

Literature review on labour turnover and retention strategies

Method

MINTRAC commissioned acirrt to undertake a literature review examining the causes of high labour turnover in a range of industries in Australia and overseas. The review examined a wide range of factors that could contribute to high labour turnover including characteristics of employees, recruitment practices, wages and conditions and career development opportunities.

Factors of particular interest to MINTRAC, such as the impact of target income workers, the role of training, industry seasonality and the consequences of rural isolation, were considered. In addition, the results of a recent study on mobility in the Australian labour market are presented.

The second part of the literature review presents some of the strategies used by employers to increase retention of staff and discusses the different ways in which turnover can be measured and costed.

Causes of labour turnover

Introduction

Employee turnover is a much studied phenomenon. There is a vast literature on the causes of voluntary employee turnover dating back to the 1950s. By developing multivariate models that combine a number of factors contributing to turnover and empirically testing the models researchers have sought to predict why individuals leave organisations. Many studies are based on only a small number of variables which often only explain a small amount of variability in turnover. Another criticism of turnover studies is that they do not adequately capture the complex psychological processes involved in individual turnover decisions. A recent study of turnover by Boxall et al (2003) in New Zealand confirmed the view that motivation for job change is multidimensional and that no one factor will explain it.

However, over time there have been a number of factors that appear to be consistently linked to turnover. An early review article of studies on turnover by Mobley et al (1979) revealed that age, tenure, overall satisfaction, job content, intentions to remain on the job, and commitment were all negatively related to turnover (i.e. the higher the variable, the lower the turnover). In 1995, a meta-analysis of some 800 turnover studies was conducted by Hom and Griffeth, which was recently updated (Griffeth et al, 2000). Their analysis confirmed some well-established findings on the causes of turnover. These include: job satisfaction, organisational commitment, comparison of alternatives and intention to quit. These variables are examined in more detail below, as are a number of other factors where the evidence on the link to turnover is less conclusive.

Comparison of alternatives

Aggregate level economic studies provide consistent and significant evidence of the impact of labour market conditions on turnover rates at an aggregate level. As Mobley

et al (1979) pointed out, at an aggregate level the relationship between economic factors such as employment levels or job vacancies and turnover has been well established. At an individual level, the labour market approach emphasises expected utility and rational economic choice among employees and the perceived availability of alternative job opportunities.

The relationship between alternatives and turnover on an individual level has been researched widely since March & Simon's 1958 seminal work on ease of movement. Much of the subsequent research focused on the link between job satisfaction, perceived alternative opportunities and turnover. Later, researchers began to focus on the role of both actual and perceived opportunities in explaining individual turnover decisions.

Subsequent research has indicated that actual alternatives are a better predictor of individual turnover than perceived opportunities. Research on the impact of unemployment rates as a proxy for actual opportunities in employee turnover revealed that unemployment rates affected the job-satisfaction/turnover intent relationship but not actual turnover (Kirschenbaum & Mano-Negrin, 1999). They concluded that macro level analysis predicted turnover patterns but perceptions of opportunities did not. This point was reinforced in their study on medical centres in various locations used measures of perceived and objective opportunities in internal and external labour markets. The authors concluded that objectives opportunities were a better set of explanations of actual turnover behaviour than either perceived internal or external labour market opportunities.

Nevertheless, while actual alternatives appear to be a better predictor of turnover, there is also well-established evidence of the link between perceived alternatives and actual turnover. In their most recent meta-analysis, Griffeth et al (2000) confirmed that perceived alternatives modestly predict turnover.

Intentions to quit

Much of the empirical research on turnover is based on actual turnover, although some studies are based on intentions to quit. Apart from the practical difficulty in conducting turnover research among people who have left an organisation, some researchers suggest that there is a strong link between intentions to quit and actual turnover.

Mobley et al (1979) noted that the relationship between intentions and turnover is consistent and generally stronger than the satisfaction-turnover relationship, although it still accounted for less than a quarter of the variability in turnover. Much of the research on perceived opportunities has been found to be associated with intentions to leave but not actual turnover (Kirschenbaum & Mano-Negrin, 1999). One of the possible reasons is that intentions do not account for impulsive behaviour and also that turnover intentions are not necessarily followed through to lead to actual turnover.

Organisational commitment

Many studies have reported a significant association between organisational commitment and turnover intentions (Lum et al, 1998). Tang et al's (2000) study confirmed the link between commitment and actual turnover and Griffeth et al's (2000) analysis showed that organisational commitment was a better predictor of turnover than overall job satisfaction.

Researchers have established that there are different types of organisational commitment. Allen & Meyer (1990) investigated the nature of the link between turnover and the three components of attitudinal commitment: *affective* commitment refers to employees' emotional attachment to, identification with and involvement in the organisation; *continuance* commitment refers to commitment based on costs that employees associate with leaving the organisation; and *normative* commitment refers to employees' feelings of obligation to remain with the organisation. Put simply, employees with strong affective commitment stay with an organisation because they want, those with strong continuance commitment stay because they need to, and those with strong normative commitment stay because they feel they ought to. Allen and Meyer's study indicated that all three components of commitment were a negative indicator of turnover. In general, most research has found affective commitment to be the most decisive variable linked to turnover.

Job satisfaction

The relationship between satisfaction and turnover has been consistently found in many turnover studies (Lum et al, 1998). Mobley et al 1979 indicated that overall job satisfaction is negatively linked to turnover but explained little of the variability in turnover. Griffeth et al (2000) found that overall job satisfaction modestly predicted turnover. In a recent New Zealand study, Boxall et al (2003) found the main reason by far for people leaving their employer was for more interesting work elsewhere. It is generally accepted that the effect of job satisfaction on turnover is less than that of organisational commitment.

The link between satisfaction and commitment

Some researchers have established a relationship between satisfaction, organisational commitment and turnover. Lum et al's (1998) study of paediatric nurses suggested that organisational commitment has the strongest and most direct impact on the intention to quit whereas job satisfaction has only an indirect influence. They suggested that satisfaction indirectly influences turnover in that it influences commitment and hence turnover intentions. (Mueller & Price, 1990 cited in Lum).

Elangovan (2001) noted that the notion of job satisfaction and organisational commitment being causally related has not been incorporated in most turnover models. His study indicated there were strong causal links between stress and satisfaction (higher stress leads to lower satisfaction) and between satisfaction and commitment (lower satisfaction leads to lower commitment). He further noted a reciprocal relationship between commitment and turnover intentions (lower commitment leads to greater intentions to quit, which in turn further lowers commitment). In summary, only commitment directly affected turnover intentions.

Characteristics of employees

Despite a wealth of research, there appear to be few characteristics that meaningfully predict turnover, the exceptions being age and tenure. Age is found to be negatively related to turnover (i.e. the older a person, the less likely they are to leave an organisation). However, age alone explains little of the variability in turnover and as age is linked to many other factors, alone it contributes little to the understanding of turnover behaviour.

Tenure is also negatively related to turnover (the longer a person is with an organisation, the more likely they are to stay). Mangione in Mobley et al concluded

that length of service is one of the best single predictors of turnover. Griffeth et al also found that age and tenure have a negative relationship to turnover.

There is little evidence of a person's sex being linked to turnover. Griffeth et al's 2000 meta-analysis re-examined various personal characteristics that may be linked to turnover. They concluded that there were no differences between the quit rates of men and women. They also cited evidence that gender moderates the age-turnover relationship (i.e. women are more likely to remain in their job the older they get, than do men). They also found no link between intelligence and turnover, and none between race and turnover.

Wages and conditions

The research conducted on the link between dissatisfaction with pay and voluntary turnover appears to be inconclusive. Mobley et al (1979) concluded that results from studies on the role of pay in turnover were mixed but that often there was no relationship between pay and turnover. Other studies found no significant relationship.

On the other hand Campion (1991) cited in Tang suggests that the most important reason for voluntary turnover is higher wages/career opportunity. Martin (2003) investigates the determinants of labour turnover using establishment-level survey data for the UK. Martin indicated that there is an inverse relationship between relative wages and turnover (ie establishments with higher relative pay had lower turnover).

Pay and performance

Griffeth et al (2000) noted pay and pay-related variables have a modest effect on turnover. Their analysis also included studies that examined the relationship between pay, a person's performance and turnover. They concluded that when high performers are insufficiently rewarded, they leave. They cite findings from Milkovich and Newman (1999) that where collective reward programs replace individual incentives, their introduction may lead to higher turnover among high performers.

Flat-rate versus piece-rate pay systems

Taplin et al (2003) conducted a large-scale turnover study in the British clothing industry. Two factors emerged as the most significant reasons for employees leaving the industry. One was the low level of wage rates in the clothing industry relative to other manufacturing sectors. The other reason referred to industry image with staff leaving because of fears relating to the long-term future of clothing manufacture in the UK. In this study, turnover rates were highest among the most skilled workers.

The study also examined the role of payment systems in turnover. The researchers found that where there were flat-rate payment systems alone, average turnover exhibited a statistically significant difference from the industry mean (ie they were 4.5 per cent lower). However, most firms in the clothing industry adhered to piece rate payment systems finding it to be the most effective way of regulating the effort-bargain. This is, in the authors' view, despite anecdotal evidence that many skilled workers dislike its unpredictability and new entrants to the workforce lack the skills to maximise their earnings potential.

Attitudes to money

For some individuals pay will not be the sole criterion when people decide to continue within an existing job. In their study of mental health professionals, Tang et al (2000)

examined the relationship between attitudes towards money, intrinsic job satisfaction and voluntary turnover. One of the main findings of this study is that voluntary turnover is high among employees who value money (high money ethic endorsement), regardless of their intrinsic job satisfaction. However, those who do not value money highly but who have also have low intrinsic job satisfaction tended to have the lowest actual turnover. Furthermore, employees with high intrinsic job satisfaction and who put a low value on money also had significantly higher turnover than this second group. The researchers also found that placing a high value of money predicted actual turnover but that withdrawal cognitions (ie thinking about leaving) did not.

Training and career development

Martin (2003) detected a complex relationship between turnover and training. He suggested that establishments that enhance the skills of existing workers have lower turnover rates. However, turnover is higher when workers are trained to be multi-skilled, which may imply that this type of training enhances the prospects of workers to find work elsewhere. The literature on the link between lower turnover and training has found that off-the-job training is associated with higher turnover presumably because this type of training imparts more general skills (Martin, 2003).

Impact of training on mobility

Shah and Burke (2003) reviewed some of the literature on the relationship between turnover and training. In a British study examining the impact of training on mobility, Green et al (2000) concluded that, in aggregate, training has on average no impact on mobility. However, training that is wholly sponsored by the individual (or their families) is on balance likely to be a prelude to job search. In contrast, when employers pay for training the downward effect on mobility is more likely.

Lynch (1991, 1992) concluded that both on-the-job and off-the-job training have a significant effect on job mobility. While formal on-the-job training reduces the likelihood of mobility, particularly for young women, off-the-job training increases the likelihood of mobility. In a study of six local labour markets in Britain, Elias (1994) found that women who received employer-provided and job-related training had a lower probability of changing employer or making the transition to non-employment, but for men training made no significant difference to this type of turnover.

Effect of vocational training

In a study examining the effect of apprenticeships on male school leavers in the UK, Booth and Satchell (1994) found that completed apprenticeships reduced voluntary job-to-job, voluntary job-to-unemployment and involuntary job termination rates. In contrast, incomplete apprenticeships tended to increase the exit rate to these destinations relative to those who did not receive any training. Winkelmann (1996) reported that in Germany apprenticeships and all other types of vocational training reduce labour mobility in spite of the fact that the German apprenticeship training is intended to provide general and thus more transferable training.

Career commitment

Chang (1999) examined the relationship between career commitment, organisational commitment and turnover intention among Korean researchers and found that the role of career commitment was stronger in predicting turnover intentions. When

individuals are committed to the organisation they are less willing to leave the company. This was found to be stronger for those highly committed to their careers. The author also found that employees with low career and organisational commitment had the highest turnover intentions because they did not care either about the company or their current careers.

Individuals with high career commitment and low organisational commitment also tend to leave because they do not believe that the organisation can satisfy their career needs or goals. This is consistent with previous research that high career committers consider leaving the company if development opportunities are not provided by the organisation. However, this group is not apt to leave and is likely to contribute to the company if their organisational commitment is increased. Chang found that individuals become affectively committed to the organisation when they perceive that the organisation is pursuing internal promotion opportunities, providing proper training and that supervisors do a good job in providing information and advice about careers.

Rural or remote areas and lifestyle factors

A 2001 study of the factors influencing the recruitment and retention of nurses in rural and remote areas in Queensland found that overall work-related factors were considered to be more important in decisions by nurses to leave rural and remote nursing practice. The five major factors influencing decisions to leave rural or remote area nursing practice were management practices, emotional demands of work, workable communication, management recognition of work and family responsibilities.

The findings regarding lifestyle factors appear to be mixed. On the one hand, 'rural lifestyle' was ranked as the third most important factor for staying in rural and remote practice and, similarly, 'sense of belonging to the community' was ranked fifth. However, when respondents were asked to identify the most important factors that influenced them to leave rural and remote health services, just under 40 per cent of respondents cited issues related to the isolation caused by distance from basic amenities as one inducement for them to resign. These issues included travelling long distances to basic social and commercial activities, distance from family, friends and medical specialists, the comparatively high cost of living and a lack of communication facilities such as the Internet, which would mitigate personnel and professional isolation.

The employment difficulties of non-metropolitan life were also a contributing reason for nurses' decisions to leave practice. For example, unavailability of suitable employment or career development opportunities for their spouse was cited by 21 per cent of respondents. Some respondents with children (16 per cent) also identified access to suitable education, childcare facilities and specialist medical expertise, which are not usually available outside densely populated areas, as factors influencing leaving decisions.

Other factors contributing to turnover

Turnover studies have highlighted the relationship between turnover and a range of other factors. Some of these findings are presented briefly below.

The role of 'shocks'

Lee & Mitchell's (1994) 'unfolding model' of employee turnover represented a significant departure from the previous labour market- and psychological-oriented turnover literature. This model is based on the premise that people leave organisations in very different ways and it outlines four decision pathways describing different kinds of decisions to quit. A notable feature of the unfolding model is its emphasis on an event or 'shock' (positive or negative) that prompts some decisions to quit.

Morrell et al (2004) tested the unfolding model by studying the voluntary turnover of nurses in the UK. Their findings indicated that shocks play a role in many cases where people decide to leave. Furthermore, they found that shocks not only prompted initial thoughts about quitting but also typically had a substantial influence over the final leaving decision. They also noted that decisions to quit prompted by a shock are typically more avoidable. The authors suggest that their research illustrates the importance for managers of understanding avoidability i.e. the extent to which turnover decisions can be prevented.

Organisational size

Kirschenbaum & Mano-Negrin (1999) indicated that turnover is affected by organisational size, with size being the key mediator of an organisation's internal labour market. They suggest that organisational size impacts on turnover primarily through wage rates but also through career progression paths. Developed internal organisational labour markets produce lower departure rates since promotion opportunities have a strong negative influence on departures for career-related reasons.

Unionisation

Martin (2003) looked at the effect of unions on labour turnover and found clear evidence that unionism is associated with lower turnover. He suggested that lower turnover is a result of the ability of unions to secure better working conditions thus increasing the attractiveness for workers of staying in their current job. According to Martin, the relationship between lower turnover and unionisation has been well established by researchers using both industry-level and individual data.

Influence of co-workers

A 2002 study by Kirschenbaum and Weisberg of 477 employees in 15 firms examined employees' job destination choices as part of the turnover process. One of their main findings was that co-workers' intentions have a major significant impact on all destination options - the more positive the perception of their co-workers desire to leave, the more employees themselves wanted to leave. The researchers suggest that a feeling about co-workers' intentions to change jobs or workplace acts as a form of social pressure or justification on the employee to make a move.

Supervision/management

Mobley et al (1979) concluded that a number of studies offered moderate support for a negative relationship between satisfaction with supervision and turnover (ie the higher the satisfaction with supervision, the lower the turnover).

Behavioural predictors

Some research (Hulin cited in Griffeth et al, 2000) implies that lateness and absence can be predictors of turnover because they represent withdrawal responses from the organisation.

Mobility in the Australian labour market

Shah and Burke's (2003) report provides estimates of job and occupational labour mobility in Australia. It also provides information on the effects of demographic, educational and labour market variables on the probability of job separation using data from the ABS *Labour Mobility* survey for 2002.

It is important to note that the ABS survey does not directly measure turnover but asks respondents whether they have changed jobs in the preceding 12 months. As such, the concept of mobility used in this study is not directly comparable with turnover but can arguably give some indication of the nature of job separation in Australia. In the ABS survey, movers are defined as those people who stopped working in a job sometime in the current year, and can be job leavers or job losers. Some of the main conclusions of the report with relevance for MINTRAC are outlined below.

Types of employment

Part-time workers have a much higher rate of job separation than full-time workers. The effect is larger for men probably because part-time work is likely to be casual and hence short-term. At any given age, job separation is more likely for male part-time workers than for female part-time workers.

Migrants

The chances of job separation are significantly higher for recently arrived migrants than for Australian-born workers. Recently arrived migrants are less likely to have established roots in a particular location or with a particular employer and therefore more likely to consider alternative job offers. Migrants from the main English-speaking countries had higher separation rates than other migrants, who presumably had a greater need to improve their English language competency, and to accumulate work experience with a single employer.

Regional areas

Workers in non-metropolitan areas are significantly less likely to remain in the same occupation than workers in metropolitan areas. This means that workers in non-metropolitan areas either have higher chances of not being employed or have higher chances of moving to another occupation.

Occupation

In general, the lower the skill levels of the occupation (short-term and casual jobs are concentrated in lower-skill occupations) the higher the rate of job separation.

Retention strategies

Understanding turnover

The academic literature (Dalton et al cited in Abelson, 1987) suggests that differentiating avoidable and unavoidable turnover (from the organisation's point of view) can help organisations to understand voluntary turnover more fully. Avoidable reasons include employees leaving to find better pay or working conditions elsewhere, problems with management or leaving for better career opportunities. Unavoidable reasons - which are beyond the organisation's control - include, for example, an employee having to move because of relocation by a spouse or leaving to fulfil family or caring responsibilities.

If an organisation can identify that much of its voluntary turnover is unavoidable it may profit better from initiatives that seek to manage turnover after the event rather than expend resources on implementing preventative measures. On the other hand, if the bulk of turnover is avoidable this offers the potential for targeted intervention. However, if managers assume the turnover problem to be largely unavoidable, they may fail to recognise turnover as a symptom of underlying problems within the organisation.

Labour market issues

Another step towards understanding turnover within an organisation is to determine whether retention difficulties are caused by internal or external factors. While the role of labour market conditions in causing turnover may preclude the use of targeted human resource strategies, this information may be useful in analysing to what extent turnover is due to outside factors. However, although tight labour markets affect an employer's ability to attract and retain staff, looking outwards at the local labour market cannot be a substitute for understanding what is going on within the organisation (IDS, 2000)

Measuring turnover

Research suggests that to gain an accurate perspective of internal causes of turnover, it is useful to look at both quantitative and qualitative information (IDS, 2004). To identify underlying reasons for turnover, qualitative information on the reasons why employees have left is necessary. The UK Chartered Institute of Personnel and Development (CIPD) suggests that it is important employers have an understanding of their rates of labour turnover and how they affect the organisation's effectiveness (CIPD, 2004). Depending on the size of the business, understanding the levels of turnover across occupations, locations and particular groups of employees (such as identified high performers) can help inform a comprehensive retention strategy. By understanding the nature of the turnover problem an organisation can decide whether to adopt targeted retention initiatives, for example at particular sites or groups of employees, or to manage overall levels so that there is sufficient labour.

Wastage rates

Typically, organisations use the crude wastage rate for measuring turnover. This calculates the number of leavers in a given period as a percentage of the average number of employees during the same period. To calculate the average number of employees during a given period, organisations often add together the number of

employees at the beginning of the period with those employed at the end of the period and divide it by two (IDS, 2004).

Crude wastage rate

The simplicity of this measure means there is less risk of different parts of the organisation supplying inconsistent data. However, the crude wastage rate has its limitations because it includes all types of leavers - involuntary leavers. A single measure of turnover that does not distinguish between cases where people left because they were dissatisfied and where people left because of ill health or retirement will be inadequate because it treats leavers as a homogeneous group (Morrell et al, 2004). Furthermore, when calculating replacement figures it may be misleading to base them on crude wastage rates which include employees that do not need replacing (IDS, 2004). The crude wastage rate also makes no distinction between functional (ie beneficial) and dysfunctional turnover (CIPD, 2004).

Resignation rates

Another way of measuring turnover is to base turnover rates on voluntary leavers or resignation rates only, thus excluding employees who have left for other reasons such as retirement, redundancy, dismissal or redeployment to another part of the organisation. However, basing turnover rates on voluntary leavers can also have its drawbacks because it does not indicate how many staff need recruiting to cover those employees who have left because of retirement or voluntary internal transfers. One solution is to record separate turnover rates for voluntary and involuntary leavers (IDS, 2004).

Wastage rates can also be used for specific groups of employees or different business units, which allows an organisation to detect differences in turnover within different parts of the organisation. Overall figures tend to mask potentially significant differences in turnover within an organisation (IDS, 2004). For example, high turnover in one area of the business could produce the same overall rate as a small number of leavers distributed evenly across the organisation, but the actions required to deal with these situations would be quite different. Examining turnover by department can identify any local issues or possible problems concerning particular line managers or to monitor turnover among groups of employees with scarce skills. Wastage rates can also be applied to employees with a certain length of service (eg less than one year) which can help pinpoint ineffective recruitment, selection or induction processes (IDS, 2004).

Vacancy rate

Another approach is to place a greater emphasis on the number of vacancies that need to be filled. The vacancy rate is based on the number of positions an organisation actively wishes to recruit to as a percentage of the number of overall employees.

Stability index

This measure gives an indication of the extent to which experienced employees are being retained. It can be used to calculate the stability of the whole organisation or of a particular group of employees. It is usually calculated as the number of employees with one year's service or more as a percentage of the number of people employed a year ago. This formula can be varied according to particular circumstances (eg basing it on a longer period of service). A rise in the stability index indicates the company is improving retention of more experienced staff. Normally, a wastage rate would be

expected alongside a low level of stability. If both percentages are high, this indicates the organisation is experiencing problems with a small number of high turnover jobs (IDS, 2004).

Cohort analysis

This technique enables an organisation to understand service-related leaving patterns by taking the leaving rates of a (usually homogeneous) group of employees who joined at the same time. The resulting leaving rates can be plotted on a wastage or survival curve. Cohort analysis is a useful tool for organisations concerned about turnover costs due to high expenditure on recruitment, induction and training.

Wastage and survival curves

For wastage curves the number of leavers is plotted against their length of service on leaving. A characteristic turnover pattern shows a high level for new starters, which then decreases with length of service. Alternatively, survival curves represent the number of people who stay against length of service, providing a measure of retention instead of turnover.

Exit interviews and surveys

Organisations typically obtain qualitative information on turnover through exit interviews and surveys. However, it is important to appreciate that the reasons people give for their resignations are frequently untrue or only partially true (CIPD, 2004). The use of exit interviews is widespread yet they can be unreliable, particularly when conducted by someone who may later be asked to write a reference for the departing employee. Where exit interviews are used it is best to conduct them a short time after the employee hands in their notice. The interviewer should be someone who has not had direct responsibility for the individual (ie as their line manager) and who will not be involved in future reference writing. Confidentiality should be assured and the purpose of the interview explained (CIPD, 2004).

Alternative approaches involve the use of confidential attitude surveys which include questions about intention to leave and questionnaires sent to former employees on a confidential basis about six months after their departure.

Costing turnover

The extent of the impact of turnover on an organisation cannot be fully understood if there is no attempt to quantify the costs. The more complex approaches to costing turnover give a more accurate and higher estimate of the costs. Such approaches often take into account the costs associated with lost productivity (ie the productivity of a new employee during their first few weeks or months in the role and that of resignees during the notice period) and the effect on morale of the remaining workforce.

One such framework is that proposed by Tziner and Birati (1996) which builds on the earlier Cascio model of separation costs, replacement costs and training costs. The authors demonstrate how their conceptual framework can be translated into a formula and applied in practice. The Tziner and Birati framework includes:

- direct costs incurred in the replacement process (recruiting, hiring, training and socialising new employees, including the extra effort by supervisors and co-workers to integrate them)

- indirect costs and losses relating to interruptions in production, sales and the delivery of goods to customers
- financial value of the estimated effect on performance as a result of the drop in morale of the remaining workforce following dysfunctional turnover.

While such approaches are arguably more accurate in that they cover all the costs associated with turnover, in practice these can prove too complex and time-consuming for many organisations. The UK Chartered Institute of Personnel and Development (CIPD) suggests that because of the difficulties involved in estimating and quantifying some of the indirect costs many organisations prefer to take a 'not less than' approach in attempting to cost turnover. According to the CIPD (2004), it is possible to compute a 'not less than' figure by working out what it costs on average to replace a leaver with a new starter in each major employment category. This figure can then be multiplied by the crude turnover rate for that employee group to calculate the total annual costs of turnover. The CIPD suggests that the major turnover costs are:

- administration of the resignation (including exit interviews)
- recruitment costs (including advertising)
- selection costs
- costs of cover (temporary employees or overtime) during the vacancy period
- administration of recruitment and selection process
- induction training for new employees.

Recruitment practices

In high turnover industries in particular, a great deal of employee turnover consists of people resigning or being dismissed in the first few months of employment (CIPD, 2004). The costs of recruitment and turnover per individual become much greater when new staff leave after only a short period of time.

Where new employees leave after a short period in the job, poor recruitment and selection decisions both on the part of the employer and employee are usually the cause, along with poorly designed or non-existent induction programs (CIPD, 2004). If expectations are raised too high during the recruitment process this can result in people accepting jobs for which they may be unsuited. Organisations often do this to ensure that they fill their vacancies with sufficient numbers of well-qualified people as quickly as possible. However, this can be counterproductive over the longer-term, as it can lead to costly avoidable turnover and to the development of a poor reputation in local labour markets. The CIPD (2004) suggests that employers give employees a realistic job preview at the recruitment stage and take care not to raise expectations. It may also be useful to invite applicants to work a shift before committing themselves.

Retention strategies

IDS (2004) suggests that where there is a general turnover problem within the organisation, companies often take a holistic approach aimed at fully engaging with staff. This may encompass a wide range of measures such as:

- improving recruitment procedures to ensure candidates receive a realistic impression of the company and the job

- supporting new recruits during the critical first few weeks in the job
- providing clear career paths, interesting work and support for personal development
- considering work-life balance issues
- keeping pay in line with appropriate market rates
- offering an attractive employee benefits package
- creating a pleasant working environment
- communicating and consulting effectively with employees.

Examples of such measures are illustrated in more detail in the industry and organisational studies below.

Industry studies

Clothing industry

In Taplin et al's (2003) study of the British clothing industry, employer initiatives to reduce turnover included a range of measures. Improving remuneration packages was the single most common initiative with changes to the payments systems made so that workers could increase their earnings. Also important were more rigorous screening procedures for new hires, and improved training programs designed to bring new workers up to speed so that they could maximise their piece rate earnings potential. Various quality of working life initiatives were introduced, such as flexible working hours and forms of employee participation (eg works councils).

Accommodation industry

A recent study (Davies et al, 2001) examined the effect of three human resource strategies (performance appraisal, salary and benefit strategies), and training and development initiatives in the Western Australian accommodation industry. The authors concluded that only training and development indicated a reduced turnover of employees.

Mining

A study of turnover in 'Fly-In Fly-Out' (FIFO) mining operations in Australia (Beach et al 2003) showed that turnover rates between mines operating within the same general labour market varied considerably, suggesting that the main drivers of turnover were often internal, rather than external to mine sites. In terms of managing turnover, sites which had lower turnover, was attributed to a combination of four factors: equitable remuneration; commitment to training and skills development; good management; and developing and maintaining a positive organisational culture. Managers at some sites indicated they tried to control turnover by recruiting for a good 'person-organisation' fit.

Case studies of organisations

The retention strategies outlined here are based on organisational-specific initiatives. One of the problems with organisational-case studies is that their experience may not be generalisable, given that the causes of turnover and the resulting strategies are likely to be specific to a particular organisation, a site or even a particular group of

employees. Another problem is that where a combination of measures are used (which is often the case) it is very difficult to attribute success to one particular element of the strategy. Nevertheless, some common practices can be drawn from these experiences that appear to be successful in helping to improve retention.

The first two examples are academic studies while the following table summarises the main features of the retention strategies adopted by a range of UK organisations to successfully improve retention.

Hospital

A Canadian study by Lum et al (1998) assessed the impact of certain pay policies upon the turnover intentions of paediatric nurses. Two types of salary supplements were introduced – bonuses to intensive care nurses only and a 5 per cent salary differential for all staff nurses – to reduce turnover. The supplements were structured in such a way as to have the most favourable influence on the senior staff nurses who were presumed to be the most experienced and those most valuable employees. Satisfaction with pay had both direct and indirect effects on turnover intent. They found that although pay satisfaction (unlike job satisfaction) was significantly associated with reducing intended turnover, its indirect effect upon turnover intent, mediated through job satisfaction and organisational commitment was weaker. In particular, nurses with greater experience were more satisfied with their pay and were less likely to leave, which was the anticipated effect of the salary supplements. The anecdotal evidence showed that the senior nurses perceived the pay supplements to be an important recognition of their contribution to the organisation.

Department store

In a study of retail salespeople (Firth et al, 2003) found that job stressors (eg work overload, job ambiguity) are the factors that trigger the chain of psychological states that lead to intention to quit. They suggested that supervisor support can reduce the impact of stressors on psychological states and intentions to quit. Monitoring workloads and supervisor-subordinate relationships by management may not only reduce stress but increase job satisfaction and commitment to the organisation.

Causes of turnover and retention strategies adopted by UK organisations

Organisation/ industry	Retention problem/ causes	Retention initiatives
<i>Standard Life Healthcare</i> ¹ Private medical insurance provider 750 employees	High turnover in Guildford office Strategy based around prioritising sales Ineffectual leadership Reactive employee resourcing Lack of customer focus Low employee morale	Streamlining recruitment and induction Providing access to learning resource centres Competitive salary and benefits package Focusing performance management on employee development Improving communications Measuring employee engagement Encouraging employee health and well-being through targeted interventions
<i>Hillarys</i> ¹ Blinds manufacturer 950 employees	Retention of shopfloor employees at Nottingham site Dissatisfaction with working environment Dissatisfaction with communications High number of job vacancies for lower-skilled workers in one particular area	New employee benefits program with a focus on family-friendly benefits and linking reward to length of service (eg increasing annual leave for longer service) Improving communications Development of a new internal brand Improvements to the physical working environment (eg repainting and minor renovations) Engaging employees through social events and community activities
<i>First Choice National Sales Centre</i> ¹ Travel call centre 450 employees	High turnover, particularly among front-line sales staff Ad hoc employee resourcing Understaffing during operational peaks Below market pay Bonus scheme too focused on sales targets Poor communications Tight local call centre labour market	Increasing base pay in line with local call centre market New pay progressions system based on achieving key competencies (with reduced emphasis on sales) Improving resource management (ie linking recruitment activity to peaks/troughs; introducing annual hours) Streamlining recruitment and induction procedures, linking them to the competency framework
<i>Happy</i> ¹ Training company 37 staff	Retain staff in IT market	Work-life balance and flexible working arrangements Empowering employees to make key decisions Promoting an open culture Encouraging employee volunteering, which offers development opportunities
<i>Kent County Council</i> ¹ 5,246 staff	Location (East Kent isolated, West Kent proximity to London) High turnover of social workers Heavy workloads and high stress Limited opportunities for career progression	New competency-based career grade structure More coordinated recruitment program (based on attracting newly qualified social workers) Scheme to recruit and train unqualified social workers Review workloads and reduce administrative burdens

<i>BAE Systems</i> ¹ Aerospace c.45,000 (UK)	UK graduate attrition Questions over effectiveness of graduate development program	Conducted research into effectiveness of graduate development program Realistic recruitment message to emphasise the defence-related manufacturing nature of its business Educating managers about their responsibilities in the graduate scheme
<i>Seeboard Energy</i> ² Utility	High turnover in customer contact centre Dissatisfaction with 3-week rolling shift system	Move to fixed shift patterns Recruitment targeted at working mothers to improve the response
<i>Marina Developments</i> ³ Marina group 275 employees	-	Introduced on-site, internally delivered training course for yard staff Training linked to achievement of competency targets and salary increments
<i>Makita Manufacturing Europe</i> ⁴ Power tools manufacturing 460 employees	Local labour market shortages of unskilled and semi-skilled staff Culture of job-hopping in local area Ineffective induction	Improved induction process by setting up a training scheme for new recruits with both off- and on-the-job training More targeted recruitment (ie employees that can demonstrate some stability, older workers) More stringent checking procedures during selection More aptitude testing during recruitment Rewarding long service
<i>Asda</i> ⁴ Retailer 100,000 employees	Local labour market issues Expansion highlighted greater need to retain staff	Extended access to share schemes through an employee share option plan More promotion options for staff New management development program
<i>GlaxoSmithKline Research & Development (formerly Glaxo Wellcome)</i> ⁴ 4,600 staff	Skilled staff not returning after maternity leave	Returners bonus upon return from maternity leave Opportunities for more flexible working, including phased return to work and job-sharing Assistance in making childcare arrangements
<i>PricewaterhouseCoopers Management Consultancy Services</i> ⁴ 3,400 staff	Difficulties in balancing work and home life among consultants	Introduced work-life balance initiatives (eg working one day a week at home) Work-life balance workshops Coaching scheme Improve graduate retention

¹Adapted from: IDS HR Studies 765, Improving staff retention, January 2004

²Politt D. (2003) 'Shift-pattern switch improves staff turnover and recruitment at Seeboard' *Human Resource Management International Digest* Vol. 11(1), pp12-14.

³Politt D. (2004) 'Marina Developments staff get a lift from boatyard training' *Human Resource Management* Vol. 12, No. 2, pp14-16.

⁴Adapted from IDS Studies 692, Improving staff retention, July 2000.

High performance work practices and turnover

There have been a number of studies into the impact of high performance work practices on a number of organisational outcomes. In a large-scale survey of 885 US firms, Huselid (1995) concluded that the use of such practices had a statistically significant impact on turnover concluding that high performance work practices lead to lower turnover. However, a later study of New Zealand firms came to a slightly different conclusion. Guthrie (2001) suggested that the use of high performance work practices may have implications for the effect of turnover on productivity. His explanation is that the use of such practices increases the value and importance of human capital (ie employees become more valuable to the organisation) and hence the cost of employee departures. A Canadian study (Statistics Canada, 2003) found that the use of such practices appeared to be related to lower quit rates in high-skill service industries. However, while there was some evidence of this link in lower skill services, it was not as great as for high-skill services. The authors also found very little evidence that such practices reduce quit rates in manufacturing. However, one particular practice – self-directed work groups – appeared to be associated with lower quit rates in manufacturing.

Conclusions

This review of turnover literature identifies a range of factors that have been shown to be consistently linked to turnover. These include organisational commitment, job satisfaction, alternative opportunities and intentions to quit. Evidence on the role of pay is still somewhat inconclusive, although keeping pay in line with market rates is certainly critical to retaining staff. Apart from age and tenure, personal characteristics of employees appear to have little relationship to turnover.

While these factors can help employers understand the general nature of turnover and its likely causes, the retention strategies adopted within industries and organisations tend to cover a unique mix of measures and approaches specifically targeted at the particular problem they face. Understanding the problem is key to devising an effective retention strategy. Access to both quantitative and qualitative data is necessary for understanding levels of turnover across occupations, sites and for particular groups of employees as well as for identifying the underlying causes of turnover.

Further investigation of turnover in the meat processing industry could include an examination of turnover data to establish whether turnover is uniformly high across the industry or whether there are differences between establishments in the same local labour market. The collation of qualitative data through employee surveys either at industry level or within particular establishments may be useful for identifying sources of dissatisfaction, intentions to leave, and any underlying causes of turnover.

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