What are employee turnover and retention? (from CIPD)

Employee turnover

Employee turnover refers to the proportion of employees who leave an organisation over a set period (often on a year-on-year basis), expressed as a percentage of total workforce numbers.

At its broadest, the term is used to encompass all leavers, both voluntary and involuntary, including those who resign, retire or are made redundant, in which case it may be described as ‘overall’ or ‘crude’ employee turnover. It is also possible to calculate more specific breakdowns of turnover data, such as redundancy-related turnover or resignation levels, with the latter particularly useful for employers in assessing the effectiveness of people management in their organisations.

Retention

Retention relates to the extent to which an employer retains its employees and may be measured as the proportion of employees with a specified length of service (typically one year or more) expressed as a percentage of overall workforce numbers.

Latest turnover trends

Our annual Resourcing and talent planning survey gives the latest the median ‘crude’ or ‘overall’ employee turnover rate for the UK, as well as the median turnover figure relating purely to those who ‘left voluntarily’ (that is, resignations).

- Go to our Resourcing and talent planning survey reports

While voluntary turnover rates have decreased recently as a result of challenging economic conditions, the flip side of this coin is that redundancy-related turnover has become more common.

However, skills shortages persist for certain occupational groupings even during troubled economic times, so it is important to be aware of trends in turnover rates for different groups rather than simply focusing on ‘headline’ figures.

Turnover levels can vary widely between occupations and industries. The highest levels are typically found in retailing, hotels, catering and leisure, call centres and among other lower paid private sector services groups.

Levels also vary from region to region. The highest turnover rates tend to be found where unemployment is lowest and where it is relatively easy for people to secure desirable alternative employment.
**When does employee turnover become problematic?**

There is no set level at which point employee turnover starts to have a negative impact on an organisation’s performance. Much depends on the type of labour markets in which the organisation competes.

Where skills are relatively scarce, where recruitment is costly or where it takes several weeks to fill a vacancy, turnover is likely to be problematic for the organisation. The more valuable the employees in question - for instance where individuals have specialist skills or where they have developed strong relationships with customers - the more damaging the resignation, particularly when they move on to work for competitors.

By contrast, where it is relatively easy to find and train new employees quickly and at relatively low cost (that is where the labour market is loose), it is possible to sustain high quality levels of service provision despite having a high turnover rate.

Some employee turnover positively benefits organisations, for example when a poor performer is replaced by a more productive employee or when a senior retirement allows the acquisition of welcome ‘fresh perspectives’.

Moderate levels of staff turnover can also help to reduce staff costs in organisations where business levels are unpredictable month-on-month. When business is slack, it may be possible to hold off filling vacancies for some weeks.

**Measuring turnover and retention**

**Measuring employee turnover**

Organisations may track their ‘crude’ or ‘overall’ turnover rates on a month by month or year by year basis, expressed as a percentage of employees overall. The formula is simply:

\[
\text{Total number of leavers over period} \times 100 \\
\text{Average total number employed over period}
\]

The total figure encompasses all leavers including those who leave involuntarily due to dismissal or redundancy (and as a result of retirement). It also makes no distinction between functional (that is, beneficial) turnover and that which is dysfunctional.

Crude turnover figures are often used in published surveys of labour turnover as they tend to be more readily available and can be useful as a basis for benchmarking against other organisations.

However, it is also useful to calculate a separate figure for voluntary turnover – specifically, resignations - as such departures are unplanned and often unpredictable (unlike, say, planned retirements or redundancies) and hence can have a particularly adverse impact on the business.
It may also be helpful to consider some of the more complex employee turnover indices which take account of characteristics such as seniority and experience.

**Measuring employee retention**

A stability index indicates the retention rate of experienced employees. Like turnover rates, this can be used across an organisation as a whole or for a particular part of it. The usual calculation for the stability index is:

\[
\text{Number of staff with service of one year or more} \times 100 \\
\text{Total number of staff in post one year ago}
\]

**Costing employee turnover**

The costs associated with employee turnover (related to resignations rather than, say, redundancy) may be estimated by calculating the average cost of replacing each leaver with a new starter in each major employment category. This figure can then be multiplied by the relevant turnover rate for that staff group to calculate the total annual cost of turnover.

The major categories of costs are:

- administration of the resignation
- recruitment and selection costs, including administration
- covering the post during the period in which there is a vacancy
- induction training for the new employee.

Many of these costs consist of indirect management or administrative staff time (opportunity costs), but direct costs can also be substantial where advertisements, agencies or assessment centres are used in the recruitment process.

More complex approaches to turnover costing give a more accurate and invariably higher estimate of total costs. These could include measures estimating, say, the relative productivity of new employees during their first weeks or months in a role and that of resignees during the period of their notice (both likely to be lower than the productivity levels of established employees).

In practice, however, the vast majority of employers do not calculate the specific costs of employee turnover, as illustrated in our 2010 *Resourcing and talent planning survey*.

**Why do people leave organisations?**

Employees resign for many different reasons. Sometimes it is the attraction of a new job or the prospect of a period outside the workforce that 'pulls' them. On other occasions they are 'pushed' (as a result of dissatisfaction in their present jobs, possibly because of a lack of training, development and career opportunities) to seek alternative employment. The move might also be prompted by a combination of both ‘pull’ and ‘push’ factors.
A poor relationship with a line manager, leading to disengagement, can often be a ‘push’ factor behind an individual’s decision to leave the organisation. More information on engagement issues can be found in our factsheet on this topic:

- Go to our factsheet on employee engagement

The summer 2010 edition of our Employee Outlook looked in depth at the reasons why individuals wish to change jobs, finding that the three most common reasons are:

- to increase job satisfaction
- to attain better pay and benefits
- to learn new things.

- View Employee outlook: summer 2010

**Premature departure**

In high-turnover industries in particular, a great deal of employee turnover consists of people resigning or being dismissed in the first few months of employment. Even when people stay for a year or more, it is often the case that their decision to leave sooner rather than later is taken in the first weeks of employment.

Poor recruitment and selection decisions, both on the part of the employee and employer, are usually to blame, along with poorly designed or non-existent induction programmes. Expectations are also often raised too high during the recruitment process, leading people to compete for and subsequently to accept jobs for which they are in reality unsuited.

**Investigating why people leave**

Obtaining accurate information on reasons for leaving can be difficult. It is important to appreciate that the reasons people give for their resignations are frequently untrue or only partially true. Individuals are likely to be reluctant to voice criticism of their managers, colleagues or the organisation generally, preferring to give some less contentious reason for their departure.

Where ‘exit interviews’ are used to enquire about the reasons for leaving, the interviewer should not be a manager who has responsibility for the individual or who will be involved in future reference writing. Confidentiality should be assured and the purpose of the interview explained.

Using an external provider to conduct exit interviews will help employers capture more accurate data about why people are leaving, as individuals are more willing to be truthful when there is reassurance of anonymity.

Alternative approaches to collecting exit data involve the use of confidential attitude surveys including questions on employees’ intentions to leave and confidential questionnaires sent to former employees around six months after their departure.
Improving employee retention

The first steps when developing an employee retention strategy are to establish:

- why employees are leaving
- the impact that employee turnover has on the organisation, including the associated costs.

The data obtained can be used to develop a costed retention strategy that focuses on the particular issues and causes of turnover specific to the organisation.

It is worth considering the following elements, all of which have been shown to play a positive role in improving retention:

- **Job previews** - give prospective employees a 'realistic job preview' at the recruitment stage. Take care not to raise expectations only to dash them later.
- **Make line managers accountable** - for staff turnover in their teams. Reward managers with a good record for keeping people by including the subject in appraisals. Train line managers prior to their appointment and offer re-training opportunities to existing managers who have a high level of turnover in their teams.
- **Career development and progression** - maximise opportunities for employees to develop skills and move on in their careers. Where promotions are not feasible, look for sideways moves that vary experience and make the work more interesting.
- **Consult employees** - ensure wherever possible that employees have a 'voice' through consultative bodies, regular appraisals, attitude surveys and grievance systems. Where there is no opportunity to voice dissatisfaction, resigning may be the only option. See our factsheet on employee voice for more detail.
  - Go to our employee voice factsheet
- **Be flexible** - wherever possible accommodate individual preferences on working hours and times. Where people are forced to work hours that do not suit their domestic responsibilities they will invariably consider looking for another job that can offer such hours.
- **Avoid the development of a culture of 'presenteeism'** - where people feel obliged to work longer hours than are necessary simply to impress management.
- **Job security** - provide as much job security as possible. Employees who are made to feel that their jobs are precarious may put a great deal of effort in to impress, but they are also likely to be looking for more secure employment at the same time.
- **Treat people fairly** - a perception of unfairness, whatever the management view of the issue, is a major cause of voluntary resignations. For example, perceived unfairness in the distribution of rewards is very likely to lead to resignations.
- **Defend your organisation** - against penetration by headhunters and others seeking to attract your staff, for example by refusing to do business with agents who have poached the organisation’s staff.

CIPD viewpoint

It is important for employers to have an awareness of the rates of labour turnover in their organisation together with an understanding of how these affect the organisation’s performance and ability to achieve its strategic goals. Depending on the size of the business,
an appreciation of the levels of turnover across occupations, locations and particular groups of employees (such as identified high performers) can help inform a comprehensive resourcing strategy. This approach remains important even during difficult economic climates because of the need for employers to plan ahead for when the labour market picks up.

Tools such as confidential exit surveys and staff attitude surveys can help line managers understand why people leave the business, and enable appropriate action to be taken. Ensuring that new joiners have realistic expectations of their job and receive sufficient induction training will help to minimise the number of people leaving the organisation within the first six months of employment.

Measuring the levels and costs of employee turnover is vital in building the business case for effective recruitment and retention initiatives. These costings can be a powerful tool for winning line manager and board-level support for resourcing activities.

**Further reading**

**Books and reports**


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**Journal articles**


