Turnover Revisited

A white paper by
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The last few years of high unemployment have lulled many companies into thinking that their problems with turnover are finally behind them. They remember the years of double-digit turnover and job requisitions standing open for many months if not years, and are grateful those days are gone. Without the pressing problems of attracting and retaining key talent, many companies have moved on to other issues. It is a short-sighted strategy that may prove painful as the economy warms up.

Recent research suggests that the majority of employees are hopeful of moving on to other companies once the opportunity presents itself. This latent turnover is a veritable land mine. Just when you need employees the most to take advantage of expanding business, you may find that they are no longer needing you. It is wise to revisit the dangers of high turnover and the factors that make employees decide to stay or go.

Over the last two decades we have conducted research for a wide variety of reasons in over 200 companies. Most of them are headquartered here in Silicon Valley, although many are international in scope. Whatever the motivation behind the survey (strategic planning, morale, process improvement, etc.) we also asked questions about employees' felt sense of loyalty to their employer. These few questions provided a key outcome measure that was used to evaluate the importance of answers to other questions. For example, we were often curious if a managers' behavior was a strong contributor to employee loyalty. Or, in contrast, was the perceived ethics or competence of senior executives a greater contributor?

The measures for loyalty were questions such as the following:

- *Assuming market acceptance of our products and services, I anticipate a long career here at [company].*
- *I would not consider leaving [company], even for a 5-10% raise in salary.*
- *I feel a strong sense of loyalty to [company].*

Since any one question can be subject to certain distortions and biases, we usually used some combination of questions to create an index of loyalty.

Across dozens of companies, we have found a stable rank order of the predictors of employee loyalty, which is the main thrust of this paper.

Before reviewing the findings, however, it would be useful to remember why turnover is such a critical concern for companies. Remember, first of all, that although it is usually reported as a percentage for the year, it does not really range from 0% to 100%. When turnover starts to move past 25% it is in danger of skyrocketing suddenly (the obvious exception is industries such as fast food, where 100%+ turnover numbers are commonplace). In most companies, once turnover tops 25% it becomes self-reinforcing. People perceive key employees leaving, and they begin to suspect it is best to get out while the getting is good. I have seen turnover figures jump from 25% to almost 50% in a matter of months as employees sense that the ship is sinking. So the single-digit turnover numbers common today are misleadingly low; they could become a serious problem when they move into the 'teens.

The Cost of Turnover

The most obvious cost of turnover is the **loss of key talent**. The people who used to design your products, manufacture them, sell them, service them, or support the company are gone. And as they go, they create a current that draws along **the secondary turnover** of their friends and colleagues. The employees who have left provide an easy bridge to another company, since they can call over to a friend who not only can give insider information on the new employment prospect, they are often eager to make the introduction so their friends can join them in their new company.

There is another often missed cost which is that you **lost your key talent to your competition**. It is a loss that they leave, but it adds injury to insult when they leave to a competitor. If they have experience in a particular industry, it is most likely that they will go to a competitor rather than shift to a new segment of the economy. Technical talent can also lead to a **loss of customers**. When clients hear that their favorite engineer has left the company, they may casually ask "Oh, where did he end up?" so they can shift their business to the person they have come to trust. The sales person who used to be selling *your products* will be calling on the same people to sell *someone else's* products.

And employees are not hard-working and diligent up until the day they leave. There is a significant **lack of engagement prior to leaving** that constitutes a separate loss. For the weeks and even months before they decide to take the head hunters' phone calls, they are giving only half their normal energy and effort to the job.

After they leave, there is the **cost of recruitment**. The staff time, advertising costs, head hunter fees, and interviewing time for replacements can amount to tens of thousands of dollars. And while that position is open, the **strain of the unfilled position** is another source of pain. We often fail to calculate the strain locally, which is how it is felt. Perhaps there are only a few job req's open, but if 2 members of an 8-person work group are missing, that amounts of a redistribution of 25% of the group's workload until the positions are filled. The remaining 6 will be under considerable strain until the positions are filled. And the demands of interviewing will mean their supervisor is not as available as usual to help with the overload.

When employees leave, we are conscious of the lost talent and experience, but we usually do not appreciate the value of their **place in the social network of the company**. Someone may be only one of 50 engineers, but they might be one of the 2-3 engineers who were routinely sought out for consultation by their peers. Or they might have been the one salesman with the richest connections in the health care client segment. Or they might have been the manager routinely seen as a mentor to up and coming talent.

And when the new hire is finally found, the cost of turnover does not stop. The **demands of the new hire** go beyond training and orientation, which can easily amount of weeks if not months of unproductive but paid time. New employees also bring with them a raft of procedures from their former company which flow into their new employer, often **diluting processes** that are amazingly fragile even with stable staffing. Along with procedures, they also **dilute the culture**, bringing in values and symbols from another firm. Companies with high turnover or rapid growth may discover that only a fraction of the employees have enough history to support a stable culture.

All of these costs can add up to significant numbers. One client estimated that the cost of losing a single senior engineer was several million dollars. Most of it was lost business, but the cost of replacement was often over half a million itself.

How to Think about Turnover

We have come to employ a model for thinking about turnover that greatly aids in making reasonable choices about how to allocate your efforts at containing it. Think of employees as belonging to one of 3 stages:

Stage 0: The employee is fully engaged with their job. They are hopeful of fixing problems and generally tolerant of the company's shortcomings. They think of a long future with the company and give little thought to leaving. If contacted by a headhunter, they would refer the call to their friends or colleagues.

Stage 1: The employee is dissatisfied enough to be curious about their options. They are annoyed or unaccepting of their current employer's shortcomings. They are fantasizing about a range of possible futures. If contacted by a headhunter, they would be curious and probably want to talk, but they are still reluctant to make a choice to leave.

Stage 2: The employee is an employee in formal status only. They are oblivious to company problems because they have already left in spirit. They are romanticizing about a particular future. The only decision left is *when* to leave, but not *if*.

This is when most employees come to the attention of the company. They have spoken with their boss, and perhaps he or she has asked for HR to review the employee's job status and the possibility of a raise. It is tempting to try and secure the employee, but in reality they have already left. An increase in salary will only postpone their leaving until the next better offer comes around. And they are not likely to re-connect to the company as they once did.

The focus on conversation in Stage 2 is usually money, but it is not the primary reason for leaving. It may be the rationalization, or the cover story, but it is typically just an echo of other concerns. The employee who asks for more money is really saying "If you want to treat me this poorly, you gotta pay me more." Or, "If I have to work under this manager, you gotta give me something extra."

How to Cultivate Employee Loyalty

The real issue is not what to do with someone in Stage 2, but how to prevent someone shifting from Stage 0 into Stage 1. That was the research question we tried to answer by reviewing the survey data from a wide range of companies. By the way, we are assuming that your salary ranges are reasonably competitive (if you are underpaying employees they will leave just because they're smart enough to do the math).

The following is the rank order of the factors that had the strongest contribution to an employee's felt sense of loyalty to their current employer. Remember this data was taken from current employees, not from exit interviews. So these reflect the factors influencing employees in Stage 0, or at least Stage 1. Our own extensive interviews with undesirable terminations several months after leaving only underscored the rank order.

FACTOR ONE: Company Vision

The questions with the strongest links to expressed feelings of loyalty were questions about the clarity and credibility of the company's vision. The same pattern showed up with questions about the respondent's optimism for the company's future success. We interpret this to be a reflection of the appropriateness or correctness of the company vision. Remember that the vision of the company is often viewed through the stated strategic plan. But whether it is seen directly or indirectly, employees are most loyal when they see a vision in which they can believe.

FACTOR TWO: Corporate Efficacy

Next in strength were questions about the efficacy of the company. That is, employees were most loyal when they saw the vision translated into actions. When systems and procedures reflected the company's intent, employees felt the company was serious and thorough about vision and mission statements. Closely linked were questions about the company's ability to identify problems, formulate a response, and implement a change. Again, employees are impressed (and willing to hang around) when they see a company taking action rather than floundering in indecision or flawed execution.

This same factor was reflected in questions about seeing a link between my own work and the company's overall strategic objectives. When employees cannot see how their work plays a part in the bigger picture, they are more likely to leave.

The last component of efficacy was the perception that senior management correctly structured the organization. When employees see a structure that lacks credibility or violates the strategic intent of the company, they were less likely to feel any loyalty to the company.

FACTOR THREE: Valuing Employees

Next in line among the factors linked to loyalty was the perception of being valued. Employees who were treated with respect were more likely to feel attached to their employer. They also look to the senior team to model a set of values and ethics. When they saw executives acting capriciously or without regard to their impact on others, loyalty suffers.

FACTOR FOUR: Opportunities for Personal Growth

Employees who were most loyal were also the employees who saw real opportunities for professional growth in their job. Whether it is through training, developmental assignments, or mentoring, employees respond to growth opportunities with greater loyalty. This is in direct contradiction to the common management concern that money "wasted" on training is just preparing people for their next employer; in reality, investments in employee development keep people in Stage 0!

An important qualifier on this factor is the perception of fair promotional opportunities. When employees see management positions going to the President's pool boy (an actual case!) they quickly figure they have better options elsewhere.

FACTOR FIVE: A Sense of Community

The last factor was a bit of a surprise. Companies have worked so hard for the last few years to make it clear that they have no commitment to employees, we were surprised to see that employees are still looking for a place to belong. Whether it is offered formally or not, employees want a sense of community. They want to feel engaged, involved, and informed. They look to see if their ideas and their welfare are considered in management decisions. They notice whether employees of different cultures and perspectives are treated with respect.

In summary, employees were most loyal when they found a vision to believe in, a company that can articulate that vision into action, a company that values and invests in employees, and a company that provides a sense of community. Questions about pay equity or pay levels did *not* show any appreciable correlation with expressed loyalty! Most executives believe that employees leave because of their immediate manager. If they do, it is not because their manager is a bad person, it is because the manager is the human face on the five factors mentioned above.

Keep in mind that our statistical analysis used regression to explore the link between different scales. In other words, we were surfacing patterns in peoples' thinking without directly asking them. The links we found could be completely unconscious for the respondents, and even different from their espoused views. For example, we did not ask "Will you stay longer if we give you training?", to which we would expect biased answers. In separate parts of the survey we asked about their loyalty to the company and (elsewhere) their perception of the company strategy in training. The statistical analysis told us that the latter was a strong contributor to the former. And the pattern of links was stable across hundreds of surveys.

The good news here is that loyalty is not a mystery, although it is a subject of considerable myth. The even better news is that the strategies for increased loyalty are basic good business.