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# MANAGING EMPLOYEE TURNOVER



# Managing Employee Turnover

We're currently living and working in the most competitive business environment the world has ever seen. Improvements in technology and mass communication have reduced to almost nothing the amount of time an organization can differentiate itself from its competitors based on what it does or makes. Because of that, it's crucial to create the best culture — and hire and retain the best people — possible.

Long-term success depends on establishing your identity as an organization: your culture, your mission, your vision, your values, your beliefs, how and who you hire and the way you enable and inspire top talent. Leading organizations have realized they need to increase their investment and focus on people and culture to succeed.

As the HR leader at your organization, you're an integral player in your company's success. At a time when the gap between your competitors is smaller than ever, people are realizing that what sets companies apart has less to do with *what* you do and is more about *who you are*.

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## Put the focus on who you are:

- People: Attract, inspire and empower great people.
- Culture: Create a great place to work, so great work can take place.

The organizations that focus on people and culture are the organizations that will win.



## When It Comes to Culture, Turnover Trends Are Telling

For most companies, retention is now a major concern, which was not the case after the recession. It's become much easier for people to find new jobs these days; job scarcity is no more.

Whether your organization has low voluntary turnover, high voluntary turnover, low involuntary turnover, high involuntary turnover or some combination of the above, turnover statistics tell a story about your company processes, procedures, leadership and — you guessed it — culture.

The purpose of this paper is to explore why turnover matters and what it really means to manage turnover as it relates to organizational culture.

*Hint: It's way more than a numbers game.*

## Employee Lifetime Value

When it comes to your employees, there's a way to measure their value: Employee Lifetime Value (eLTV). The three components that determine eLTV are: Time to Value, or the time it takes an employee to become fully proficient and engaged; Time in Value, or the amount of time they spend in a state of peak productivity and Time in Role, the amount of time they're employed by your organization in their current role.

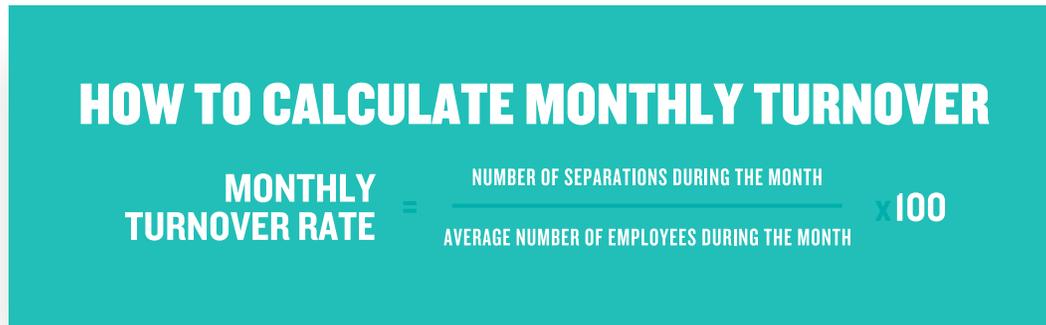
How do you increase eLTV? Reduce Time to Value, and increase Time in Value and Time in Role.

After all, you're already working hard to get great people through the door and into your organization — you should do all you can to keep them.



## The Cost of Losing Employees

The formula for measuring employee turnover is:



**HOW TO CALCULATE MONTHLY TURNOVER**

$$\text{MONTHLY TURNOVER RATE} = \frac{\text{NUMBER OF SEPARATIONS DURING THE MONTH}}{\text{AVERAGE NUMBER OF EMPLOYEES DURING THE MONTH}} \times 100$$

*Related: [How to Calculate Employee Turnover](#)*

According to [SHRM](#), the cost of replacing an employee is somewhere between 90 percent and 200 percent of their annual salary; researchers at [Columbia University](#) pegged it at 150 percent, depending on the position.

But the true cost of losing an employee is even more expensive than your organization is likely to realize, because the costs are often hidden, delayed or difficult to attribute.

### And the costs of turnover go beyond just dollars. They include:

- Lower organizational morale
- Lower organizational engagement
- Lower organizational performance
- Additional training for new employees
- Loss of knowledge retention (aka “tribal knowledge”)

Additionally, if you’re constantly recruiting because of high turnover, you’re stuck in a cycle of hiring instead of engaging and encouraging high performers.

## The Most Famous Firing That Never Was

Everyone has heard the story of how Steve Jobs was ousted from Apple, the company he'd started in 1976 with pal Steve Wozniak.

Both Jobs and Apple would experience phenomenal success with their Macintosh computer, which launched in 1984 accompanied by its own Super Bowl commercial directed by none other than Ridley Scott. By the age of 25, Jobs was reportedly worth \$100 million.

Still, power struggles and clashing visions would cause Jobs to leave the company in 1985, fired by the CEO he'd hired — or so the story goes.

What's closer to the truth is that Jobs voluntarily left the company (although admittedly in a huff and no doubt deeply discouraged) after a "reorganization" left him without much to do. Jobs was not the type of man to be marginalized without protest.

Apple would have its struggles in the next few years, however, and in 1996 would rehire Jobs as part of the company's turnaround plan while acquiring (for a mere \$400 million) NeXT Inc., the company Jobs started after leaving Apple. The rest, as they say, is history.

Here's the point: While many wouldn't hesitate to call Jobs an extraordinary talent, Apple could and did survive without him for 11 years. In the end, however, the company was happy to welcome him back, because while Jobs was replaceable, he wasn't expendable.

## Turnover Myths

Let's address some common turnover myths that, when taken at face value, can impede organizational growth while contributing to employee disengagement and dissatisfaction.

**Myth:** Measuring turnover isn't that important.

This myth gains traction from the truism that employees come and employees go, but life continues. Since "no one is irreplaceable," fretting about turnover is a waste of time. Besides, who needs fancy metrics? When there's a problem it'll be obvious, right?

**Reality:** What's perceived as obvious may not be actual. Our perception is often clouded by our biases and preconceptions, as well as what we observe in the world immediately around us. Perception is important, but hard data is important, too.

And while no one is irreplaceable, employees are not expendable. Employees are unique beings with unique strengths, weaknesses, talents and skills. If one of your key employees won the lottery and retired tomorrow, you'd need to replace that employee, and replace him you would. But your new employee won't be a clone of the one you lost. She'll be different, and those differences will have an impact on your organization for the better, the worse or somewhere in between.

**Myth:** Low turnover is always good.

Low turnover has long been presented as proof of a great organization. The logic is pretty simple: A company must be doing something right if employees are content to remain working there.

**Reality:** Human motivation is complex. Employees stay at companies for all kinds of reasons, and those reasons may have nothing to do with gratitude for a great employer or a desire to perform well. Perhaps your employees:

- Are overpaid
- Are under-skilled
- Aren't motivated to advance
- Believe the company benefits are too good to be replicated elsewhere
- Believe the economy is too unstable
- Know very well that no other employer would put up with their bad behavior

**Let's dig in a bit to each of these.**

**Overpaid and under-skilled.** Being overpaid and/or under-skilled makes an employee unattractive to the next employer. Some employees know this and won't even look for another job (although that doesn't mean they love the one they have), and others don't realize how unem-

ployable they are until they begin looking but don't receive any offers, or maybe not even any interviews. Either way, these workers are stuck with you, but that's not altogether to your benefit.

**Low motivation.** Employees with low motivation don't desire to do much beyond what they're already doing, and that might suit your organization just fine or not so fine, depending on how quickly your business is changing and how flexible you need your employees to be to manage those changes.

**Great company benefits.** Benefits are supposed to help drive retention, so employers needn't feel ashamed when they do. That said, if your employees are only sticking around because of the great benefits when they'd actually rather be somewhere else, you'd likely be better off if they worked elsewhere. In time, those "golden handcuffs" will begin to chafe, and your employees may start to feel resentful.

**Unstable economy.** One interesting byproduct of the Great Recession of 2008 was the plethora of employment surveys that followed indicating most employees had no plans to leave jobs they hated. In "[New Survey: Majority of Employees Dissatisfied](#)," author Susan Adams states, "A lot of unhappy workers are staying put." And while experts continue to warn employers that the Great Worker Exodus is looming (and even though Department of Labor Statistics support the notion — the BLS's "Job Openings and Labor Turnover Survey Highlights November 2013" reported a 53 percent increase in voluntary resignations since reaching a low in September 2009), we aren't there yet.

**Putting up with bad behavior.** It takes all kinds to make the world go 'round, but being a bit eccentric and being the corporate jerk are two very different things. The truth is that workplaces are filled with bad behavior, and those perpetuating the behavior derive their power from those in the organization with the authority to grant it. However, not all companies will tolerate all kinds of bad, and employees know that. Consider the woman who tells her best friend, "The thing I love about Charlie is that he puts up with all of my crap." That's your misbehaving employee, fully aware that her foolishness wouldn't be welcomed by all. She's not going anywhere, but that fact isn't necessarily doing you any favors.

Generally, it's great when employees choose to stay put instead of bolting for the Exit Sign at the first opportunity, and low turnover can be a reliable indicator of employee satisfaction that leads to greater levels of engagement and higher levels of productivity. However, it's good to remember that that's not always the case.

**Myth:** Turnover is always bad.

Turnover can be very disruptive to a business, and no doubt that's why it has such a lousy reputation. Turnover has a dollar sign attached to it as well, in direct hiring costs (ads, recruiter fees, sign-on bonuses) as well as indirect costs (the time of the individuals involved in the hiring process, time spent acclimating the new employee and lost productivity). For all these reasons and more, turnover must be avoided.

**Reality:** Sometimes change is desperately needed, and that means some heads have got to roll. Whether employees are fired, retire or self-select out of the transformation to come, the point is that turnover can be a fantastic opportunity for employers to select, place and develop employees (both incumbent and new) who are enthused about the company and the direction in which it's heading. Some turnover is actually good for the company — especially in the case of overpaid, under-performing employees.

**Myth:** You can't control turnover.

"At will" employees are free to resign when they please, with or without notice, and without regard to employer needs or wants. For this reason, some believe leadership can't really control turnover and shouldn't bother trying too much, either. This "que sera sera" view toward retention also serves the purpose of absolving leadership from any responsibility to manage turnover.

**Reality:** It's true that employers can't control turnover 100 percent; however, they can create a workplace culture that encourages the best employees to stay, and at the same time, encourages good turnover. It takes mindfulness and forethought, but great employers do it every day.

## Turnover and the Disengaged Employee

Despite all the information available on how to engage employees, employers consistently fail to do a good job of it. According to [Gallup News](#), only 33 percent of U.S. workers claim to be engaged.

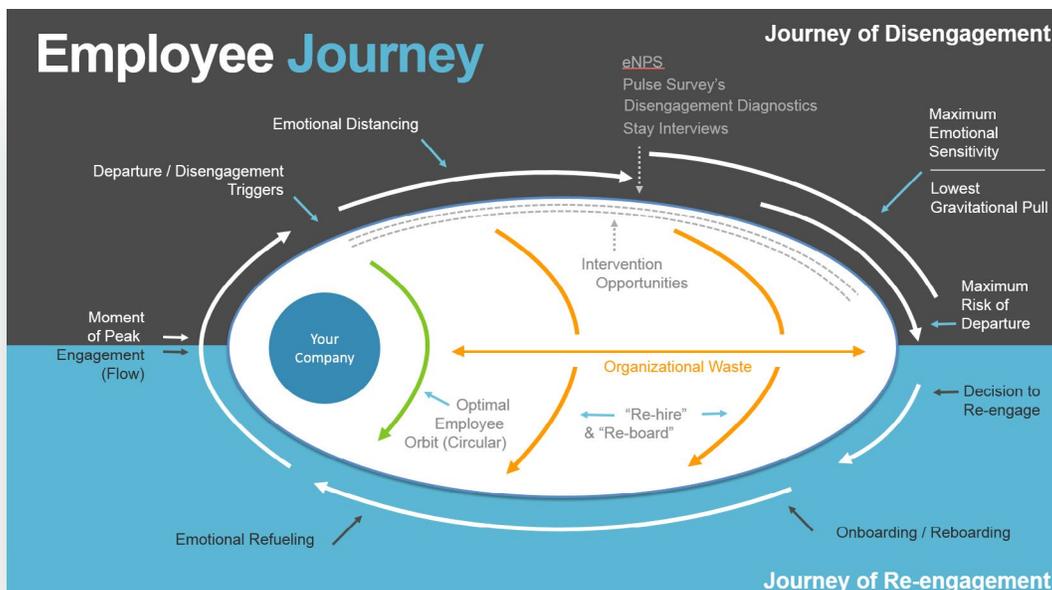
But burnout is normal.

While being disengaged sounds terrible, it's not possible to live in a perpetual state of 100 percent engagement. Nobody can sustain that. It's human nature to get burned out from time to time. It's all part of a cycle, a journey of disengagement and reengagement.

*(See the graph below.)*

Gallup defines disengaged workers as those who have “essentially ‘checked out.’ They’re sleepwalking through their workday, putting time—but not energy or passion—into their work”. Actively disengaged employees are an even greater threat to organizations. These employees “aren’t just unhappy at work; they’re busy acting out their unhappiness. Every day, these workers undermine what their engaged coworkers accomplish.”

And while it's natural for employees to become disengaged, it's true these workers are bad for business. Whether the disengaged worker is barely doing his own job or causing someone else



to be dissatisfied with hers, disengaged workers hurt the organization with their apathy (at best) or bitterness and resentment (at worst).

The key is for organizations to have their finger on the pulse of each employee to know when they've started this emotional distancing, to be able to identify the signals, so they can intervene and start the recovery and reengagement cycles.

We have to know when we should intervene, and we can do this by measuring employee sentiment using pulse surveys, conducting stay interviews or other methods. Intervention may be necessary at a different time for each employee, because every individual's journey is different.

But one thing is true for every employee: If you wait until they get into the zone of maximum emotional sensitivity (see below), you're likely to lose them. A critical component of retention is to not let your employees get to the point where they're emotionally distanced and disengaged.

Responding early is also how we prevent organizational waste: Peak disengagement is also a time of peak organizational waste. You're paying their same salary, but when your employees are disengaged they're far less productive, and there's a dramatic difference between how they're impacting your organization.

*Related: [Examining Employee Burnout: Cost, Cause, and Culture](#)*

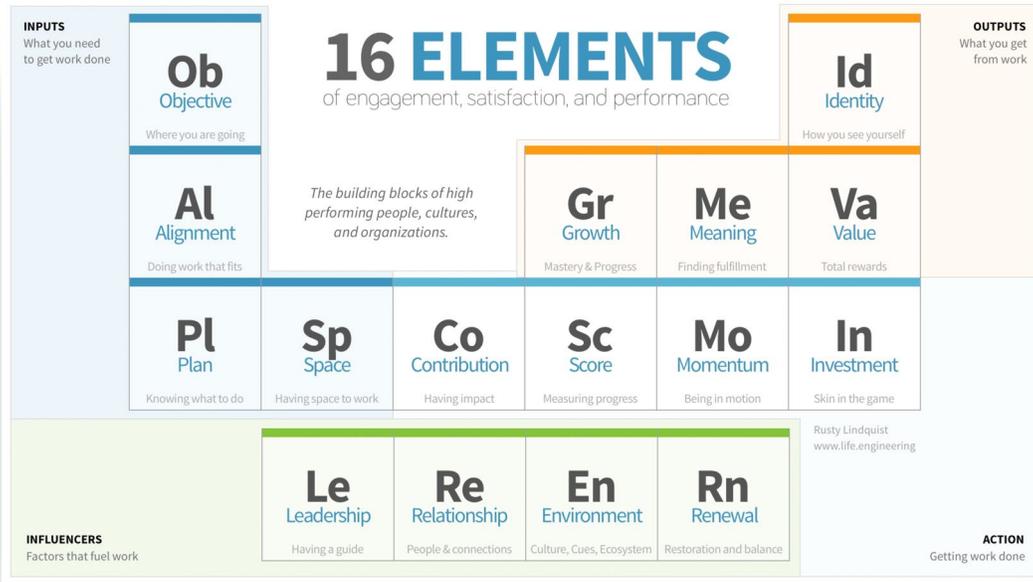
## The Skinny on Employee Surveys

Whether you call them climate surveys, engagement surveys or employee attitude surveys, periodically checking in with your staff and their beliefs about your workplace is a good idea.

Organizations can purchase ready-made surveys, hire a consultant to create a custom tool or design something more modest in-house. The important thing is to ask the tough questions while having full intent to respond thoughtfully to the answers. Asking employees for their opinions and then ignoring those opinions will waste precious resources and cause leadership to lose credibility and good will.

# Elements of Engagement

According to Rusty Lindquist, Vice President, Thought Leadership at BambooHR, there are 16 primary elements required to create a culture of employee engagement and retention.



Of these, one of the most effective engagement and retention levers is value, or the total rewards received in exchange for work. These include factors like recognition, perks, benefits and — most importantly — monetary compensation.

But while compensation may be the keystone to retention, it doesn't exist in a vacuum. There are numerous factors that play a role.

## Retain Your Best Employees

Turnover is a symptom, not the condition. As such, a focus on turnover and a simple assumption that low turnover indicates all is well won't serve your organization. What's a better bet?

### FOCUS ON CULTURE

In their classic 1992 book, *Corporate Culture and Performance*, John P. Kotter and James L. Heskitt revealed *these surprising statistics* for firms reviewed over a period of 11 years:

	Average Increase for 12 Firms WITH Performance-Enhancing Culture	Average Increase for 20 Firms WITHOUT Performance-Enhancing Culture
Revenue Growth	682%	166%
Employment Growth	282%	36%
Stock Price Growth	901%	74%
Net Income Growth	756%	1%

Simply put: *Companies that intentionally manage their cultures significantly outperform those that don't.*

Why?

Culture, or the company "personality," touches everything about an organization, including procedures, communications, decision-making processes, who gets hired, who gets fired, who gets promoted, who gets developed, how and how much employees are compensated, how conflict is handled, the quality of leadership, the quality of the organization's good or services and how employees relate to each other and customers (whew!).

Energy spent on the creation of a healthy corporate culture is always energy well spent. All too often, however, leaders spend energy on more superficial activities that don't come anywhere close to addressing what's really eating at employees.

For example, an annual “Employee Appreciation Party” (even one that pulls out all the stops) won’t do much to convince staff of their value to the organization if performance reviews and wage increases are routinely postponed. Regardless of what other responsibilities managers may be juggling, an organization that perpetually tolerates egregiously late evaluations sends a very clear and damaging message about priorities, because employees know the organization will always find time for what executive leadership truly deems important.

*Related: [How to Create an Attractive and Lasting Culture](#)*

## FOCUS ON COMPETENCY

Develop job descriptions, and hold employees accountable for fulfilling them. Teach managers how to give feedback, and reward them for doing it regularly and honestly. Heed the adage to “hire slowly and fire quickly.” Deal with conflict. Make learning — including learning from mistakes — the norm.

Competent people want to work with other competent people in organizations that value and support their talents, and they’ll flee environments that don’t meet these standards.

## FOCUS ON FAIRNESS

Humans are wired to appreciate fairness. Watch a group of kids playing, and see how the others protest when someone in the group attempts to bend the rules. The workplace is no different. Employees who come to work on time and produce as expected don’t like it when their coworkers are allowed to slack off with impunity. A lazy manager who gets credit for the work of his colleagues is sure to raise someone’s ire — especially if that recognition represents a pattern and is not a one-off.

*Related: [The Bad Boss Index](#)*

# What Employees Really Want

What makes an employee get up in the morning looking forward to the work day ahead?

## GOOD PAY

How strongly pay contributes to employee satisfaction has been debated time and again in the literature, probably because money means so many different things to different people. However, two truths are constant: 1. Employees need money to live and 2. Money is used as a measure of value by employers and employees.

So no matter where it's ranked on the latest employee survey, pay matters. Because every time an employee has to make good on a bill or consider whether he can afford a product or service, he thinks about his pay and the value his employer places on his work.

*Related: [Get Pay Right With PayScale](#)*

## FLEXIBILITY

When SHRM surveyed HR professionals about "[Challenges Facing HR Over the Next 10 Years](#)," 59 percent responded that retaining and rewarding the best employees was their main concern. And when asked how they thought this goal could be achieved, 40 percent answered "providing flexible work arrangements." An article in [Time](#) magazine referenced a survey by the American Psychological Association reporting that the top reasons Americans give for not leaving their current jobs are "I enjoy the work I do" and it "fits well with the other areas of my life." And PayScale's Generations at Work survey found that telecommuting was the top benefit desired by Generation X (those born between 1960 and 1980).

Most employees are looking for better work/life balance and are willing to show loyalty to those employers who provide it.

## RESPECT

Employees want to know what they think matters. They want to be treated as valuable members of the team with something meaningful to contribute. At the very least, employees have no desire to be shouted at, demeaned or humiliated at work by an abusive manager or coworker.

Employers who give more than lip service to the notion of workplace respect are way ahead of the curve and will experience more worker loyalty as a result.

## INTERESTING WORK

Most people would prefer to be intellectually challenged at work than not. When you consider that a full-time employee will likely spend more waking hours at work than at home, it's not hard to understand why she would rather her work not feel like a waste of time and talent. Pay matters, yes — but even the best pay can't compensate for boring, mind-numbing work that provides no enjoyment and little mental stimulation.

## AUTONOMY

Employees appreciate being able to fulfill their work duties in a manner that suits their temperaments. Often there is more than one way to achieve a goal, and employees value the freedom to choose the way that feels most comfortable to them. Managers who insist that "it's my way or the highway" (when there really is another way) frustrate employees and cause them to begin considering other employment options.

## Summary

Turnover is a reflection of company culture. Managing it is an ongoing process, not an event that's concluded with a quarterly or annual review of your company statistics.

Ultimately, managing turnover is about mindfully creating a workplace culture that supports high-performers financially, intellectually and psychologically while at the same time provides a means to efficiently and fairly weed out poor performers who compromise company goals.

## About PayScale

Creator of the world's largest database of rich salary profiles, PayScale offers modern compensation software and real-time, data-driven insights for employees and employers alike. Thousands of organizations, from small businesses to Fortune 500 companies, use PayScale products to power pay decisions for millions of employees.

For more information, visit [www.payscale.com](http://www.payscale.com).

## About BambooHR

BambooHR is the No. 1 online HR software for small and medium-sized businesses that have outgrown using spreadsheets to manage their employee information. BambooHR's intuitive interface, streamlined implementation process and responsive support team ensure a fail-safe transition from spreadsheets to our flexible Human Resource Information System (HRIS) that adapts to your changing needs. Clients maketime for meaningful work by using BambooHR's Applicant Tracking System (ATS) and HRIS to manage the employee lifecycle. A winner of the 2013 Alfred P. Sloan Awards for Excellence in Workplace Effectiveness and Flexibility, BambooHR serves hundreds of thousands of employees in 70 countries worldwide.

For more information or a free trial, [visit us](#).