Strategies to Effectively Manage Employee Turnover

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Executive Summary

Turnover is a natural part of doing business and at times even a good and necessary part of running an organization, but there are potentially large costs associated with turnover and a major precursor to turnover itself, burnout. Increasing retention, preventing burnout, and avoiding unnecessary turnover is vital to all businesses. Companies that effectively manage turnover routinely see higher levels of customer satisfaction and higher profits.

This report will begin by defining the most common types of turnover as well as the associated precursor, burnout, which leads to turnover. We will also introduce the causes and quantify the costs of turnover for a business. Following this, strategies will be introduced to better manage turnover: strategies to prevent employee burnout, actions managers can take to increase employee engagement and retention, and strategies managers can implement to create a company culture in which burnout and turnover are low.

This report also review practitioner and professional literature focused on turnover, as well as academic research on best practices, and ways to reduce burnout and increase employee retention. The strategies presented are applicable to all industries, but companies and departments facing high turnover rates, such as call centers and customer service, are especially able to benefit from the literature in this report due to the exceptionally high levels of burnout and turnover associated with this industry specifically.

Definitions of Turnover and Burnout

Employee turnover is defined as the number of employees that leave and are subsequently replaced by an organization. Turnover does not include positions that are terminated which an organization has no plans to replace. An annual turnover rate is the number of employees that leave in a year divided by the average number of employees of the company (D'Angelo, 2017). For example, if a company has an average annual payroll of 100 employees and 10 voluntarily leave and the positions need to be replaced, this would equate to a 10% annual turnover rate.

There are generally two types of turnover that organizations encounter. The first is involuntary turnover. This type of turnover is initiated by the organization itself. The company could be terminating employees for inadequate performance, misconduct, or other reasons. As the name implies, employees are not in control of their employment status when it comes to involuntary turnover. Although involuntary turnover can be an important predictor of job dissatisfaction and therefore correlated with voluntary turnover, this type of turnover will not be the focus of this report.

The second type of turnover, and the subject of this report, is voluntary turnover. As the name implies, employees proactively make the decision to leave a company and pursue other opportunities, jobs, or to leave the workforce all together. Voluntary turnover, unlike involuntary turnover, is not planned by an organization, making it more disruptive for an organization. Losing people in unplanned intervals or losing key personnel at inopportune times can cause many unforeseen consequences. While some voluntary turnover is normal for an organization, such as employees making career changes, take openings at other companies to advance their careers, or relocate, there are many opportunities for organizations to save costs by reducing turnover due to dissatisfaction with their jobs, their managers or the organization.

Burnout is a primary precursor to many voluntary quits. Burnout plays a large role not only in voluntary turnover, but also in employees' job performance overall. Burnout is defined as a prolonged response to chronic emotional and interpersonal stressors on the job. The three prominent symptoms of burnout are exhaustion, or the feeling of extreme physical or mental fatigue, cynicism, defined as an individual's lack of engagement with their work, and inefficacy, the inefficiency brought on by becoming disconnected and disengaged in the performance of the work (Leiter, 2001). Burnout increases costs for on organization in several ways, a few of them being inefficiencies in an organization, reduction in employee engagement, and employee turnover.

Costs and Consequences of Turnover

Estimates on the cost of employee turnover vary greatly depending on the skillset of the employee being replaced. A report by the Center for American Progress, in a meta-analysis of existing literature on the subject, found that the median cost of replacing an employee (excluding highly skilled jobs like physicians or executives) is 21% of an employee's salary. This number increases to as much as 212% for highly skilled professions (Boushey & Glynn, 2012). Boushey & Glynn's report only measured the direct cost of replacing an employee, and not the opportunity cost of the employee's work, nor the impact on fellow employees who must take over the workload of departing employee during the vacancy of the position. The Society for Human Resource Management, in their 2016 Human Capital Benchmarking Report, found that the average annual turnover rate for U.S. companies is 19%, with 12% being voluntary turnover and 6% being involuntary turnover. Furthermore, they found that the average time-to-fill a position is 42 days, the average revenue per full-time employee is $335,594, for an opportunity cost of approximately $38,616 per vacancy on top of the direct costs to fill a position considered in the Center for American Progress Report (Northon et al, 2016).

Burnout also facilitates major costs for companies that are not fully captured in turnover numbers. A report by Joyce Maroney, Director of the Workforce Institute at Kronos and published in Forbes Magazine, states that “95% of human resource leaders say that employee burnout is sabotaging their workforce” and that nearly half of employee turnover is due to burnout. The top three causes of burnout cited that are within an organization’s control are poor management, employees not connecting with corporate strategy, and a poor workplace culture. While other factors such as perceptions of unfair compensation, unreasonable workload, and too much after-hours work are also viable, the report emphasizes the former three causes because they are more within an organization's capacity to resolve (Moroney, 2017).

To further emphasize the positive impact lower turnover and less burnout can have on an organization, Maia Josebachvili, VP of People at Greenhouse, estimated that the difference between the revenue brought in by a single salesperson at an average company and one that worked for a company that emphasized its people practices, was over $1 million (Josebachvili, 2016). While the situation presented is highly idealized, scholarly research points to the fact that organizations routinely fail to achieve their potential when they have high turnover rates and high rates of burnout.

Causes and Symptoms of Turnover

Burnout is one of the leading causes of employee turnover. Not only do employees experiencing burnout suffer the consequences, their employers do as well. As previously mentioned, one of the three dimensions or symptoms of burnout in an employee is inefficacy, or an increase in inefficiency in the workplace. According to the Business Insider, highly stressed employees or employees experiencing burnout cost a company 40% more than the average employee. This estimate includes the costs of related health care and worker's' compensation claims, absenteeism, turnover, reduced productivity, as well as instances of unethical behavior, such as lying to customers or taking shortcuts on work tasks, which a company must compensate for. One of the most, if not the most, costly consequence of burnout is employee turnover (Goldschein & Bhasin, 2011). A company can see the costs of burnout increase significantly when taking into consideration the multifaceted consequences of burnout, including turnover and replacement costs, lowered productivity, and consequences sub-par work.

After burnout, ineffective leadership is the largest source of voluntary turnover. According to a B2B marketplace study, 42% of turnover is due to managers who do not know how to manage. While most managers are well equipped to lead, motivate, and inspire the best in their employees, many managers fall short. Managers also do not merely lack the ability to motivate or recognize problems like burnout, but frequently cause employee burnout within their team due in unrealistic demands and lack of employee recognition (Higginbottom, 2015).

Compensation is another frequent a cause for employee departures. If an individual is promoted or responsibilities are added to their position, pay should adjust accordingly relative to industry averages. When this does not happen, employees begin to feel that they are not being compensated fairly, and begin to look for work elsewhere. Competition from other employers is a factor as well because if a company is offering below-average pay, employees will have an incentive to leave for a competitor who offers more competitive salaries. Another aspect of the compensation dynamic, and an important reason as to why employees quit, is a lack of upward mobility or development within an organization. If an employee feels there are no opportunities to develop themselves or grow professionally, then they will not be as engaged or fulfilled as they could be (Chamberlain, 2017) .

Culture, though harder to change, is another important reason as to why a company could be experiencing above average turnover. A company’s culture will influence policies on many of the previously mentioned causes of voluntary turnover, so there will be a lot of overlap between this and the other causes. A company with a high-pressure performance culture, for example, can have high rates of burnout, aggressive leadership that always puts performance over concern for its employees, and a polarized compensation structure that only rewards top performers, will most probably have a very high annual turnover rate. This is caused by the culture of the organization itself, rather than individual factors. Creating an environment where employees can respectfully disagree with management, and one that embraces outside the box thinking, can go a long way towards improving turnover and reduce burnout by allowing employees to be a part of the decision-making process.

Hiring practices also play a major role in employee turnover. If the right person for the job is not hired in the first place, then the employer is setting up the employee for eventual failure. Hiring and onboarding practices that have input from a wide variety of stakeholders go a long way towards identifying individuals who are best fit for the positions, professionally and personality-wise. This best fit need to not only be in term of individual skills and abilities, but also the individual's soft skills, and their ability to assimilate and thrive within the organization's culture.

Mitigating Employee Burnout and Turnover

Now that turnover has been defined, and its causes and symptoms have been discussed, it is important to understand how to prevent or mitigate burnout and turnover. As discussed earlier, some turnover is to be expected, but according to Work Institute's 2017 Retention Report, a study of 34,000 respondents concluded that 75% of causes of employee turnover are preventable. Luckily for an organization, most strategies needed don't require massive expenditures or completely revolutionizing business processes. The following important strategies can assist any organization in preventing employee burnout as well as improving turnover (Sears, 2017).

Management training is the number one strategy in curtailing burnout and turnover. A 2015 Gallup study found that about 50% of the 7,200 adults surveyed left a job "to get away from their manager." Many individuals in leadership roles lack the skills necessary to understand, identify, and mitigate burnout within their team or department. It is important for all organizations, especially those with a large workforce whose turnover costs can make a significant impact on an organization's finances, to provide managers with the necessary training and resources to properly cope with burnout. These types of leadership skills include understanding the workload of each employee, providing them the necessary resources and help to complete their work, or simply providing them the opportunity to communicate their frustrations, will ensure team members remain engaged with their work, connected to their team, and efficiently completing projects (Adkins & Harter, 2015).

Hiring practices are a great way to tackle turnover. All companies already hire employees and a modification of the process will not incur much additional costs. An organization should focus on making sure the right people are in the right positions to ensure employees can better handle situations that otherwise would cause another employee to stress and feel overwhelmed. An example of this would be a customer facing position. If you hire a candidate who is a real people person and is at ease when communicating with strangers, then that employee will be better equipped to handle the daily stresses of that specific job. If you hire someone that is not naturally a people person, the job automatically becomes more stressful and will potentially lead the employee to leave and seek a less stressful position.

Another part of hiring is the onboarding process. According to Christine Marino, a marketing and development executive, “Up to 20% of employee turnover happens in the first 45 days, but 69% of employees who had a great onboarding experience are likely to stay with a company for three years” (Marino, 2016). Instead of hiring employees and letting them fend for themselves, an employer should develop an onboarding process that guides and develops an employee so that they may contribute and be successful as soon as possible.

The environment the employer places their employee in, physically and emotionally, is also very important to address when trying to reduce turnover. The goal is not to remodel or redecorate but to think of the physical and emotional barriers your employees face and make those barriers disappear or at least make them less burdensome. This strategy does incur cost but will go a long way in keeping employees that would otherwise leave. Some physical changes to the work environment could be as simple as providing an ergonomic space for those who are at desk jobs, or providing lunches if eating establishments are far way. It could also include more organizational changes such as allowing employees to work from home to avoid commutes if possible or providing child care. According to Rose Marcario, the CEO of Patagonia, the company started to offer on-site child care and said they recouped 91% of their cost for the program through increased retention and that does not include the intangible benefits of a more loyal and trusting employee (Stern, 2016). Non-physical changes are harder to implement since they cannot be as easily controlled or sustained, such as changing the company culture to make sure concerns by employees are welcomed and creating an atmosphere where employees can make their voices heard.

Lack of upward mobility is also a large reason why employees leave their companies. A company who does not recognize the talent they have and have spent time developing, will eventually leave for a better title or role. Employees need feedback as well as the opportunity to see themselves progressing. This will help ensure companies keep employees the organization has spent so much time and money to develop.

Lastly is the issue of compensation. Although important, it is not as large of a factor in retention compared to management training or upward mobility. In the Work Institute’s 2017 Retention study, only 10% of the respondents stated compensation as a reason for leaving. There could be very valid reasons why employers are not raising a worker's salary, like if the company has a rigid internal pay structures that only go up by a certain percentage annually or if they pay outside talent more than internal talent, then it is very likely that turnover will increase. When dealing with compensation as an organization it should be taken seriously and organizations should be making sure that their talent is being compensated well or at least at market levels.

Conclusion

Today's economic climate is making it easier for employees to find jobs that better fit their needs. This makes it crucial for all firms to find and retain top talent. The costs of a high turnover rate should not become an acceptable part of doing business. A very large percentage of turnover is preventable, but it requires honest self-examination by a company and its management. There are options, techniques and strategies an organization's management can take to not only reduce turnover but to also make the company stronger and more profitable. Training managers and providing career paths are just a few of the strategies available to decrease employee turnover. Employee satisfaction does not have to come at the expense of productivity or the bottom line, quite the contrary, productivity and lower costs come with employee satisfaction.

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