Executive Brief:

Examining the Relationship Between Turnover, Average Tenure, HR Investments

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Introduction

Now that the U.S. economic forecast is slowly brightening,[1] employees who have waited for the economy to stabilize may begin seeking new employment. This trend means that additional shifts within turnover rates are likely to occur, and certain industries may experience higher turnover rates than others.

To explore turnover in greater detail, this article compares overall annual turnover, voluntary turnover and involuntary turnover rates from 2011 by industry. In addition, each type of turnover is considered in comparison with average employee tenure and HR investments in staff, such as HR expenses per full-time equivalent (FTE). These additional metrics reveal the level of commitment employees have to their employers and the value that organizations place on their staff, respectively.

The following sections examine annual overall turnover,[2] annual voluntary turnover[3] and annual involuntary turnover[4] rates from SHRM's 2012-2013 Human Capital Benchmarking database. An analysis of additional workforce analytics metrics offers insight into the relationship between turnover, employee tenure and HR investments in staff, and subsequently reveals how organizations can work to retain their workforce.

A Complex Relationship: Turnover, Average Tenure and HR Investments

Overall Turnover

When considering turnover rates for individual industries, it is important to note that each industry has a unique set of characteristics that differentiates it from others. These differences include the nature of the work itself, the skills required to do that work and the type of employees hired to perform duties associated with the jobs (e.g., exempt vs. nonexempt).

In 2011, industries with the highest overall turnover were services—accommodation, food and drinking places (30%), biotech (20%), retail/wholesale trade (19%), and telecommunications (18%) (see Table 1). The two service-based industries—accommodation, food and drinking places and retail/wholesale trade—typically have nonexempt seasonal employees, who are temporary hires used during times of increased consumer demand, such as during the winter holiday season, and often have little room for promotion. Thus, turnover among these employees tends to be quite high.

Table 1: Employee Tenure for Annual Turnover

Industry	Average Annual Overall Turnover	Average Tenure in Years
Services—accommodation, food and drinking places	30%	5
Biotech	20%	8
Retail/wholesale trade	19%	7
Telecommunications	18%	7
All industries	**13%**	**8**
Finance	10%	8
Government—local	10%	12
Utilities	10%	12
Waste management and remediation services	10%	8
Insurance	8%	8
Arts, entertainment, recreation	5%	9

Source: SHRM Human Capital Benchmarking Database (2012-2013)

The two knowledge-based/technical industries—biotech (20%) and telecommunications (18%)—experienced high turnover rates as a result of an improvement in economic conditions, which permitted ease of movement from one job to another. A recent *HR Magazine* article points out that "talented employees who have stayed put during the challenging economy will be more likely to accept better offers from other organizations."[5] Employees who sense they have more options in the job market will seek out those opportunities because they know they have talents that are desirable. Skilled manual workers will be the most sought-after employees in the final quarter of 2012, with 22% of HR professionals indicating they plan to hire these individuals.[6] However, they were also the most difficult category of workers to recruit in the third quarter, according to 61% of HR professionals.[7]

Average employee tenure[8] and average HR expense per FTE[9] are important indicators that can influence and explain turnover in the industries identified in Table 1. Services (5 years), biotech (8 years), retail (7 years) and telecommunications (7 years) all have average or below-average employee tenure, meaning that employees in these industries do not stay at their organizations particularly long and seem to have little connection to or investment in their jobs. Employees working in services and retail can bounce from job to job because of high turnover and vacancy rates. SHRM's *Jobs Outlook Survey Report* indicates that hourly service workers were considered difficult to hire by only 7% of HR professionals in the third quarter of 2012.[10] In other words, employers felt that these workers were replaceable. However, in biotech and telecommunications industries, the highly technical nature of jobs results in a much smaller labor pool, allowing employees to negotiate for increased compensation from prospective employers.

From the employer's perspective, HR expense per FTE indicates how deeply HR invests in its employees. Once again, the service-based industries were well below the $2,259 average for all industries, with an average HR expense per FTE of $1,897. However, biotech ($4,009) and telecommunications ($2,726) exceeded the all-industries mark. These industries require extensive technical skills that necessitate training—therefore, professional development opportunities for employees in these industries are paramount in order to keep them current with industry trends.

In addition, the inverse relationship between turnover and average tenure suggests a lack of investment that employees in the skills-based industries have in their employers. Average tenure for biotech and telecommunications nearly matches that for all industries, and biotech employers invested well above the all-industries average in HR expenses per FTE because it is a high-skill and knowledge-based industry. However, the turnover rate is still above average among biotech employers, partially due to the challenging nature of the industry itself and the fact that employees with these highly technical skills are increasingly in demand. Twenty-two percent (22%) of HR professionals reported that they plan to hire skilled workers in the last quarter of 2012.[11]

When looking at the industries with the lowest overall turnover rates, finance (10%), local government (10%), utilities (10%), waste management (10%), insurance (8%) and arts (5%) reported below average turnover rates in 2011. Typically, these industries require more specific and trained skill sets than found in the service industries. Utilities and arts invested more HR money per FTE ($3,110 and $3,198, respectively), had very low turnover and higher than average tenure (12 years and 9 years, respectively). Local government (12 years) and utilities (12 years) each reported higher than average tenure. These two industries are often highly unionized, which makes employees more likely to stay to take advantage of union-negotiated benefits and compensation.

After experiencing significant revenue losses during the most recent economic downturn, the finance and insurance industries seemed to have stabilized, with 10% and 8% overall turnover, respectively. A SHRM poll found that organizations in the finance industry reported that their financial health was similar to where it was in 2010: 57% of finance organizations said they were in a significant or mild decline in 2011, a one percentage point increase from 56% in 2010.[12] In addition, 74% of survey participants indicated they were hiring, an increase from the previous year, when 68% of respondents indicated they were bringing on new staff.[13]

At the local government level, budget cuts prior to 2011 likely contributed to low turnover. Staff had already been cut, as 55% of those surveyed in a SHRM poll on the impact of the recession on local government said they had laid off between 1% and 10% of their staff since the recession began in December 2007.[14] Despite the fact that nearly half (45%) of survey respondents stated that they were in mild or significant decline compared with 2010[15], an average employee tenure of 12 years suggests local government employees whose jobs remained intact likely intend to stay with their employers, given often generous incentive packages in terms of health care and retirement benefits.

Voluntary Turnover

Now that U.S. economy is showing moderate signs of job growth,[16] employers are paying closer attention to voluntary turnover. Employees who were dissatisfied in their jobs patiently waited for the economy to improve—and now see their chance to switch employers. The ability to move from one job to another with relative ease is a key indicator of voluntary turnover.[17] As March and Simon wrote in 1958, “under nearly all conditions, the most accurate predictor of labor turnover is the state of the economy. … When jobs are plentiful, voluntary movement is high; when jobs are scarce, voluntary turnover is small.”[18] Data in Table 2 focus on industries with high and low voluntary turnover rates.

Table 2: Employee Tenure for Voluntary Turnover

Industry	Average Voluntary Turnover	Average Tenure in Years
Services—accommodation, food and drinking places	26%	5
Government—federal	17%	15
Business support services	13%	6
All industries	**9%**	**8**
Manufacturing—durable goods	6%	10
Pharmaceutical	6%	9
Insurance	5%	8
Waste management and remediation services	5%	8
Arts, entertainment, recreation	4%	9

Source: SHRM Human Capital Benchmarking Database (2012-2013)

Services—accommodation, food and drinking places (26%) and business support services (13%) reported higher than average voluntary turnover, in addition to below-average tenure, with five years and six years, respectively. HR investments for services—accommodation, food and drinking places ($1,897) were also below the all-industries average of $2,259. However, for business support services ($3,566), the average HR expense per FTE is more than $1,000 above the all-industries average. Business support services is composed of subindustries such as travel arrangement and reservation services and investigation and security services, which require staff training—therefore, their HR expense per FTE was higher than average.

Federal government had the second highest voluntary turnover rate in 2011, while simultaneously reporting the highest average tenure rate of the industries presented in Table 2. This seemingly contradictory finding is explained, in part, by data provided by the Office of Personnel Management (OPM). According to the OPM, approximately 9,000 federal government employees had filed retirement papers in August 2012, and overall, nearly 2% more federal workers have applied for retirement in 2012 than in 2011.[19] Furthermore, a recent article in *Federal Times* reported that "overall attrition shot up in 2011, which caused the government's total workforce to drop by its biggest amount since the height of the government downsizing in 1999."[20] Not only are retirements way up, but vacant positions remain unfilled due to uncertainties surrounding future budgets.[21] Retirements, coupled with pay freezes expected to extend through at least March 2013 and possibly 2015, have driven those who have been employed by the federal government for many years out of the workforce. When the financial incentives no longer exist for long-term employees, those who can exit the workforce will leave.

Industries reporting lower voluntary turnover include durable goods manufacturing (6%), pharmaceutical (6%), insurance (5%), waste management (5%) and arts (4%). Tenure for these industries was at or above all-industries average, and HR investments were better than average for three of the industries. These industries have single-digit voluntary turnover rates, despite the fact that only insurance ($2,468) and arts ($3,198) had higher than average HR expenses per FTE ($2,259).

Involuntary Turnover

Average involuntary turnover for those industries with the highest rates (see Table 3) was notably lower than for overall turnover and average voluntary turnover. Once again, two service-based industries remained atop with high turnover: accommodation, food and drinking places (15%) and retail/wholesale trade (10%). Employers in these industries know they can consistently hire and fire staff based on consumer demand. Given how little was invested by HR in these workers—$1,897 for services and $1,611 for retail—job satisfaction in these industries is likely low, with few incentives motivating employees to retain their current positions.

Table 3: Employee Tenure for Involuntary Turnover

Industry	Average Involuntary Turnover	Average Tenure in Years
Services—accommodation, food and drinking places	15%	5
Retail/wholesale trade	10%	7
Biotech	9%	8
Telecommunications	9%	7
High-tech	9%	7
All industries	**6%**	**8**
All government	6%	12
Education	3%	10
Government—federal	3%	15
Government—local	3%	12
Insurance	2%	8
Arts, entertainment, recreation	1%	9

Source: SHRM Human Capital Benchmarking Database (2012-2013)

In early October 2012, the National Retail Federation (NRF) released projections for the holiday sales season, indicating that 2012 holiday sales will increase 4.1% to $586.1 billion. Based on the sales expectations, retailers will need to hire between 585,000 and 625,000 seasonal workers to meet demand, which is comparable to the 607,500 seasonal employees they hired in 2011.[22] Retailers such as Amazon.com and Target plan to hire more than 50,000 and 80,000-90,000 seasonal workers, respectively.[23] However, once sales begin to slow down and retreat to usual levels, many of these newly hired employees will lose their jobs. NRF also reported that holiday sales can account for 20%-40% of retailers' annual sales; therefore, lower headcounts are required during times of normal sales.

On the other hand, three skill- and technology-related industries—biotech (9%), telecommunications (9%) and high-tech (9%)—all experienced higher involuntary turnover rates despite higher than average HR investments per FTE. As a group, these industries also reported higher operating expenses than the service-based industries, with an average of $142,675,442 versus $82,162,229.[24] If they experienced revenue losses during the recent economic downturn, the easiest way for these organizations to eliminate costs is to lay off workers. According to a SHRM poll, 46% of high-tech companies laid off between 1% and 10% of their staff in 2011 and 30% reported their organizations' financial health was in a significant or mild decline, an increase from the 18% reported in 2010.[25] Unfortunately, these organizations have also committed resources to their employees, so the overall cost of losing staff is significant.

All government (6%), federal government (3%), local government (3%), education (3%), insurance (2%), and arts, entertainment and recreation (1%) maintained rather low levels of involuntary turnover in 2011. However, these rates for government and education only account for job separations of full-time equivalents. It is likely that contractors and other temporary staff were the first to lose their jobs, thereby sparing full-time permanent staff members. In addition, these organizations may have found other ways to cut costs as alternatives to downsizing, such as pay freezes, reductions in contributions to retirement plans, decreased staff travel and reduced staff professional development opportunities. All of these industries, except insurance, reported well-below-average HR expenses per FTE ($2,259).

Conclusion

In order to address voluntary and involuntary turnover, organizations should embrace a comprehensive, proactive approach that engages employees and focuses on retaining them. A recent article in SHRM's *HR Magazine* suggests several strategies to manage high turnover, including focusing on innovative recruiting, introducing new training initiatives, undertaking salary studies and engaging current employees by asking for their feedback.[26] Organizations must find ways to link workforce planning and recruiting to attrition and retention in order to optimize staffing. Additional ways to address or combat turnover include taking a close look at the social relationships within an organization relative to those who are leaving, as well as examining the actual positions that are vacated—first year or new hires versus seasoned veterans, or administrative versus management versus executive positions. All of these factors may help account for turnover and set an organization on a corrective path.

Methodology

The 2012 SHRM Human Capital Benchmarking Study was conducted in order to collect metrics about human capital across various industries. The study collected data on human capital metrics, such as succession planning, turnover, cost-per-hire, time-to-fill and salary increases. In addition, organizational data, such as employee size and geographic region, were obtained. Data were collected for 2011, along with expectations for hiring and revenue change in 2012.The survey was created by SHRM's Workforce Analytics Program and was reviewed by the SHRM Human Capital Measurement/HR Metrics Special Expertise Panel. The panel is made up of U.S. and international SHRM members who are experts in the field of human capital measurement.

SHRM members who were HR managers, assistant or associate directors, directors, assistant or associate vice presidents, vice presidents, or presidents were included in the sample. The members had to meet the following criteria: have a valid e-mail address and business phone number, have not been selected to participate in a survey with SHRM in the past three months, and be residents of the United States.

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Endnotes

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[1] Society for Human Resource Management. (2012). *LINE employment report for October 2012*. Retrieved October 2, 2012, from http://www.shrm.org/line
[2] To calculate annual turnover, first calculate turnover for each month by dividing the number of separations during the month by the average number of employees during the month and multiplying by 100: # of separations during month ÷ average # of employees during the month x 100. The annual turnover rate is then calculated by adding the 12 months of turnover percentages together.
[3] To calculate annual voluntary turnover, first calculate the voluntary turnover for each month by dividing the number of voluntary separations during the month by the average number of employees during the month and multiplying by 100: # of voluntary separations during month ÷ average # of employees during the month x 100. The annual voluntary turnover rate is then calculated by adding the 12 months of voluntary turnover percentages together.
[4] To calculate annual involuntary turnover rate, first calculate involuntary turnover for each month by dividing the number of involuntary separations during the month by the average number of employees during the month and multiplying by 100: # of involuntary separations during month ÷ average # of employees during the month x 100. The annual involuntary turnover rate is then calculated by adding the 12 months of turnover percentages together.
[5] Krell, E. (2012, April). 5 ways to manage high turnover. *HR Magazine*, *57* (4), 63-65.
[6] Society for Human Resource Management. (2012). *Jobs outlook survey report: Q4 2012*. Retrieved October 2, 2012, from http://www.shrm.org/Research/MonthlyEmploymentIndices/lmo/Documents/JOS%20Q4%202012.pdf
[7] Ibid.
[8] Average employee tenure is the average length of employment in years for all regular full- and part-time employees in a given fiscal year. Typically, the more loyal employees are to a firm, the higher the employee tenure.
[9] HR-expense-to-FTE ratio represents the amount of human resource dollars spent per FTE in the organization. These include all salaries for the HR staff and all other costs/expenses, including expenses related to outsourcing.
[10] Society for Human Resource Management. (2012). *Jobs outlook survey report: Q4 2012*. Retrieved October 2, 2012, from http://www.shrm.org/Research/MonthlyEmploymentIndices/lmo/Documents/JOS%20Q4%202012.pdf
[11] Ibid.
[12] Society for Human Resource Management. (2012). *SHRM poll: The ongoing impact of the recession – finance industry.* Retrieved October 3, 2012, from http://www.shrm.org/Research/SurveyFindings/Articles/Pages/RecessionPollFinance2011.aspx
[13] Ibid.
[14] Society for Human Resource Management. (2012). *SHRM poll: The ongoing impact of the recession – state and local government.* Retrieved October 3, 2012, from http://www.shrm.org/Research/SurveyFindings/Articles/Pages/TheOngoingImpactoftheRecession%E2%80%94StateandLocalGovernment.aspx
[15] Ibid.
[16] Society for Human Resource Management. (2012). *LINE employment report for October 2012*. Retrieved October 2, 2012, from http://www.shrm.org/line
[17] Direnzo, M.S., & Greenhaus, J.H. (2011). Job search and voluntary turnover in a boundaryless world: A control theory perspective. *Academy of Management Review*, *36*(3), 567-598.
[18] March, J.G., & Simon, H. A. (1958). *Organizations* (2nd ed.). New York, NY: John Wiley.
[19] Ibid.
[20] Retirements surge, new hires plummet. (2012, October 15, 2012). *Federal Times*, p. 1.
[21] Ibid.
[22] NRF, Shop.org Expect Solid Growth This Holiday Season. (2012, October 2). Retrieved October 3, 2012, from http://www.nrf.com/modules.php?name=News&op=viewlive&sp_id=1433
[23] Amazon to hire more than 50,000 for holiday season. (16, October 2012). Retrieved October 16, 2012, from http://news.yahoo.com/amazon-hire-more-50-000-holiday-season-051335855--finance.html
[24] SHRM 2012-2013 Human Capital Benchmarking Database

[25] Society for Human Resource Management. (2012). *SHRM poll: The ongoing impact of the recession – high-tech industry.* Retrieved October 3, 2012, from http://www.shrm.org/Research/SurveyFindings/Articles/Pages/RecessionHighTech.aspx

[26] Krell, E. (2012, April). 5 ways to manage high turnover. *HR Magazine*, *57* (4), 63-65.

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