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Maximising Returns on Human Capital

Managing the Revolving Door of Employee Turnover

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In a competitive labour market, it is very essential to offer attractive wages as this is one of the biggest reasons why employees jump ship. Whilst benchmarking remuneration to the market is a fair way of retaining employees, other factors should also not be neglected. These include but are not limited to recognition and rewards systems, Work-life balance which can lead to burnout if ignored, training and development and the communication culture within the organisation.

Employee retention defined as the organizational goal of keeping talented employees and reducing turnover. Employee retention is normally measured as a percentage. For example, an annual retention rate represented at 70% indicates that the organisation kept 70% of its employees in that period and had a 30% attrition. Employees that were lost could have been from natural means like retirement or it could have been through resignation, termination of contract and other similar reasons. Regardless, turnover costs and employee disengagement are costly to an organisation and an effective employee retention strategy is encouraged for organisations.

It is estimated by the research organisation Centre for American Progress that it costs businesses about one-fifth of a worker's salary to replace that worker and this is just the conservative financial costs. Included in these costs are the advertising, interviewing, screening, and hiring processes. There are also non-financial costs that are linked to employee turnover the most obvious being the time it takes for a new recruit to fully acclimatise to the workplace. It can take months for a new employee to get up to the productivity of an existing employee meaning an increased risk of errors made by overburdened co-workers. High employee turnover can also affect the remaining employees by way of low morale, which translates into low employee engagement and consequently muted business performance. The impact of high employee turnover can also result in a negative reputation for companies as potential employees may find it alarming that people are choosing to leave the organisation.

What then must be done to foster an environment that keeps employee turnover at a manageable and reasonable level? It is worthwhile to know that the optimal turnover rate differs from industry to industry. The food services industry is prone to one of the highest turnover rates in any industry. The combination of seasonal employees, a young workforce that is still in school, and historically low wages create a basis for consistent employee turnover. On the other hand, fields such as academia have some of the lowest staff attrition rates. Turnover is not necessarily a bad thing as it allows you the organisation to get rid of undesirable employees in favour of employees who can add value to the business. So what must an organisation focus on that ensures they retain the good employees that are critical to business operations?

An area that organisations should aim to get right is the onboarding and orientation process. Employees should be set up for success from the start. Forbes magazine puts the percentage of new hires that leave within 45 days at 20%. To prevent this revolving door of hires, organisations should aim to develop an onboarding process where new staff members not only learn about the job but also the company culture and how they can contribute and thrive, with ongoing discussions, goals, and opportunities to address questions and issues as they arrive.

In a competitive labour market, it is very essential to offer attractive wages as this is one of the biggest reasons why employees jump ship. Whilst benchmarking remuneration to the market is a fair way of retaining employees, other factors should also not be neglected. These include but are not limited to recognition and rewards systems, Work-life balance which can lead to burnout if ignored, training and development and the communication culture within the organisation.

A stable workforce is an asset to an organisation. This can be achieved by reducing employee turnover through better benefits and workplace policies that make good business sense, as it can result in significant cost savings.

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