Why Employee Turnover Hits the Bottom Line
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Research suggests that the pattern of employees leaving the organization affects financial performance in complex ways.

Is it harmful to your organization's profitability if you have a higher rate of employee turnover (employees leaving and being replaced)?

Most financial systems are good at measuring the transaction costs involved in separating the employee, finding and acquiring the new employee, and developing the new employee hopefully to a performance level equal to or greater than the employee who left. Indeed, in our book, *Investing in People*, Wayne Cascio and I show how to calculate turnover costs, and note that many studies show the costs can be 1.5 times the salary of the departing employee, or even higher.

Based solely on the cost calculations, many managers and leaders assume that the turnover rate (how many employee leave in a year divided by the total number of employees) should be as low as possible. If every avoided employee separation saves 1.5 times the amount of the employee's salary, or more, it's easy to calculate high returns from turnover reduction.

Recent research published in the *Journal of Management* suggests the actual situation may be more complex, and offers useful insights to help leaders focus on the turnover that's most "pivotal" to financial performance. The authors used an approach called "meta-analysis," that gathers up all the studies that have examined a particular question, and combines them to discover the underlying patterns. The same idea is becoming more mainstream in medical research, as described recently in *The Economist* article, "Metaphysicians."

Looking at 48 samples (most studies used one sample, but a few had multiple samples) including over 29,000 individuals, the authors, Julie Hancock, David Allen, Frank Bosco, Karen McDaniel and Charles Pierce, find:

- The correlation between organizational turnover and profits is -.03, so turnover does relate to lower profits, but the direct relationship is rather modest (explaining about .1% of profit variation)
- The negative correlations are three or four times stronger when performance is measured as customer service (-.10) or as quality and safety (-.12), which are more directly under employee control.
- Quality/safety outcomes have a positive correlation (.21) with profitability, so the effect of turnover on profitability through quality/safety is approximately -.025 (the product of .21 times -.12), which is a large portion of the total effect (-.03) of turnover on profits.

An interesting finding was that the effects were not much different between turnover that was voluntary (the employee decides to leave) or involuntary (the organization dismisses the employee). Managers often think of voluntary turnover as "regrettable" or "bad" and involuntary turnover as "desired" or "good." Dismissing employees may remove bad apples, but the research suggests that the level of such turnover has about the same negative association with profits as when employees decide to leave. It may be that involuntary turnover reflects mistakes made earlier in the talent pipeline (sourcing, hiring and assigning employees) that have harmful effects before they are corrected. If you're constantly fixing selection mistakes by dismissing poor employees, that's a drag on your organization's performance, just as when good employees leave.

The research suggests that turnover may be more "pivotal" in specific jobs, such as those where it affects quality/safety. That means that organizations might benefit by carefully-focused investments in turnover reduction, rather than one-size-fits-all formulas that assume all turnover is equally bad. In *Investing in People* and *Retooling HR*, I have suggested that a useful metaphor for employee turnover might be inventory turnover, where it is obvious that not all turnover affects the organization in the same way.

Organizations might also benefit from applying big-data techniques like meta-analysis to map the connections between employee turnover, quality, safety customer service and profitability. These measures exist in almost every

organization, so it's surprising that the researchers found relatively few studies (48 independent samples) that connect these measures.

A big-data approach to employee turnover may offer an untapped opportunity for your organization to target your human capital investments and improve your financial performance.

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