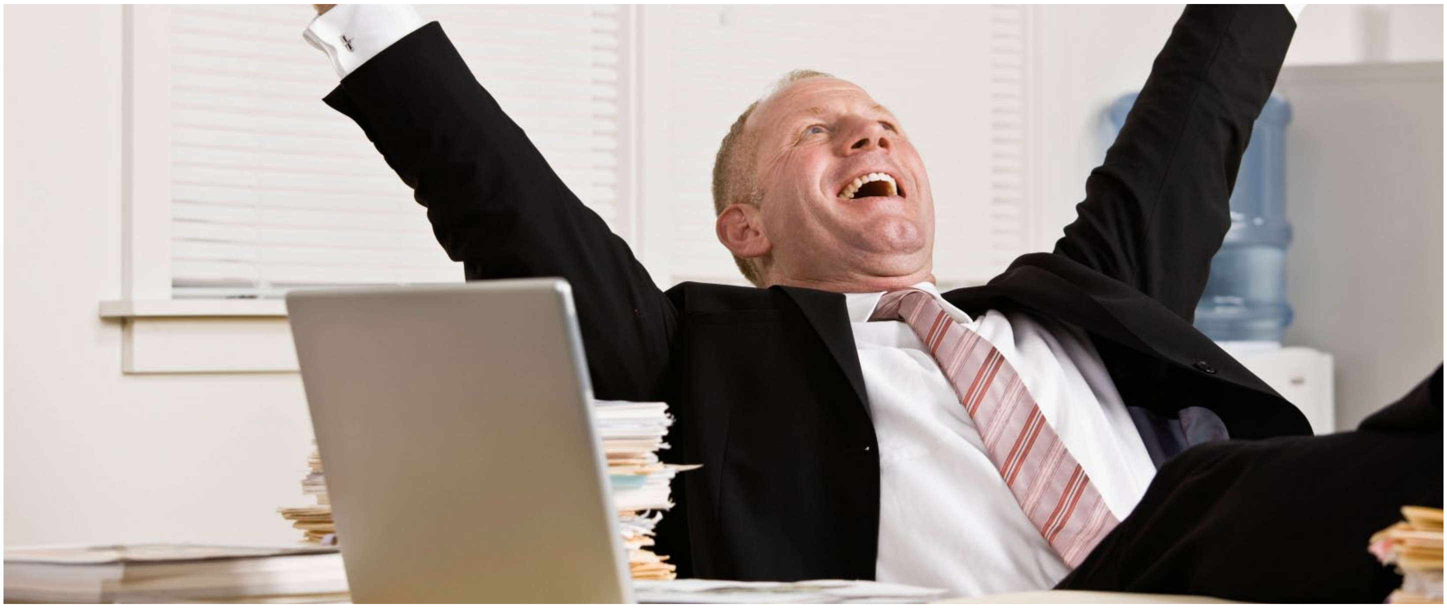
Not All Employee Turnover is Bad

Celebrate "Losing the Losers"



by Dr. John Sullivan

It's hard to find a more misunderstood and mismanaged human resource area than employee turnover. Executives are constantly sounding off about how "bad" employee turnover is, but in some cases, employee turnover is actually a positive thing.

Imagine, for example, that you had a poor-performing worker like Homer Simpson. If Homer walked in late one day as usual and announced that he was leaving, would you consider that a bad thing, or would you secretly celebrate his departure?

Even better, what if he left your firm and immediately went to work for one of your direct competitors; wouldn't that be additional cause for celebration?

On the flip side, what if you ran a golf team and one of your star performers left, would that not be real cause for frustration?

The purpose of this article is to open your mind about the silliness of measuring only aggregate turnover. I can think of no better indication of a so-called expert's lack of true understanding of employee turnover than when I read an article or a book on retention and the author invariably expounds on the need to keep everyone.

The idea of keeping everyone is just plain silly. The fact is that there are many factors that can transform "ordinary turnover" into either positive or negative turnover. As a result, few firms are beginning to classify their turnover as either "regrettable" or desirable turnover. Whether turnover is good or bad depends primarily on the business impact caused by the departure of the employee.

Business impact can be classified under eight categories:

- **Performance** – The employee's performance level.
- **Position** – The business impact of their position.
- **Business unit** – Whether their business unit is mission-critical.
- **Skills** – The criticality of the employee's skill set to the business.
- **Replacement** – How easy they are to replace with an equivalent internal or external candidate.
- **ROI** – Their productivity compared to their costs as an employee.
- **Where they go** – Where do they go after they leave the firm (to a competitor?)
- **Reasons for leaving** – Were the reasons for leaving realistically preventable?

What Does Zero Turnover Mean?

It would be a mistake to assume that any firm that has low or "zero" turnover is a well-managed firm. Low turnover rates could, in fact, be caused by a number of factors including a lack of employment opportunities within the region, financial constraints that prevent employees from moving (upside down mortgage), a bad firm image (Enron or AIG) that keeps recruiters away, or a high concentration of older workers reluctant to change jobs later in their career.

Another much more common reason for low turnover (that few firms actually want to consider) is the fact that your employees may be in low demand because they are perceived as being poorly skilled and undesirable.

True recruiters are always trying to steal away the best employees, even during tough economic times. If no one steals (or even tries to steal) your employees, it might mean they aren't worth stealing.

Classifying Employee Departures into Desirable, Neutral, and Undesirable

When you develop retention goals, it's critical that you define them such that the business impact of turnover is taken into consideration.

Below you'll find a long list of different types of turnover to demonstrate how complex the issue of turnover can actually be. Once you understand the complexity, the next step is to revise your goals, metrics, and exit classification system to ensure that you accurately classify future turnover. The following sections contain a comprehensive listing of each of the factors that can be used to categorize turnover into desirable, neutral, or undesirable.

I) "Desirable" Turnover

At least 25% of all turnover is "desirable turnover." While I would never go so far as to recommend organizations start rewarding managers for such turnover, you certainly wouldn't want to punish a manager for turnover in the following cases:

- A bottom performer leaves on their own (avoiding the need to terminate them).
- A bottom performer is terminated (showing that the performance management system worked).
- A bottom performer leaves and goes directly to a competitor (hurting them).
- An average or lower level performer gets replaced by someone that becomes a superior performer (referred to as a talent swap).
- An employee with declining or irrelevant skills is replaced by someone with increasing or more relevant skills.
- A lower performer is replaced by promoting someone inside that needed more challenge or growth to develop (thus improving the organization, increasing internal movement).
- The employee exiting is a notoriously bad manager.
- A non-diverse employee gets replaced by a diverse one.
- An employee with key skills working in a non-critical job/business unit transfers to a strategic job/business unit.
- The exiting employee was a trouble maker or dissatisfied person that required a lot of management time.
- The exiting employee was a union organizer or leader whose departure weakened the union effort.
- The exiting employee was slated for an upcoming layoff.
- The exiting employee was highly paid due to tenure but delivered no more than workers earning much less.
- The exiting employee is a retiree who led a fulfilling career and has agreed to consider "fill-in" work during retirement.

II) "Neutral" or OK Turnover

Some turnover is neither good nor bad. "Neutral" turnover might impact the firm by driving up replacement cost, but might be something that you exclude from turnover reporting rates that are used to reward/punish managers. Some of the situations that can be classified as "neutral turnover" include:

- Turnover of an employee or contractor that was hired to provide short-term coverage.
- Turnover by an employee who provided sufficient notice, enabling an exceptional replacement to be sourced, hired, and trained prior to the employee's exit.
- Turnover by an employee leaving a non-hard-to-fill job with a short learning curve.
- Turnover of a top-performing employee who has a high probability of returning as a boomerang.
- Turnover by an employee who left the firm because of a major illness or something that could not be predicted or prevented.

III) Critical or Highly Undesirable Turnover

Some turnover must be classified as highly undesirable or bad. Critical or bad turnover might be something that you focus your retention and metrics efforts on. I estimate that in an average organization, less than 20% of all turnover should be classified as critical. Some of the situations that can be classified as "critical" include:

- Turnover of a top performer with little or no advance notice.
- Turnover of a critical team leader or manager.
- Turnover of a top innovator or thought leader.
- Turnover of an individual with mission critical skills or knowledge.
- Turnover of an employee that possesses the only knowledge or experience in a critical field in the organization.
- Turnover of an individual with extensive contacts and experience.
- Turnover of an employee in a "mission critical" job.
- Turnover of an employee in a revenue generating or revenue impact job.
- Turnover of an employee in a critical business unit.
- Turnover of a diverse person or someone with international experience (especially in an exempt job).

- Turnover of a top performer or a key individual that goes to a direct competitor.
- Turnover of an individual that was on the succession plan.
- Turnover of a high-potential individual who left due to a lack of development opportunities.
- Turnover of a desirable employee forced out during a layoff or merger because of seniority or weak, non-performance-based, layoff processes.
- Turnover in a position where there was no available internal candidate or external applicant pool to replace them.
- Turnover of an individual forced to leave due to a work-related disability or accident.
- Turnover of an employee who subsequently files a credible government or legal complaint against the firm.
- Turnover of a famous person or industry icon.
- Unplanned turnover of a C-Level executive who receives significant external publicity.

IV) The firm's overall turnover may be "bad" when...

- There is a very low termination rate as a result of managers not identifying and firing bottom performers often or fast enough.
- There is a "misleading" low voluntary turnover rate as a result of the fact that your employees are not very good (or are viewed as not very desirable) by other firms, so recruiters don't target your employees.
- A firm has a high internal "churn" rate, when people "love the firm" but transfer internally excessively because of a bad managers, poor development programs or if it's the only way to get additional rewards.
- If the turnover rate is too low at slow growth firms (below 4%) it can "stifle" internal movement, frustrate your employees (which may lead to future turnover) and slow up individual talent development. This means you lose the many benefits that external hires can bring to an organization, including new ideas, skills your workforce doesn't have, and competitive intelligence. New hires can also serve as a competition catalyst, because current employees feel threatened having to compete with external talent for openings.
- When all turnover rates are low, it may serve to "hide" your bad managers. During low turnover periods, bad managers look the same as the good ones (everyone has relatively low turnover rates). Find alternative ways to identify bad managers when the economy is in the tank.
- Having a low turnover rate means that you will do little or no external hiring. This will likely cause your recruiting department to stagnate due to a lack of practice and activity. No external recruiting for a long period will also likely hurt your best-place-to-work brand and external image as people forget who you are.
- The firm doesn't accurately identify the real reasons "why" critical individuals left (generally utilizing a post-exit interview), so that future turnover can't be prevented.
- The overall speed of filling vacant positions is so slow that the vacancies create negative business impacts.
- The overall cost of filling vacant positions is so high that the vacancies negatively impact overhead costs.
- The on boarding process of new-hires or transfers is so inefficient that it slows the "time to productivity" of the replacement.
- The firm and individual hiring managers can be hurt whenever they terminate a poor performer and an internal hiring freeze prevents you from replacing them (thus punishing them for taking decisive action).
- A large-scale layoff or other scandal receives significant bad publicity, causing current employees to begin "thinking" about leaving and hurting the firm's employer brand (i.e., ability to hire replacements in the future).

Final Thoughts

It's easy during tough economic times to under focus on turnover and retention because the turnover rate of almost every firm decreases as employees increase their emphasis on job security.

However, this "lull" in turnover might be an ideal time to re-examine your processes, metrics, and goals related to turnover and retention. It's especially important to act now because quite often the "seeds" or initial causes of turnover are more likely to be happening now because of the frustration related to budget cutting, hiring freezes, layoffs, and lack of development funds and opportunities.

That frustration may linger and even grow over time, leading to an "explosion" of turnover in a relatively short period when job openings at other firms do occur. Just like with a spouse or significant other, it's probably too late to save the marriage once frustration levels get so high that they "begin looking."

It's also important to note that I have an admittedly corporate mindset, so this article was devoted to identifying what might be best for the corporation. Obviously, any individual who has been laid off or fired suffers significantly, but I'll save that perspective for another article.

About the author:

Dr. John Sullivan is a well-known thought leader in HR. He is a frequent speaker and advisor to Fortune 500 and Silicon Valley firms. Formerly the chief talent officer for Agilent Technologies (the 43,000-employee HP spin-off), he is now a professor of management at San Francisco State University. He was called the "Michael Jordan of Hiring" by Fast Company magazine. More recruiting articles by Dr. Sullivan can be found in the ER Daily archives. Information about his numerous other articles, books and manuals about recruiting and HR can be found online [http://www.drjohnsullivan.com/].