

7.1 The Costs of Turnover

Learning Objectives

1. Be able identify the difference between direct and indirect turnover costs.
2. Describe some of the reasons why employees leave.
3. Explain the components of a retention plan.

According to the book *Keeping the People Who Keep You in Business* by Leigh Branham (Branham, 2000), the cost of losing an employee can range from 25 percent to 200 percent of that employee's salary. Some of the costs cited revolve around customer service disruption and loss of morale among other employees, burnout of other employees, and the costs of hiring someone new. Losing an employee is called turnover.

There are two types of turnover, voluntary turnover and involuntary turnover. Voluntary turnover is the type of turnover that is initiated by the employee for many different reasons. Voluntary turnover can be somewhat predicted and addressed in HR, the focus of this chapter. Involuntary turnover is where the employee has no choice in their termination—for example, employer-initiated due to nonperformance. This is discussed further in Chapter 9 “Successful Employee Communication”.

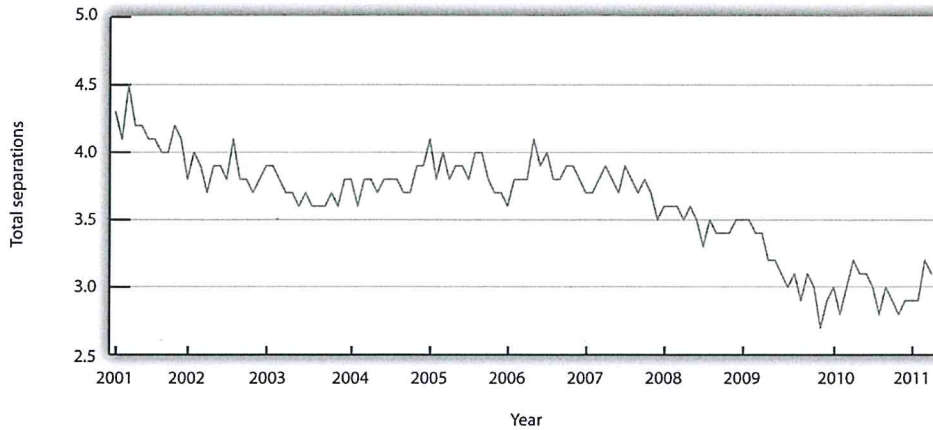
It has been suggested that replacement of an employee who is paid \$8 per hour can range upwards of \$4,000 (Paiement, 2009). Turnover can be calculated by
$$\text{separations during the time period (month)/total number of employees midmonth} \times 100 = \text{the percentage of turnover.}$$

For example, let's assume there were three separations during the month of August and 115 employees midmonth. We can calculate turnover in this scenario by
$$3/115 \times 100 = 2.6\% \text{ turnover rate.}$$

This gives us the overall turnover rate for our organization. We may want to calculate turnover rates based on region or department to gather more specific data. For example, let's say of the three separations, two were in the accounting department. We have ten people in the accounting department. We can calculate that by
$$\text{accounting: } 2/10 \times 100 = 20\% \text{ turnover rate.}$$

The turnover rate in accounting is alarmingly high compared to our company turnover rate. There may be something happening in this department to cause unusual turnover. Some of the possible reasons are discussed in Section 7.1.1 “Reasons for Voluntary Turnover”.

Figure 7.1 United States Yearly Turnover Statistics, 2001–11



Source: Data from Bureau of Labor Statistics, "Job Openings and Labor Turnover Survey," accessed August 11, 2011, <http://www.bls.gov/jlt/#data>.

In HR, we can separate the costs associated with turnover into indirect costs and direct costs. Direct turnover costs include the cost of leaving, replacement costs, and transition costs, while indirect turnover costs include the loss of production and reduced performance. The following are some examples of turnover costs (Maertz & Campion, 1998):

- Recruitment of replacements
- Administrative hiring costs
- Lost productivity associated with the time between the loss of the employee and hiring of replacement
- Lost productivity due to a new employee learning the job
- Lost productivity associated with coworkers helping the new employee
- Costs of training
- Costs associated with the employee's lack of motivation prior to leaving
- Sometimes, the costs of trade secrets and proprietary information shared by the employee who leaves
- Public relations costs

To avoid these costs, development of retention plans is an important function of the HR strategic plan. Retention plans outline the strategies the organization will use to reduce turnover and address employee motivation.

Table 7.1 Turnover Costs

Direct	Indirect
Recruitment costs	Lost knowledge
Advertising costs for new position	Loss of productivity while new employee is brought up to speed
Orientation and training of new employee	Cost associated with lack of motivation prior to leaving
Severance costs	Cost associated with loss of trade secrets
Testing costs	
Time to interview new replacements	
Time to recruit and train new hires	

Costs of Turnover in Hospitality

(click to see video)

This video provides an excellent illustration of how to measure the cost of employee turnover in the hospitality industry.

Reasons for Voluntary Turnover

Before we discuss specific details on retention planning, it is important to address the reasons why people choose to leave an organization to begin with. One mistake HR professionals and managers make is to assume people leave solely on the basis of their unhappiness with their compensation packages. Many factors can cause demotivated employees, which we discuss in Section 7.2.1 “Theories on Job Dissatisfaction”.

Once we find out what can cause voluntary turnover, we can develop retention strategies to reduce turnover. Some of the common reasons employees leave organizations can include the following:

1. **A poor match between the job and the skills of the employee.** This issue is directly related to the recruitment process. When a poor match occurs, it can cause frustration for the employee and for the manager. Ensuring the recruitment phase is viable and sound is a first step to making sure the right match between job and skills occurs.
2. **Lack of growth.** Some employees feel “stuck” in their job and don’t see a way to have upward mobility in the organization. Implementing a training plan and developing a clearly defined path to job growth is a way to combat this reason for leaving.
3. **Internal pay equity.** Some employees, while they may not feel dissatisfied with their own pay initially, may feel dissatisfaction when comparing their pay with others. Remember the pay equity theory discussed in Chapter 6 “Compensation and Benefits”? This theory relates to one reason why people leave.
4. **Management.** Many employees cite management as their reason for leaving. This can be attributed to overmanaging (micromanaging) people, managers not being fair or playing favorites, lack of or poor communication by managers, and unrealistic expectations of managers.
5. **Workload.** Some employees feel their workloads are too heavy, resulting in employees being spread thin and lacking satisfaction from their jobs, and possibly, lack of work-life balance as a result.

We know that some people will move or perhaps their family situation changes. This type of turnover is normal and expected. Figure 7.2 “Common Reasons for Employee Turnover” shows other examples of why people leave organizations.

Figure 7.2 Common Reasons for Employee Turnover

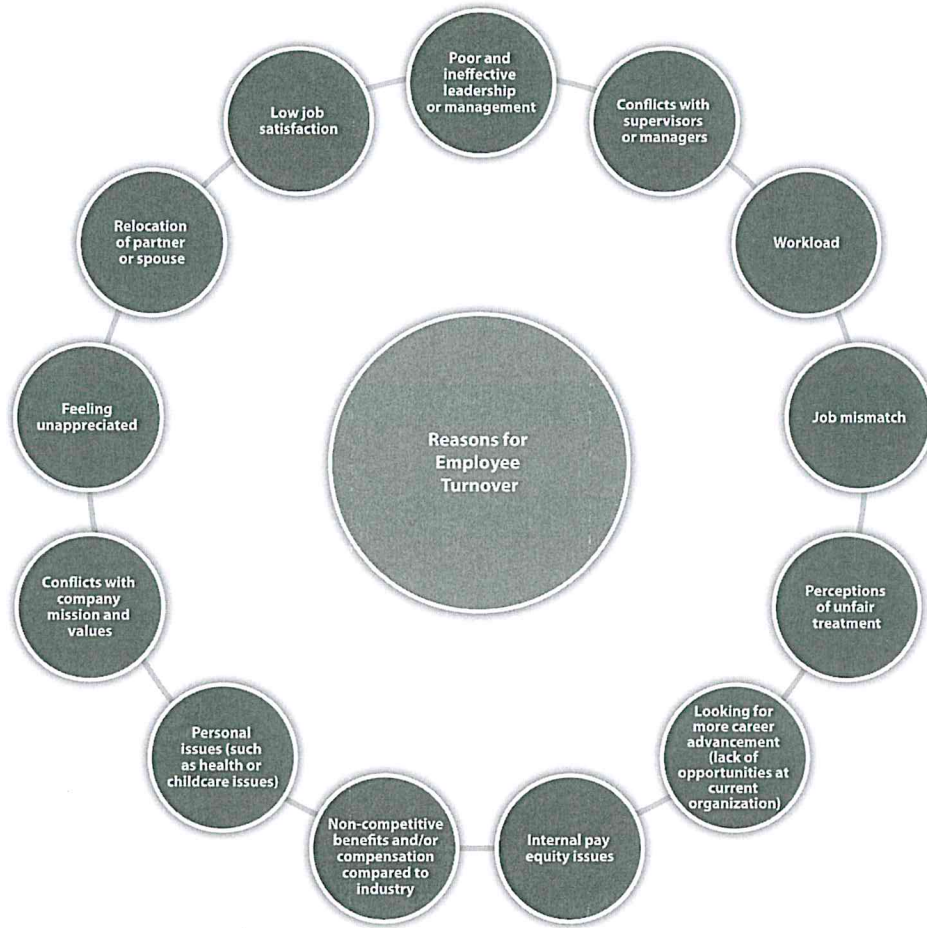


Figure 7.3



Cost of employee turnover can be high for both the bottom line and employee morale.

Jacklee – Frustrated man at desk – CC BY-SA 3.0.

As HR professionals and managers, we want to be sure we have plans in place to keep our best people. One such plan is the retention plan, which we will discuss in Section 7.2 “Retention Plans”.

Human Resource Recall

Do you feel your current or past organization did a good job of reducing turnover? Why or why not?

Key Takeaways

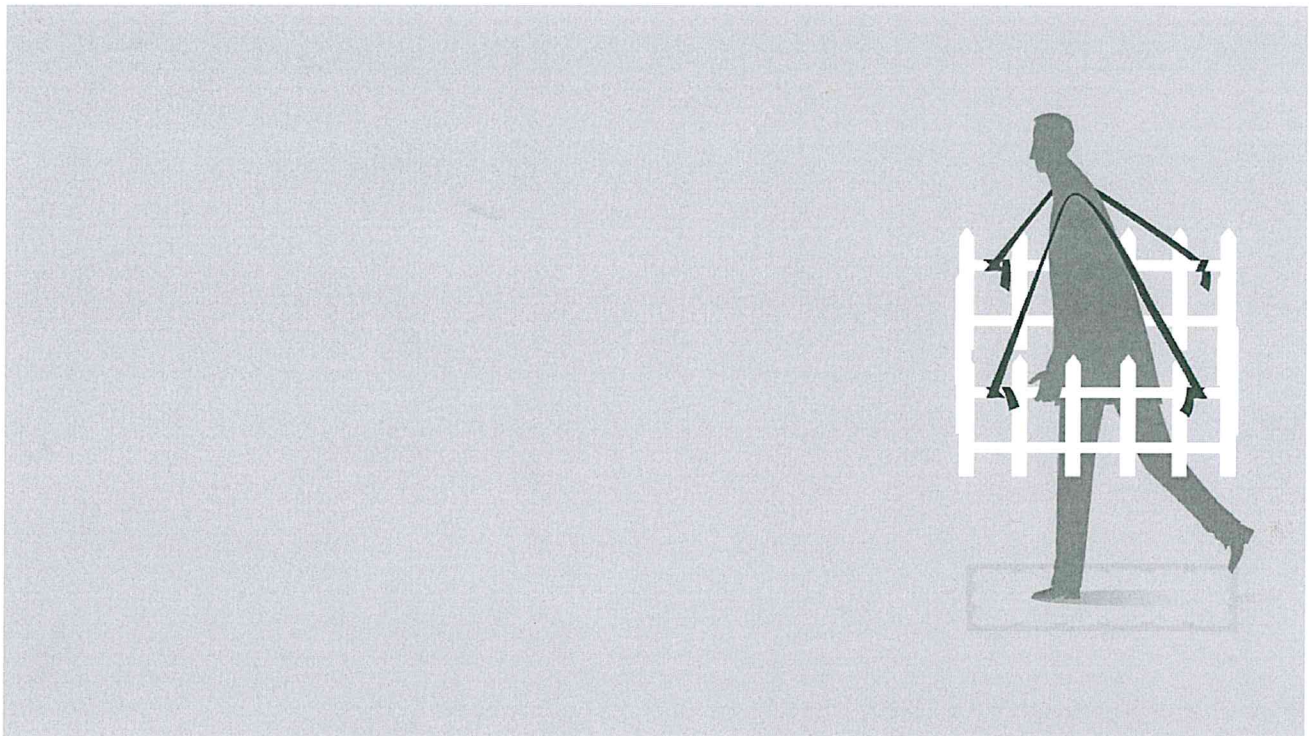
- Retaining employees is an important component to a healthy organization. Losing an employee is called *turnover*. Turnover can be very expensive to an organization, which is why it is important to develop retention plans to manage turnover.
- *Voluntary turnover* is turnover that is initiated by the employee, while *involuntary turnover* is initiated by the organization for various reasons such as nonperformance.

CONFLICT

How to Manage a Toxic Employee

by Amy Gallo

OCTOBER 03, 2016 **UPDATED** OCTOBER 03, 2016



There's that one person on your team – the bad apple who has nothing positive to say, riles up other team members, and makes work life miserable. If you can't fire him, how do you respond to his behavior? What feedback do you give? How do you mitigate the damage he inflicts?

What the Experts Say

There's a difference between a difficult employee and a toxic one, says Dylan Minor, an assistant professor at the Kellogg School of Management who studies this topic. "I call them toxic because not only do they cause harm but they also spread their behavior to others," she explains. "There's a pattern of de-energizing, frustrating or putting down teammates," adds Christine Porath, an associate professor at Georgetown and the author of *Mastering Civility: A Manifesto for the Workplace*. "It's not just that Joe is rude. The whole team suffers because of it." Of course, your first step as a manager should be to avoid hiring toxic people in the first place, but once they're on your team, it can be hard to get rid of them. "Oftentimes the behavior doesn't run against anything legal so you can't fire them if others in the organization don't agree that a line has been crossed," Porath explains. Here's what to do instead.

Dig deeper

The first step is to take a closer look at the behavior and what's causing it. Is the person unhappy in the job? Struggling in their personal life? Frustrated with coworkers? "You might meet with them and ask how they're doing – at work, at home, and with their career development," suggests Porath. If you find there's a reason for why they're acting the way they are, offer to help. "A manager can use this information to coach the person, or suggest resources to help address the root of the problem." For example, adds Minor, if the person is going through a divorce or struggling with a mental health issue, you could offer "counseling resources or time off that could potentially alleviate" the underlying issue.

Give them direct feedback

In many cases, toxic people are oblivious to the effect they have on others. "Most of the time people don't realize that they're as destructive as they are," Porath says. "They're too focused on their own behaviors and needs to be aware of the broader impact." That's why it's crucial to give direct and honest feedback – so they

understand the problem and have an opportunity to change. The standard feedback rules apply: Objectively explain the behavior and its effects, using specific, concrete examples. “It’s not helpful to say, ‘You’re annoying us all,’” Porath explains. “You have to ground it in the work.” Also discuss what kind of behavior you’d like to see instead and develop an improvement plan with the employee. “What do you expect them to change? Strive for clearly defined, measurable goals,” Porath says. “You’re giving them the chance to have a more positive impact on people.”

Explain the consequences

If the carrot doesn’t work, you can also try the stick. “We all tend to respond more strongly to potential losses than we do to potential gains, so it’s important to show offenders what they stand to lose if they don’t improve,” says Porath. If the person is hesitant to reform, figure out what they care most about – the privilege of working from home, their bonus—and put that at stake. For most people, the possibility of missing out on a promised promotion or suffering other consequences “tied to the pocketbook” will be a strong motivation to behave in a more civil way.

Accept that some people won’t change

Of course, you should always hope that the person can change but not everyone will respond to the tactics listed above. Minor is currently researching toxic doctors and says that early results indicate that some are either unable or unwilling to change. Porath’s research on incivility has meanwhile found that “4% of people engage in this kind of behavior just because it’s fun and they believe they can get away with it.” In those extreme cases, you should recognize that you won’t be able to fix the problem and begin to explore more serious responses.

Document everything

If you conclude that you really need to fire the person, you must first document their offenses and any response you’ve offered so far. “You want to establish a pattern of

behavior, the steps you took to address it, the information, warnings or resources provided to the employee, and the failure of the employee to change,” Porath says.

Include “supporting material” too: formal complaints, relevant information from performance evaluations, such as 360-degree or peer reviews. The idea, says Minor, is to protect yourself and the company and to show your employee exactly why they are being let go.

Separate the toxic person from other team members

Even if you can’t get rid of a bad apple, you can isolate it from the rest of the bushel so the rot doesn’t spread. Minor’s research shows that people close to a toxic employee are more likely to become toxic themselves, but the good news is that the risk also subsides quickly,” he says. As soon as you put some physical distance between the offender and the rest of the team - for example, by rearranging desks, reassigning projects, scheduling fewer all-hands meetings, or encouraging more work-from-home days – you’ll see the situation start to improve. Porath calls this “immunizing” the others. “You’re trying to protect people like you would with a disease,” she says. “You will hopefully decrease the number of run-ins and the cognitive loss.” But make sure to do this with discretion. Let employees come to you with their complaints about the toxic colleague and use “one-on-one conversations” to coach them on how they might minimize their interactions.”

Don’t get distracted

Managing a toxic person can eat up your time, energy, and productivity. But “don’t spend so much on one individual that your other priorities fall by the wayside,” says Porath. To counteract the negativity and make sure you’re still thriving, “surround yourself with supportive, positive people” and “look for meaning and purpose in your work,” she says. Also focus on basic self-care. “If someone is draining you, build

yourself up by exercising, eating right, sleeping, and taking breaks, both short-term ones and vacations,” she says. “Being healthy and proactive is the one thing we know that buffers people from the effects of toxic behavior.”

Principles to Remember

Do:

- Talk to the person to try to understand what’s causing the behavior.
- Give concrete, specific feedback and offer the opportunity to change.
- Look for ways to minimize interactions between the toxic employee and the rest of your team.

Don’t:

- Bring the situation up with your other team members. Allow them to mention it first and then provide suggestions.
 - Try to fire the person unless you’ve documented the behavior, its impact, and your response.
 - Get so wrapped up in handling the issue that you ignore more important work and responsibilities.
-

Terminations: How managers rationalize putting them off — and then screw them up anyway

 hrmorning.com/terminations-how-managers-rationalize-putting-them-off-and-then-screw-them-up-anyway/

Tim Gould

11/18/2016

Managers will go to great lengths to avoid the dreaded “termination conversation.” And when the confrontation finally happens, they often screw it up. Here are some suggestions to solve both problems.

First, a few of the more common rationalizations supervisors use to avoid dropping the axe – and why these avoidance tactics don’t make sense:

‘Maybe they’ll improve’

This is usually an idle hope – if they were going to improve, wouldn’t they have done so before things got this far? If the proper remediation steps have been taken and minimal standards still aren’t being met, it’s time to take action. Not doing so is a sure sign of a weak manager.



‘Better to have a warm body in the job than nobody at all’

All too often, the opposite is the case. Bad employees not only don’t only do their own jobs well, they drag down everybody else. If the function is critical to the company’s operation, the supervisor may have to delay the termination until a new employee can fill the key slot.

It’s also possible that the supervisor, with help from other workers in the department, may be able to carry the load until full staffing is achieved.

Finally, the situation could well be an opportunity to see if there’s a better, more economical way of performing the functions of the departing employee.

‘Other workers will think we’re cruel – they’ll hate me’

As top HR consultant Hunter Lott has said, “Good people know who the bad employees are. They’re looking to management from leadership.”

The “they’ll think I’m a bad person” sentiment is common, but it’s usually misplaced.

If an employee’s not performing up to standards, his or her co-workers know it. They’re probably wondering why the person’s still around, and they’re likely resentful that they’re fulfilling their duties while the other worker isn’t.

The longer managers wait before proceeding to the actual termination, the more respect they can lose in the eyes of their other workers. Employees prefer to work for supervisors who enforce high standards evenly, uniformly and fairly.

‘Maybe they’d do better in another position’

In rare cases – very rare – this could be a legitimate concern. But it probably should have been considered long before the situation progressed to the point of termination.

If the employee's got a good attitude and work ethic, along with appropriate skills, it might be worth a shot to grant him or her a transfer to a different job.

But workers with questionable attitudes and sub-par performance should never be considered as candidates for transfer. That's just moving the cancer from one part of the body to another.

'This could get ugly – they might cry, or even get violent'

While this might be a legitimate concern in specific instances, it's certainly not a reason to delay termination. On the contrary, it's a reason to get it over with and avoid prolonging the drama.

Human Resources can help to arrange the right time and circumstances to minimize the possibility of disruptive behavior and arrange for adequate security, if the concern is serious enough.

Moment of truth

So the documentation's in place, HR's been consulted and will sit in on the conversation as a witness, and the employee's been called to the manager's office.

Here are the most common mistakes managers make in these high-pressure conversations. And any one of them has the potential to cause a nasty legal problem.

They lose their cool. When you're punched, it's hard not to punch back. Employees will be upset when they hear they're no longer employed, even if they know the news is coming.

So it's up to managers to avoid heightening an already-emotional situation. It's often not easy. After all, it's likely the manager and the employee have been at odds for some time.

There's a lot of pent-up emotion on both sides.

Managers should let employees give their side of the story, without comment, and then firmly and politely say the discussion is over.

The decision's been made, and it's final.

They don't prepare well enough. Safe to say, the terminated employee will remember whatever the manager says in the worst possible light.

So shooting from the hip is highly dangerous. The manager should rehearse exactly what he or she intends to say – perhaps even committing the opening statement to paper.

And there's one more key thing to prepare for: Topics the manager will not want to discuss.

No termination process – or any interactions with employees, for that matter – is totally cut and dried. So the employee will probably have at least one issue he or she can bring up in an attempt to counter the company's decision.

Managers have to be prepared to cut off those unproductive debates.

They try to soften the blow. No question, managers will often feel compassion for the person they must fire.

Expressing those feelings, however, can backfire big-time. Example: If an employee's being fired for substandard

performance, the manager shouldn't offer compliments on any aspect of his performance.

Doing so might make the manager feel better, but it will only give the employee cause to question and challenge the company's termination decision. Those off-hand comments could be used as evidence in a wrongful-termination suit.

Copyright © 2016 HRMorning.com

[Back To The Top](#)