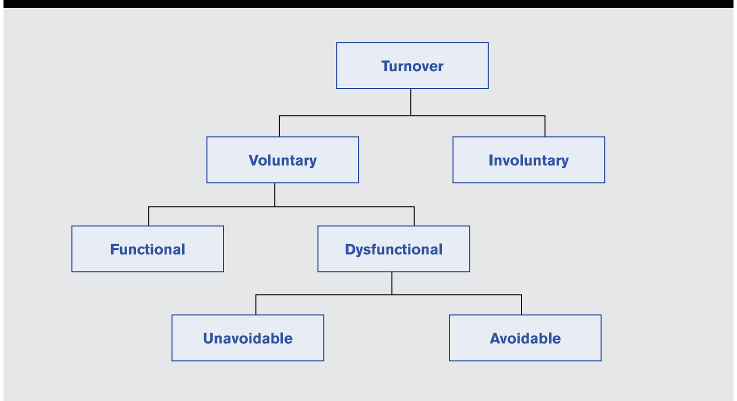
To manage voluntary turnover in your organization, you need an in-depth understanding of why employees leave or stay with organizations in general, as well as strategies for managing turnover among valued workers in your company.

WHAT IS TURNOVER, EXACTLY?

Employees leave organizations for all sorts of reasons. Some find a different job, some go back to school, and some follow a spouse who has been transferred out of town. Others retire, get angry about something and quit on impulse, or never intended to keep working after earning a certain amount of money. Still others get fired or laid off, or they come into money (a lottery win, an inheritance) and decide they no longer need a job.

All of these examples represent turnover, but they don't all have the same organizational implications. To distinguish their implications, we need to define types of turnover. Consider Figure 1 Turnover Classification Scheme.[1]

Figure 1: Turnover Classification Scheme



As Figure 1 suggests, the first important distinction in turnover is between *voluntary* and *involuntary*. Voluntary turnover is initiated by the employee; for example, a worker quits to take another job. Involuntary turnover is initiated by the organization; for instance, a company dismisses an employee due to poor performance or an organizational restructuring. Voluntary and involuntary turnover require markedly different management techniques. *This report focuses on voluntary turnover.* To manage voluntary turnover in your organization, you need an in-depth understanding of why employees leave or stay with organizations in general, as well as strategies for managing turnover among valued workers in your company.

Another important distinction is between *functional* and *dysfunctional* voluntary turnover. Dysfunctional turnover is harmful to the organization and can take numerous forms, including the exit of high performers and employees with hard-to-replace skills, departures of women or minority group members that erode the diversity of your company's workforce, and turnover rates that lead to high replacement costs. By contrast, functional turnover does not hurt an organization. Examples of this type of turnover include the exit of poor performers or employees whose talents are easy to replace.

This distinction between functional and dysfunctional turnover is relative. What makes an employee valuable and difficult to replace will vary by job, organization, industry, and other factors. To illustrate, a high turnover rate may be more dysfunctional in an industry characterized by skills that are in rare supply. Moreover, the question of whether the benefits of retaining a valued worker are worth the costs may generate a different answer in some companies than in others, depending on the organization's strategy and the current labor market.

Could your organization retain all its valued employees if it wanted to? The answer is no. Even if you invested heavily in keeping every key employee on board, some of those individuals would still leave. This brings up another important distinction: Some voluntary turnover is *avoidable* and some is *unavoidable*. Avoidable turnover stems from causes that the organization may be able to influence. For example, if employees are leaving because of low job satisfaction, the company could improve the situation by redesigning jobs to offer more challenge or more opportunities for people to develop their skills. Unavoidable turnover stems from causes over which the organization has little or no control. For instance, if employees leave because of health problems or a desire to return to school, there may be little the organization can do to keep them.

The distinction between avoidable and unavoidable turnover is important because it makes little sense for a firm to invest heavily in reducing turnover that arises from largely unavoidable reasons. However, the line between avoidable and unavoidable turnover can be fuzzy. To illustrate, your company has no control over whether an employee decides to start a family. Yet it can elect to offer paid maternity leave, on-site child care, and other benefits intended to help working parents stay with your organization.

WHY TURNOVER MATTERS

Does turnover matter? Absolutely—even during times when the job market is tight and people are strongly motivated to stay with their current employer. At such times, it would be shortsighted to ignore retention management. That's because even high unemployment rates have little impact on the turnover of top-performing employees or those with in-demand skills.[2] Thus, organizations that ignore retention may inadvertently plant the seeds for losing these highly marketable workers. Moreover, businesses everywhere are facing impending shortages of overall talent as well as a dearth of employees with the specialized competencies companies need to stay ahead of the competition.[3] Organizations that systematically manage retention—in good times and bad—will stand a greater chance of weathering such shortages.

Turnover matters for three key reasons: (1) it is costly; (2) it affects a business's performance; (3) it may become increasingly difficult to manage. The sections below examine each of these reasons in greater detail.

TURNOVER IS COSTLY

Employee departures cost a company time, money, and other resources. Research suggests that direct replacement costs can reach as high as 50%-60% of an employee's annual salary, with total costs associated with turnover ranging from 90% to 200% of annual salary.[4] Examples include turnover costs of $102,000 for a journeyman machinist, $133,000 for an HR manager at an automotive manufacturer, and $150,000 for an accounting professional.[5] If these estimates strike you as high, keep in mind that in addition to the obvious direct costs associated with turnover (such as accrued paid time off and replacement expenses), there are numerous other costs. Consider Table 1: Voluntary Turnover Costs and Benefits.[6]

Clearly, turnover costs can have an alarming impact. One study estimated that turnover-related costs represent more than 12% of pre-tax income for the average company and nearly 40% for companies at the 75th percentile for turnover rate.[7] However, remember that not all turnover is harmful (dysfunctional) for an organization. As noted earlier, some turnover may generate important benefits; for example, the new hire turns out to be more productive or skilled than the previous employee. To develop an effective retention plan, you need to consider both the costs and benefits associated with turnover in your organization.

TURNOVER AFFECTS ORGANIZATIONAL PERFORMANCE

A growing body of research links high turnover rates to shortfalls in organizational performance. For example, one nationwide study of nurses at 333 hospitals showed that turnover among registered nurses accounted for 68% of the variability in per-bed operating costs.[8] Likewise, reducing turnover rates has been shown to improve sales growth and workforce morale. In addition, high-performance HR practices (including reduction of dysfunctional turnover rates) increase firm profitability and market value.[9]

These relationships become even more pronounced when you consider who is leaving. For instance, research shows that high turnover among employees with extensive social capital can dramatically erode firm performance.[10] Thus, a savvy HR manager can make a clear business case for tailoring turnover management strategies to the types of employees departing the organization.

RETENTION MAY BECOME MORE CHALLENGING

Are you ready for a talent crunch? Opinions abound regarding whether demographic and labor market trends signal an impending shortage of overall labor supply. For example, according to Manpower, Inc., "Demographic shifts (aging populations, declining birthrates, economic migration), social evolution, inadequate educational programs, globalization, and entrepreneurial practices (outsourcing, off-shoring, on-demand employment) are . . . causing [labor] shortages, not only in the overall availability of talent but also—and more significantly—in the specific skills and competencies required."[11]

Table 1: Voluntary Turnover Costs and Benefits

Separation Costs	
Financial	
	HR staff time (exit interview, payroll administration, benefits)
	Manager's time (retention attempts, exit interview)
	Accrued paid time off (vacation, sick pay)
	Temporary coverage (contingent employee, overtime for remaining employees)
Other	
	Delays in production and customer service; decreases in product or service quality
	Lost clients
	Clients not acquired that would have been acquired if employee had stayed
	Stiffer competition as employee moves to a rival company or forms own business
	Contagion (other employees decide to leave; for example, to join defector at his/her new organization)
	Disruptions to team-based work
	Loss of workforce diversity
Replacement Costs	
	New hire's compensation
	Hiring inducements (signing bonus, reimbursement of relocation expenses, perks)
	Hiring manager and unit/department employee time
	Orientation program time and materials
	HR staff induction costs (payroll, benefits enrollment)
Training Costs	
	Formal training (trainee and instruction time, materials, equipment)
	On-the-job training (supervisor and employee time)
	Mentoring (mentor's time)
	Socialization (other employees' time, travel)
	Productivity loss until replacement has mastered job

Source: Herbert G. Heneman, III and Timothy A. Judge, Staffing Organizations (5e), Middleton, WI: Mendota House, 2006; p 675. Reprinted with permission.

More and more observers agree that a talent scarcity is looming—and that this shortage will make finding and keeping the right people with the right skills increasingly challenging for organizations. In a SHRM survey of HR professionals, 62% of the respondents reported already having difficulty hiring workers with the skills essential for a 21st century workforce.[12] Many business leaders worry that this problem will worsen with important demographic shifts (such as waves of retirements among aging workers). Inadequate educational systems, increasingly mobile employees, and even generational differences in perceptions about the nature of work and careers will all likely aggravate matters further. HR professionals who take time now to create strategies for dealing with these developments will put their organizations at a competitive advantage.

WHY EMPLOYEES LEAVE

Much research on talent retention has centered on understanding the varied reasons behind employees' decisions to leave organizations, as well as the processes by which people make such choices. By understanding why people leave, organizations can also gain a better idea of why people stay and can learn how to influence these decisions.

The *theory of organizational equilibrium*[13] can shed valuable light on these matters. According to this theory, an individual will stay with an organization as long as the *inducements* it offers (such as satisfactory pay, good working conditions, and developmental opportunities) are equal to or greater than the *contributions* (time, effort) required of the person by the organization. Moreover, these judgments are affected by both the individual's *desire* to leave the organization and the *ease* with which he or she could depart.

Clearly, turnover is a complex process. That is, although some individuals may quit a job on impulse, most people who leave spend time initially evaluating their current job against possible alternatives, developing intentions about what to do, and engaging in various types of job-search behavior.[14]

Figure 2: Comprehensive Voluntary Turnover Model captures this process. The research shows that specific turnover drivers affect key job attitudes such as satisfaction with one's role and commitment to the organization. Low satisfaction and commitment can initiate the withdrawal process, which includes thoughts of quitting, job searching, comparison of alternative opportunities, and the intention to leave. This process may lead to turnover if the organization fails to manage it effectively. Turnover drivers may also produce other work behaviors that suggest withdrawal, such as absenteeism, lateness, and poor performance, any of which may end in a departure without the person going through a job search, evaluation of alternatives, or extended consideration of quitting. The lesson? To proactively manage

Spotlight: Turnover Is Tougher on Small Organizations

The loss of key employees can have a particularly damaging impact on small organizations:

- Departing workers are more likely to be the only ones possessing a particular skill or knowledge set.
- A small company's culture suffers a more serious blow when an essential person leaves.
- There is a smaller internal pool of workers to cover the lost employee's work and provide a replacement.
- The organization may have fewer resources available to cover replacement costs.

Managing the Inducements-Contributions Balance

Organizations can actively manage employees' turnover decisions by influencing the inducements-contributions balance.

To manage this balance, make changes affecting how intensely employees want to leave as well as how easy it is for them to leave.

Spotlight: Intervening in the Turnover Process

There are multiple points in the turnover process where organizations can intervene to influence turnover decisions. Key attitudes–job satisfaction and organizational commitment–are especially critical during the turnover process and therefore are worth paying special attention to.

In the withdrawal phase of the turnover process, the intention to leave is generally the most powerful predictor of turnover. Thus measuring it is vital.

retention, organizations must monitor and adjust key aspects of the work environment that influence employees' desire to stay or leave.

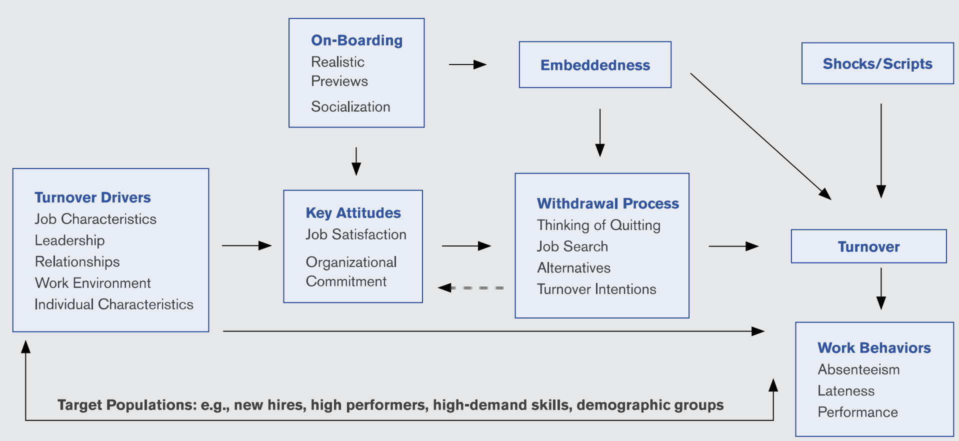
As we've seen, the ease with which the individual can leave an employer plays a role in the person's choices. When someone has numerous alternatives that are more attractive than his or her current role, the decision to leave grows that much easier. Retention-savvy managers thus keep tabs on alternate opportunities, so they can ensure that positions remain competitive. Also, in Figure 2, notice the feedback arrow from the withdrawal process to key attitudes. When attractive alternatives are plentiful, people tend to evaluate their current work environment against a higher standard than when options are few. It may become more difficult for their employer to keep them satisfied—which is a challenge especially with highly valued workers in high-demand positions.

With limited resources, organizations may choose to focus on target populations rather than trying to retain every employee indefinitely. (See the bottom of Figure 2.) Depending on what's going on in the labor market, businesses may want to focus their retention efforts on particular employees or groups of employees, such as new hires, star performers, workers with high-demand or hard-to-replace skills, or members of particular demographic groups.

PREDICTING TURNOVER

Can you predict an employee's decision to leave? Extensive studies have looked into this question and many drivers of turnover have been identified. Figure 3 summarizes the results of this research.[15] The figure

Figure 2: Comprehensive Voluntary Turnover Model



lists predictors in order—from those with the strongest relationship to turnover at the top, to those with the weakest relationships at the bottom. Though the strength of these predictors may vary somewhat across job types, companies, industries, and individual situations, this list is a useful overall guide.

Figure 3 below reveals some interesting information. For example, most of the strongest predictors are related to the withdrawal part of the turnover process, suggesting that managers

Figure 3: Turnover Predictor

Stronger

Turnover Intentions (+)
Thoughts of Quitting (+)
Search Intentions (+)
Search Behaviors (+)
Weighted Application Blank (+)
Organizational Commitment (-)
Relationship with Supervisor (-)
Role Clarity (-)
Tenure (-)
Job Satisfaction (-)
Role Conflict (+)
Absenteeism (+)
Work Satisfaction (-)
Comparison of Alternatives to Present Job or Company (+)
Satisfaction of Expectations of Job or Company (-)
Job Performance (-)
Stress (+)
Promotion Opportunities (-)
Children (-)
Alternative Job Opportunities (+)
Job Scope (-)
Quality of Communication in Organization (-)
Work-Group Cohesion (-)
Co-worker Satisfaction (-)
Participation in Decision Making (-)
Satisfaction with Supervisor (-)
Role Overload (+)
Job Involvement (-)
Age (-)
Pay (-)
Outcome Fairness (-)
Degree of Routinization of Job Responsibilities (+)
Family Responsibilities (-)
Training (-)
Pay Satisfaction (-)
Lateness (+)
Education (+)
Marital Status (-)
Sex
Cognitive Ability (+)
Race

Weaker

Note: a plus (+) indicates that the predictor is positively related to turnover. (As the predictor increases, so does turnover.) A minus (-) indicates that the predictor is negatively related to turnover. (As the predictor increases, turnover decreases.)

Spotlight: Decreasing Turnover at Cendant

Cendant decreased annual turnover from about 30% to less than 10% by adding to the inducements side of the equation.[16] Specifically, it implemented a flexible working schedule and work/life balance program after an employee survey revealed workers' desire for greater balance between their professional and personal lives. The program is managed at the department level and offers daily flexible start and end times as well as an option to work four long days each week and take the fifth day off. Cendant also now offers wellness programs for employees, such as on-site mammograms, blood pressure and vision tests, flu shots, and seminars on topics such as single parenting and smoking cessation.

Spotlight: Managing Turnover Paths [17]

Through surveys and exit interviews, organizations can identify the percent of people leaving who follow each of the four primary paths to turnover. Each path has different implications for the company's retention strategies:

- Dissatisfaction: Attack this with traditional retention strategies such as monitoring workplace attitudes and managing the drivers of turnover identified earlier.
- Better alternatives: Ensure that your organization is competitive in terms of rewards, developmental opportunities, and the quality of the work environment. Be prepared to deal with external offers for valued employees.
- Plans: It may be difficult to counter these directly. Increasing rewards tied to tenure may alter some employees' plans. Determining which plans are common in your workforce may help you develop a tailored response; for example, more generous maternity and family-friendly policies if you discover numerous family-related plans.
- No plan: Analyze the types and frequencies of shocks that are driving employees to leave. Provide training to minimize prevalent negative shocks (such as harassment or perceptions of unfair treatment). Give employees realistic previews and clear communication to minimize unexpected shocks. Provide support mechanisms to help employees deal with shocks (for instance, grievance procedures, flexible work arrangements, and employee assistance programs).

Example: UPS has countered the threat of better job alternatives by providing well-above-market wages, ample vacation time, free health insurance, and a highly competitive pension plan.This approach has resulted in an unusually low annual turnover rate of 1.8%.[18]

Shock n 1. Any event that leads someone to consider quitting his or her job. Shocks can be expected (e.g., completing a degree) or unexpected (discovering that a spouse has to relocate). They can also be job-related (a negative performance appraisal) or non-job-related (pregnancy). Finally, they can be positive (winning the lottery), neutral (a merger), or negative (sexual harassment).[19]

must monitor these variables (perhaps through employee surveys). Additional predictors that merit careful attention include:

- Key attitudes of organizational commitment and job satisfaction
- The quality of the relationship between an employee and his or her immediate supervisor
- Role clarity (including definition, communication, and reinforcing of performance expectations)
- Job design (including job scope, promotion opportunities, and opportunities to participate in decision-making)
- Workgroup cohesion

The figure also suggests that pay might not matter as much as you think in turnover decisions, as compensation and pay satisfaction are relatively weak predictors of employees' decisions to leave. Thus, offering pay increases or bonuses to keep people at your organization may not be the most efficient way to address retention. In addition, demographics (education, marital status, sex, and race) are also relatively weak predictors of turnover.

OTHER PATHS TO TURNOVER

The research findings we've been examining can help you identify and manage the turnover predictors most important in your organization. However, research has also recognized that not every employee follows the above-described path toward the decision to leave a job. The *unfolding model* of turnover identifies four different paths to turnover: (1) leaving an unsatisfying job, (2) leaving for something better, (3) following a plan, and (4) leaving without a plan.[20]

Leaving an unsatisfying job resembles the typical turnover process discussed above. *Leaving for something better* entails leaving for an attractive alternative, and may or may not involve dissatisfaction. That is, some people who are quite satisfied with their current jobs still leave when presented with an even more appealing alternative. These decisions may be initiated by a "shock," such as an unsolicited job offer that the individual can't resist.

Following a plan refers to leaving a job in response to a script or plan already in place. Examples may include employees who intend to quit if they or their spouse becomes pregnant, if they get accepted into a particular degree program, after they earn a certain amount of money or complete a particular training program, or after receiving a retention bonus. Again, these decisions may have little or nothing to do with job dissatisfaction. Further, there may be little or nothing organizations can do to influence these decisions.

Leaving without a plan is all about impulsive action, typically in response to negative shocks such as being passed over for a promotion or having a family member suffer a catastrophic illness requiring extensive care. Once more, these departures may or may not be associated with dissatisfaction before the shock. In addition, organizations can manage these decisions by minimizing certain types of negative shocks in the workplace (such as sexual harassment). Companies can also consider providing support mechanisms to help employees recover from a shock.

WHY EMPLOYEES STAY

A great deal of turnover research focuses on people who leave, on the assumption that understanding why people depart will help organizations determine how to retain them. Of course, it is also valuable to understand why employees stay. Some recent studies have examined the ways in which employees become *embedded* in their jobs and their communities.[21] As employees participate in their professional and community life, they develop a web of connections and relationships on and off the job. Leaving a job would require severing or rearranging these connections. Employees who have many connections are more embedded, and thus have numerous reasons to stay in an organization. There are three types of connections that foster embeddedness: (1) "links," (2) "fit," and (3) "sacrifice." Each of these types may be related to the organization or the surrounding community.

Links are connections with other people, groups, or organizations. Examples include relationships with co-workers, work groups, mentors, friends, relatives, church groups, and so forth. Employees with numerous links to others in their organization and community are more embedded and would find it more difficult to leave.

Spotlight: Managing Turnover Predictors at Running Pony

Research has not systematically determined differences in turnover predictors' strength based on organization size. Nevertheless, managers in small organizations should leverage well-established predictors they may be in a particularly good position to offer, such as building positive work-group cultures, providing employees with challenging jobs, and making each worker feel valued. Other strategies, including offering well-defined career paths or above-market rewards, may be more difficult for smaller companies.

Running Pony[22] understands that workplace relationships matter in people's decisions about staying or leaving an organization. Founded in 1994, Running Pony is a multiple Emmy Award-winning freelance production company. In business for 13 years and currently employing 17 people, the company has had 100% retention since its inception. How has it achieved this feat? Managers have strived to build a supportive and cohesive culture. As co-founder and managing partner Jonathan Epstein puts it, "We were trying to build a team of people who knew each other, who liked each other, who worked well together and complemented each other." Rod Starnes, also a co-founder and managing partner, adds that the company's biggest achievement is "creating an environment where creative and talented people are comfortable."

Spotlight: Strengthening Community Ties at Paragon National Bank

Paragon National Bank, in western Tennessee, has embraced the idea of encouraging employees to build ties with the community. For example, the bank has "adopted" a local second-grade class, has invited employees to participate in Habitat for Humanity home-building projects, and encourages workers' participation in the annual Susan G. Komen Race for the Cure events, among other local projects. The Memphis Business Journal named Paragon National Bank the winner of its 2006 Best Place to Work in Memphis contest among organizations with 51-150 employees.[23]

Fit represents the extent to which employees see themselves as compatible with their job, organization, and community. For example, an employee who relishes outdoor activities and lives in a community that offers excellent outdoor opportunities would find it more difficult to leave his or her job if doing so required moving to another community that did not provide such opportunities.

Sacrifice represents forms of value a person would have to give up if he or she left a job. Sacrifices include financial rewards based on tenure, a positive work environment, promotional opportunities, status in the community, and so forth. Employees who would have to sacrifice more are more embedded and therefore more likely to stay.

HOW TO DEVELOP YOUR RETENTION MANAGEMENT PLAN

The above-described suggestions for managing turnover predictors and employees' embeddedness are useful for any HR practitioner seeking to

Table 2: Embedding Your Employees

	In your organization	In the surrounding community
To build and strengthen links . . .	• Provide mentors. • Design work in teams. • Foster team cohesiveness. • Encourage employee referrals.	Encourage and support community involvement; for example, through community service organizations and recreational leagues.
To build and strengthen fit . . .	• Provide realistic information about the job and company during recruitment. • Incorporate job and organizational fit into employee selection. • Provide clear socialization and communication about the enterprise's values and culture.	• Recruit locally when feasible. • Provide relocating employees extensive information about the community during recruitment and selection. • Build ties between your company and the community (e.g., by sponsoring local events).
To build and strengthen sacrifice. . .	• Tie financial incentives to tenure. • Provide unique incentives that might be hard to find elsewhere (such as sabbaticals).	• Encourage home ownership (for instance, by providing home-buying assistance). • Develop career paths that do not require relocation.

Table 2: Embedding Your Employees[24] shows strategies for building and strengthening links, fit, and sacrifice in your organization.

help his or her organization retain talent. But they're not enough in themselves. That's because simple one-shot retention efforts (for example, a single employee attitude survey, a one-time bonus, or a once-offered management training program) are unlikely to exert much impact over the long run.
To manage retention most effectively, you need to engage in an ongoing diagnosis of the nature and causes of turnover, as well as develop (and constantly hone) the right mix of retention initiatives.

That calls for thinking about retention before employees are hired, while they're working at your company, and after they leave. As an HR professional, you have a critical role to play in this process. Indeed, many organizations are integrating their retention efforts into a broader talent management strategy. Talent management comprises workforce planning, hiring, development, and retention to ensure that the organization has access to the quality and quantity of talent it needs to compete now and in the future. A recent study concluded that 53% of organizations have a talent management initiative in place, and 76% of these enterprises identify talent management as a top organizational priority.[25]

But keep in mind that each organization is unique, operates in its own idiosyncratic environment, and has its own human capital strategies and challenges. Even within a single organization, retention goals and challenges may differ across departments, divisions, job types, geographic locations, and even individuals. Thus, one-size-fits-all retention initiatives may backfire.

How, then, should you approach the task of developing the right retention management plan for your company?

Figure 4: Developing a Retention Management Plan[26] on page 12 shows the important steps in this process. In the sections below, we examine each of these steps more closely.

STEP 1: Is Turnover a Problem for Us?

As we noted earlier, not all voluntary turnover is harmful for an organization. Turnover among underperformers, turnover that enables your company to tap fresh perspectives and skill sets or lowers labor costs are all examples of functional turnover. Moreover, in most cases, it's impossible to prevent every employee from leaving a company. However, turnover becomes dysfunctional when the wrong people are leaving, or when the turnover rate becomes so high that the accompanying costs and instability outweigh the benefits.
To determine whether turnover is problematic in your enterprise, you need to conduct a turnover analysis.

Turnover analysis

An effective turnover analysis examines three questions: (1) How many people are leaving (turnover rate)? (2) Who is leaving? (3) What are the relative costs and benefits of

Ongoing Retention Management at American Home Shield

American Home Shield recognized that to retain its most valued employees, managers first had to understand why some employees leave and others stay. To capture this information, an employee turnover project team surveyed a sample of employees who had already left the organization. It also implemented an ongoing procedure to survey people who left the organization after the initial survey. In addition, it surveyed remaining employees on a quarterly basis throughout the project to determine which aspects of their jobs made them stay and which caused them to consider leaving.

The team found that supervisor availability, job training, and job-requirement communications were the most important, yet most dissatisfying, aspects of working at American Home Shield.