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Employee turnover and retention

Learn how to measure turnover and retention, and understand why people leave organisations

Introduction

Employee turnover can have a negative impact on an organisation's performance. By understanding the reasons behind staff turnover, employers can devise initiatives that reduce turnover and increase employee retention.

This factsheet looks at turnover patterns in the UK and when turnover can be problematic. It outlines the methods for measuring turnover as well as the cost of losing employees. The factsheet also examines the reasons why people leave organisations and recommends practices to improve staff retention such as flexibility, fair treatment and employee wellbeing.

What are employee turnover and retention?

Employee turnover

Employee turnover refers to the proportion of employees who leave an organisation over a set period (often on a year-on-year basis), expressed as a percentage of total workforce numbers.

The term is used broadly to cover all leavers, voluntary and involuntary, including those who resign, retire or are made redundant, in which case it's describing overall, or 'crude', employee turnover. It's also possible to calculate more specific breakdowns of turnover data, such as redundancy-related turnover or resignation levels, with the latter particularly useful in assessing the effectiveness of people management practices.

Employee retention

Retention relates to the extent to which an employer retains its employees and may be measured as the proportion of employees with a specified length of service (typically one year or more) expressed as a percentage of overall workforce numbers.

Turnover and retention patterns in the UK

Our [Resourcing and talent planning](#) survey draws attention to the need for organisations to focus on employee retention as a main finding. It highlights that fewer organisations had employee retention initiatives in the last 12 months compared with previous years.

Turnover levels can vary widely between occupations and industries. The highest levels are typically found in retailing, hotels, catering and leisure, call centres and among other lower paid private sector services groups. Hospitality, health and social care, and manufacturing are experiencing particular labour shortages, we find in our research on addressing skills and labour shortages post-Brexit.

Levels of turnover also vary from region to region. The highest turnover rates tend to be found where unemployment is lowest and where it is relatively easy for people to secure desirable alternative employment.

The COVID-19 pandemic has acted as a severe disruptor to many businesses, causing some employers to consider redundancies to ensure business continuity. There's advice in our [Coronavirus redundancy guide](#), and many more resources to support employers in our [Responding to the coronavirus hub](#). From an employee's point of view, the pandemic has made job security more important than flexibility or salary in staying with their employer. Trustworthy leadership is an important part of job security. Find out more about trust and resilience during COVID-19 in our [Responsible business through crisis](#) report.

Employers in the UK are dealing with change as post-Brexit arrangements continue to roll out. Find resources and guidance in our [Brexit hub](#).

When does employee turnover become problematic?

There's no set point at which employee turnover starts to have a negative impact on an organisation's performance. Much depends on the type of labour markets in which the organisation competes. Where it's relatively easy to find and train new employees quickly

and at reasonably low cost, it's possible to sustain high quality levels of service provision despite having a high turnover rate.

However, especially where skills are relatively scarce, where recruitment is costly or where it takes several weeks to fill a vacancy, turnover is likely to be problematic. The more valuable the employees in question - for instance where individuals have specialist skills or where they have developed strong relationships with customers - the more damaging the resignation, particularly when they move on to work for competitors.

All employers need to be aware of employee turnover rates and understand how these affect their organisation's performance and ability to achieve its strategic goals. The reasons behind turnover may highlight issues within the workforce such as dissatisfaction with career progression opportunities. Employers should strive to address any issues and seek to make sure their employees experience good work, reflected in overall job quality. Employee retention is underpinned by effective recruitment and induction.

Measuring turnover and retention

Measuring the levels and costs of employee turnover is vital in building the business case and informing the design of targeted retention initiatives. This can be a powerful tool for winning line manager and board-level support for resourcing activities.

Measuring employee turnover

Organisations may track their 'crude' or 'overall' turnover rates on a month by month or year by year basis, expressed as a percentage of employees overall. The formula is simply:

$$\frac{\text{Total number of leavers over period}}{\text{Average total number employed over period}} \times 100$$

The total figure is for all leavers, including those who retire, or leave involuntarily due to dismissal or redundancy. It also makes no distinction between functional (that is, beneficial) turnover and that which is dysfunctional.

Crude turnover figures are often used in published surveys of labour turnover as they tend to be more readily available and can be useful as a basis for benchmarking against other organisations.

However, it's also useful to calculate a separate figure for voluntary turnover (resignations), as such departures are unplanned and often unpredictable (unlike planned retirements or redundancies for instance) and can have a particularly adverse impact on

the business.

It may also be helpful to consider some of the more complex employee turnover indices, which take account of characteristics such as seniority and experience, or calculate figures for different functions and locations of the business to highlight areas where turnover is higher than others.

Measuring employee retention

A stability index indicates the retention rate of experienced employees. Like turnover rates, this can be used across an organisation as a whole or for a particular part of it. The usual calculation for the stability index is:

$$\frac{\text{Number of staff with service of one year or more}}{\text{Total number of staff in post one year ago}} \times 100$$

Costing employee turnover

The costs associated with employee turnover related to resignations rather than redundancies may be estimated by calculating the average cost of replacing each leaver with a new starter in each major employment category. This figure can then be multiplied by the relevant turnover rate for that staff group to calculate the total annual cost of turnover.

The major categories of costs are:

- Administration of the resignation.
- Recruitment and selection costs.
- Covering the post during the period in which there is a vacancy.
- Induction training for the new employee.

Many of these costs consist of indirect management or administrative staff time (opportunity costs), but direct costs can also be substantial where advertisements, agencies or assessment centres are used in the recruitment process.

More complex approaches to turnover costing give a more accurate and invariably higher estimate of total costs. These could include measures estimating, for example, the relative productivity of new employees during their first weeks or months in a role and that of resignees during the period of their notice (both likely to be lower than the productivity levels of established employees).

As more organisations are taking steps to improve retention, their turnover costs are likely to decrease. More can be done though to evaluate the effectiveness of retention

initiatives, as noted in our [Resourcing and talent planning survey](#) report.

Why do people leave organisations?

Employees resign for many different reasons. Sometimes it's the attraction of a new job or the prospect of a period outside the workforce that 'pulls' them. On other occasions they are 'pushed' to seek an alternative because they are dissatisfied in their present job. These 'push' factors range from a lack of career opportunities to organisational changes. The move might also be prompted by a combination of both 'pull' and 'push' factors.

One key reason for an individual's decision to leave may be a poor relationship with their line manager, leading to disengagement. Find out more on in our factsheet on [employee engagement and motivation](#). Research has also found that [women](#) and [LGBT people](#), for example, are more likely to be disproportionately subject to 'push' factors such as discrimination, exclusion and barriers at work.

Investigating why people leave

It's important to understand why people leave. However, getting accurate information can be difficult because the reasons people give for their resignation can differ from their genuine reason for leaving. Individuals may be reluctant to voice criticism of their managers, colleagues or the organisation generally, preferring to give some less contentious reason for their departure.

Where exit interviews are used to ask about the reasons for leaving, the interviewer should not be a manager who has responsibility for the individual or who will be involved in future reference writing. Confidentiality should be assured and the purpose of the interview explained.

Using an external provider to conduct exit interviews will help employers capture more accurate data about why people are leaving, as individuals are more willing to be honest when there is reassurance of anonymity.

Alternative approaches to collecting exit data involve the use of confidential attitude surveys for current employees including questions on intentions to leave, or confidential questionnaires sent to former employees on exit or a period of time after their departure.

It's also important to consider the experiences of those still employed by the organisation. Conducting an exit interview will gather useful data, but using information from current employees (such as employee surveys) will identify potential retention issues before they lead to people leaving, and help to minimise subsequent negative

outcomes of turnover.

Improving employee retention

The first steps in developing an employee retention strategy are to find out:

- Why are employees leaving?
- Who is leaving? For example, are employees from a particular team or demographic group more likely to leave.
- The impact that employee turnover has on the organisation, including the associated costs.

This data can be used to develop a costed retention strategy that focuses on the particular issues and causes of turnover specific to the organisation.

According to the [Deloitte Global Millennial Survey 2020](#), employees' intentions to remain with their employer increase when businesses address employee needs from inclusion and diversity to sustainability and reskilling. Following the advice given in our [race inclusion reports](#) and [evidence on building diverse and inclusive organisations](#) will support employee retention.

As well as basic pay and benefits, organisations should consider the following practices, all of which have been shown to play a positive role in improving retention:

- **Be flexible** - Wherever possible, accommodate individual preferences on working hours and times. As part of this, it's also important to monitor workload and ensure it's manageable within working hours. Learn more on [flexible working practices](#) and from our report [Flexible working lessons from the pandemic](#).
- **Treat people fairly** - A perception of unfairness, whatever the management view of the issue, is a major cause of voluntary resignations. For example, perceived unfairness in the distribution of rewards is very likely to lead to resignations. Read more on fairness in reward in our latest [Reward management survey](#).
- **Pay attention to employee well-being** - Support managers to help their teams thrive, and manage issues such as workplace stress and presenteeism. Find out more in our [Health and well-being at work](#) survey report and in our [Wellbeing factsheet](#). Recently, [employee resilience](#) has become prominent as an important part of wellbeing.
- **Enable career development and progression** - Maximise opportunities for employees to develop skills and careers. It's also important to understand and

manage people's career expectations. Where promotions are not feasible, look for sideways moves that allow employees to gain different development experiences. This can also benefit an organisation's [succession planning](#).

- **Consult employees** - Ensure that employees have a 'voice' through consultative bodies (UK employers should be aware of the updated [Information and Consultation of Employees regulations](#)), regular performance conversations, attitude surveys and grievance systems. There's more in our [employee voice factsheet](#).

Further reading

Books and reports

ACAS. (2014) *Managing attendance and employee turnover*. Advisory booklet. London: ACAS.

TAYLOR, S. (2018) *Resourcing and talent management*. 7th ed. London: Chartered Institute of Personnel and Development.

Visit the [CIPD and Kogan Page Bookshop](#) to see all our priced publications currently in print.

Journal articles

CROWELL, B. (2017) Elevating the employee experience. *TD: Talent Development*. Vol 71, No 1, January. pp 52-56. Reviewed in [In a Nutshell, issue 64](#).

FOX, A. (2014) Keep your top talent: the return of retention. *HR Magazine*. Vol 59, No 4, April. pp31-32,34-35,38-40.

KOSSIVI B. et al. (2016) [Study on determining factors of employee retention](#). *Open Journal of Social Sciences*. Vol 4, No 5.

NORBURY, M. (2019) [The changing expectations of employees](#). *People Management* (online). 30 May.

RIGONI, B. and ADKINS, A. (2016) [What millennials want from a new job](#). *Harvard Business Review*. 11 May.

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This factsheet was last updated by Dr Gill Maxwell.