

Measuring and Mitigating the Cost of Employee Turnover

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SHRM Webcast
July 17, 2012



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- Talent Management
 - Succession Management
 - Leadership Development
 - Performance Management
- Organizational Development
 - Employee Engagement
 - Organizational Culture
 - Strategic Alignment
- Lominger Associate
- Global clients
- Based in Miami

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Objectives

- Discuss methods for measuring turnover costs
- Mitigate turnover costs through
 - Creating an effective employee value proposition
 - Optimizing the impact of performance management
 - Leveraging the drivers of employee engagement
 - Differentiating talent development and deployment

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Measurement Definition

“Anything can be measured. If a thing can be observed in any way at all, it lends itself to some type of measurement method.”

“Measurement: A quantitatively expressed reduction of uncertainty based on one or more observations.”

- Douglas W. Hubbard, 2010, *How to Measure Anything: Finding the Value of “Intangibles” in Business*

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Measurement with Purpose

Direct Costs

- Relatively easy to measure with lower error of measurement
- Focus on process / transactional improvements
- Easy to substantiate – can be leveraged to support strategic talent management initiatives, e.g., engagement program

Opportunity Costs

- Requires estimates, scenario planning, and consideration of time-value of investments
- Focus on long-term and strategic talent management issues

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Calculating Turnover Costs

- 1) Costs to off-board employee
- 2) **Cost-per-hire for replacement***
- 3) **Transition costs, including opportunity costs****
- 4) **Costs from long-term disruption of talent pipeline*****

Turnover costs are often estimated to be 100% - 300% of the base salary of replaced employee (150% commonly cited).

* Use the Cost-per-Hire ANSI/SHRM Standard

** Transition time from exit decision to replacement reaching minimal performance standards

*** Source of most variance and potentially largest impact on cost – it's important to differentiate talent when calculating

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Cost to Exit / Off-Board

- Severance pay
- Benefits continuation
- Impact on unemployment insurance
- Exit interviews
- Admin for record-keeping, payroll, benefits, etc.
- Amortized investment in employee for training, professional dues/development, etc.

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Turnover Cost Equals New-Hire Cost Plus...

While there are many contributing cost elements to consider, the calculation of new-hire costs are relatively straightforward.

There is a new ANSI/SHRM 06001.2012 Cost-per-Hire Standard that establishes a baseline for minimal standards.

<http://www.shrm.org/hrstandards/Pages/default.aspx>

Turnover costs are potentially much higher and more complex to calculate than new-hire costs.

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Cost-Per-Hire from ANSI/SHRM Standard

External Costs (partial listing)

- Advertising and marketing
- Background checks
- Campus recruiting
- Consulting services
- Drug testing
- Employee referral payments
- Immigration expenses
- RPO fees
- Relocation
- Signing bonus
- Travel expenses

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Cost-Per-Hire from ANSI/SHRM Standard

Internal Costs (partial listing)

- Recruiting staff
- Sourcing staff
- Overhead for government compliance
- Non-labor office costs
- L&D for recruiting
- Management time (e.g., recruiting, interviews)

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Transition Costs to Reach Full Performance

- Temporary labor
- Replacement training
- Management and support staff
- Lost productivity (including team)
- Lost revenue
- Lost customers

Multiply the firm's internal hurdle rate times the hard costs that would have otherwise been spent on the lost employee during the time in question to estimate opportunity cost.

$$0.10 * \$75,000 = \$7500$$

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Costs of Long-Term Disruption to Pipeline

The costs and organizational impact resulting from a disruption in developing a talent pipeline is potentially very significant and requires strategic analysis.

- Type of turnover
- Talent differentiation
- Differentiated treatment

This analysis informs key decisions about mitigating turnover!

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Turnover through Lens of Preventability

- Preventable vs. Unpreventable
- or -
- Unexpected vs. Expected

Alternatively

- Voluntary vs. Involuntary
 - Involuntary is, of course, expected
 - Voluntary can be either expected or not, preventable or not

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Turnover in Terms of Preventability

- Just as it's likely there is a natural unemployment rate (lowest rate of unemployment that the economy can sustain over time), there is likely a natural turnover rate for your business influenced by:
 - Industry
 - Geography
 - Function
 - General social and economic conditions
- Turnover that exceeds the natural turnover rate might be considered preventable or unexpected
- The natural turnover rate has implications for investments in human capital and expected costs of doing business

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Turnover through Lens of Desirability

- Desired vs. Undesired
 - or -
- Advantageous (at worst, innocuous) vs. Costly and Damaging

Alternatively

- Voluntary vs. Involuntary
 - Involuntary should be advantageous
 - Voluntary is generally undesired

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Turnover in Terms of Desirability

- Turnover can be deemed desirable when it:
 - Replaces marginal performers with strong performers
 - Injects vitality and new ideas in the workplace
- The negative impact of turnover varies according to the characteristics of the exiting talent:
 - Function
 - Position level
 - Career track
 - Geography
 - Business unit
 - Etc.

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Classification of Turnover

Desired	Involuntary	N/A
<i>Undesired</i>	Normal Attrition Voluntary	<i>Voluntary</i>
	Expected	<i>Unexpected</i>

There is a cost associated with all turnover, but the focus of mitigation is normally on voluntary, unexpected, and undesirable turnover. By definition, "normal attrition" is not impacted by efforts to reduce turnover.

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Summary of Employee Turnover Costs

- Costs to off-board employee
- + Cost-per-hire for replacement
- + Transition costs, including opportunity costs
- + Costs from long-term disruption of talent pipeline
- = Total Cost of Employee Turnover

Understanding the cost is important, but knowing how to mitigate it is essential.

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Mitigating Turnover Costs

Addressing the following will enhance retention, decreased undesired turnover, and minimize costs:

- Employee Value Proposition
- Onboarding
- Performance Management
- Employee Engagement
- Differentiated Development and Career Paths

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Employee Value Proposition (EVP)

- For the business, the Unique Value Proposition (UVP) explains why customers buy from you rather than the competition
- For employees, the EVP – Employee Value Proposition – explains why candidates choose to work for you rather than other potential employers

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Characteristics of an Effective EVP

- Attracts some candidates (the right ones!) and repels others
- Raises the bar and creates a smaller, easier-to-manage net for talent
- Enhances candidate selection by increasing efficiency and yielding higher quality
- Enables faster cultural integration and achievement of performance standards

Enhancing your EVP reduces new-hire and transition costs and improves retention.

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Onboarding

An effective onboarding process:

- Analyzes and efficiently addresses skill gaps required to meet performance standard
- Provides organizational positioning skills
- Aligns with organizational values and culture

Effective onboarding enables faster cultural integration and achievement of performance standards. It can significantly reduce transition costs.

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Performance Management

- Aligns performance with strategic direction of the company
- Optimizes performance contribution of employees
- Shapes organizational culture
- ***Fully engages employees***

Performance management is our way of ensuring that managers are responsible and conduct frequent and meaningful conversations with employees. It all comes down to conversations. Every decision made about performance management should be framed by asking, “Will this help or hinder meaningful conversations.”

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Employee Engagement

Employee engagement is a mindset in which employees take personal stakeholder responsibility for the success of the organization and apply discretionary effort aligned with its goals.

If you want to retain employees, engage them!

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Research-Based Engagement Drivers

1. Strategic Alignment
2. Trust in Senior Leadership
- 3. Immediate Manager Working Relationship**
4. Peer Culture
5. Personal Influence
6. Nature of My Career
7. Career Support
8. Nature of the Job
9. Developmental Opportunities
10. Employee Recognition
11. Pay Fairness

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Differentiating Talent

- All Top Talent, A Players, Key Talent (pick your term):
 - Serve (or have the potential to serve) in key positions
 - High position level and resulting organizational responsibility
 - High strategic value to the organization (directly impact UVP)
 - Are difficult because they deal with complexity, ambiguity, high pressure conditions, and/or require special expertise
 - Have common characteristics, including, higher than average IQ, at least average EQ, and high career motivation
 - Have benefited from experiences (or, in the case of emerging talent, should have experiences) that provide the opportunity to learn important competencies

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Differentiating Top Talent

- High Potentials
 - Top Talent on generalist career track
 - Require a high degree of learning agility
- High Professionals
 - Top Talent on a specialist career track
 - Have specialized expertise developed over years of focused development
- Emerging Talent
 - Early career talent with all characteristics of Top Talent but limited developmental experiences and possibly undetermined career path

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Top Talent Turnover

- For obvious reasons, Top Talent is...
 - The most valuable
 - Most difficult to replace
 - Most likely to exit if not engaged
- Your calculation of turnover costs will be enhanced by differentiating and tracking turnover in the three pools of top talent

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Engaging Top Talent

1. **Strategic Alignment**
2. **Trust in Senior Leadership**
3. Immediate Manager Working Relationship
4. Peer Culture
5. **Personal Influence**
6. Nature of My Career
7. Career Support
8. Nature of the Job
9. Developmental Opportunities
10. Employee Recognition
11. Pay Fairness

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Differentiated Development

- Different talent segments require different treatment
- You can not separate development from deployment (succession management) – use the power of jobs to provide opportunities to learn key competencies and gain exposure to key aspects of the business
- Differentiated development is essential to creating a robust talent pipeline
- A career support strategy that provides differentiated, well-defined, and branded career paths drives engagement and retention

Equal treatment is not fair treatment!

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Differentiated Career Support

- Proactive, highly-involved talent management
- Transparency about processes
- Branded career tracks for generalists and specialists
- Address hi-pos, hi-pros, and emerging talent at a minimum

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Summary

- Measuring the costs of turnover is valuable
- Taking action to retain top talent is essential
- Mitigate turnover costs through
 - Creating an effective employee value proposition
 - Optimizing the impact of performance management
 - Leveraging the drivers of employee engagement
 - Differentiating talent development and deployment

Thanks!

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