Turnover and Retention:
The Good, the Bad & How it Gets Ugly

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The Difference Between Wanted vs. Unwanted Turnover

Not all turnover is bad. In fact, turnover rates that are very low could well be damaging to an organization. Very low turnover is likely an indication that poor performance is being tolerated. Every organization has some level of poor performers that are not responsive to coaching and should be released (or placed in a position that is a better fit). There is also, likely, some level of bad managers that are having even greater negative impact than poor performing individual contributors. It could be argued that even losing an average performer is not bad if they are replaced with a superior performer. Upgrading the talent in an organization is both a function of internal development and effective external selection.

Very low turnover also restricts the amount of new ideas and perspectives that are coming into the organization, which could easily stifle innovation and bring about stagnation. There could also be a situation where the business strategy is not in alignment with the talent currently available in the organization. Individuals with different knowledge, skills, or experiences may be needed from the outside to execute the business strategy.

An organization's retention goal should be to reduce unwanted turnover. Unwanted turnover would include turnover of top performers, key leaders, high potential individuals, and individuals with business strategy critical skills. Unwanted turnover would also include individuals with key client relationships or other contacts, top revenue producers, and innovators or thought leaders.

Variables that Impact Turnover

As the economy improves, turnover is likely to become a major concern for organizations. Unwanted turnover represents costs that are greater than simple replacement costs. The costs of losing a good performer are greater than the costs of losing an average performer. The true cost of losing a key seasoned player is hard to estimate. There is the investment in development of the employee, the value of the knowledge and experience gained, and the lost productivity that also have to be considered to arrive at a true cost figure. However, much turnover (up to 50% or more) occurs within the first six months of employment and, in an early departure scenario, the bulk of the costs are replacement costs. When an organization starts to lose significant numbers of senior employees, it is usually indicative of even more serious organizational problems.

However, the factors that influence turnover rates go well beyond organizational problems. Organizational characteristics are only one of the variables that will impact an organization's turnover rate. To understand the variables that impact turnover, I have provided the following model:

- **Economic Trends** - In this model, the overall economy sets the stage for alternative employment opportunities. In a tight economy, generally there are less alternative opportunities and employees are less willing to leave their current jobs even if they are dissatisfied.

- **Industry Trends** - Industry trends interact with the general economy. Let's take the example of the high tech industry. High tech is fueling a significant portion of the general economy. In a high tech economy, there is a premium placed on up-to-date training which has the impact of heightening job opportunities for recent graduates, but reducing opportunities for workers over 50 years of age. A booming high tech industry also tends to create relatively fewer lower wage jobs and limits new opportunities for these jobs but creates a demand for knowledge workers. The opportunities for these workers are huge and makes for a sellers' market. The net effect is that turnover is very high in this industry with a resulting heavy reliance on contract workers.

- **Organizational Characteristics** - Nested within an industry is the specific organization. Within any industry, there are some organizations that simply do a better job of retaining employees than others. Some of this has little to do with enlightened practices and is simply a product of *workforce demographics*. All things being equal, a younger workforce will have more job and company changes than an older workforce. Part-time personnel are less stable than full-time personnel and a workforce with greater average tenure will have less turnover than a workforce with less average tenure. Another key organizational characteristic is company performance. People are less likely to leave a company that they identify with and can take pride in its positive business and community performance.

- **Leadership and Culture** - are both strong determinants of turnover intentions. Bad managers can cause good employees to leave. Problems or conflicts with the immediate supervisor are one of the most frequently mentioned reasons employees cite for leaving a company In their exit interviews.

Company culture is determined by a bunch of things, but for this discussion let's just focus on company attitudes toward skill development and rewards/recognition.

- **Skills** - The emphasis an organization places on developing the skills of its employees will have an impact on turnover. Companies with low unwanted turnover rates tend to spend more money and time on skill development than those with high turnover rates.

- **Rewards/Recognition** – The philosophy of the company concerning pay will impact turnover. A recent study by Spherion indicated that 69% of employees considered pay to be a key driver of retention. Companies that are willing to pay for top talent generally are more likely to retain that talent. However, rewards don't have to be monetary in order to have an impact. Positive feedback, formal recognition programs, and challenging and interesting work assignments are all ways to provide rewards and recognition for top talent.

- **Job Characteristics** - impact job satisfaction which in turn impacts turnover. Research suggests the following job characteristics are impact job satisfaction:

- **Variety** – Jobs that offer a greater variety of tasks are associated with higher satisfaction levels
- **Autonomy** – Jobs that offer greater freedom and choice in execution (i.e., empowerment) are associated with higher satisfaction levels
- **Identity** – Jobs that offer a sense of ownership and personal accountability are associated with higher satisfaction levels
- **Feedback** – Jobs that offer intrinsic feedback on quality of performance are associated with higher satisfaction levels, and
- **Significance** – Jobs that are perceived as important are associated with higher job satisfaction.

- **Individual Characteristics** are the final determinant of turnover. There are intrinsic individual differences that affect turnover as well as individual situational factors. Risk adverse individuals with higher needs for security are generally less likely to turnover. Individuals with local ties or financial dependencies are generally less likely to turnover.

A recent retention study by the University of Minnesota compared individual differences between "leavers" and "stayers" in seven different organizations over a time period of 20 months. Leavers generally had (1) lower perceived costs of a job change, (2) lower organizational commitment or identification with the company, (3) lower job satisfaction, and/or (4) had a negative recent experience or event in the company.

How to Reduce Unwanted Turnover

While there are many possible strategies to reduce unwanted turnover, I would like to focus on six key areas:

- Early Interventions
- Skill Interventions
- Leadership Interventions
- Rewards/Recognition Interventions
- Selection Interventions
- Job Enrichment

- **Early Interventions** – The fact that large numbers of employees turnover in the first six months of employment suggests that this is a critical time for helping people adjust to new roles. Effective on-boarding programs should cover this critical period. A good on-boarding program helps prevent misunderstandings, gradually introduces the employee into the organization, and provides just in time information and training. Most importantly, establish a support system for the new employee. A good practice is to set up a "buddy" system for new employees. A "buddy" is a seasoned employee who volunteers to "look out for the new employee", making introductions, providing advice, and helping avoid early pitfalls.

- **Skill interventions** – Keep employees motivated and committed by enthusiastically offering training and development opportunities. Smart companies know the importance of personal development in employee retention. Top rated companies to work for have several qualities in common. They spend considerable time in training their people, they have low turnover rates, and they have impressive numbers of applicants per job opening.

- **Leadership interventions** – Better Bosses mean lower turnover. Establishing performance expectations, providing coaching and positive feedback, and interacting in a fair and considerate manner are all things that good leaders do to help new employees be successful and receive enjoyment from their jobs. To impact turnover, make sure that supervisory promotion and training programs have interpersonal skills as part of their focus. Measure employee perceptions of leadership behaviors and incorporate behavioral expectations into leaders' performance management expectations.

- **Rewards/recognition interventions** – Various kinds of contingent bonus strategies can be used to help with retention. Deferred bonuses are paid out incrementally with a significant back-end payoff for a combination of performance and retention. This type of bonus system can help guarantee service for a finite number of years but doesn't address long term retention. Performance bonuses can help an employee reach high levels of income providing they can consistently demonstrate superior levels of performance. This type of bonus can be very effective if performance metrics are readily available and additional costs are consistent with the value of superior performance. If you can't afford to pay more, or offer contingent pay, don't forget the value of non-monetary or symbolic rewards like time-off, awards, and other recognition programs.

- **Selection interventions** – Perhaps the most powerful weapon against turnover is improved selection. A well-known consulting company documented 21 studies of the impact on turnover of introducing a structured interviewing selection system. Improving interviewing procedures reduced turnover rates on average a whopping 42%. Putting the right person in the right job at the right time is key to effective talent management and to preventing unwanted turnover.
- **Job Enrichment** – Increasing the job satisfaction of high turnover jobs can reduce turnover. For individuals who have a need for growth, the following job design strategies are associated with increased job satisfaction:
  - Increase the variety of tasks performed
  - Provide greater ownership and decision-making on how the job is performed and hold the job holder accountable for quality of outputs
  - Add more significant responsibilities
  - Improve the accuracy and quality of feedback on performance

References

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About OMNIview

OMNIview was created around the belief that talent selection and talent management is critical to the success of any organization. Founded by internationally recognized business leader and leadership talent management authority, Dr. Lowell Hellervik, **OMNIview** is supported by more than 90 years of academic experience by behavior science business experts. We know effective selection and talent management requires measurement and support that drives game-changing talent decisions for organizations.

OMNIview is all about making your life easier by giving you the data you need to make smart, effective decisions regarding talent at a fraction of the cost of other HR software companies.

Contact us at 877-426-6222 or visit us at www.theomniview.com.