

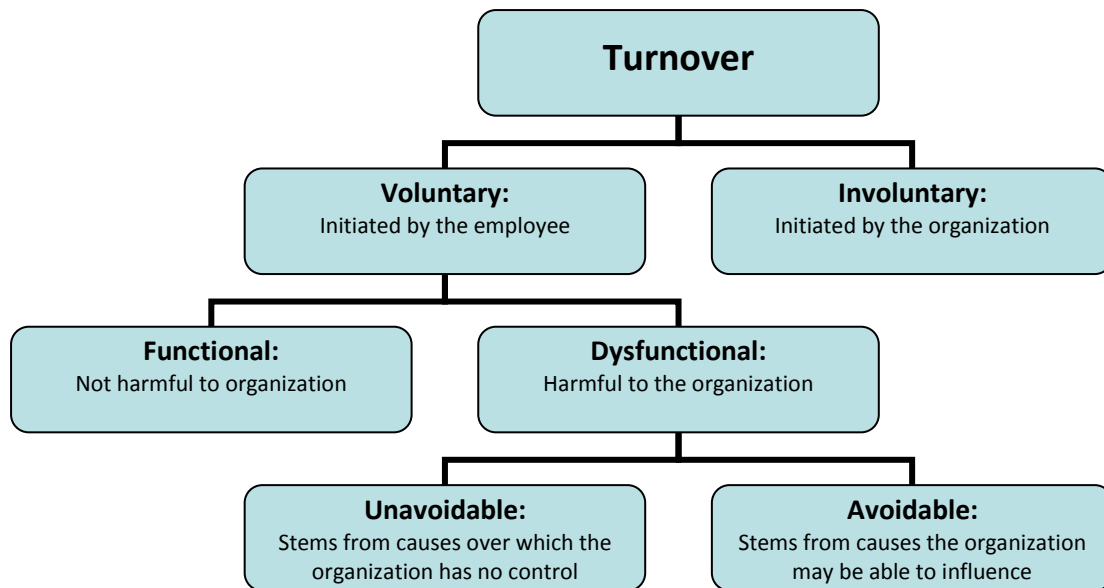
Retaining Talent – A guide to analyzing and managing employee turnover;

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Defining Turnover

Turnover is defined as an employee leaving an organization for any number of reasons. However, different types of turnover have different implications for organizations. Therefore, the article begins with the brief overview of a turnover typology, as illustrated below:



In 2006, Dr. David Allen served as subject matter expert for this article, which was commissioned by the Society for Human Resources Management (SHRM). Dr. Allen summarized the available research on employee turnover and retention, which was then reviewed by his peers and published for use by leaders and human resources professionals.

This article examines both the tangible and intangible organizational costs associated with voluntary turnover. After delineating the importance of addressing all types of turnover, Dr. Allen presents two complimentary models that seek to explain the causes / key drivers of voluntary turnover. Finally, a four-step plan for creating a retention strategy is presented along with specific broad-based and targeted recommendations for each step.

The Cost(s) of Turnover

Allen identifies three key reasons why turnover is important to organizations:

1. Turnover is expensive;
 - Costs associated with turnover include time, money, and other resources, such as:
 - ✓ Manager's time (retention attempts, exit interviews, etc.);
 - ✓ Delays in production and customer service;
 - ✓ Hiring inducements (signing bonus, relocation expenses, etc.);
 - ✓ On-the-job training (supervisor time, employee time);
 - ✓ Etc.
 - Direct replacement costs can reach as high as 50 – 60% of an employee's annual salary;
 - Total replacement costs can range from 90 – 200% of an employee's annual salary;
 - Study found that turnover costs represent >12% of pre-tax income for the average company;
 - For companies with >75% turnover, the costs associated with turnover are nearly 40% of pre-tax income.
2. Turnover impacts business performance; and
 - Link between high turnover and organizational performance shortfalls;
 - Reducing turnover improves sales growth;
 - Reducing turnover improves workforce morale.
3. Finding qualified employees is becoming more difficult
 - Labor shortages caused by factors such as:
 - ✓ Aging population;
 - ✓ Globalization;
 - ✓ Inadequate educational programs;
 - ✓ Etc.
 - Right people with the right skills are becoming increasingly hard to find.

The article delineates how organizations that create strategies for retaining talent have a competitive edge – and to develop an effective retention plan, organizations must consider the:

- Causes of turnover;
- Turnover population; and
- Costs / benefits of turnover.

Why Employees Leave

Allen discusses the importance of understanding why employees leave, and why they stay, so that leaders can learn how to influence their employees' retention decisions. He then presents two theories that seek to explain why employees leave organizations – the *Theory of Organizational Equilibrium* and the *Unfolding Model*.

Theory of Organizational Equilibrium: Most people who leave first spend time evaluating their current job against their prospects, developing intentions about what to do, and engaging in job-search behaviors.

- **Inducements \geq Contributions:** An employee will stay with an organization as long as the inducements it offers are greater than or equal to the contribution required of the person by the organization.
 - Inducements – Satisfactory pay, good working conditions, training and development opportunities, etc.
 - Contributions – Time, effort, etc.
- In other words, if the employee perceives that he / she is receiving more from the organization than he / she is giving to the organization, he/she will tend to stay.
 - Employee perception of the inducements and contributions are affected by:
 - ✓ His / her desire to leave;
 - ✓ The ease with which he/she could leave.
 - Organizations can reduce turnover by managing the inducement – contributions balance.
 - ✓ For example, one organization reduced their turnover by adding to the inducement side of the equation through offering a flexible work schedule and a work / life balance program.
 - ✓ Given limited resources, organizations may wish to target which populations to retain, rather than trying to retain every employee.
- Key turnover drivers (such as job characteristics, leadership, relationships, work environment, etc.) impact key attitudes (such as job satisfaction and organizational commitment).
- Key attitudes (low job satisfaction and low commitment) can begin the withdrawal process (which is exhibited in behaviors such as lateness, absenteeism, poor performance, etc.).
 - In the withdrawal phase, the intent to leave is the best predictor of turnover – regularly measuring employee intent to leave is critical.
- Without intervention, withdrawal may become turnover.

- Key predictors of turnover include:
 - ✓ Thoughts of quitting;
 - ✓ Lack of organizational commitment;
 - ✓ Poor relationship with supervisor;
 - ✓ Lack of role clarity;
 - ✓ Poor workgroup cohesion;
 - ✓ Poor job satisfaction;
 - ✓ Lack of participation in decision making; etc.

Unfolding Model: There are four different paths to an employee deciding to leave his / her job – Dissatisfaction; Better alternatives; Following a plan; and Leaving without a plan. The first step down any of the four paths tends to be some shock – any event that leads someone to consider quitting his or her job. Shocks may be expected or unexpected, job-related or non-job-related, and positive or negative.

- **Dissatisfaction:** This is the “traditional” type of turnover, in which key turnover drivers impact key attitudes, which lead to withdrawal and turnover.
 - Organizations can utilize traditional retention strategies to counter this type of turnover, such as:
 - ✓ Utilizing employee engagement and satisfaction surveys to monitor workplace attitudes; and
 - ✓ Managing the key turnover drivers listed above.
- **Better alternatives:** This type of turnover occurs when an employee leaves for a more attractive position, whether or not he / she is dissatisfied with his/her current role.
 - Organizations can counter this type of turnover by:
 - ✓ Ensuring competitive rewards;
 - ✓ Offering developmental opportunities;
 - ✓ Enhancing the quality of the work environment; and
 - ✓ Being prepared to compete with external offers for top performers.
- **Following a plan:** This type of turnover refers to an employee who leaves in response to a script or plan already in place. For example, an employee who leaves when she becomes pregnant.
 - Organizations can do very little to counter this type of turnover, except offered tailored responses to the plan identified by the employee as his/her reason for leaving.
- **Not following a plan:** Turnover that results as an impulsive action or reaction, generally to response to a negative shock (for example, being passed over for a promotion).

- Organizations can counter this type of turnover by:
 - ✓ Analyzing the types and frequencies of shocks that are driving employees to leave;
 - ✓ Providing training to minimize preventable negative shocks;
 - ✓ Giving employees realistic job previews and clear communication to minimize unexpected shocks; and
 - ✓ Providing support mechanisms to help employees cope with shocks.
- Employees who become embedded in their jobs, organizations, and communities are less likely to leave.
 - Three types of connections foster embeddedness:
 - ✓ Links - Connections with other people, groups, or organizations.
 - ✓ Fit – The extent to which employees see themselves as compatible with their job, organization, or community.
 - ✓ Sacrifice – The forms of value a person would have to give up if he / she left a job.

Developing a Retention Strategy

According to the SHRM article, the most successful retention strategies are not simple, one-shot efforts, which don't tend to positively impact retention over time. Rather, retention strategies that 1) require an ongoing analysis of the types and causes of turnover, and 2) integrate retention into a broader talent management strategy, help ensure the organization keeps employees who are the right people with the right skills.

A comprehensive retention strategy includes efforts in recruitment (such as using a realistic job preview), selection (such as incorporating bio-data into interviewing process), socialization, training and development (such as providing job-specific training), compensation and rewards (such as ensuring a competitive employee value proposition, tailoring rewards to meet individual needs, or explicitly linking rewards to retention), supervision (such as holding supervisors accountable for retention), and employee engagement (.

Allen recommends that organizations utilize the following four-steps when creating their retention management plan:

1. Determine if turnover is a problem;
 - Conduct a turnover analysis by examining:
 - ✓ How many people are leaving (turnover rate)?
 - ✓ Who is leaving?
 - ✓ What are the relative costs and benefits of the current turnover?

- Compare turnover analysis to external and internal benchmarks, trends in the industry / labor market, and the labor needs of the organization.
2. Develop appropriate responses to identified turnover problems and establish retention goals;
 - Utilize broad-based strategies to reduce turnover throughout the organization;
 - Incorporate targeted strategies to address organization-specific or population specific turnover drivers using data from several sources, including:
 - ✓ Exit interviews;
 - ✓ Post-exit interviews;
 - ✓ Current-employee focus groups;
 - ✓ Linkage research;
 - ✓ Predictive turnover surveys; and
 - ✓ Qualitative studies.
 - Consider targeted strategies for retaining high-value employees, such as:
 - ✓ Star performers;
 - ✓ Women and minorities; and
 - ✓ New generations entering the workplace.
 3. Implement the retention plan; and
 - Ensure executive support and buy-in for strategy;
 - Develop a communication plan; and
 - Anticipate, and be prepared to address, possible objections to strategy;
 4. Evaluate the results of the retention plan.

Conclusions

The continually changing labor market, along with differences in the expectations of new generations of employees, makes retaining employees increasingly difficult. Organizations can spend up to 40% of their pre-tax dollars on the costs associated with turnover. Creating and implementing a retention strategy is critical to the long-term success of every organization.

Effectively managing retention requires a thorough analysis of the type and extent of turnover within the organization. Organizations must then understand the key drivers of turnover and the ways in which their employees are deciding to stay or leave. Once this key data is collected, leaders should diagnose the most important retention drivers and determine both broad-based and targeted strategies they can implement to intervene before withdrawal becomes turnover.

And finally, organizations must continuously evaluate and modify their retention strategies to meet the unique needs of employees – and manage all of the consequences that turnover can create.