

# Employee Turnover

## Costs and Solutions

The following Fact Sheets are available on line at [www.aofp.ca](http://www.aofp.ca):

1. Becoming an Employer of Choice
2. Employee Turnover
3. Using the Turnover Calculator
4. Fostering Employee Commitment
5. Keeping your Good Employees
6. Employee Engagement
7. Essential Skills
8. Workforce Diversity
9. Managing a Family Business
10. Rewards
11. Recruiting Foreign Workers
12. Orientation
13. Employee Empowerment
14. Introducing Technology
15. Effective Appraisals

### How can this Fact Sheet help me?

Whether an employee quits or is let go, turnover (the change to the new employee) comes with high costs. You may know that turnover is inconvenient, but not many people know what their turnover is actually costing them. Some organizations even believe that they are saving money because they are not paying the individual's salary.

Employers who know what turnover costs them can determine what they can afford to invest in keeping good employees.

### Challenges and Opportunities

Some companies have developed a "turnover culture" in which managers, desperate to fill vacant positions, hire unsuitable candidates, which in turn leads to operational problems and increasingly higher rates of turnover.

Employers of Choice recognize the costs of turnover and try to address its causes. One of the ways to do this is to use Workforce Management Best Practices strategically to keep good employees.

There are both direct and indirect costs that occur when an employee leaves the company or is let go. Direct costs can include:

- Costs of termination (paperwork, exit interviews, severance pay).
- Costs incurred because the position is vacant (overtime for co-workers and wages for temporary workers).
- Recruitment costs (administrative time, referral bonuses, job advertisements).
- Selection and hiring costs (administrative and co-worker time spent interviewing, testing, conducting reference checks, travel/moving expenses).
- Orientation and training costs (administrative time, costs of trainers and supervisor, orientation and training material costs).
- Start up costs (uniforms, equipment, tools).

## Did you know?

33% of employees do NOT plan to leave their current jobs.

42% are not actively looking, but are open to opportunities elsewhere.

11% are actively looking.

10% plan to retire in the next few years.

4% have already made plans to leave their current job.

## Did you know?

Direct and indirect costs associated with turnover can range from 70% to 200% of annual salary.

### ADVANTAGES OF BEST PRACTICES

- More qualified job applicants
- Better trained and informed employees
- Better health and safety practices
- More engaged and productive employees
  - Fewer line interruptions
- Fewer product quality problems
  - Easier implementation of new technology
- Lower absenteeism and employee turnover
  - Higher sales per employee
- Higher market value to book value

Other costs are less direct and difficult to measure, but are potentially even more damaging. Indirect costs can include:

- Reduced levels of customer service and satisfaction.
- Reduced product quality and productivity.
- Increased employee stress and job dissatisfaction (immediately before the disgruntled or ineffective employee leaves or while the new employee is learning).
- Loss of work team efficiency while workers get to know the new team member.
- Loss of valuable knowledge and expertise (that may be gained by competitors).
- Supervisor and co-worker time assisting new employee.
- Image within the company and community of poor workforce management practices.

## Solutions

1. Calculate your turnover costs.

Use the AOFPP "turnover calculator" at <http://www.aofp.ca> for help in determining the cost of losing and replacing an employee. This will tell you how much you can afford to invest in keeping them. It will also help you to determine whether your investment in retention contributes to your bottom line.

2. Identify the causes of turnover in your organization.

Turnover can be caused by a number of factors, including:

- Poor supervision.
- Poor recruitment and selection methods.
- Inadequate employee orientation and training.
- Lack of development opportunities.
- Ineffective communication.
- Lack of meaningful and challenging work.
- Inadequate rewards.
- Unpleasant working conditions.
- Major organizational changes (such as a restructuring).

3. Determine ways that you can reduce and control turnover and develop a long-term strategy.

The Destination Excellence program materials will help in this process. Fact Sheet 5. Keeping Your Good Employees is directly aimed at reducing turnover.

## References

Alberta Human Resources and Employment. (2003). Finders and keepers: Recruitment and retention strategies.

Brooks, D.H., Mitchell, T.R. & Lee, T.W. (2005). Shocks as causes of turnover: What they are and how organization can manage them. *Human Resource Management*. 44:3, 337.

Laser, S.A. (1980). Dealing with the problem of employee turnover. *Human Resource Management*. Winter, 19:4, 17-22.

Wasmuth, W.J. (1983). Strategies of managing employee turnover. *Cornell Hotel and Restaurant Administration Quarterly*. 24:2, 65-77.

Iverson, R.D. & Deery, M. (1997). Turnover culture in the hospitality industry. *Human Resource Management Journal*, 7, 71-82.

Towers Perrin (2005). Winning strategies for a global workforce: Attracting, retaining, and engaging employees for competitive advantage. Towers Perrin Global Workforce Study.

### The following diagnostic tool and Fact Sheets may be helpful:

AOFP Employee Turnover Calculator

3. Using the Turnover Calculator

5. Keeping your Good Employees

These resources are available on line at [www.aofp.ca](http://www.aofp.ca) under Workforce Development.

## Benchmarking Turnover Rates

Some turnover is good: it can bring new blood into an organization. One way to determine what is an acceptable turnover rate is to compare your turnover rate against similar companies in similar circumstances. This is important because a 10% turnover rate in one company could be considered satisfactory, whereas this same figure could be considered inexcusable in another company.

The factors that should be considered include:

- Current economic conditions.
- Location.
- Workforce demographics.
- Local labour market.

Even more important to consider is turnover rate in critical organizational roles (those that have a larger impact on organizational performance relative to other positions). For instance, a higher turnover rate in unskilled, easy to fill positions does not hurt company productivity and profitability as much as a high turnover rate in highly skilled, specialized, difficult to replace positions.

### How do I start?

Ask yourself the following questions:

1. What is your organization's turnover rate?

The turnover rate can provide clues about the state of the external labour market. It can also indicate the quality of an organization's workforce management practices. Rarely, but occasionally, companies will experience overly low turnover rates, which could indicate organizational rigidity.

2. Do you have a turnover culture?

3. What is your current rate of turnover costing on an annual basis?

4. What key factors contribute to your turnover rate?

5. What are your most significant opportunities in terms of turnover reduction?