Chartered Institute of Personnel and Development

Rebecca Clake, Adviser, Organisation and Resourcing
Measuring the cost of staff turnover and putting a value on retention
Chartered Institute of Personnel and Development

- Professional body for personnel management in UK and Ireland
- Approximately 250 employees
- Over 120,000 members
- Students → seniors
CIPD research

Professional knowledge and information team (PKI)

• Knowledge into action, research into practice

• Research reports, practical guides and tools

www.cipd.co.uk (Information resources section)
# Our Publications Over the Last Year

## Research Reports (and Summaries)
- Helping People Learn
- Maximising Employee Potential and Business Performance (with EEF)
- Bringing Policies to Life
- HR’s Contribution to Mergers and Acquisitions
- Understanding the People and Performance link
- Opportunity of a Lifetime: Reshaping Retirement
- Information and Consultation
- Branding and People Management

## Books
- Training in the Age of the Learner
- International HRM
- Globalising HR

## Guides
- Business Partnering
- Coaching
- Career Management
- Corporate Social Responsibility and HR’s Role
- International Mergers and Acquisitions

## Journals
- Impact
- Perspectives

## Change Agendas
- Women in the Boardroom
- The Challenge of Change
- Union Learning Reps
- Religious discrimination
- E-learning
- Delivering public services
- People and public services
- Human capital external reporting framework
- Human capital internal reporting framework

## Executive Briefings
- Flexible benefits
- Diversity: Stacking up the evidence
- Total reward
- Globalising HR
- Diversity and the Law

## Surveys
- Conflict Management
- HR Indicators
- PKI Barometer/Survey of Surveys
- Working Time Directive
- Flexible working and Paternity Leave
- The HR function
- Career management
- Employee absence
- Personnel rewards
- Reward management
- Recruitment, retention and turnover
- Training and development
- Organising for success

## Tools on the web
Practical tools developed from CIPD research

Online and downloadable tools

Leading and managing people to deliver performance advantage is fast becoming a central challenge for us all. For those responsible for meeting this challenge it is essential to have, at their fingertips, tools to facilitate effective change.

We have produced a range of ‘starters for ten’ tools to assist practitioners’ thinking and action on a range of current and emerging organisational issues. These tools, based on insights and good practice developed from recent CIPD research, are the result of extensive work with a large number of organisations from both the public and private sectors.

The tools include:

- Checklists
- Diagnostics to assess discrete HR interventions,
- Frameworks that include a range of tools to review, plan and implement HR process change
Understanding the costs of staff turnover and putting a value on retention

Employee turnover in context

• measuring and costing employee turnover

• when does turnover become problematic?

• building an effective retention strategy
Drawing on…….

CIPD survey report,
Recruitment, retention and turnover, 2004

CIPD book,
The employee retention handbook, Stephen Taylor, 2002
Employee turnover: the issue in context

What’s worrying HR executives?
The Top 10 Worries/Issues for HR executives

- ECONOMIC/POLITICAL UNCERTAINTY
  - Developing/sourcing leaders
  - Developing the HR function
  - Measuring/showing the return on people
  - Recruiting and retaining talent/employer branding
  - Delivering on the basics

- SKILL AND TALENT SHORTAGES
  - Implementing HR strategy
  - HR information Systems
  - Managing change/re-organisation
  - Legislation – diversity/equality
  - Globalisation

- GOVERNMENT DELIVERY AGENDA
Human Capital: Improving the Measurement
Measuring employee turnover

Crude wastage

\[
\frac{\text{Total no. of leavers over period}}{\text{Average total number employed over period}} \times 100
\]

*Takes into account all leavers: inc. involuntary (dismissal, redundancy, retirement)*
Can also break down:

- Voluntary turnover/involuntary
- According to seniority/experience, department, performance….
Costing employee turnover

Combination of

- **opportunity costs**
  - management time: associated with recruitment, selection, induction and administration

- **direct costs**
  - advertisements
  - agencies
  - running assessment centre
Also costs of overtime/temporary cover

_CIPD survey, Recruitment, retention and turnover 2004_
Average time to fill a vacancy is 8.9 weeks
Almost 30% of organisations always or usually always make use of temporary staff for non-management roles
Only 7% of UK organisations currently calculate the cost of employee turnover.

Average of cost of replacing an employee: £4800

Average cost of replacing a manager/professional: £7000
More complex approaches give a more accurate and invariably higher estimate of total costs

Eg.
- estimating the productivity of new employees/those who have resigned
- value of loss of contacts with customers/relationships
- Fair (’92) – up to six months salary
- Phillips (’90) – up to 1.5 times annual starting salary
Employee stability index

• discounts high turnover in the first months if employment by focussing on people employed for a prolonged period
• focus on proportion of human capital retained

\[
\text{No. of employees with X years' service at a given date } \times 100
\]
\[
\text{No. employed X years ago}
\]

Eg. if org. employs 1,000 people at the start of 2004, and calculates at the end of the year that 800 remain in their jobs = stability rate of 80 per cent.
Examples

- The Co-operative Group
- Genesis Housing Group
- Halcrow Group Limited
When does turnover become problematic?

- CIPD Recruitment, retention and turnover survey
CIPD survey, recruitment, retention and turnover 2004

71% of firms surveyed agree ‘turnover has a negative effect on organisation performance’

More likely to agree, the higher the level of turnover experienced
When does turnover become problematic?

• Some labour markets are tighter than others

• Some groups of employee take longer to become fully effective when they start

• Some individuals are a greater loss than others – because of the nature of the work they do
Key areas to consider

• industry norms (value of benchmarking data)
• business cycle
• why people are leaving the business?
• who is leaving the business?
Building an effective retention strategy

- What are the reasons people are leaving? (particularly hard to recruit groups…)
- What employee turnover is costing your organisation?

*CIPD survey, Recruitment, retention and turnover 2004*
Only 7% of organisations currently calculate the cost of labour turnover
Main reasons for labour turnover

- Promotion outside: 44%
- Change of career: 40%
- Level of pay: 39%
- Lack of development or career opportunities: 37%
- Redundancy: 27%
- Retirement: 17%
- Leaving to have/look after children: 8%
- Level of workload: 10%
- Level of working hours: 9%
- Stress of job/role: 6%
- Ill health (other than sickness): 6%

34% of HR staff felt line managers are not competent in recruitment, and 31% felt they are not sufficiently trained/supported in recruitment.
• Reliability of your exit data?

• Centrality of line managers:

*CIPD Executive Briefing*

*Bringing policies to life: the role of front line managers in people management’*
Steps taken specifically to address staff retention in 2003

<table>
<thead>
<tr>
<th>Step</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved employee communication/involvement</td>
<td>47</td>
</tr>
<tr>
<td>Improved induction process</td>
<td>43</td>
</tr>
<tr>
<td>Increased learning and development opportunities</td>
<td>41</td>
</tr>
<tr>
<td>Improved selection techniques</td>
<td>41</td>
</tr>
<tr>
<td>Made changes to improve work–life balance</td>
<td>33</td>
</tr>
<tr>
<td>Increased pay</td>
<td>33</td>
</tr>
<tr>
<td>Improved line management HR skills</td>
<td>33</td>
</tr>
<tr>
<td>Improved benefits</td>
<td>25</td>
</tr>
<tr>
<td>Revised way staff are rewarded so their efforts are better recognised</td>
<td>20</td>
</tr>
<tr>
<td>Offered coaching/mentoring/buddy systems</td>
<td>20</td>
</tr>
<tr>
<td>Made changes to the way the organisation approaches career management</td>
<td>16</td>
</tr>
<tr>
<td>Improved physical working conditions</td>
<td>16</td>
</tr>
</tbody>
</table>
Steps taken specifically to address staff retention in 2003

(cont.)

<table>
<thead>
<tr>
<th>Steps</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Levels of pay and conditions better publicised</td>
<td>14</td>
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<tr>
<td>Redesigned jobs to make them more satisfying</td>
<td>10</td>
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<tr>
<td>Increased diversity of staff</td>
<td>8</td>
</tr>
<tr>
<td>Used recruitment/induction bonuses</td>
<td>8</td>
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<tr>
<td>Removed age-related polices and practices</td>
<td>6</td>
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<tr>
<td>Other</td>
<td>3</td>
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<tr>
<td>My organisation has not undertaken any specific initiatives</td>
<td>14</td>
</tr>
<tr>
<td>None needed</td>
<td>–</td>
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</tbody>
</table>
Conclusions
We’re heading strongly in a strategic direction

<table>
<thead>
<tr>
<th>Strategic</th>
<th>Operational</th>
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</thead>
<tbody>
<tr>
<td>Proactive</td>
<td>Reactive</td>
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<tr>
<td>Tailored</td>
<td>Off the shelf</td>
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<tr>
<td>Business driven</td>
<td>Employee driven</td>
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<tr>
<td>Specialist</td>
<td>Generalist</td>
</tr>
</tbody>
</table>

X Current
O Future

HR survey: where we are, where we’re heading, 2003
There's a better way to keep your organisation's talent

Our chartered members know how
Go to www.cipd.co.uk/chartered

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