

Is Your Staff Turnover a Hidden Cost?

If you don't measure your staff turnover, you could be missing out on big savings. Stewart Forsyth discusses why people leave and what you can do about it.



Stewart Forsyth is Director of FX Consultants, specialists in measurement and motivational systems. Download your free STO calculator from www.fxc.co.nz

ATTRACTING and retaining talented people is what distinguishes the best companies from the rest. Yet only 63% of New Zealand businesses measure their staff turnover, according to the 1997 Cranfield survey of 570 businesses.

Ascertaining a "good" level of staff turnover can involve a number of factors. Obviously you want to bring new ideas into your business, and hiring new people is an excellent way to do this. Unless you are growing, however, this means that others are leaving.

Consider a company providing vocational training. They had low staff turnover, but unfortunately most of that staff turnover was concentrated in one course area.

By the year's end, the trainees in that area had a completely new set of teachers. As a result the student pass rate was unacceptably low, with unpleasant consequences in terms of future funding. This example demonstrates how complex and important an issue staff turnover can be.

Measuring staff turnover

Total staff turnover (STO) comprises a mix of different people leaving the organisation for different reasons. When you hear the news that Ms X has resigned, for example, do you think, "How can I replace her?" or "Excellent, those performance discussions had the right effect". That's the difference between voluntary STO (the consequences of which are a

hassle), and performance-related STO (the reward for going through the hassle of performance coaching).

In the exit interview you set up, make sure you categorise each STO (see *Table 1*). On a regular basis, perhaps each quarter, add up the results from your exit interviews and decide what proportion of your STO is voluntary. A report should also include any issues arising from STO, trends you have noticed and, most importantly, an expression of voluntary STO in financial terms.

Since dollar values are likely to be large (see *Table 2*), it is best to develop an organisationally credible costing process, and to express the cost in measures such as "the \$ value of a 1% reduction in the voluntary STO of grade 3 employees". Typically organisations undervalue these costs because they only see the short-term expenses, such as the bill from the recruiter. An Australian costing of managers leaving a professional service firm gives an idea of how the dollars can mount up.

Table 1

Types of staff turnover *Organisational issues*

Voluntary

Typical New Zealand drivers of voluntary STO:

- More interesting work elsewhere
- Career change
- Management doesn't recognise merit
- Better work/life balance
- Better training elsewhere
- Better pay elsewhere
- Management doesn't listen.

Boxall and Rasmussen, December 2001, Employment Today

Performance-related

- Follows a performance improvement process. Note that "getting at" an employee results in the risk of a constructive dismissal claim.

Lifestyle change

- Sickness/disability — is there an OSH issue?
- Childcare, long-term study — could your organisation be flexible?
- Retirement — is there some way to maintain access to these competencies?

Redundancy

- Redundancy is a sign of ongoing "creative destruction" in healthy organisations, but downsizing is typically a "value-destroyer" for business.

Table 2: Cost of voluntary STO of Professional Service Firm Manager, as a percentage of salary

Exit and recruitment costs	37%
Induction and training	34%
Productivity	22%
Client	7%
Intellectual property and innovation	7%
Impact on recruitment brand	7%
Total	93%

Abbott, De Cieri and Iverson, 1998, Asia Pacific Journal of Human Resources

This costing was innovative because it included lost productivity — of the departing manager and the replacement. This is hard to measure in many workplaces, but professional service firms keep a close eye on it.

Other potential costs are harder to measure. There is good evidence that staff turnover leads to client turnover.

Senior professionals in professional service firms often take a big chunk of their clients with them. The loss of intellectual property is another factor that is very hard to quantify.

Finally, it is not uncommon for graduates to ask recruiters about their level of STO. A high STO, obviously, is not attractive to new recruits. Similarly, the departure of a high-profile staff member will make potential recruits a little more wary, not to mention the effect on existing staff. It is clear that the whole thing is a costly business.

Why do people leave?

The popular belief is that people leave bad bosses rather than bad jobs, and research shows that management incompetence does play an important role.

Turning the issue around, however, is some US research that gives an insight into what conditions affect a manager's loyalty. (See Table 3.)

Table 3: Loyalty

More loyalty:

- Number of projects or assignments
- Time I need to spend at work
- Volume of work that must be accomplished in the allotted time
- Time pressures I experience
- The amount of responsibility I have
- The sense of responsibility my position entails.

Cavanaugh et al, 2000, Journal of Applied Psychology

Less loyalty:

- Politics rather than performance affecting organisational decisions
- Inability to clearly understand what is expected of me on the job
- Red tape hinders getting the job done
- Lack of job security
- Career seems stalled.

These researchers found that "positive stress", shown on the left side of the table is directly linked to increased job satisfaction and decreased "job search" behaviour.

The "negative stress", on the right, reduced job satisfaction and increased voluntary STO (the researchers surveyed their subjects again some time later to see if they had changed jobs). Clearly the message is to increase manager workload and make it easy for them to be effective.

The relationship between performance and voluntary STO is a well-known one. As the performance figure below illustrates, people are more likely to leave if their performance is below or above standard.

A well-managed organisation will try to reduce the number of high-performing staff departures. They may do this by:

1. Agreeing on explicit performance targets

2. Regularly monitoring and providing feedback on performance
3. Rewarding high performers in both career and financial terms
4. Having regular formal reviews to discuss performance and development.

In summary, it is critical is for you to survey your staff regularly. This enables you to assess what helps staff performance and what drives loyalty. You can then customise solutions. Table 4 lists some of the options.

Table 4

The group	Possible additions to loyalty mix
World-class stars	Partnership, equity or stock options
High performers	High financial rewards
Gen X	Learning opportunities
Career/parenting employees	Work/life balance initiatives

Performance and Voluntary Staff Turnover

