The Study on Employee Turnover Management

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Abstract: High employee turnover is considerably cost for an organization, not only for monetary cost, but also for the crippled morale. Management should plan for the outflow of their human resources with thoughtful policies. When employees leave voluntarily, reasons should be analyzed and solutions worked out. When employees leave involuntarily, especially laid-off, a fair and consistent policy should be developed.

Keywords: employee turnover, Human Resources Management, lay-off, fair policy

1. Introduction

Turnover occurs when an employee ceases to be a member of an organization and has to be replaced. The turnover rate is a measure of the rate at which employees leave the company. Some people see turnover positively, such as reducing labor costs, replacement of poor performers, increasing innovation and the opportunity for greater diversity. But many organizations have found that turnover is a costly problem. One study found that 45% of surveyed employers estimate annual turnover cost to exceed $10,000 per person. In the hotel/hospitality industry the average turnover cost of $4,000 per leaving employee costs a typical hotel $631,400 annually. In 1999 the overall turnover rate of information technology professionals was 20 percent and replacement costs averaged $33,000. Besides the replacement costs, high turnover rate, especially the layoff, can make the remaining employees to have low morale and experience stress, and thus cause productivity to drop. Employee turnover should be managed effectively.

2. Types of Employee Turnover

Employee turnover can be divided into two categories: voluntary turnover and involuntary turnover.

2.1 Voluntary turnover
Voluntary turnover means an employee decides to end the relationship with the employer by choice. It is initiated by the employee and can be caused by many factors, including personal and organizational reasons such as salary, bonuses, career opportunity, and spouse’s decision.
There are two types of voluntary turnover: quit and retirement.
Voluntary turnover can be either controllable or uncontrollable. Controllable turnover results from the factors that could be influenced by the employer. Uncontrollable turnover occurs due to the reasons beyond the control of the employer.

2.2 Involuntary turnover
An involuntary turnover occurs when management decides to terminate its relationship with an employee. Involuntary turnover is triggered by the employer and can be caused by many reasons including economic necessary, poor performance, or work rules.
There are two types of involuntary turnover: discharge and layoff. A discharge occurs when management decides that there is a poor match between an employee and the organization. A layoff is a situation in which an employer ends a worker’s employment, especially temporarily, because there is not enough work for them.
3. The Costs of Employee Turnover

A high turnover is definitely a nightmare for an organization. For example, as Figure 1 shows, during 1993 through 1998 AT&T announced five job cuts to streamline its operations. The turnover costs the company billions of dollars. In addition to the monetary cost, AT&T lost talented people, and company morale was crippled.  

Figure 1 AT&T Job Cuts: 1993 through 1998

<table>
<thead>
<tr>
<th>Date</th>
<th>Job-cut goal</th>
<th>Jan. 1 of each year</th>
<th>Charge taken, in billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug. 1993</td>
<td>4,000</td>
<td>313,000</td>
<td>No charge</td>
</tr>
<tr>
<td>Feb. 1994</td>
<td>15,000</td>
<td>309,000</td>
<td>No charge</td>
</tr>
<tr>
<td>Sept. 1995</td>
<td>85,000</td>
<td>302,000</td>
<td>$1.6</td>
</tr>
<tr>
<td>Jan. 1996</td>
<td>40,000</td>
<td>301,000</td>
<td>$6.0</td>
</tr>
<tr>
<td>Jan. 1998</td>
<td>18,000</td>
<td>128,000</td>
<td>$1.0 (estimated)</td>
</tr>
</tbody>
</table>


The costs associated with replacing an employee can be classified as the most common areas considered such as hiring costs, training costs, productivity costs and separation costs. Figure 2 shows the relevant replacement costs.

Figure 2 Human Resource Replacement Costs

<table>
<thead>
<tr>
<th>Hiring costs</th>
<th>Training costs</th>
<th>Productivity costs</th>
<th>Separation costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Recruiting</td>
<td>* Training staff</td>
<td>* Lost productivity</td>
<td>* Supervisor time</td>
</tr>
<tr>
<td>* Advertising</td>
<td>* Training material</td>
<td>* Loss of customer contact</td>
<td>* Exit interview</td>
</tr>
<tr>
<td>* Searching</td>
<td>* Manager’s time</td>
<td>* Unfamiliarity</td>
<td>* Separation pay</td>
</tr>
<tr>
<td>* Interviewing</td>
<td>* Coaching time</td>
<td>* Firm’s resources</td>
<td>* Unemployment</td>
</tr>
</tbody>
</table>

The turnover is so costly that every organization should pay attention to the detailed analysis. One manufacturing organization had a company-wide turnover rate that was not severe, but 80% of the turnover occurred within one department was definitely a big problem. This imbalance indicated that some action was needed to resolve problems in that unit. A healthcare institution found that its greatest turnover in registered nurses occurred 24-26 months after hire, so the firm instituted a two-year employee recognition program and expanded the career development and training activities for employees with at least two years’ service. In these example employers, the turnover rates declined as a result of the actions taken based on the turnover analyses done.  

4. Management of Employee Turnover

Since high employee turnover is so considerably cost, no employer can afford it. One survey of supervisors and workers found that losing high performers made it more difficult for organizations to reach their business goals.  

Appropriate management measures should be taken to enhance employee retention and reduce turnover.

4.1 Management of voluntary turnover
The decision of voluntary turnover could be based either on employees’ level of dissatisfaction with the job or the number of attractive alternatives the employee has outside the organization. In either way, the organization must find some effective ways to keep the employees. One of most useful ways is motivation.

The motivation of employees is affected by job satisfaction. And job satisfaction influences employee retention greatly. If managers can motivate employees to their job satisfaction, more employees will stay in the organization.

There are several theories of motivation, including attention theory from Hawthorn studies, Maslow’s hierarchy of needs theory, Herzberg’s job satisfaction study, McGregor’s Theory X and Theory Y, Theory Z, Expectancy theory, Equity theory and Reinforcement theory. Of which, Maslow’s hierarchy of needs theory is most suitable for employee motivation. The theory, developed by Abraham Maslow in 1943, suggests that people rank their needs into five general categories: physiological needs, safety needs, social needs, esteem needs, and self-actualization needs. Once they achieve a given category of needs, they become motivated to reach the next category.

The hierarchy of needs theory can be used for motivating employees because it suggests that different employees may be at different places in the hierarchy. Therefore, their most immediate needs may differ. If managers can identify employees’ needs, they will be better able to offer rewards that motivate employees. [7]

The employee rewards are mainly classified as follows:

- Competitive salary. The salary must be competitive, which means that it must be close or even better to what other employers are providing.
- Bonuses. A bonus is an extra onetime payment at the end of a period in which performance was measured. The better the bonuses, the longer the employees remain in the firm.
- Stock options. They allow employees purchase their firms stock at a specific price. These employees are motivated to perform well because they share in firms’ profits.
- Competitive benefits. They are additional privileges beyond compensation payments, such as pension program, health insurance, unemployment insurance, paid vocation time, and tuition assistance.
- Flexible working hours. Flexibility in work schedule and casual dress has been useful to reduce employee turnover. A two-year study of workplace flexibility found that 76% of managers and 80% of employees reported that flexible working relationships impacted retention positively. [8]

- Oral praise. It’s a kind of recognition reward. Though cost nothing, it’s the acknowledgement from managers and supervisors for the employees’ outstanding performance. It’s the simplest and cheapest way to motivate employees.

Even though some voluntary turnover is inevitable, such as the employee moves out of the area and the employee’s spouse is transferred, many employers today recognize that many things could be done to reduce the turnover. By taking the above management measures, firms contribute substantially to lower voluntary turnover rates. For instance, over several years Taco Bell’s annual turnover rate fell from 243% to 144%. [9]

### 4.2 Management of involuntary turnover

Organizations must be very careful in dealing with involuntary turnover because the discharged or laid-off employees often feel they’ve been treated unfairly and thus may take some negative actions against the firm. Furthermore, the remaining employees may be influenced and the firm’s image might also be damaged if handled poorly or without due process. For example, Sandra McHugh won $1.1 million in damages in an age discrimination lawsuit against her employer. McHugh was forced out of her job because of her age — which was 42 at the time of her discharge from the company. [10]

#### 4.2.1 Discharge management

There are four bases for discharge: unsatisfactory performance, misconduct, lack of qualifications for the job, and changed requirement (or elimination) of the job. [11]

When discharging an employee, management must make sure that they follow the company’s lawful and fair rules. Remember, the rules must not be against the national or local law, such as sex discrimination,
age discrimination, or minority discrimination. In addition to that, the rules must be fair. Fair here firstly means that any employee should be treated equally. Secondly, companies should allow employees the opportunity to correct his or her unacceptable behavior before issuing the notice of discharge. Thirdly, employees should have the chance for termination interview with the manager. Every effort should be made to avoid wrongful discharge. Managers must consider the employee rights, which include statutory rights, contractual rights and other rights like ethical treatment, privacy and free speech. If any wrongful discharge occurs, a sincere apology from the top management should be made to the company as well as to the employee.

4.2.2 Layoff management
Global competition, reductions in product demand, changing technologies that reduce the need for workers, and mergers and acquisitions are the primary factors behind most layoffs. Layoffs have a powerful impact on the organization. It not only affects the laid-off employees and the morale of the remaining employees, but also the local economic vitality. When layoffs happen, the entire community may suffer. This was the case when National Cash Register (NCR) closed many plants in the Dayton, Ohio, area in the 1990s. Dayton’s economic prosperity collapsed when it lost 20,000 high-paying jobs due to a failed merger between NCR and AT&T. Another failure case is layoffs at Apple Computer. In the 1990s, competitors such as IBM and Compaq had matched Apple’s technology in their products, and Apple lowered the prices of its products to maintain market share. Apple’s management had to reduce the size of its workforce to economize on costs. Between 1991 and 1997 Apple experienced three major layoffs and each one reduced its workforce by several thousand employees. The layoffs made people unsure of their futures and tempting the best people to leave. Because employees feared losing jobs when a project was over, many people substantially slowed their progress. The loss of key technical and marketing personnel made the firm’s prospects even worse.

Managers should take every effort to avoid layoffs since they affect so many people. Typically, there are eight kinds of alternatives: freezing hiring, cutting part-time employees, relocation, job sharing, transfers, pay freeze or cut, retraining, and early retirement. After all other cost-cutting alternatives have been exhausted, and layoff is unavoidable, managers must concern themselves with the following solutions: developing layoff criteria, notifying employees, communicating to laid-off employees, coordinating media relations, coordinating local government and reassuring the remaining employees.

5. Conclusion

Although some people see employee turnover positively, many organizations believe that it do have negative side. In addition to the considerable monetary cost of the replacement, high turnover rate also causes the employer to lose the most valuable asset — talented people, and makes the company morale crippled. No organization can afford such a big loss. Whether voluntary turnover or involuntary turnover, appropriate management measures, such as motivating employees, providing comprehensive benefits, dealing carefully with discharge and layoff, should be taken to enhance employee retention and reduce turnover.

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References