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Managing Employee Turnover
High Turnover Costs Plus Inexpensive Solutions = Attractive ROI!

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Turnover can be voluntary or involuntary, good or bad, and it is inevitable, but manageable. When the employee chooses to leave for their reasons it is voluntary turnover. When the employee has no choice, such as those circumstances involving death, disability, mandatory retirement, employer layoffs and employer terminations it is involuntary.

Employee turnover can be good or bad. It's good when voluntary and involuntary terminations involve non-performers whose departure represents a net gain for the organization. It's bad when a good performer is lost and the employer has to begin the search for replacement talent.

Obviously, turnover is inevitable. But voluntary turnover is manageable. And all turnover can be planned for to some degree. Planning for turnover is called succession planning, which can reduce turnover costs to some degree.

Retention solutions are inexpensive and turnover costs are high. Retaining top talent is a powerful competitive advantage! These factors combine to make the ROI for retention solutions very, very attractive.

Turnover Costs
Einstein said, "A problem well defined is a problem half solved." Turnover costs money and solutions cost money. Every manager knows that turnover costs money, but few managers know exactly or even approximately how much turnover costs their organization. Defining the turnover problem begins with careful estimates of the costs of turnover, both direct and indirect. Armed with reliable cost information, managers can determine the ROI of various retention solutions.

Turnover costs vary widely by industry, vary within industries by position and vary from situation to situation. Typical contributing factors include all costs associated with processing the termination such as exit interviews, severance pay, increased unemployment insurance premiums, etc. Next is the replacement cost including temporary help, revised job descriptions, hiring recruiters, writing and placing ads, interviewing, application processing, testing, etc. Finally, once your new hire is in place you have training costs and inevitably an initial performance and productivity gap.

Retention Solutions
Many factors influence voluntary terminations. Certainly the compensation and benefits must be competitive to attract and keep top performers. And your employee must have the tools and support required to do their job. Beyond these givens, the twin keys to retaining top talent are selection and management. Selection means getting the right person in the right position. Management means recruiting top managers who select for talent, who define the right outcomes, who focus employees on their strengths, and who develop career path planning based on job match.

Succession Planning
Succession planning involves developing bench strength which begins by identifying the best candidates in the organization who can fill critical positions. By identifying we mean obtaining objective information that indicates that a candidate is a good match for the critical position based on abilities, interests and personality traits. Additional training and seasoning may be required, but you know you have identified the raw talent. Regular review and updating of your succession plan informs managers and guides them in their planning, employee coaching, and development decisions.

Calculating ROI - An Example
Let's just look at one retention solution, that of improving selection. Adding objective data can typically cut turnover costs by 50% in both high and low turnover situations. Here is a specific case.

Estimated Cost of Turnover
• 63 Sales reps / Managers
• $70,000 average annual base + commission
• Benefits cost is additional 36% of compensation
• 25 terminations in 2001 = approximately 40% turnover
- $70,000 comp plus 36% in benefits = $95,200 comp per employee
- Turnover cash costs at 25%* x $95,200 =$23,800 x 25 terminations =
- $595,000 Turnover cash costs

Retention Solution Costs
• Software Training = $500
• Assessments: 65 @ $115 each = $7,475
- Total retention solution costs = $7,975

Estimated ROI
• Turnover cost savings
- 50% cut in turnover = $297,500
• ROI = ($297,500 - $7975) / $7,975 = 3,630%
* Saratoga Institute & Kepner-Tregoe, Inc. estimate is 25%. American Management Association is 30%. Both studies acknowledge substantial hidden costs which are ignored here.

Summary
Getting the right people in every position will increase retention. Selecting and training top managers will keep top talent. Executing these and other retention strategies will cut turnover costs. Put a pencil to your turnover costs, direct and indirect, as best as you can estimate them. Armed with turnover cost information, calculate the ROI for various retention solutions and choose your best investments. Turnover costs but retention solutions pay!

(Editor's Note: For more information about the author and her company, Web Footed Friends, Inc., contact EG's editor, Wendy Taylor, at (213) 765-3979, or write to editor@employersgroup.com.)