Turnover Cost And Retention Management

By Jerry Hall

Employee retention management, have been a topic of interest for about as long as business itself,

but studying the psychological nuances of the issue began gaining prominence in the early part of the 20 century as theorists began linking motivation to meeting needs.

As competition in the business world has intensified, motivation and employee retention have been under the focus ever since to get a leg up on enhancing workforce support for key corporate initiatives.

Agency Costs

One Main factor that an organization can face when trying to retain talented employees is the company may still have to cope with agency costs. When information about an employee's activities is difficult to obtain, Sigler (1999) explained that the employee (or agent of the shareholders) may be motivated to act in his own interest which may diverge from the interest of the organization. This divergence of interests results in costs to the organization in the form of excessive perquisite consumption, shirking of job responsibilities and poor investment decision making.

It is in an employee's interest to over consume perks and shirk job responsibilities of the firm if they are not sole owners of the organization. If most company employees have their wealth tied up in the organization for which they work, they may attempt to make investment decisions which are less risky than the stock holders of the firm would prefer. This is done to reduce the risk of failure by the company which protects the non− diversified employee from loss of wealth. This investment strategy may also reduce the return on investment that the diversified owners of the firm desire (Sigler, 1999). The employees or agents of the organization may also use a short sighted approach in investment selection to enhance their own career chances. This strategy may cause the firm to miss out on profitable long term projects or much needed research and development.

Retention Management

Thus, retention management is essential to address these obstacles so that organizations can focus and strive to achieve competitive advantage and technological leadership. Many studies suggest that high−employee−involvement work practices enhance employee retention. Most efforts on retention and commitment are thus considered from the employer's point of view. New and refined programs are continuously introduced along this line, and are expected to have a positive impact to the organization. However, if the value proposition is viewed from the individual's perspective, different factors assume different weights. Baby boomers are more interested in job security and benefits, young employees are more interested in pay, advancement opportunities and time off. Such differences may reflect stages in the career cycle or deeper generation differences. In addition, there are also gender differences within demographic groups e.g. young women may want different things from what young men want.

Retention management is often defined as a strategic and coherent process that starts with an examination of the reasons why employees join an organization. Studies have indicated that it is driven by several key factors, which should be managed congruently: organizational culture and structure, recruitment strategy, pay and benefits philosophy, employee support programs and career

development systems. In other words, these should be effectively addressed as corporate−wide initiatives. Studies of progressive human resource management practices in training, compensation and reward sharing however, have revealed that these can lead to reduced turnover and absenteeism, better quality work and better financial performance of the organizations.

Jerry Hall has an interest in Finance, Business and Technology related subjects. If you are interesting in finding out more information on Career Changes, please visit this successful Career Change site:

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Employee Retention: What Employee Turnover Really Costs Your Company

By Ross Blake

It's one of the largest costs in all different types of organizations, yet it's also one of the most unknown costs. It's employee turnover.

Companies routinely record and report costs such as wages and benefits, Workman's Compensation Insurance, utilities, materials, and space, yet most companies have no and report the cost of employee turnover. It can be much higher than you think.

How Much is it Costing You?

Several well−regarded studies have recently estimated the cost of losing an employee:

· SHRM, the Society for Human Resource Management, estimated that it costs $3,500.00 to replace one $8.00 per hour employee when all costs −− recruiting, interviewing, hiring, training, reduced productivity, et cetera, were considered. SHRM's estimate was the lowest of 17 nationally respected companies who calculate this cost!

· Other sources provide these estimates: It costs you 30−50% of the annual salary of entry−level employees, 150% of middle level employees, and up to 400% for specialized, high level employees!

· Do a quick calculation: Think of a job in your organization where there has been some turnover, perhaps supervisors. Estimate their annual average pay and the number of supervisors you lose annually. For example, if their average annual pay is $40,000, multiply this by .125% (or 125% of their annual pay, a reasonable cost estimate for supervisors). This means it costs $50,000 to replace just one supervisor. If this company loses ten supervisors a year, then 10 times $50,000 equals $500,000 in replacement costs for just supervisors. This is the bottom line cost. The top line cost? If the company's profit margin is 10%, then it costs $5,000,000 in revenues to replace these ten supervisors.

Do These Numbers Seem Unbelievable?

Here's an actual calculation from a well−regarded organization in my community. The HR Manager of this human services organization (housing for disabled persons, sheltered workshops, etc.), estimated that 30 entry level people leave his organization on average every quarter.

This averages out to ten people per month. Let's be extra conservative and shave SHRM's estimate (see above) down to $3,000.00 to replace each employee.

This amounts to $30,000 per month, or $1,000.00 in employee turnover costs every day of the month! Annually, this totals $360,000.00.

Actual turnover costs are usually much higher than we think they are −− until we estimate them.

You may be thinking, "Some employee turnover is unavoidable, even desirable." You're right. Some turnover is necessary, to replace marginal or poor employees with more productive ones and to bring in people with new ideas and expertise. However, high turnover costs are both avoidable and unnecessary.

This is where companies need to focus their efforts. The goal is to retain valued performers while replacing poor ones.

Most companies group both types of performers together when looking at turnover. By doing so, they're missing the cost and significance of replacing the good performers.

Why Don't More Companies See This as a Costly Problem?

There are a variety of reasons this is not seen as a problem, all of which cost companies in expertise and dollars. How many of these occur in your organization?

1. No process is in place to tabulate costs. One survey found that only 44% of its respondents had a process in place to estimate turnover costs; 43% of companies relied on intuition, and 13% had no process at all. (1)

2. Costs are not reported to top management. It's a business axiom that one of the best ways to get top management's attention is to show them what something costs. However, most top management never gets to see turnover cost estimates because most companies don't measure them −− or if they do, they don't report them to top management.

3. It's an inescapable cost of doing business. Except, it's not! While some turnover is unavoidable and desirable, most turnover, especially among your better and top performers, is largely avoidable. Thinking that turnover is just a normal cost of doing business is the same quality of thinking which says that accidents are just an inescapable part of being in the construction business.

4. It's an HR problem. While HR needs to be a key partner in reducing turnover cost, this is a strategic issue requiring top management's attention and actions, in addition to HR's efforts, to resolve it.

5. Costs are underestimated, and so they register less concern. If costs are underestimated because the organization doesn't agree on or know what to measure, the statistics generated either register less concern than they should, or are disputed and held in disregard.

What Costs Need to be Fully Estimated?

A comprehensive program measures the following costs:

Exit costs Recruiting Interviewing Hiring Orientation Training Compensation & benefits while training Lost productivity Customer dissatisfaction Reduced or lost business Administrative costs Lost expertise Temporary workers

There needs to be advance agreement among Human Resources, Finance, and Operations as to which cost measures will be considered valid. Then, it has to be measured and reported.

6. Waiting until there's a crisis. I was amazed when the executive director of one organization told me she knew that one of her capable managers was unhappy, but decided it wasn't necessary to take action because she hadn't received a letter of resignation yet.

Prevention is what works best. Begin to measure your turnover costs and, very importantly, look at who is leaving so you'll know if you're retaining your best people.

The time to do this is now. Waiting until there's a crisis to take action limits your options and success rate. It also often triggers the common response of offering more money to get someone to stay, instead of fixing the original problem. Why Do So Many Retention Efforts Fail?

These are among the most common reasons company retention efforts fail, even when they're implemented by capable people.

1. No assessment, so ineffective solutions are chosen. In their hurry to correct a costly problem, companies often forgo conducting a relatively brief and cost−efficient assessment in order to correct the situation faster. However, implementing a solution without diagnosing who is leaving, and why they're

leaving often results in solutions that are incapable of solving the root causes behind turnover.

Diagnosing the reasons behind turnover always pays for itself. Don't start without an assessment.

2. Implementing too many solutions instead of the most effective solutions. Managers often brainstorm a number of plausible solutions, then implement many of them −− especially those favored by top management. However, what is most needed is to select and implement a limited number of solutions which will be most effective at solving the problem. Implementing too many solutions, even good ones, will diffuse your resources and weaken your efforts and success.

3. No way of measuring success to know what works. How do you know which retention solutions you've implemented are working effectively and which aren't, where you need to make refinements, and what strategies you need to drop if you don't have a way of measuring your results?

How Do We Do a Better Job of Retaining Employees −− Especially Our Most Valuable Ones?

First, rank your employees in three categories: best performers, middle performers, and lowest performers. Your objective is to retain your top performers; develop and retain your middle performers, turning them into near−top or top performers if possible; and potentially replace your lowest performers.

Second, agree internally on the measures you'll use to calculate turnover costs. Be certain you're taking all costs into consideration. Most organizations greatly underestimate them.

Third, report turnover costs to top management on a monthly, quarterly, and annual basis.

When turnover costs are unacceptably high, or higher than your industry's average, do an assessment. Find out who is leaving and why they're leaving. Exit interviews can help you find out why.

You need to know if it is your top, middle, or lowest performers who are leaving so you can gauge the expertise level leaving your organization. You're obviously going to employ (and pay for) different strategies if your top performers are voluntarily leaving, compared to middle or lowest level performers.

Develop solutions capable of solving the problems you uncover, and only implement a limited number of them.

Measure the success of your retention efforts, and refine them.

Two Very Key Strategies to Save a Large Amount of Time and Money.

Very key strategy # 1: Don't wait until turnover costs become unacceptably high before you implement an ongoing retention program. Put a retention program in place before you have crisis situation. You not only must find out why employees leave your organization, you must also find out why others stay.

Very key strategy # 2: Survey your top performers now in order to find out what keeps them there, why they might leave, what type of competitive offers they may find attractive, and what they need to be happier and more productive in their jobs. You'll do a better job of keeping them (along with their expertise and value). You'll also find out highly beneficial information about improvements your organization needs.

This means driving improvements in your organization by what your best people tell you, instead of focusing on taking care of the ever−present complainers in every organization.

Just How Valuable are Retention Efforts? One source estimated that a 10% reduction in employee turnover was worth more money than a 10% increase in productivity, or a 10% increase in sales!

Retain and gain.

Ross Blake of Retention Associates helps organizations improve employee retention and reduce turnover costs and problems. He has just written "10 Strategies to Develop an Effective Employee Retention Program." Web:

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