

The Saratoga Review

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Driving the Bottom Line: Improving Retention - Part Two of Two

Last issue we discussed the costs associated with turnover and introduced the three phases needed to build a solid business case for reducing turnover that includes quantifying hard costs. The three phases we discussed were:

1. Identifying the scope of the problem
2. Quantifying the business impact
3. Determining actions with impact

This issue we will describe each of these phases in greater detail.

Identifying the Scope of the Problem

Most companies track turnover trends in their monthly Management Reports. This is a great start. However, in order to understand the impact of turnover better, organisations will need to do more than look at a high level analysis. They need to dissect it from a number of different vantage points.

- **Which employees are leaving?** Losing your key talent is far more damaging than losing average performers and generally it is agreed that losing low performers is a good thing. An “acceptable” turnover figure may actually be a significant issue if many of the employees leaving are key members of your talent pool.
- **What is turnover by tenure?** Losing employees in their first year of service may suggest issues with the hiring or the “on-boarding” process. Losing employees with between 3 - 10 years of service may be due to compensation or career development issues. After ten years to may represent a leadership issue. It is important to understand who is going, when and why so that you can address real issues and not be captured by one-off anecdotes.
- **How many employees in pivotal positions left?** By pivotal positions we mean segments of the workforce that play a key role in creating value and determining the success of the company.

In a pharmaceutical company, the pivotal positions might be in Research & Development or they could be in Sales, depending on the specific business strategies of a company. It is important to understand which roles are pivotal and to focus efforts on retaining these key staff.

Moreover, to verify that a problem exists, you will likely want to compare your turnover against general turnover trends, as well as benchmark against industry and peer companies. Using benchmark data, companies can not only determine their relative results, but also create impetus to set criteria for improvement and set specific turnover goals. Our precise definitions ensure that comparisons with our database are accurate and not misleading.

Quantifying the Impact

If HR is to be successful in creating and selling the need to invest time, effort and money into reducing turnover then the first step is to establish the business case in terms of specific, tangible business impacts. Key to this is establishing the financial cost. Having a formula, such as 1.5 times the average salary is simple but if the formula has no credibility then it does not further your case. Convincing line management and executives of the financial impact of turnover requires an itemisation of that impact and the detail to support the final opinion (e.g. how much productivity does the organisation lose for a high versus a low performer). At the end of the day, the goal should be to create a formula that is widely accepted by the organisation, even if the formula uses estimations and assumptions.

There are a number of “cost of turnover” calculators available in the market that work through the tangible costs, e.g. cost of recruitment, temps filling in for vacancies etc, as well as the intangible costs relating to loss of knowledge, relationships, skill, time to up-skill a new person to name a few. The process of working up the numbers should be done with the operational managers responsible for each major area of the business. This will help build understanding of the impacts as

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well as grow commitment for subsequent action plans. Once a formula has been developed and accepted, the organisation can convert it into a rule of thumb. We believe that HR creates more impact by presenting the cost of turnover to company executives as a total cost rather than on a per employee basis (e.g., “turnover of our call centre employees is costing our organisation \$4 million per year” versus “each employee who leaves the company costs us between one and two times their salary”). The numbers are always surprisingly high and again it is more important to achieve consensus than argue about the specific number.

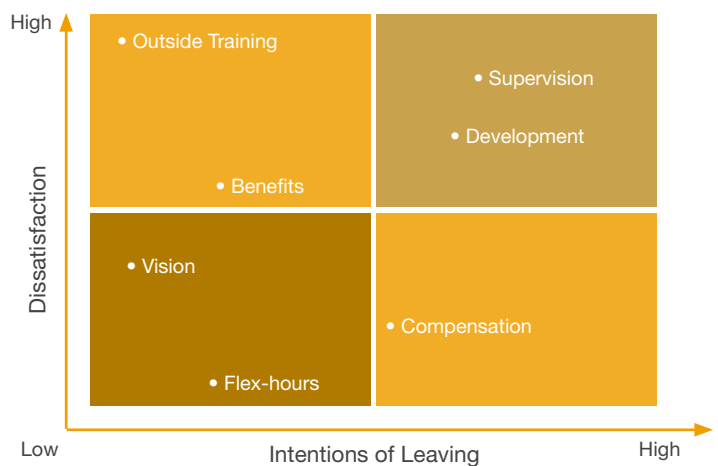
Determining Proper Actions with Impact

Once the organisation has identified turnover as a critical business issue and quantified the impact, it is critical to determine the various programs and actions they can implement to reduce turnover and evaluate the actions that are likely to have the greatest impact. Ideally, an organisation should do this for the entire company as well as for various segments of employees including pivotal employees, high performers, average performers, low performers, as well as across tenure levels. While metrics quantify effort in dollars, time, ratios, and percentages, employee survey data measures the human response to the working environment. Most employee surveys are good at identifying sources of dissatisfaction that management may address, correct, or eliminate. The problem with the way many employee surveys are constructed and analysed is that they do not determine the drivers of behaviour. Some employees can be very dissatisfied yet stay, while others may be relatively or even very satisfied and still quit. For example, right after a change to benefits, employees may be very dissatisfied, but turnover is not likely to change immediately. Companies need to statistically analyse and prioritise those issues that are driving employees to stay and leave and take appropriate action.

For example, let’s look at some common sources of dissatisfaction from an employee engagement survey (see figure 1). If management only knows that pivotal employees are dissatisfied with supervisor communication, and outside training, but not how important these factors are in determining employee intentions of leaving, management may have a difficult time prioritising between these two. Correlating these sources of dissatisfaction with the likelihood of leaving will provide better data for management to analyse. For instance, as illustrated in figure 1, we may learn that that outside training has less impact on intentions to leave than supervisor communication does. In this case, the organisation would want to focus their retention efforts on supervisor communication training rather than outside training.

In summary we believe that by approaching the issue of turnover from these three angles, companies can have a comprehensive understanding of the causes and costs of turnover. This knowledge will equip HR with the data they need to convince executives and managers of the value of reducing turnover and enables HR to prioritise their turnover reduction efforts and investments. Individually, these three steps identify that an issue exists, translate the issue into a business value, and identify the actions that will have the greatest impact on reducing turnover. Together, they create a recipe for financial improvement and help HR quantify the impact that it makes to corporate profitability.

Figure 1



Metric this issue: First Year of Service Turnover Rate

Quality of hire is a critical measure of HR and staffing success. There are many ways of measuring quality of hire including Hiring Manager satisfaction, performance rating, and new hire turnover. Among these options, some of our most popular metrics look at new hire turnover. However, the question is “what is the best length of service to focus on when assessing new hire turnover?”

The answer to this question, like many others, is “it depends.” It depends on the nature of the business. Retailers have very high turnover numbers and using a metric that looks at turnover within 90 days to evaluate quality of hire would be inappropriate. In contrast, making it past the 90-day mark is a very appropriate measure of quality of hire for a newly hired nurse in a hospital.

Many clients have told us that any hire leaving within the first year of service can be attributed to poor hiring decisions. One of our metrics, First Year of Service Turnover Rate, helps organisations better measure their quality of hire. The formula for this metric is:

$$\frac{\text{Total Turnover with 0 to 1 Year of Service}}{\text{Regular Headcount with 0 to 1 Year of Service}}$$

Turnover in the first year of service is just one of many measures of quality of hire. Determining the “right” time frame to evaluate quality of hire for your organisation is a key first step in measuring quality of hire.

Last issue we provided some Voluntary Separation Rates for a range of industries. Readers have asked us to provide equivalent statistics for the Retail sector:

Voluntary Separation Rate			
Industry	Bottom Quartile	Top Quartile	Difference
Retail & Leisure	21.8%	62.1%	184%

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