

HIGH COST OF EMPLOYEE TURNOVER

BACKGROUND

There may be several factors involved why an employee leaves their job. It could be a voluntary turnover where the employees choose to leave. Some of these reasons include better career opportunities, increased compensation, and boredom with current tasks. Involuntary turnover occurs when employees are asked to leave for reasons including poor performance or inappropriate behavior. Turnover has both monetary and non-monetary consequences. These costs include separation processing, recruitment, new-hire training, lower productivity, loss of revenue and team morale.

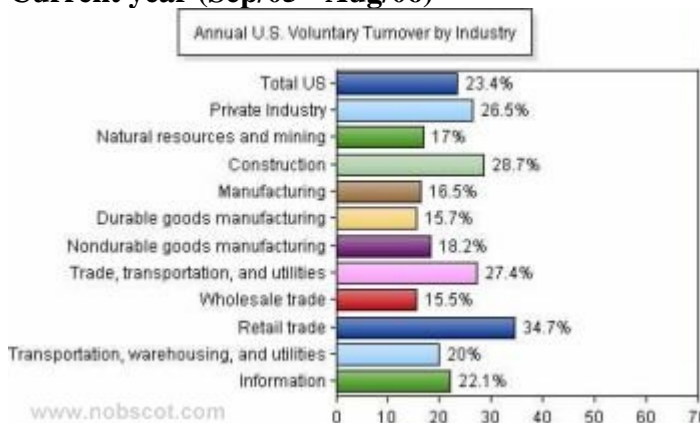
CALCULATING TURNOVER

Overall U.S. voluntary turnover increased slightly to 23.4% annually, up from 22.7% the previous year. The highest turnover by far is still in the Accommodation and Food Services sector at 56.4% and the Leisure and Hospitality sector at 52.2%. Sectors that saw the highest increase in turnover were Accommodation and Food Services, up 7% from the previous year, Leisure and Hospitality, up 5.4% and Information, up 4.5%. The only sectors seeing a (slight) decrease in turnover were Real Estate, Natural Resources and Mining, and Professional and Business Services.

In the Government sector, turnover was up slightly at 8.2% with the Federal sector increasing the most to 9.3% up from 5.7%. Regionally, all areas were up slightly except the Northeast which saw a slight decrease

Employee Turnover Rates - Voluntary by Industry

Current year (Sep/05 - Aug/06)



Prior year (Sep/04 - Aug/05)



Employee Turnover Rates - Voluntary by Industry (continued)

Current year (Sep/05 - Aug/06)

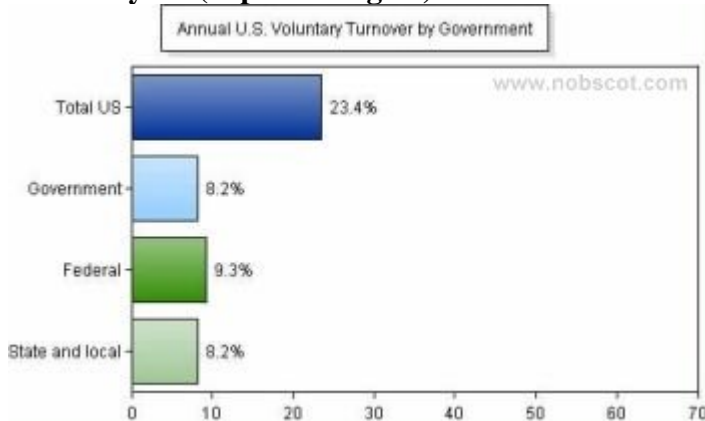


Prior year (Sep/04 - Aug/05)

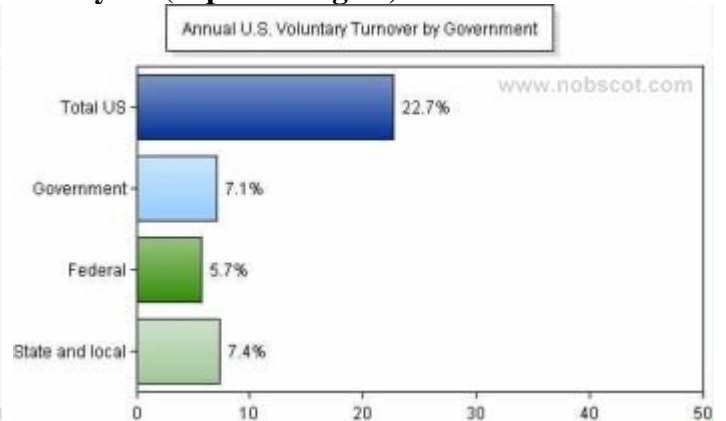


Employee Turnover Rates - Voluntary by Government

Current year (Sep/05 - Aug/06)

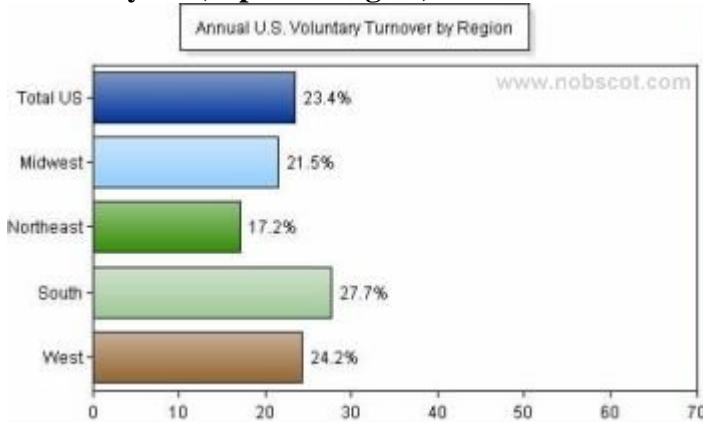


Prior year (Sep/04 - Aug/05)



Employee Turnover Rates - Voluntary by Region

Current year (Sep/05 - Aug/06)



Prior year (Sep/04 - Aug/05)



Annual turnover is computed by adding up the monthly turnover for a 12-month period. Monthly turnover is first calculated as the number of employee separations during one month divided by the average number of active employees during the same period.

$$\text{Monthly Turnover Rate} = \frac{\text{Number of separations during the month}}{\text{Average number of employees during the month}} \times 100$$

Calculating Turnover Costs (Sample for Registered Nurse Position in Denver/Boulder area)	
Separation Processing Costs:	
+ Cost of exit interviewer's time (60 minutes @ \$16 x 135%)	\$22.00
+ Cost of departing employee's time (30 minutes @ \$20 x 135%)	\$14.00
+ Cost of administrative functions relating to the departure (2 hours @ \$14 x 135%)	\$38.00
+ Cost of separation pay associated with the departure (40 hours @ \$20)	\$800.00
+ Cost of unemployment tax to departure (assumes acct reimbursement of 4 wks @ \$337)	\$1,348.00
Replacement Hiring Costs:	
+ Cost of attracting applicants (annual ad budget / number of positions filled)	\$500.00
+ Pre-employment administrative expenses (3 hours @ \$24 x 135%)	\$98.00
+ Cost of entrance interviews (5 interviews @ 1 hour x 2 interviewers @ \$30 x 135%)	\$405.00
+ Cost of aptitude, skill, drug etc. testing (30 minutes @ \$14 x 135% + \$16 + \$25)	\$51.00
+ Cost of hiring decisions meetings (1 hour x 2 interviewers @ \$30 x 135%)	\$81.00
+ Cost of post employment physical exams (assumes performed in house)	\$50.00
+ Post-employment information (records, payroll, etc.) (1 hour @ \$14 + 1 hour @ \$20 x 135%)	\$46.00
+ Cost of signing bonus (RN's in Denver area currently ranging from \$1K - \$3K)	\$1,000.00
+ Cost of employee finder's fee (Denver area currently ranging from \$500 - \$1K)	\$500.00
Training New Hire Costs:	
+ Cost of information literature (manuals, brochures, policies, etc.)	\$10.00
+ Cost of general orientation (16 hours @ \$20 + 16 hours @ \$16 x 135%)	\$778.00
+ Cost of job orientation (unit orientation 80 hours @ \$20 + 40 hours @ \$25 x 135%)	\$3,510.00
Lost Productivity and Lost Business Costs:	
+ Cost of additional overtime to cover the vacancy (20 hours @ \$30 x 135% x 6 weeks)	\$4,860.00
+ Cost of additional temporary help (20 hours @ \$37 x 6 weeks)	\$4,440.00
- Wages and benefits saved due to the vacancy (40 hours @ \$20 x 135% x 6 weeks)	<\$6,480.00>
+ Cost of performance differential while new employee gets up to speed (96 hours @ \$20 x 135% x 20%)	\$519.00
+ Cost of low morale-related time wasted due to "water cooler grumbling" (1 hour @ \$20 x 135% x 5 days x 6 weeks)	\$810.00
+ Cost of lost customers, sales, profits due to the departure (gross profit loss per patient \$3,100 per day x 3.5 days x 25% profit margin)	\$2,713.00
+ Cost of additional employee departures related to the departure (if just one other nurse leaves, the cost is equal to the total of these costs)	\$16,113.00
Total	\$32,226.00
Source: ©2000-2004 Keep Employees, Inc. (www.keepemployees.com/healthcare3.htm)	

EMPLOYEE TURNOVER ANALYSIS

In order to apply the most appropriate turnover reduction strategies, management must first determine the cause of turnover behavior. To facilitate this, management needs to establish appropriate turnover categories. For example, turnover can be classified as involuntary or voluntary. Involuntary turnover occurs when an employee is discharged or terminated, often for just cause. Voluntary turnover occurs when an employee leaves by the employee's own choice, and can be caused by a number of factors. These may include poor job feedback, job dissatisfaction, unmet job expectations, performance problems, situational constraints, socialization difficulties, greater degrees of job stress, and a lack of career advancement opportunities.

After computing appropriate turnover rates, an organization frequently can determine the reasons for employee separations by compiling and comparing the results of exit interviews by employee group, department, division, etc. An example of a portion of an exit interview is given in Exhibit 7-1.

Exhibit 7-1. Exit Interview*

Date:
Name:
Plant:
Department:
Job Code:
Job Title:
Supervisor's Name:
Type of Termination: Retirement _____ Resignation _____ Discharge _____
Stated Reason for Separation _____
Resignation Reason _____
Discharge Reason: _____
Disliked: ___Hours ___Supervisor ___Type of Work ___Pay ___Working Conditions ___Other

Financial:

1. How do you feel about your pay?
2. How did you feel about your progress with our Company?

* This Exhibit is taken from the Bureau of National Affairs' Personnel Policies Forum Survey No. 132, "Job Absence and Turnover Control." (1981), pp. 66-68.

Questionnaires also may be used to study turnover. Turnover factors can be listed on the questionnaire and respondents (former employees) asked to indicate how much influence each factor had on their decision to leave the organization. From this type of study, management can

determine what probably caused employees to quit and whether the most influential factors are controllable to some degree.

Attitude surveys also may be used to study turnover by including sections on current employees' intention to quit and on employees' future plans with the organization. To obtain data on employees' intentions, the organization may ask: "How often have you seriously considered quitting your present job?"

- a. Never b. Seldom c. Occasionally
- d. Often e. All the time

To obtain data pertaining to employees' future plans, the organization may ask: "What are your future plans regarding staying with our organization?"

1. Definitely do not intend to stay
2. Plan to stay until I find a better job
3. Plan to stay unless personal situation changes
4. Plan to stay indefinitely

These employee responses can be further examined to determine if they are correlated with performance, pay, tenure with the organization, and/or job satisfaction. The Job Description Index (work and supervisory satisfaction scales) and the General Satisfaction Scale (from the Job Diagnostic Survey) are commonly used instruments designed to measure job-related satisfaction.

Turnover on a specific job may be explored via employee task-related self-esteem to determine whether employees leave because they perceive themselves to be incompetent. To do this, an organization can use organizational position or job description to identify activities considered critical to a given job. After a list of activities is developed, the organization can ask the respondents to rate their ability level as shown in the example presented in Exhibit 7–2.

Exhibit 7–2. Task-Specific Self-Esteem Survey for Salespersons*

Task-Specific Self-Esteem	Need Much Help	Need Some Help	Competent
1. Call techniques	1	2	3
2. Presentation	1	2	3
3. Closing	1	2	3

KEY REASONS WHY EMPLOYEES LEAVE AN ORGANIZATION

- They don't feel appreciated for their contributions.
- They feel the company doesn't care about them.
- There is favoritism.
- The company doesn't deal effectively with problem performers.

RECRUITING FOR RETENTION

- Each job should be defined within the organization.
- What must be accomplished for someone in the position to be successful.
- Change to a performance-based model.
- Each task should be stated as an objective.
- Each objective should be quantifiable with measurable results.

EMPLOYEE RETENTION TOOLKIT

- Identify the areas a particular organization needs to focus on.
- Include specific actions and timeframes for tackling those areas.
- Review of current salaries compared to market rates will help identify any gaps in pay.
- Introduce flexible schedules.
- Introduce new variable program that addresses areas of dissatisfaction and generate desired results.

RETENTION AND RECOGNITION

- Establish clear qualifications for advancement insuring that employees understand the organizations expectations.
- Award best performers of the company with new roles in the company.
- Recognition requires readiness on the part of the employer to develop detailed job descriptions, allowing transition time following a promotion.
- Provide access to training programs if needed.