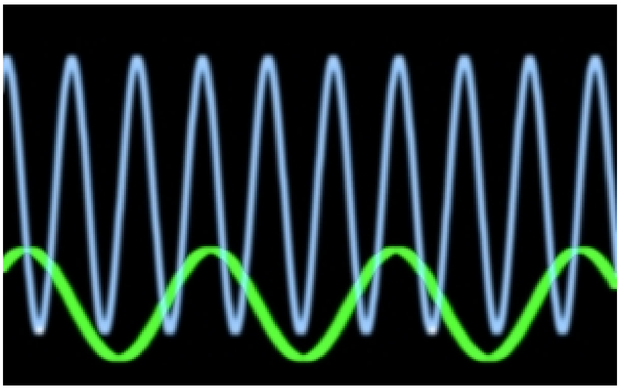
Companies face special challenges when employee departures pick up speed

"Do I have the staff to get the job done today?!" This is a critical question that is not necessarily answered by looking at the company's average rate of employee departure, or turnover rate. Though annual turnover rates will remain an important metric in evaluating the overall health of an organisation's human capital management system, our research suggests it may be just as important to understand, in a more granular manner, the relative speed at which employees flow out — or turnover volatility.



As an analogy, think of farmers monitoring rainfall in order to manage their crops. How much information would they glean about the likelihood of a productive harvest by looking at annual average rainfall levels? Was there a period of drought for two months and then a storm that caused flooding — both scenarios resulting in crop devastation? Or was there a steady flow of rain that consistently fed the needs of the resultantly healthy crop? Similarly, there is a large difference between a steady flow of staff turnover in an organisation and highly volatile changes in employee departures.

Understanding volatility in turnover is critical for at least three reasons.

First, operational effectiveness requires a certain amount of employees (i.e., a critical mass) at all times. Losing people spread evenly throughout the year (dispersed) might not pose a large risk as long as there are sufficient remaining staff members to cover operations. However, when employees are lost in a short period of time, remaining staff levels could drop below the critical mass needed for operations—not to mention the vast increase in job demands that will be placed on remaining members of the team. We note that both of these scenarios (dispersed and clustered turnover events) could have the exact same annual turnover rate.

Second, beyond jeopardising operations, clustered turnover events are more likely to harm the culture and relational network of the organisation (i.e., the unwritten norms regarding where expertise, information, and solidarity can be found). This is because norms and culture are passed on to new employees, in large part, by the remaining ones and in the event of clustered turnover, the relatively few remaining people in the team will have less information about and time to share company norms. In the extreme, clustered turnover could dramatically re-engineer a company culture—with the nature of the culture change being so rapid as to give managers less influence over the culture change process.

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Third, higher volatility in turnover sends a louder message to the remaining employees about the stability of their work environment. Turnover can be contagious due to the potential decrease in social network and an increase in job demands. Clustered turnover events also act as a larger shock to the organisation as a whole. The fact that it loses several employees in a small period of time is more likely to provoke remaining ones to question why the organisation is doing a poor job of managing its human capital and whether they themselves should remain with the company.

What does the data say?

We obtained data from 988 stores of a large US retail chain (with about 100 employees per store). In this sample, *changes* in turnover rates negatively impacted store profit above and beyond the absolute rate of employee replacement. Specifically, a change in turnover rate of 18 percent (one standard deviation increase) led to an 8.9 percent decrease in quarterly store profit ($170,642 or $682,571 annually) — this is in addition to the negative effect of losing employees and replacing them with new ones.

The same turnover rate could have different impacts on different stores, depending on their previous rates of employee replacement. For example, store A had a previous turnover rate of 10 percent (changing from 10 to 20 percent) and store B had a previous turnover rate of 30 percent (changing from 30 to 20 percent). Even though they both currently have an absolute turnover rate of 20 percent, store A may be panicking because its turnover rate has effectively doubled and store B may be celebrating because it has dramatically reduced its relative rate.

Forecasting the flow

Our research suggests that managers should monitor changes in turnover as well as absolute turnover rates. By noticing trends in employee departures (e.g., perhaps more employees tend to leave in the summer months), managers can more appropriately address recruiting in advance to meet the demands of turnover volatility. Additionally, being aware of competitive labour market dynamics (i.e., a competing store opening up in the area) can help managers take a proactive approach to managing turnover volatility. Thus, we conclude that an active approach to managing the challenges that turnover volatility presents should be a part of every organisation's human capital management strategy.

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