The Employee Hierarchy of Needs

Employee retention and engagement hinge on meeting your employees' core
psychological needs in the workplace

THE CHALLENGE

Employee retention has never been a more critical problem for companies than it is today.
According to a 2021 Bureau of Labor Statistics report, the annual total turnover rate in 2020 was
57.3%, and 2021 has seen record-high numbers of open jobs in the US (peaking at 11 million
open jobs in October of 2021). While these trends are driven in part by conditions surrounding
Covid-19, they also reflect a pattern that spans across decades. For example, this 2015 CNN
article expressed shock at the highest-ever number of open jobs in the US (5.4 million) - a
number that is half what it is now!

When employees leave an organization, the costs can be devastating. Research from the Society
for Human Resource Management estimates that the cost to replace an employee[1], on average, is
50% to 75% of that employee's salary. This cost is lower (around 25%) for lower-skilled
workers, and much higher (up to 250% salary) for highly skilled, niche roles. When your
$150,000 manager leaves your organization, it may cost you $375,000 in total costs to replace
them. According to research by the Gallup organization[2], employee attrition costs US companies
up to $1 trillion annually. In addition to the observable hard-dollar cost, attrition also erodes
institutional memory and expertise as well as team productivity and morale. 81% of companies,
in a recent survey, with extended job vacancies reported a negative impact on their company[3],
including outcomes such as not getting work done (28%), disengaged or unmotivated workers
(27%), low employee morale (25%), revenue loss (25%), and delivery time delays (22%).

At beverage giant Molson Coors, highly engaged employees were five times less likely than
nonengaged employees to have a safety incident and seven times less likely to have a lost-time
safety incident. By strengthening employee engagement, the company saved $1,721,760 in
safety costs in one year[4].

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[1] The total cost number includes direct costs, such as recruiter fees, as well as indirect costs, such
as lost productivity, remaining morale, etc.
[2] https://www.gallup.com/workplace/247391/fixable-problem-costs-businesses-trillion.aspx
[3] https://www.globenewswire.com/news-release/2020/08/12/2077241/0/en/Even-in-a-Pandemic-Companies-Still-Struggle-with-Employee-Turnover.html
[4] https://www.shrm.org/resourcesandtools/tools-and-samples/toolkits/pages/sustainingemployeeengagement.aspx

THE ROOT CAUSE

Employee productivity and retention are not accidental, nor are they merely the result of societal trends. Rather, at the level of the individual organization, they are the result of how well or poorly that company meets the core needs of its employees. The fact that turnover rates are at an all-time high illustrates that most companies fail to understand the importance of - and nuances of - employee needs.

McKinsey recently completed research[5] comparing the reasons employers believe people leave their jobs versus the actual reasons people leave. **Employers** identified the top three reasons as:
   A. Looking for a better job
   B. Inadequate compensation
   C. Poor health

The three reasons cited by **employees**, however, were entirely different:
   1. Not feeling valued by the organization
   2. Not feeling valued by their manager
   3. Lacking a sense of belonging

The resulting disconnect illustrates the central challenge: employers do not clearly understand the needs of their employees. Unfortunately, many employers subscribe to an outdated view of employee motivation that is solely focused on practical rewards like compensation and vacation days. HR departments spend considerable time on the administration of benefits and compensation, so it's no wonder they assume this is employees' first priority as well. Unfortunately, this assumption causes them to miss out on opportunities to connect with and support employees in areas that research shows are actually more important to employees, such as feeling a sense of belonging and being valued in the workplace. This mismatch between employer and employee priorities can cause companies a series of problems including unsatisfied employees, low retention rates, unnecessary escalation of compensation and low productivity.

THE SOLUTION

The Whistle Employee Hierarchy of Needs provides a roadmap of insights into the full range of employee needs. Below, we lay out this hierarchy by describing the core needs and how they build on one another. We briefly discuss the consequences to employees and businesses of meeting vs not meeting them and offer strategies for how to better meet each level of need.

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[5] https://www.mckinsey.com/business-functions/people-and-organizational-performance/our-insights/great-attrition-or-great-attraction-the-choice-is-yours

Empowering

Primary

Meaning

Belonging

Feeling Valued

Growth and Mastery

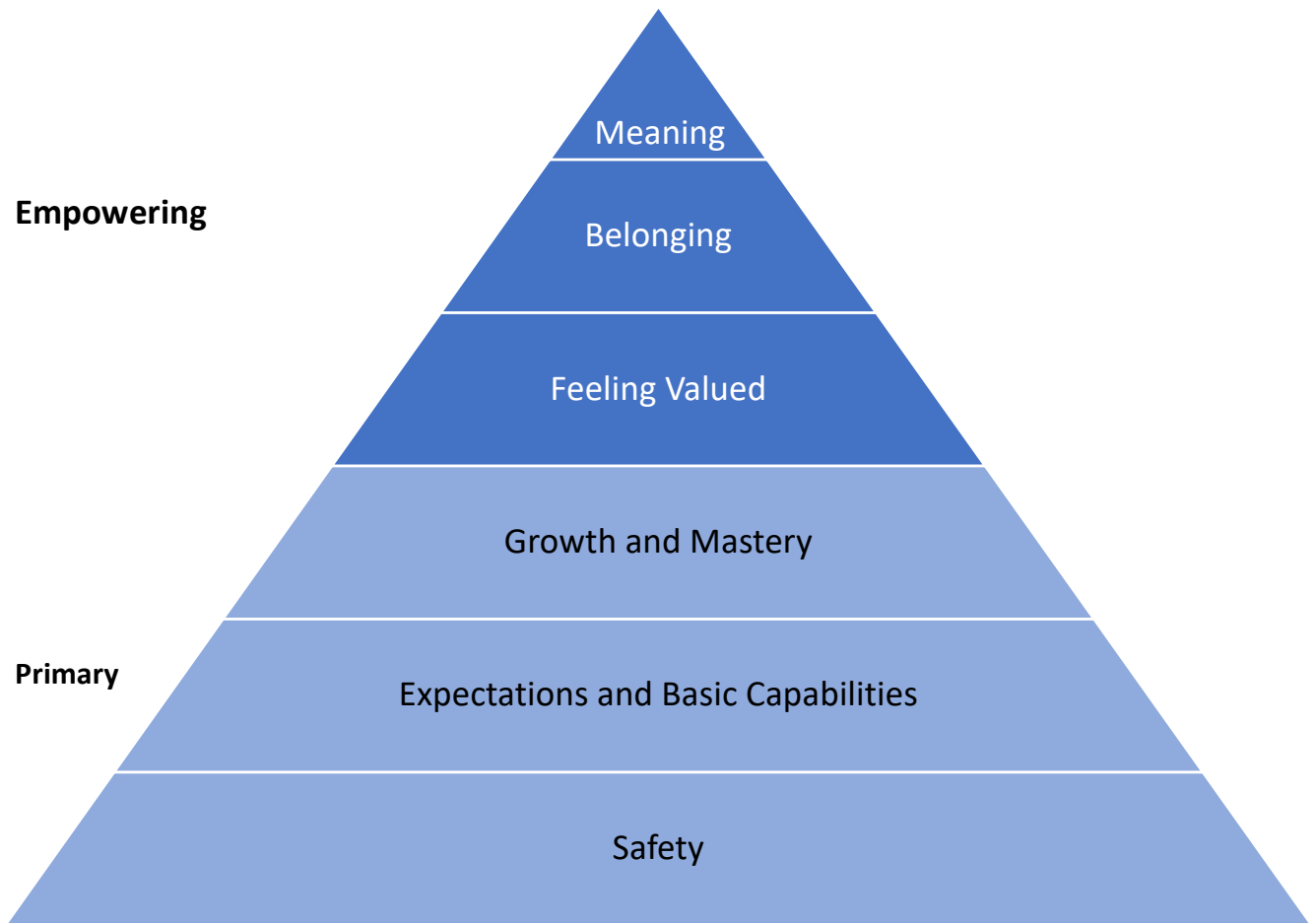Expectations and Basic Capabilities

Safety

Figure 1: The Whistle Employee Hierarchy of Needs

The needs, in order from most foundational to highest order, are:

- **Safety** refers to both physical and psychological protection from harm.
  Am I working in a place that will keep me safe?

- **Expectations and basic capabilities** – A clear understanding of what is expected and the skills to be successful in that role.
  Do I know what is expected of me, and do I have the tools to succeed?

- **Growth and Mastery** – Refers to employees' opportunities to develop professionally and to experience the satisfaction that comes with continuous growth.

Am I offered opportunities to continue a life-long learning path, improving my value and enjoying a meaningful career progression?

- **Feeling valued** – Employees feel that their skills and contributions are noticed and appreciated by those around them.
  Do I feel valued by my manager and my organization?

- **Belonging** – Employees feel a sense of connection to other people within the organization, and ideally to the organization as a whole.
  Do I feel a sense of connection to my colleagues and my organization?

- **Purpose and meaning** – Employees are deeply aligned to the purpose and mission of the organization.
  Is the purpose and mission of the organization meaningful to me?

The three initial/lower needs are referred to as "primary" because they are core needs that all employees expect from an employer. These are things they need to be *able* to do their job at a baseline level. For example, an employee who is distracted with concerns of physical safety will be unable to fully focus on workplace tasks. Likewise, an employee who is not at least adequately trained in how to do their job well will be unable to perform the necessary functions. The top three needs are referred to as "empowering" because they help create an environment that helps employees reach their fullest and best potential. These levels are concerned with the emotional connections to a company and the individuals within it. These empowering levels are the reasons employees stay with a company in the long term, do their best work, and feel a strong sense of loyalty and pride for their organization.

Working from bottom to top, as with other hierarchical models, each level must be addressed adequately to allow engagement at the next highest level. Primary Needs must be addressed, at least minimally, for higher-level functions to have the expected effect. Primary Needs allow employees to engage in their work free of dire concerns of physical or psychological safety with the necessary tools.

Consequences of success or failure to meet the two categories of needs (primary and empowering)
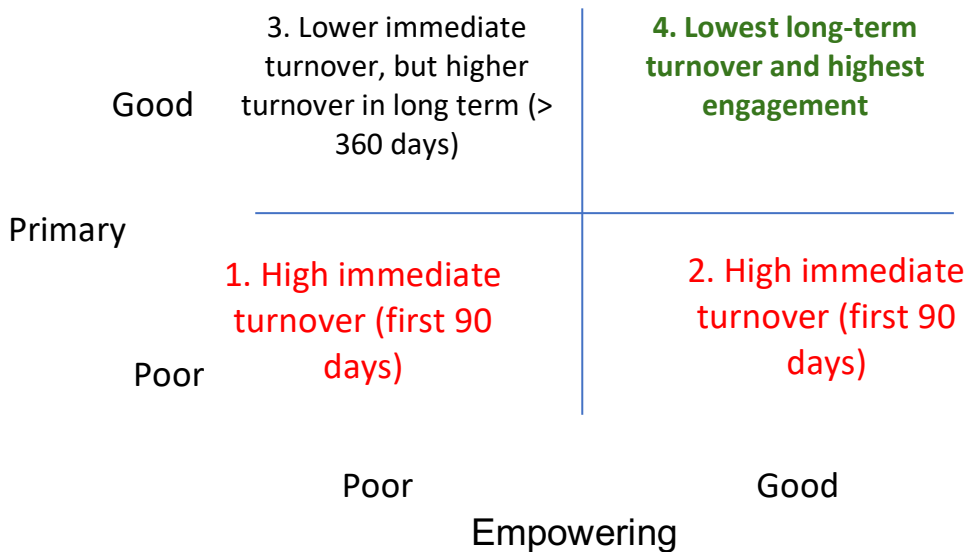
	Poor (Empowering)	Good (Empowering)
Good (Primary)	3. Lower immediate turnover, but higher turnover in long term (> 360 days)	**4. Lowest long-term turnover and highest engagement**
Poor (Primary)	1. High immediate turnover (first 90 days)	2. High immediate turnover (first 90 days)

Primary

Empowering

Figure 2: Impact of Needs Satisfaction on Employee Retention

Companies that fail to address Primary Needs will suffer from high levels of attrition in the earliest periods of employment, often the first hours or days (quadrant 1 in the table above). Unfortunately, companies often do not have a clear understanding of whether or how their onboarding and training meet these core needs. Employers often create experiences that seem logical from the perspective of human resources or current leadership, but that fail to consider the perspective of the individuals who are being impacted. For example, to improve safety, one manufacturer began onboarding with a full day of powerpoint training on the topic of safe workplace behaviors. While the goal of the company was admirable, the result was to overwhelm new employees, creating a poor first impression of their new employer and making it seem as though the workplace was unsafe requiring constant vigilance. Day-one attrition spiked in the following months. Care must be taken to ensure practices and policies are meeting the needs of the individuals who are being impacted.

Focusing on Empowering Needs while neglecting Primary Needs (quadrant 2) will also result in high levels of short-term attrition despite your best creative efforts. For example, investing in a peer-to-peer recognition platform while ignoring lapses in safety protocols or fundamental training needs will not lead to improved retention outcomes.

A second common mistake made by many companies involves addressing only Primary Needs, while failing to mature to Empowering Needs (quadrant 3). With limited resources, it makes sense to focus on the domains that are most basic to workplace satisfaction and most likely to have an immediate payoff in terms of retention. However, exceptional attention to the

three primary levels can, at most, bring a company into neutral territory regarding employee performance and retention. Efforts to improve the Empowering Needs result not only in higher long-term retention, but in vastly improved productivity[6]. More fully engaged employees result in better profit (12-50%), lower turnover (13-51%), and higher customer satisfaction (2-4%), for example.

Environments that satisfy all six core needs of employees (quadrant 4) will have a massive advantage in retention, engagement, and productivity. A more nuanced, but equally important, point is that high level talent will especially be drawn to - and will only be retained in - environments that satisfy or even excel in meeting all their needs. Companies that focus only on primary level needs will struggle with the quality of their employee base. It may be tempting to conclude that higher order needs such as belonging and purpose are reserved for particular (higher-autonomy, higher-paying) careers. However, research finds that engagement and performance are highest in *all types* of jobs when all needs are met[7].

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[6] Harter, J. K., Schmidt, F. L. & Hayes, T. L. (2002). Business-unit-level relationship between employee satisfaction, employee engagement, and business outcomes: A meta-analysis. Journal of Applied Psychology, 87(2), 268-279

[7] https://www.hrkatha.com/special/employee-motivation-welfare/taking-the-blues-away-from-the-blue-collared-5-employee-engagement-tips-to-get-it-right/ ; https://www.shrm.org/resourcesandtools/hr-topics/employee-relations/pages/hrs-commitment-is-what-engages-blue-collar-workers.aspx

THE PATH FORWARD

Consider the Whistle Employee Needs Maturity Matrix to better understand where your company is focusing and where you might benefit from additional attention.

	Maturity Level -> Core Elements ⇓	1	2	3	4
Purpose / Meaning	• Line of sight to impact on customers • Line of sight to impact on society • Line of sight to impact on the business	We explain our purpose to our employees through our corporate policies and communications.	The company mission is clearly documented and referenced. Employees see how their company has a positive impact on customers and/or society.	Employees are proud of the company's mission. The company invests some discretionary resources towards improving the lives of others. Employees see how their individual role adds value for the company and/ or society.	Employees feel a direct connection to the values and mission of the company. The impact of each employee is clearly aligned with the mission of the company. Supervisors reinforce this connection regularly. The company invests significant resources in living out its mission, and aligns all actions towards the mission, even when it is inconvenient to do so.
Belonging	• Social events • Team superordinate goals • Shared spaces	Employees work on teams, often with a shared goal. Employees are permitted to socialize during off time.	Employees have good working, individual relationships with colleagues. Employees are given some minimal time and space to socialize.	Teams work collaboratively, with minimal conflict and clear roles and responsibilities. There are dedicated spaces for shared activities, and the company organizes occasional events.	Employees have deep personal relationships, demonstrating commitment to each other's success. The primary ego is the shared company ego. Employees have positive relationships that naturally extend outside of the workplace.
Feeling Valued	• Affirmations • Rewards • Incentives	We have an employee of the month program. We have mass communications designed to express appreciation for employees.	We hand out spot gift-card bonuses. We communicate company performance regularly, noting the importance of all employees. We celebrate milestones and provide holiday gifts.	We have a supervisor to peer recognition program. We reward employees with generous incentive payments, profit sharing, bonuses, etc.	Micro-affirmations are meaningful, frequent, and pervasive throughout the culture. Intrinsic motivation is recognized and championed at all levels of the organization. Extrinsic motivators are used effectively without starving intrinsic motivators.

Growth / Mastery	• Advanced learning • Individualized development plans • Effective Mentoring	Learning courses are available on-demand	A general learning path is recommended within an LMS. Compliance and success are monitored by the company. Tools and training are available to help employees complete their basic tasks. Career paths are available for all employees to pursue on their own.	A personalized learning path is recommended. Employees are prompted to stay on track and are rewarded for growth. People are promoted based on past performance. Career development is focused on improving weaknesses.	Employees are proactively guided toward personalized career development plans based on prospective growth opportunities. They're provided all associated tools and training with reporting and accountability measures. Supervisors are provided AI-guidance, improving efficiency and effectiveness of staff development.
Expectations / Capability	• Job training • Role clarity • Effective Support	Employees learn expectations on the job, from peers	There is a clear and accurate job description. Employees are provided written materials explaining the job.	Employees are provided a brief (<1 week) instructor-led onboarding explaining company values and policies. Supervisors provide regular guidance to employees on how to meet or exceed expectations in their role.	Employees are guided through a 90+ day interactive onboarding process explaining the company, policies and procedures, company mission, etc. Leaders proactively help train the employee while providing role clarity. Employees are provided best in class tools/job aides and effective job-training. Supervisors are provided ongoing training on how to best support employees as they work towards their goals.
Safety	• Physical safety • Psychological Safety • Inclusive culture	Employees feel safe from physical harm.	Employees feel safe from harassment, job loss.	Employees feel safe from emotional risk or harm. Companies have policies that support the needs of a diverse workforce.	All employees feel welcomed, have an equitable voice. and are included. Companies have diverse representation in leadership positions and equitable pay. Innovative ideas are celebrated in an environment of psychological safety.

Specific Actions to Consider on the journey to level 4 maturity

1. Evaluate your company using the Whistle Employee Needs Maturity Matrix. For each employee need, your company should approximately map onto a maturity level. This can provide an objective measure of the current maturity of your organization.

2. Based on the findings from step 1, reflect honestly on which employee needs you are serving well and which ones require attention. For those that require attention, the right progression of the Matrix provides ideas for specific improvements that can deepen the satisfaction of each employee need.

3. Prioritize the need areas and anticipated efforts that will likely lead to progression across the maturity levels. Evaluate the expected benefit against the effort and cost of each potential action. As you prioritize your initiatives, remember that shoring up lower level needs should come first as that is table stakes for basic performance and retention. However, it's critical to also address higher level needs to realize the full potential of your most valuable resources.

4. Consider partnering with a software provider such as Whistle. Our software platform systematically delivers integrated programs that can address all six levels of the Employee Hierarchy of Needs.

Employee engagement and productivity are quickly becoming the top priorities for corporations across the globe. Wages are rising in the midst of the great resignation, while employees are demanding a workplace that accommodates their needs. While it can seem that wage inflation is the only possible scenario, this is not the case. Compensation is not even in the top three reasons employees leave a company. Understanding the real drivers of engagement and productivity can yield massive benefits to the companies that spend the time and energy.
Understanding the true drivers of employee satisfaction and engagement enables companies to create an environment where employees thrive.