The True Cost of Employee Turnover:

An Analysis of the Benefits of Implementing an Employee Retention Analytics Solution

April 28, 2015

555 116th Ave NE, Suite 242
Bellevue, WA 98033

1.844.336.PEAK
www.peakemployee.com

Table of Contents

Introduction

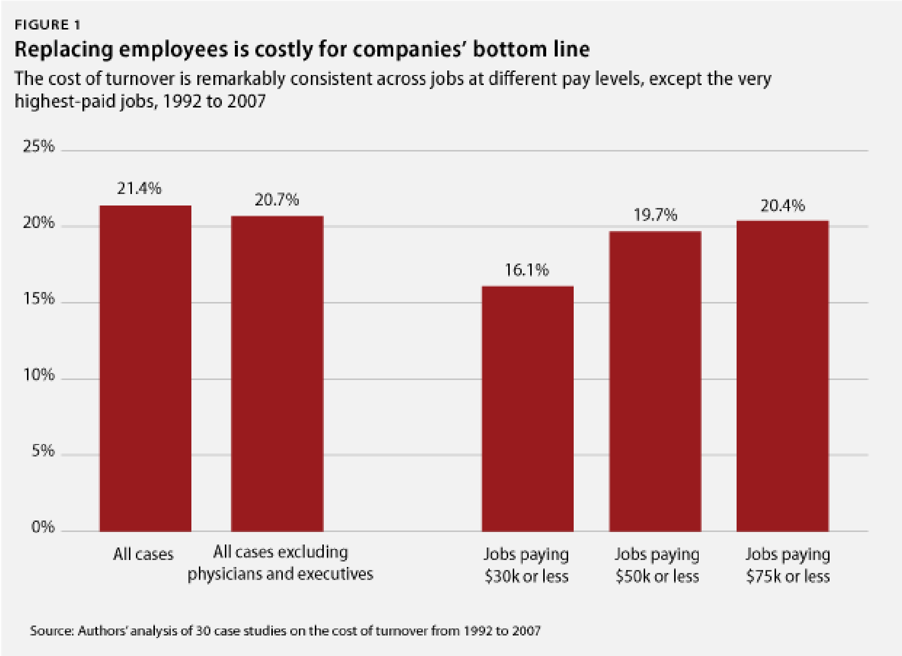
Modern day organizations face constant challenges in their business environments. One of today's most pressing challenges is the high rate at which employees, and specifically Millennials, are leaving their places of employment. In certain highly skilled industries such as Healthcare and Technology, the exodus of such employees can impart significant loss of knowledge and financial damage to the company. Granted, employees leave organizations for many reasons; some of these reasons are known to their employers while some remain unknown. There is an ***urgent need for employers to listen*** to their employees and employ retention strategies or solutions that will reduce the organization's rate of employee turnover.

Employee turnover is ably defined as the proportion of employees who leave a company over a certain period of time (usually one year), express as a percentage of the company's total workforce. This term is often used in a broader sense to refer to all employees that leave an organization, including those that resign, retire or are made redundant in which case it will represent overall employee turnover. Some organizations treat the issue of employee turnover as an issue of no effect. Such organizations are comfortable with the rate of turnover and resigned to the idea that their business operates on appropriate margins ignoring the idea that employee turnover is in all likelihood a very real determination in the ultimate success or failure of their venture and most certainly impacts the bottom line of every significant employer. ***Employers that pay attention to employee turnover are poised to reap the benefits*** of retaining not only their current leaders but also the elusive next generation of leaders sitting amongst their Millennial employees.

Employee turnover is associated to both tangible and intangible costs. These costs can be substantial especially in cases where the employees that need to be replaced are highly skilled. Hiring and training, which normally follows a talented employee's departure from an organization involves costs and time which are tied to interviews, evaluations and selection of new employees. Training costs are often incurred as the organization attempts to equip the newly hired employees with the skills needed for specialized jobs. Aside from these tangible costs, there are other intangible costs associated with high employee turnover. These include costs incurred when the employer fails to have a skilled employee when there is need for one. This often leads to losses that are measured in terms of unsatisfied customers, lost orders and idle machine time.

All of these retention related factors affect an organization's cost structure. High employee turnover has the potential of crippling an organization. According to HR.com, a Human Resources website, ***organizations spend two to three times more in replacing employees than they do in retaining employees***. Retention is considered as the cure for high employee turnover. Retention is formally defined as the number of employees that the employer has been able to retain and it is normally measured in terms of employees with a given length of service (typically more than one year) expressed as a percentage of the total number of employers in the organization.

Analysis conducted in 30 case studies published in 11 research papers between 1992 and 2007 sought to estimate the cost of employee turnover, and revealed that ***employers spend over one-fifth of an employee's annual income to replace the same employee***.



From figure 1 above, the following facts can be deduced. First, complex jobs which require high levels of education and specialized training record the highest levels of employee turnover. Secondly, since certain jobs have significant cost of turnover, others are of less significance. However, true total turnover for an organization is the sum total of the turnover from different levels of employment. Granted, the more highly skilled and knowledgeable the employee, the higher its turnover cost.

The hidden nature of employee turnover

Often times, it is difficult for organizations to estimate the cost of true turnover. This is partly due to the fact that this cost is never accounted for in the books and partly because it is never enumerated in the company's budget. Despite the fact that the cost appears to be hidden, organizations, both big and small incur these costs. The costs are often incurred when organizations opt to post vacancies on job boards or employing the services of a headhunter to help the organization fill a specialized skill position ("*How can I reduce employee turnover?"* 2013*)*.

Other costs include those that can be attributed to lowered productivity, knowledge loss or "brain drain" due to the employee exit, overworked remaining staff, overtime hours, interview costs incurred when seeking appropriately trained and suitably qualified staff to fill the vacant positions, and training costs incurred in preparing the new employee to fill the vacant position (Russo, 2000). Bearing these costs in mind, it is of ***paramount importance that employers pay keen attention to workforce issues and address them proactively*** to avoid the high costs of employee turnover.

The benefits of employee retention

An employer that adopts and employs employee retention tools and strategies can not only minimize the costs are associated with high turnover but also stands to reap additional benefits. The success of any for profit organization greatly hinges on the organization's ability to maintain a low turnover rate and a high retention rate. ***High employee turnover has been found to not only increase an organization's expenses but also adversely affect the morale within the organization***. High retention rates can only be achieved when the employer ensures that the ***pulse of the workforce is being monitored and key workers remain employed and productive*** with opportunities to advance within the company.

Many employers implement retention strategies to help manage employee turnover. These strategies are often expanded to attract highly qualified employees to the organization. These retention programs are known to focus on strengthening the relationship that exists between management and the workers (Taylor, S., & Chartered Institute of Personnel and Development, 2002). The employer typically uses competitive compensation, employee assistance programs, benefits or employee recognition to maintain employee satisfaction. Most HR experts gather feedback from focus groups and exit interviews to reduce turnover and attempt to monitor employee retention. However, typical survey methods are often too sporadic to yield actionable data that satisfies the needs of the workforce, especially the younger generations that are very accustomed to instant feedback and being listened to. For this reason a more practical approach is to continually monitor the pulse of the workforce through a short, recurring, survey that creates actionable data allowing HR and Management to get ahead of problems before they begun to cause increased turnover. Secondly, a good employee retention program will impart a direct effect on the employer’s bottom line. This strategy will help in offsetting high employee replacement costs and get rid of indirect costs that are associated with loss of clients and decreased productivity.

Thirdly, employee retention tools and programs help in maintaining an organization’s performance and productivity. Unfilled positions means that the employer is incurring a loss of revenue or productivity that he would have gained if that position was filled. Even once the position is filled, this new employee will have a learning curve to overcome before his or her work becomes efficient and profitable. Fourth, a solid employee retention program will enhance the organization’s recruitment as management strives to fulfill the promises they make to their employees during the recruitment exercise. Fifth, employee retention negates the adverse impact that high employee turnover has on an organization’s morale. Simply put, good employee retention tools and programs will increase morale and productivity in an organization.

The need for businesses to adopt state of the art HR analytics

High employee retention and low employee turnover is only possible if the organization is aware of the factors that contribute to these two extremes. ***Monitoring the pulse of the workforce is enabling a new breed of People Analytics*** that is a subset of more traditional HR analytics and helps organizations to understand how retention can be enhanced while at the same time keeping turnover at the lowest rate possible. Below is a discussion on why businesses need to adopt People Analytics in their day to day operations.

Global business leaders are concerned with the changing economic and political environments which affect the way they conduct their businesses. On the economic front, these employers are more ***concerned with the ever rising cost of doing business which is partly tied to the rapidly increasing cost of employee turnover***. Employee's salaries alone constitute more than half of most organization's operating expenses. This reason alone should help employers to embrace the use of People Analytics which can help to monitor, track, and analyze employee-related turnover factors in order to keep related costs as low as possible. The biggest challenge facing most companies today is that their expected high performance is tied directly to their employing and maintaining a high performing workforce. The challenge becomes more complex as today's HR organizations and management are typically unaware of how to best optimize their workforce given the lack of insight into the day to day dynamics of their organization.

Most organizations in the US today face aging workforces. Because of this the methods used to recruit workers must change. Retention of old employees will require the organizations to introduce retention programs which include project-based or part time work. When it comes to the hiring and retention of younger workers from Generation X, Y, and Millennials the employers must adopt new hiring and retention strategies which will provide the workforce with opportunities for career advancement with work from home and schedule flexibility. Balancing between the older generation and the younger generations is important. The older workforce is a reservoir of priceless intellectual capital that the organization cannot afford to lose. On the other hand, the younger generation of workers are the future that will introduce emerging technologies to the organization to improve efficiency and productivity. The younger generations bring creative and innovative ideas to the table. These ideas are crucial in helping today's organizations to navigate economic and technologies challenges.

Most organizations are unaware of the complexity that exists within their present day workforce. This lack of awareness makes it impossible for these organizations to utilize their workforces effectively (Griffeth, & Hom, 2004). As an employer you ought to have the answers to the following questions at your finger tips: which of the employees should you retain to maintain high performance and productivity? Which employees can you groom in your talent management program for career advancement? What is the average tenure? What factors contribute to employees exiting the company? What are the best compensation and benefit perks that the organization can employ to inspire competitiveness within the organization? What is the headcount at a particular time? What is the level of retention and turnover? All of these questions are very important for organizations that desire to maintain their competitiveness within their industry and in the marketplace as a whole.

Fortunately, organizations can now answer most of the workforce-related questions using a combination of People and HR analytics. These solutions will help an employer to determine whether to bolster some training programs, hire into or terminate out from the talent pool and sift through massive data from the personnel department to determine which talent pool is most productive so that retention is focused on the most productive sections of the organization. Looking at HR analytics, the employer can measure the output from different employees and determine which employee is most productive today and which skills are needed today and will still be needed in the future ("Workforce Analytics - Gartner IT Glossary, 2012"). This breakdown allows the employers to evaluate the human capital in terms of skills and competencies needed for the future together with performance metrics. Using this, the employer can develop ways of managing the workforce and target training, career development and retention programs, and set expected values that this programs will deliver. HR analytics enables the view of the workforce both in the present day and also provides clear insight by which future talent-related actions and decisions will be based.

According to research from IBM and MIT top performing companies have mastered and leveraged the use of HR analytics in their organizations. These early adopters of high-end and current technologies in HR simply outperform their lower performing counterparts. Today organizations can use workforce analytics to drive a financial return on capital investment and work on improving the value that the workforce adds to organizational performance. Companies can use tools such as PeakEmployee to help their organization to better understand and monitor their workforce in order to reduce turnover via informed change to their employee retention program.

Leading practices that organizations can adopt to improve their performance

Early adopters of technology stand a good chance of benefiting from People and HR analytics and business intelligence. Some examples of leading practices that are supported by HR analytics technology include:

a. Role and responsibility-related access to all relevant, accurate and timely data within a given business unit- for example, a call center supervisor can employ workforce analytics and business intelligence to ascertain the abandonment rate, the cost per call, duration per call, and use these rates to optimize the daily performance of the staff at the call centre.

b. Interactive and broad-based analysis of business data extracted from different sources to have a better insight- with such an integrated data displayed on a dashboard, business executives and HR managers can determine whether voluntary turnover is increasing and if the organization's talent pool is at risk of employee turnover. This will then allow them institute measures geared towards curtailing such an occurrence.
c. Predictive analysis of possible actions and support for optimal decision making – business executives and HR managers can ably manage at-risk talented employees and conduct impact analysis to clearly understand the effects that salary actions would have on financial results, expenses, turnover, and retention.
d. Enabling inside out and outside in actions to be taken- this is important because it will enable management to adopt preemptive measures that are well informed by historic and predictive data. These actions can reduce the overall turnover and help the organization come up with an appropriate employee retention program.

Factors that determine the ability of ease of use of role-based embedded processes

Early adopters outperform late adopters because the former has a higher aptitude for learning which positions them for quick adoption of technology. The ability of an organization to access and use the capabilities afforded by People and HR analytics will determine whether they are early adopters or not. The displays for each role listed in the system must be visually appealing with clearly defined metrics and analytics (Griffeth, & Hom, 2004). The second factor entails the accessibility of relevant data. There should be plenty of free-flowing and interactive data which is not simply constrained to the workforce but also data that concerns customer success and collaboration. Without the availability of adequate data, it is impractical and impossible to clearly understand the workforce impact on the performance of an organization.

The contributions of People and HR analytics to driving insights to action

People and HR analytics can help businesses manage and improve their performance. Such analytics helps early adopters to improve their productivity and profitability through effective workforce cost control and by use of a balanced and lowest effective headcount. In this regard, ***business executives such as the CFO, CHRO and line managers can distinguish between top and bottom performers in an organization and use this information to pick employees that can be earmarked for retrenchment or career development*** (Franklin, 2008). Such a system also helps organizations determine which employees have become redundant. Using predictive analytics, which are embedded within the People and HR analytics, the executives can understand the relationship between workforce investment and operational results.

During uncertain and unstable economic times, actions on all issues must be immediate. Organizations need People and HR analytics solutions that will provide real-time, event-based and immediate alerts of the changes in its talent pool through an easily accessible personalized dashboard***. For example, if a new Director in R&D is hired and morale plunges, an analytic solution should be able to identify this drop and relay the message via an alert to the appropriate HR manager***. With this information, the executives can formulate a solution which will ensure that there is not excessive turnover under the new Director.

Analytic workflows help in addressing information needs

The core function of HR is to optimize the workforce. The HR department can benefit from analytics because of the adroit processes that are tailored to acquire, optimize, develop and pay the workforce. Each of these functions attempts to accomplish some set of business objectives (“Workforce Analytics - Gartner IT Glossary, 2012”). Organizations can employ analytics to dig into these issues. For example:

- Optimize- it is possible to juxtapose workflow composition with external data to determine how the workforce will be affected by population aging. Armed with such information, the employer can determine the best way to institute succession planning. A good workflow analytic program will guide the planner by giving a real time assessment of current turnover trends, head count level and projected turnover so that workforce capacity can be optimized. Planners can also factor workforce compensation as a means of determining the best workforce cost structure for the future.

- Acquire and comply-Recruiting specialists can benefit from the results generated by the analytics in helping them develop the best recruitment plan which will not only be cost effective but can also but can also be used in different recruiting scenarios. Analytics can also reveal the probable source of the most talented staff who can be headhunted or recruited to join the organization. Moreover, analytics also helps recruiting specialists to compare the profiles of successful job applicants with those of current employees in comparable roles. This can help the recruiters to approach the hiring process with caution and tact such that the offer given to the new hire will not cause the current talent to feel disengaged or alienated.
- Develop and employ- A learning strategist can use the information gathered from analytics to determine the best way the organization can adopt itself in the ever-changing business landscape.

Conclusion

PeakEmployee understand that employee turnover is costing you profits, productivity and profitability. We have a solution that will assist in the design and implementation of an Workforce Retention Analytics solution that will enable you take the pulse of your workforce and generate feedback that can be used to make informed decisions that will drive your organization’s bottom line.

List of References

Franklin, G. (2008, October 18). Negotiating pay, perks, benefits know what you want, and don't be afraid to ask for it. *The Boston Globe* Retrieved April 28, 2015, from http://www.highbeam.com/doc/1P2-8516351.html?

Griffeth, R. W., & Hom, P. W. (2004). *Innovative theory and empirical research on employee turnover*. Greenwich, Conn: Information Age Pub.

How can I reduce employee turnover? - FT.com. (2013, March 5). Retrieved April 28, 2015, from http://www.ft.com/cms/s/0/f09800a6-cc7d-11e3-9b5f-00144feabdc0.html

Russo, A. T. (2000). *Minimizing employee turnover by focusing on the new hire process: A dissertation submitted to the graduate faculty of the College of Businessand Management in candidacy for the degree of Doctor of Philosophy*. Prescott, Ariz: Universal Publishers/uPUBLISH.com.

Taylor, S., & Chartered Institute of Personnel and Development (2002). *The employee retention handbook*. London: Chartered Institute of Personnel and Development.

Workforce Analytics - Gartner IT Glossary (2012, February 10). Retrieved April 28, 2015, from http://www.gartner.com/it-glossary/workforce-analytics