

# How To Manage & Minimize Employee Turnover





**Businesses have long understood that it's easier (and more cost-effective) to keep current customers or clients happy than it is to acquire new customers. That's why there are so many customer loyalty programs to keep customers happy and coming back again and again.**

The same holds true for employees. It's not enough for a company to invest in recruiting top talent – the real **ROI of recruitment** is retaining those top performers for years to come.

And yet, companies across all industries continue to lose great employees, sometimes without understanding why. And the rate at which a company loses employees, known as **employee turnover**, can have a significant impact on a business' bottom line.

Understanding **employee turnover** is the first step to combating the impact it can have on your organization.



## What is employee turnover?

Strictly speaking, **employee turnover** is defined as the number or percentage of employees who leave a company and are replaced by new employees.

The last part of that definition is important: If an employee leaves a company and is not replaced with a new employee, and instead the employer either eliminates the position or leaves it vacant, that's called **attrition**. Attrition typically occurs after an employee retires or is laid off during a restructure. Turnover, on the other hand, typically occurs after an employee resigns or is terminated.

Another distinction that should be made is the difference between **voluntary and involuntary turnover**. Voluntary turnover occurs when an employee makes the decision to leave, and involuntary turnover occurs when the employer makes the decision for the employee to leave. Simply put, if an employee resigns or quits, it's considered voluntary turnover. If an employee is fired or laid off, it's considered involuntary turnover.

## How do you quantify employee turnover?

Business owners and HR professionals can use their organization's employee turnover rate to gauge the effectiveness of managers or recruiting processes, employee satisfaction and even the overall organizational culture. Learning how to calculate your organization's rate of turnover will also help you understand how it is affecting your organization, as well as help you identify any trends in turnover.

Before you begin calculating your employee turnover rate, you should first decide over what period you want to measure turnover. This can be any length of time, but most businesses calculate employee turnover on an annual or monthly basis. You could also measure turnover on a quarterly basis, a figure that can be particularly relevant for organizations that hire lots of seasonal workers, or have one quarter that is more stressful than another.

Once you've decided the length of time you're going to be using to measure turnover, you'll then need to figure out the average number of people your company employed during the specified period. You can do this by averaging the number of employees who were employed at the beginning of the period and the number of employees who were employed at the end of the period. Then simply divide the number of employees who separated from your company during that time by the average number of employees working during that time, and multiply by 100. This will give you the rate of employee turnover in the given period.

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### Employee Turnover Rate

$$\frac{\text{Number of employees who left during a given period}}{\text{Average number of employees during the given period}} \times 100$$

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Once you calculate your employee turnover rate, you can compare it to those of other organizations as well as industry averages. The Bureau of Labor Statistics' **Job Openings and Labor Turnover Survey (JOLTS)** program releases monthly reports outlining national trends in turnover.

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## What are the costs of employee turnover?

High employee turnover is not only disruptive, but can also be a significant drain on a business' bottom line. The chart below outlines the cost of replacing employees in different positions:

### Turnover Costs by Position Type

Position Type	Cost*
Entry-level	30 - 50%
Service/Production	40 - 70%
Clerical/Administrative	50 - 80%
Skilled hourly	75 - 100%
Professional	75 - 125%
Technical	100 - 150%
Supervisor	100 - 150%
<i>*Percentage of the terminated employee's annual salary</i>	

The costs associated with employee turnover can be broken down into three main categories: **separation costs**, **replacement costs** and **productivity costs**.

### Separation Costs

The immediate costs incurred when an employee leaves, known as separation costs, include severance pay, unemployment insurance claims and continued benefits, as well as the time your HR staff spends conducting exit interviews and closing out the employee's payroll and benefits.

### Replacement Costs

Replacement costs include any expenses incurred trying to fill the now vacant position. Think about all the time and money it takes to identify, interview, hire and train a candidate. And that's just one person. Who knows how many people you'll need to interview before you find the right one?

### Productivity Costs

Productivity costs may be the hardest costs to quantify, and include not only the time your other staff spend picking up the slack, but also the valuable expertise and potential revenue the departing employee is taking with them. And no matter how wonderful the replacement employee is, it will still take them weeks, if not months, to reach the level of productivity of their predecessor.



### Calculating Employee Turnover

Below is an example illustrating how to calculate employee turnover for a hypothetical company.

Greg is the owner of a manufacturing business, and he wants to know how to calculate the annual employee turnover rate for his company last year.

At the beginning of the year Greg employed 92 people, and at the end of the year he employed 108 people, giving him an average of **100 employees** for last year.

Over the course of the year, **five employees** left the organization (either voluntarily or involuntarily) and were replaced with new workers.

To calculate Greg's rate of employee turnover for last year, divide the number of employees who left during the year (five), by the average number of employees during the year (100), and multiply by 100.

$$\frac{5}{100} \times 100$$

In Greg's case, his business' annual employee turnover rate was five percent.

## What can employers do to minimize employee turnover?

Employee turnover isn't something that can be fixed overnight – employers need to be willing to invest time and resources into developing long-term strategies that can help transform their company into an employer of choice in their industry.

### 1. Start by attracting the best candidates

**Is your business staying competitive within the market?** Take this opportunity to review your company's compensation package and conduct a salary survey to find out what comparable companies in your industry or region are offering their employees and assess whether you should restructure your compensation or benefits packages.

### 2. Create opportunities for advancement

**Are you fostering an environment that promotes professional development and training?** More and more, candidates are considering opportunities for personal and professional development as a desirable perk. And if employees don't see potential to move up within your company, you can bet they'll start looking for those opportunities elsewhere.

### 3. Keep employees engaged

**Is your company doing a good job of engaging your employees?** Consider offering more opportunities for employees to give feedback on your organization, and then actually do something with that information. The more connected your employees feel to your company and its mission, the harder and longer they'll work for you and your business.

### 4. Recognize and reward top employees

**Do your managers do a good job of recognizing employees?** Consistently, the top reason employees give for voluntarily leaving their jobs is that they simply don't feel appreciated by their employer. Many of the most effective employee appreciation and recognition strategies (recognizing employee anniversaries during staff meetings, for instance) cost little to no money, but can have a powerful impact on a company's culture and retention rate.

### 5. Revamp performance management

**Has your organization made performance management a priority?** Your performance management process should be a constructive exercise for both employees and managers, while still offering your leadership team with the data it needs to make decisions about compensation and promotions. If you don't have a performance management system in place, implement one. If you have one in place, take some time to make sure it's actually working.

### 6. Make work fun

**Is your workplace somewhere your employees actually want to be?** Get your employees together to brainstorm and offer suggestions on the kinds of perks your company can realistically offer to will improve the employment experience. This might mean hosting company-wide contests, creating a company bowling team, or making a big deal of celebrating certain holidays. Whatever perks you decide to offer, make sure they are relevant to your company's mission and values.

### 7. Be strategic about HR management

**If the prospect of implementing some of the strategies above has your head spinning, you're not alone.** Most small and medium-sized businesses simply don't have the time or resources to tackle strategic human resources initiatives like these because they're already bogged down by the more basic administrative HR functions, like payroll, benefits administration and employment law compliance.

Engaging an **HR outsourcing provider** to handle all the day-to-day minutia of human resources management can give you and your staff the freedom to focus more of your time and talent on developing some of these strategies and minimizing employee turnover.

## Did you know businesses that outsource their human resources and administrative functions experience between 23 and 32 percent lower rates of employee turnover than companies that don't outsource their HR?

If you're looking for a **trusted HR partner** that can help your organization streamline its operations and create an employment experience that encourages your top-performing employees to stay with your organization for years to come, we hope you'll consider G&A Partners.

As a leader in the HR outsourcing industry, G&A Partners specializes in partnering with businesses who are in need of additional back-office support to **more efficiently manage human resources** and administrative functions by giving them access to a team of HR, benefits and payroll experts, all for about the same cost of hiring one full-time employee.

Whether you need full-service HR support or help in a few key areas, G&A Partners provides the people, processes and technology you need to grow your business faster and take better care of your employees.

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