

# PERSONNEL NOTEBOOK

For Your Most Important Resource —The Human Resource

Prepared for:



by  
Human Resource Associates  
Employment Consultants

## EMPLOYEE RETENTION AND TURNOVER!

### Two Sides of the Same Coin

There has always been much focus on the subject of turnover. But there is another side to that coin called “retention,” the solution to turnover. So first let’s review the subject of turnover and then talk about retention.

#### I. Turnover

A few years ago, a vice president of operations for a manufacturing company asked us to take on a project. “I submit to you,” he said, “that high employee turnover is a good thing. It keeps our wage costs lower by employing a lot of entry-level people who leave before their wages get too high; new employees tend to work harder to prove themselves; we don’t have to have as many promotions; and it weeds out a lot of people we probably didn’t want anyhow. I want you to prove me right or wrong. I want you to start by telling me the dollar cost of our turnover.”

To perform this project, we measured the:

**Cost of recruiting:** Newspaper ads, agency fees, related travel expenses, and even the time it took to

post the jobs and make out all the related paperwork.

**Hiring Costs:** Interview costs; the hourly wages of those doing the interviewing, and of the secretary who typed the offer letters; the interview lunches, testing, reference checking, and physicals; and the related paperwork.

**On-the-Job (OTJ) Costs:** Creating the employee file, orientation, training, extra monitoring, extra inspections, increased material waste, and a measurement of the learning curve (the slowly increasing rate of productivity until the job is being fully performed).

**Separation Costs:** Time spent on grievance procedures, employee counseling, warning notices, exit interviews, and the separation process.

What we did not measure was the loss of profits that might have been generated by a more productive employee, the effect on the work of other employees who did not receive the needed support or the effect of lower morale in supervisors and employees frustrated by the lack of qualified

workers. Also not measured was the cost of court cases and EEO charges related to terminations. If these had been measured, the costs may have doubled.

The results of the study were reported at an off-site meeting. In this company of approximately 2,000 employees, the turnover rate was 18 percent annually. The total dollar cost of this turnover was slightly under \$1 million per year! Coincidentally, at that same meeting it was also reported that the company had missed their annual profit target by \$1 million!

With the current shortage of trained workers in the workforce, it seems likely that some companies could go under from the effect of turnover. In this workers' market, you can't always buy your talent on the street, you're going to have to grow some of your own. You will have to control and reduce the turnover of employees. Once you have recruited them, trained them, and managed to get them working efficiently, you don't want to lose them.

## **WHAT IS TURNOVER?**

Turnover is the process of employees leaving the company's workforce and the intended replacement of those employees. Turnover is calculated in the following manner: The number of employees who were terminated during the month, divided by the average number of employees on the payroll that month, and multiplied by 100 (# of terminations divided by the # of employees x 100 = rate) . So a company that employed 156 employees (on average) during the month and lost 19 of them, ( $19 \div 156 \times 100 = 12.2$ ) has a turnover rate of 12.2 percent per month. This is how the Department of Labor calculates turnover by industry. For an annual figure, add the total terminations for the year and divide by the average number of employees for the year and multiply by 100. If our company in the preceding example lost 19 employees every month, and the average number of employees stayed the same for the year, we would have lost 228 employees out of an average of 156 employees ( $228$

divided by  $156 \times 100 = 146$ ) for an annual turnover rate of 146 percent. Another good way to calculate the annual rate is to simply add up each monthly percentage rate. The total for each month will equal the annual rate.

## **WHY CALCULATE TURNOVER?**

Turnover should be calculated regularly so that you can determine why it's occurring and what to do about it. Do your calculation not only for the total company but by department. Which department is losing the highest number of employees?

Further, measure turnover for other comparisons, such as age group, sex, job type, supervisor, pay level, length of service, work shifts, etc.

A railroad client, some years ago, determined that its turnover rate was highest among employees during their fifth year of employment. They responded by allowing every employee one bonus week of vacation after their fifth year, only for that one year. Turnover rates improved dramatically. By using specific measurements, you can pinpoint the problem and respond accordingly.

## **WHAT CAUSES TURNOVER?**

First let's recognize that not all turnover is caused by employment problems. Some turnover is caused by retirement, military service, or death. Some turnover is good and may be part of the weeding-out process, and some may create opportunities for promotion of more employees. But we want to concentrate on what we can do to improve turnover.

Certainly, part of the reason for turnover may be that you're hiring the wrong people. This may be caused by:

- Hiring under-qualified people
- Hiring over-qualified people
- Hiring people without sufficiently determining qualifications
- Mismatching employees to jobs

If you hire people who cannot perform the work, be prepared to train them properly. And understand that it's difficult to make a profit from an OTJ training program. Don't try to perform a job with 50 percent of the people in training. Either the training or the job will suffer.

If you hire those workers with the best education, best grades, best records, and best test scores, be sure you have the kind of job that will keep them challenged and allow them to keep developing. Fast trackers need a fast track. If you just hire people without matching the job characteristics to the applicants' characteristics, you will certainly lose more people.

A study by General Electric showed that turnover among nonexempt employees is highest during the first 90 days of employment. They cited three reasons for this:

1. Feelings of isolation from the work group and social groups at work
2. Discouragement in learning new tasks.
3. Inability to adjust to physical surroundings.

Certain groups show higher turnover rates than others. Turnover rates are highest among:

- Younger workers
- Women
- Recent students who had high absenteeism in school
- High-tech workers at all levels.

Turnover rates are lowest among:

- Older workers
- Immigrants
- Workers rehired after leaving.

Keep in mind that older workers have different motivations than younger workers. People over 50 tend to be motivated by security, steady pay, and the likelihood of continued employment. People in

their 20s are more motivated by bonuses, training, development, and higher pay for better work. Everyone is motivated by praise and respect, especially from the boss.

A review of exit interviews over many years indicates that employees often give the following reasons for quitting:

- Bad supervision. An Illinois study showed that 40 percent of all terminations were related to the supervisors.
- "I'm going nowhere here." No training or development.
- Pay inequities. Hiring new, untrained employees at the same rates as existing, experienced employees. Employees are very sensitive to pay and promotion inequities.
- More money. Generally speaking, no one leaves for less money, but a common occurrence is for companies to pay a competitive salary to start, but after employees are experienced and trained, the pay doesn't keep up with competitive rates. That's when other companies steal them now that they're experienced. "You grow them, they pick them."
- Retirement. Plans are often designed to encourage early retirement.
- Stress and burnout.

### **WHAT IMPROVES TURNOVER?**

- People tend to stay longer where they feel a sense of partnership with the boss instead of subordination. If layoffs are necessary, you might negotiate a shared work week where all employees work 30 or 32 hours a week until things pick up.
- Creative employees need variety, while some employees crave a sameness. Identify those differences.
- When the big rush is over, allow employees (particularly exempt employees who don't get

paid for overtime s) a break instead of a continuous string of stress-inducing rushes.

- Conduct performance reviews of your employees. Let them know the good and the bad of their performance. Work with them to improve. Allow more employee decisions and freedom to act. Delegate authority not just jobs.

## **OBSERVATIONS ON TURNOVER**

- Turnover often means that ambitious employees leave, average employees stay, and low performing employees are improved or removed.
- You can seldom win back an employee who has decided to quit. Most employees who quit and are convinced to change their minds and stay will still quit within six months.
- Absenteeism is a good predictor of turnover. When absenteeism increases, turnover will usually begin increasing.
- Although many entry-level jobs pay \$5.85 per hour to \$7.00 per hour, the federal poverty level for a family of four is approximately \$12.50 per hour. Workers with families won't work at entry-level for long.
- People want to work to the full extent of their ability. A University of Chicago survey showed that more than 50 percent of workers would not stop working if they became independently wealthy.
- Early retirement is on the rise. The average retirement is now at age 61. However, one-third of all retirees return to a full-time job within 18 months, often with your competitors!
- Women and men are willing to work for less money if the job is flexible enough to accommodate a personal and family life. A survey at Dupont showed that half of all the women and one-quarter of all the men who have children would change jobs for one that paid less if it would allow them to spend more time with their families.

- A common mistake is that employers don't believe that their employees can be trained or developed, but do believe that the next stranger they hire will walk on water and wave magic wands. That's why they don't keep their employees' wages competitive, but are willing to overpay the new employee.
- One interesting study indicated that turnover may be affected by the source used to recruit the employee. Accordingly, turnover is highest among recruits coming from:

- Newspapers
- State employment agency
- All other employment agencies

Turnover is lowest among recruits coming from:

- Employee referrals
- High school or college referrals
- Walk ins
- Re-hire of former employees
- Older workers
- Immigrants

Companies are reporting that the following items have successfully improved their turnover rates. Some may apply to your company:

- Employee stock plans
- Savings plans/401(k)s
- Employee purchase plans
- Supervisory training (in management and human relations skills)
- Orientation programs for new employees
- Employee recognition programs
- Training and development programs.
- Day care assistance
- Flex-time
- Regular social functions

- Supervisor clubs
- Better benefits
- Bonuses/incentives/gainsharing
- Grievance procedures.
- Open door policy
- Good employee handbooks
- Job rotation
- Training courses on stress
- Personal finance and money management training.

## II. RETENTION

The current myth is that employers, through their merging, downsizing, rightsizing, and “tight sizing,” have destroyed the “unwritten contract” between employer and employee. They have ignored the “loyalty bond” that produced the “adhesive” holding the company together.

But much of the history of this problem can be found in the numbers — the paycheck numbers. As the availability of good, trained workers diminished, employees have learned that quitting your job to pursue more money can be the way to much more money. Now that the stigma that short-term employment used to signify has been erased, employees can gain a standard 10 - to 20-percent increase every time they change jobs as opposed to the 3 percent to 4 percent offered by most companies to stay.

The steps to take in improving retention are:

- **Analyze the problem; target the solution!**
- **Use as many different ways to deal with the problem as necessary**
- **Don’t just outbid or out pay all problems**
- **Consider the ROI of your compensation dollars**

1. **Analyze the problem:** Examine all the facts and data. Why are employees leaving? Check your exit interviews. Where are they going? From which departments, which salary levels, how long have they been here? Look for anything that matches and analyze that. Is something drawing them to somewhere else? What is it? Is something here driving them away? What is it? Remedy those conditions.
2. **Use as many different ways to deal with the problem as necessary:** Sometimes it truly is just one problem needing one solution. But sometimes it can be many problems requiring different solutions. Start by looking at the list of “Top 10 Things Employees Want In Their Jobs” on page eight (8). A few surprises show up in the list. For example, No. 9, “A job that is not too easy.” High performing workers are not excited with easy, no-challenge jobs. Also look at No. 4, “family time consideration.”
3. **Don’t just outbid or out pay all problems:** Look at where pay is on that list. It was No. 14. There are other things that mean more to people than money. You can entice people with money, but the good ones won’t stay just for money. You’ll need to use a total compensation strategy.
4. **Consider the ROI of your compensation dollars:** You pay your employees compensation in more ways than one. As a rule, you pay them in four different categories:
  - a. **Pay.** This includes base salary, variable pay, incentives, bonuses, and recognition awards.
  - b. **Benefits.** This includes health care, retirement savings, work and family, financial planning, time off, flexibility.
  - c. **Development.** This includes technical training, general management skills, performance management (coaching), career advancement.
  - d. **Culture.** This includes respect, communication, fairness, diversity, teamwork, integrity, acceptance,

accountability, performance management, leadership, risk taking.

What the company wants for its compensation dollars is high motivation, high productivity and low turnover. That is the company's return on investment (ROI).

According to a summation of several surveys over 12 years, the analysts reported that employees respond differently to each of these forms of compensation.

They measured all four (4) forms of compensation on the list above as 100percent of the compensation package. They also measured all the ROI received for this compensation as 100 percent. They found that you get more for your money spent on some of these than others:

**If you spend: You get an ROI of:**

Pay	64%	41%
Benefits	26%	7%
Development	6%	32%
Culture	<u>4%</u>	<u>21%</u>
	100%	100%

That means that if you spend just 4 percent of your total compensation investment on **Culture**, you get a 21 percent return on that investment. But if you spend 26 percent of your compensation investment on **Benefits**, you only get a 7 percent return on your investment.

This also means that if you spend 64 percent of your compensation investment on **Pay**, you only get a 41 percent return on that investment. And if you spend 6 percent of your compensation investment on **Development**, you get a 32 percent return on your investment.

Of course the percentages will not be the same for every company. But clearly, spending all you

compensation dollars on pay and benefits is wasting a lot of your investment. The more you put into development and culture, the higher the return on your investment. The message is, it's a mistake to ignore the development of your employees or the culture of your workplace.

So should you cut wages to the bone and pack money into culture and development? Of course not. You'll go out of business if you do, but you do want to invest some of your total compensation package in those areas, not just in pay.

## TWELVE THINGS YOU CAN DO NOW

1. Prepare a strategic plan or a workforce plan that will forecast the number of people you will need to hire for the next year. Consider how much turnover you will have to replace, new jobs you will have to fill, and growth you expect to experience.
2. Have an exit interview with every employee leaving the company. Record them on a preprinted form and file them. The feedback from one exit interview is seldom a reason to react with changes, but over a longer period certain trends may develop that you should analyze.
3. Do employee surveys to identify and understand employee attitudes and concerns. Always let employees know the results of the survey and what your response is going to be.
4. Identify the personal characteristics as well as the technical qualifications of the job to be filled. Does the employee have to motivate people or solve their problems? Then look for a "people" person. Does this job require a loner, a single individual thinking and solving problems? Then look for an analytical loner. Identify the important requirements of the job. Then identify the characteristics of each candidate and match them up.
5. Target your actions to the results of your findings. What is the main cause of your turnover?

What other problems are causing significant turnover?

6. Review your retirement programs. Are you encouraging or leading employees to retire early? Someone is likely to hire them after they retire from your company. Can you retrain them? Use them as trainers?

7. Work to develop good management skills, people-motivating skills and knowledge of employment regulations in your supervisors. Your first-line supervisor is your main representative. He or she can make or break your company.

8. Don't be too quick to terminate an employee. These are the men and women you have chosen to work with. Try to be a mentor to them. Help to identify the problem, listen to what they have to say. Decide how to help them adjust. Be a coach, not a cop!

9. Establish an employee grievance procedure that allows employees an opportunity to air their problems. Don't combat them; work with them for a solution.

10. Try to create a workplace where employees want to work and where they can be part of a partnership. Give them decision-making opportunities and freedom to act.

11. Recognize employee success. Let everyone know when someone does well, but discuss any problems privately. Praise employees when

appropriate. Issue certificates of accomplishment. Present awards for achievement.

12. Improve communications with your employees. Offer an orientation program their first day on the job, and give them employee company policy handbook. Talk openly and freely to employees. Let them know what's going on. Accept the fact that it's their company, too.

*Bill Cook*

*Human Resource Associates*

*Planet HR Hotline:*

*(703) 897-8511*

*E-mail [Wcook62@comcast.net](mailto:Wcook62@comcast.net)*



**The association of members who create  
and maintain the QUALITY OF LIFE  
in communities across America.**

**950 Herndon Parkway**

**Suite 450**

**Herndon, VA 20170**

**(703) 736-9666 Fax: (703) 736-9668**

**Web site: [LandcareNetwork.org](http://LandcareNetwork.org)**

# **TOP 10 THINGS PEOPLE WANT IN THEIR JOBS**

- 1. WORK WITH PEOPLE WHO TREAT ME WITH RESPECT.**
- 2. INTERESTING WORK.**
- 3. RECOGNITION FOR GOOD WORK.**
- 4. FAMILY TIME CONSIDERATION.**
- 5. CHANCE TO DEVELOP SKILLS AND CAREER.**
- 6. WORKING FOR PEOPLE WHO LISTEN TO MY IDEAS ABOUT HOW TO DO THINGS BETTER.**
- 7. SEEING THE END RESULT OF MY WORK.**
- 8. WORKING FOR EFFICIENT, SUCCESSFUL MANAGERS.**
- 9. A JOB THAT IS NOT TOO EASY.**
- 10. FEEL WELL INFORMED ABOUT WHAT'S GOING ON.**