a cubicle and clock. How can you personalize it for your business and employees?

"If you listen closely and kind of read between the lines of what employees are saying, they are not really talking about flexibility. They are actually talking about autonomy," says Radostina (Ina) Purvanova, who has a doctorate in industrial and organizational psychology and is professor of leadership and management at Drake University.

For instance, she says, prescribing specific days in or out of the office for employees doesn't provide "true flexibility."

"What employees are actually wanting is autonomy in making those choices for themselves, in deciding where to work, when to work, how to work on their own terms," she says. "When people feel like they have the opportunity to make autonomous decisions, they feel more engaged with the organization. They feel like they really have to perform, have to do their best to earn that trust."

She adds that there are two main dimensions to flexibility for businesses:

The philosophical: Flexibility can affect your workplace culture and how employees relate to each other. Intentional change management is key.

The practical: You need the proper technical infrastructure (such as effective videoconferencing) to help make flexibility as seamless an experience as possible across your organization.

2 | Remind employees that flexibility works both ways.

Set the expectation that flexibility runs both ways: You may need employees occasionally to use remote access to make themselves more available, depending on their role and responsibilities.

Even in an employee-driven labor market, businesses must protect their productivity and revenue, or they threaten their fundamental ability to extend any support to employees.

Dos and don'ts of accountability

DO ✓

Do ask employees to note any planned, significant time away on a shared calendar.

Do set measurable goals for teams and track accountability. Be transparent with team members on how their performance is stacking up to what they're accountable for.

DON'T ✗

Don't question why someone didn't reply to a chat in less than 10 minutes.

Don't activate your employees' webcams or otherwise excessively monitor them.

Learn more: [Build your hybrid work culture plan for 2023 and beyond \(PDF\)](#).

Extending employee benefits to all

More business owners are looking to [employee benefits overall to improve recruitment and retention](#)—71% of them in our [Principal Business Owner Insights survey](#).

While retirement savings and health insurance tend to be the most common benefit draw for employees, says Mark West, national vice president of business solutions for Principal, the pandemic reminded us of the value of different types of employee protection—think life and disability insurance.

“Virtually everybody knows of someone who passed away at a young age or has suffered a disability in the last few years,” he says. “There’s a heightened awareness that we’re not invincible.”

Explore competitive employee benefits like retirement savings, group benefits, and life and disability insurance.

Here’s how to approach employee benefits for your business.

1. Establish your benefits philosophy.

Start with a big-picture question, says HR leader Staci Cunningham: What’s your benefits philosophy?

Some questions to start with:

- › Are you expecting a certain percentage of employees to cycle through entry-level roles?
- › Do you hope employees stay and grow throughout their entire career?
- › Do you employ a gig workforce?
- › Do you employ more recent college graduates or mid-career workers?
- › Part-time or full-time?
- › Parents who want to work while also taking care of kids?

In terms of employee benefits, your business may be more of an economy or a luxury car. Either one can offer competitive jobs and a positive employee experience depending on your industry, size, region, and a host of other factors.

Outline a benefits philosophy in detail that all your senior leaders will endorse.

Then ensure employees also understand it.

2. Start with traditional benefits

A winning combination of benefits often starts with established options, such as retirement, health, and life and disability insurance—which have seen greater employee interest since the pandemic.

3. Add or enhance one benefit at a time.

Depending on the unique characteristics of your business and employee needs, there may be a specific area of employee support to enhance first, such as [benefits for key employees](#) (see more in the next section). Listen to what your employees really want, using some of the tools outlined in this guide.

72% of workers want at least one additional employee benefit added within the next year.⁶

⁶ May 2022 Principal survey of full-time employees.

4. Compare coverage with your peers.

Use the [Principal® Benefit Design Tool](#) to see how others are handling employee demand for benefits and addressing any gaps. Benchmark your employee benefits with other businesses of your size, industry, and region—and download a convenient online report. Compare relative levels of coverage for:

- Dental insurance
- Short- and long-term disability insurance
- Life insurance
- Retirement plans—401(k) and 403(b)

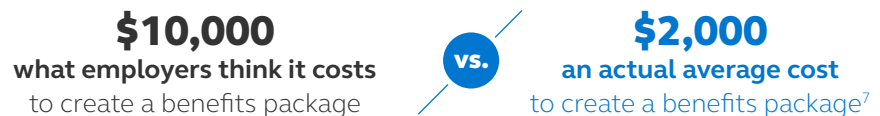
5. Remind employees about the benefits you already offer.

Your business may not get enough credit for your current employee benefits and support. This is common. For instance, 39% of employees say their colleagues don't use an EAP (employee assistance program) simply because they're unsure whether one is offered or, if so, how to access it. [Learn and follow good communication tips to help you stay in touch with your team](#) and make them aware of available employee benefits.

6. Calculate the true cost (which may be less than you think).

How much each employee benefit costs depends on a lot of factors. Most costs for traditional benefits tend to be largely covered by employers, with employees chipping in a smaller portion. Some flexible benefits, on the other hand, may not cost you anything.

It's easy to overestimate the cost of adding benefits. "There are options to choose what is paid for by the employer and what is paid by the employee," West says.



12 hybrid-friendly work perks to consider

There's a growing list of new and emerging benefits catering to persistent trends and a hybrid workforce.

- Housecleaning services
- Wi-Fi reimbursement
- Coffee-shop credits
- Fitness programs
- Professional development opportunities
- Workstation and office supply stipends
- Pet insurance
- Travel discounts
- Caregiving support
- Telehealth services
- Mental health benefits
- Flexible monthly stipends for employees to use as they see fit, or access to a choose-your-own perks platform

⁷ [Bureau of Labor Statistics](#)

Using key employee benefits to retain top talent

You know how critical it is to retain the employees whose performance most affects your business's success.

Key employee benefit plans can provide additional benefits and/or help them make up for benefits lost

due to government restrictions placed on qualified retirement plans.

And more employers are turning to them to recruit, reward, retain, and retire their key employees.

Here's how to show key employees how valuable they are.

According to the 2022 Principal® Business Owner Insights survey of more than 1,000 SMBs, the number of businesses with four or more key employees has grown to 40%, compared to 35% in 2021 and 21% in 2008.

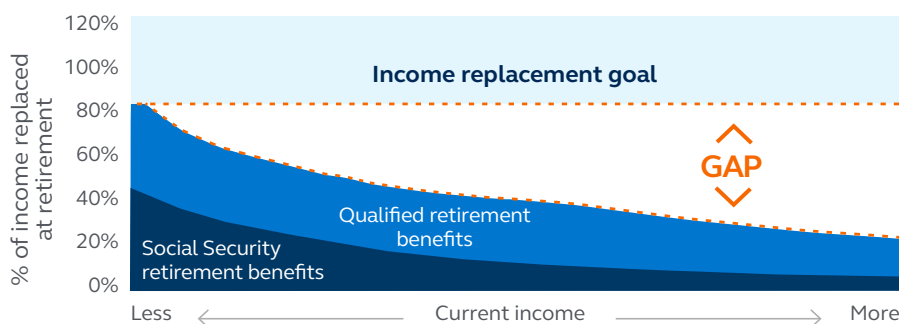
More than half of business owners (55%) would like to reward these key employees with additional benefits. And “reward” is just one of the four Rs of key employee benefits:

- 1. Recruit.** Attract top talent by offering highly competitive benefits.
- 2. Reward.** Provide performance-based incentives to help motivate key employees and achieve organizational goals.
- 3. Retain.** Encourage loyalty by supporting your employees in helping to secure their financial futures before and after retirement.
- 4. Retire.** Offer additional long-term income diversification options.

Consider the income replacement gap for key employees.

Typical retirement sources might not be enough for your key employees. And you can help. You've likely heard experts say that people need about 80% of their pre-retirement income to maintain their standard of living in retirement. Are your key employees on track to hit that mark?

The chart below shows the estimated percentage of income that will be replaced at retirement from Social Security and qualified plans, such as a 401(k) plan. You'll see that as income goes up, the percentage of benefits expected from qualified plans and Social Security goes down, creating an income gap. This gap could be filled using a nonqualified deferred compensation plan, complementing other retirement income sources.



This information is from the Principal Financial Group® Replacement Ratio Calculator with source information from the Annual Statistical Supplements to the Social Security Bulletin (www.ssa.gov). It is intended to demonstrate the potential impact of Social Security and 401(k) plan benefits at various income levels. For more information on your individual circumstances, please speak with your financial or tax professional. ©2022 Principal Financial Services, Inc.



“We’ve decided strategically to supplement our retirement plans to attract and retain senior-level talent,” says Larry Taylor, president and CEO of Merchants Bonding Company in Des Moines, Iowa. This business accomplishes that through a **nonqualified deferred compensation plan** to help key employees scale up their retirement savings.

It doesn't matter if your organization is for-profit or tax-exempt. A variety of key employee solutions cater to all types of businesses—each plan structured to achieve the unique goals of the plan sponsor.

Some offer tax benefits for your business, while others do the same for employees. Others may allow for employee deferrals, discretionary employer contributions, or both.

Nonqualified solutions such as:

- bonus plans,
- deferred compensation plans, and
- split dollar plans

can provide a win-win for both the employees and your business.

Learn more:

› [Key employee benefits can be your key to success \(PDF\)](#). › [Explore key employee benefits through Principal](#).

Better retention is within reach.

We hope this guide helps you see that better retention is possible by focusing on specific strategies that work best for your business and employees. There are ways to tackle compensation, company culture, flexibility, and benefits (for all workers or key employees) to make steady progress.

This is part of an ongoing series of Principal guides to help you balance business growth, employee care, and your personal well-being as a business leader.

OTHER GUIDES:



[Employee mental health: One of the most important retention moves \(PDF\)](#)



[Build your hybrid work culture plan for 2023 and beyond \(PDF\)](#)

Feeling stuck?

If you're not sure where to start with retention or another aspect of business, take the [Principal® Business Needs Assessment](#) to explore best practices and next steps for meeting your business goals.

Have more questions about how to support employees and grow your business? Reach out to your financial professional.

- › If you need a financial professional for your business, we can [help you find one](#).





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