New Findings about Employee Turnover
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We all know turnover is costly and disruptive. Regardless of whether a person leaves voluntarily or involuntarily, there is a period of time when coworkers will need to cover the responsibilities of the missing employee, a suitable replacement will need to be found, and the new hire will need to be socialized into the organization. Turnover is one of the most frustrating challenges that managers face, especially when the firm has invested heavily in the recruitment and training of the employee. Yet, every manager must also realize that a certain degree of turnover is unavoidable and potentially even healthy. Thus, it is critical to understand the underlying nature, causes, and consequences of turnover within your firm.

Turnover has historically been studied purely at the individual level, and most turnover cost calculators are based primarily on an individual’s salary. For example, some estimates for turnover are as high as 150% annual salary. In recent research conducted by Dr. Anthony Nyberg and myself, we believe these estimates are too low. The actual costs and consequences of turnover are dramatically higher because salary-based estimates fail to recognize the impact that turnover creates on other employees, one’s team, and the department. The costs and consequences get more severe as the employee’s role is higher in the firm.

To sum it up: when people work in teams or collaboratively in small groups (e.g., bank branches, hospital teams, sales teams), the costs and consequences of turnover are profound.

To illustrate, we engaged in a longitudinal study on employee engagement and turnover within 524 branches of a large regional bank. However, in contrast to the usual approach to studying turnover, we looked at the consequences of turnover at the bank branch level. What we found was startling:

- The turnover event immediately lowers branch performance by approximately 5%.
- It takes at least 10 months for the average branch to recover from a single turnover event.
• The consequences are even worse when a manager leaves. Our findings suggest that a branch does not recover to prior levels of performance within the year for which we observed branch performance. This means the branch performed approximately 5% worse for at least one year after the manager left.

Research conducted in a hospital by one of my colleagues, Dr. Anthony Nyberg, found similarly disturbing results. Patient satisfaction takes a pretty sizable drop after turnover, and it takes several months before satisfaction levels resume to pre-turnover levels. The reason is because the job demands increase for all remaining employees. Logically then, one would presume that the way to minimize the effects of turnover is to find a sufficiently qualified replacement as quickly as possible. Their research indicates this is not a quick solution. Replacements help improve the recovery rate, but even with replacements it takes an unexpectedly long time to recover. Perhaps the most surprising finding was about the nature of the replacements. It takes new hires about twice as long as internal transfers for the team to deliver the same level of patient satisfaction.

One final example is a project we conducted with a national “big box” retailer. Entry-level retail jobs have notoriously high turnover rates, and turnover rates tend to fluctuate over time. In this study, which is based on over 900 stores and over 100,000 employees, we found that the timing of turnover was very important. First, changes in turnover rates were as important as the turnover rate itself, which draws attention to the flow of turnover within a store. Second, the distribution of turnover events within each quarter influenced the consequences of turnover, such that turnover events that are clustered together have a more negative impact on store controllable profit.

Together, this research suggests that whenever people work in groups, teams, and interdependently, the costs and consequences of turnover are much greater than just a percentage of salary. These consequences should be considered when, for example, making pay and promotion decisions. It may be easier to justify higher salary increases when one considers the extremely high cost and damage inflicted when a quality employee leaves.

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