

# A Conceptual Study on Employee Turnover and Retention

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## Abstract

Employee turnover refers to the number of incoming and outgoing workers from an organization or company. The main objective of the study is to assess the main causes for employee turnover, and Strategy used to retain the High performers in the organization. An Attempt to find out major cause for Employee turnover in Efftronics Systems Pvt Ltd. Factors considered is low pay scale, better job opportunity, conflict with Manager, conflict with other employee, Limited Resources, Relocation, Family and Personal reasons, Career change etc. The above reasons may create dissatisfaction on job and lead to quit the job. It is a study about the expectations of the employee to continue in the organization work, Sample taken from employee exit interview questionnaire, all samples were taken and analyzed. By the analysis it was found that the major reason for employee turnover is low pay scale. The research design used is descriptive method. Performance related pay must be given to employee's i.e to retain existing employees in the organization.

**Keywords:** Expectations of employees, Efftronics Systems Pvt Ltd, Employee turnover and Retention.

## INTRODUCTION

Employee Turnover is the rate at which an employer loses or gains employee's .The simple ways to describe it are "how long the employees tend to stay in a company or any Organization. High turnover is harmful to a company's productivity. Skilled workers are asset to the companies, If skilled workers are often leaving that is the big loss to any organization. Companies also often track turnover internally across departments and divisions or other demographic groups.

Employees rarely quit on the spot when the employees strongly dissatisfied and stays disengaged for quite a while before leaving. However, from the moment of disengagement , most employees are no longer as dedicated or productive. Nearly all the real reasons why employees quit fall into four basic categories of human needs: The need for trust , The need for hope, The need to feel competent, and the need to feel valued and trustworthy.

Eight possible reasons for resignations were identified within a company, namely:

- Low pay scale
- Better job opportunity
- Conflict with Managers
- Conflict with other Employees
- Limited Resources

- Relocation
- Family and personal reasons
- Career Change

When employees leave on a continuous basis and high turnover occurs, it may become a problem for management, especially where skills are relative scarce and recruitment is costly as it takes several weeks to fill a vacancy. Employee turnover remains one of the most persistent and frustrating problem that organisation face. Whether it is involuntary such as termination of poor performers, or voluntary such as resignations, turnover is extremely costly. With recognition of increasing turnover, companies are searching for strategies to confront the problem in ways that generate a good return on investment. Successfully managing turnover is a matter of understanding its costs, causes and solutions.

### **COST OF TURNOVER**

When accounting for cost which includes both real cost (such as cost taken to select and recruit a replacement) and opportunity cost (such as lost productivity), the cost of employment turnover to for profit organization has been estimated to be 35%. There are both direct and indirect cost direct cost relates to the leaving cost, replacement cost and transition cost. The indirect cost relates to the loss of production, reduced performance level. The true cost of turnover is going to depend on a number of variables including ease or difficulty in filling the position and nature of the job itself.

#### Summary of Employee turnover cost :

Total cost of Employee turnover = Cost to off board employees+ cost per hire for replacement +Transition cost, including opportunity cost+ Cost from long term disruption of talent pipe.

### **INTERNAL VS EXTERNAL TURNOVER OF EMPLOYEES**

Turnover can be classified as internal and external turnover of employees. Internal turnover means employees leaving their current position and taking up new position within the same organization. Both positive (such as increased morale from change of task and supervisor) and negative (such as project /relational disruption) effects of the internal turnover exist, and therefore I would be equally important to monitor this form of turnover, as it is to monitor its externals counterparts. Internal turnover may be moderated or controlled by typical HR mechanism such as internal recruitment policy. Internal turnover, called internal transfers, is generally considered an opportunity to help employees in their career growth while minimizing the more costly external turnover. A large amount of internal transfer leaving a particular department or division may signal problem in that area unless, the positions is a designated stepping stone position.

### **VOLUNTARY VS INVOLUNTARY TURNOVER**

Differentiation between instances of voluntary turnover, initiated at the choice of the employee, and involuntary turnover initiated by the employer due to poor performance or reduction in force.

### **EMPLOYEE TURNOVER CALCULATION**

If choose to figure the employee turnover ratio for a year, there is need to collect some specific information for the previous 12 months. First, need the total number of seperations that occurred during the year .Next

calculate the average number of employees in the company. To figure this average add the number of employees at the beginning of the year to the number at the end and divide by 2.

$$\text{Yearly Turnover Rate: } \frac{\text{Number of separation during the year}}{\text{Average Number of Employees during that year}} * 100$$

### CALCULATING TURNOVER OF EMPLOYEES WITHIN FIRST YEAR OF EMPLOYMENT:

Among the most expensive of turnover is that of employees who leave in the first year of employment. In many jobs, an employee is not fully productive for months. A high turnover in the first year of employment can therefore represent a particularly painful cost.

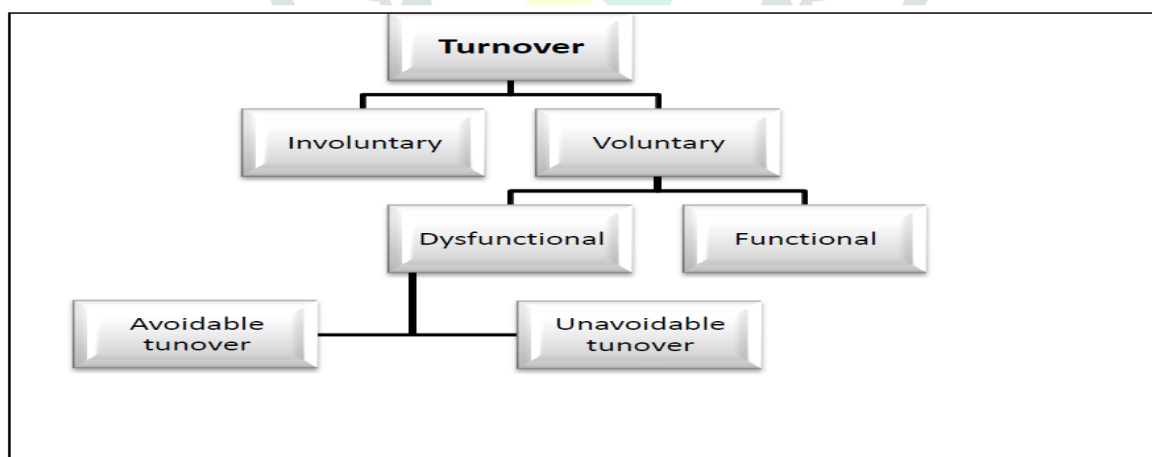
To compute the value, divide the total number of employees who leave in less than one year by the total number of employees who leave in the same period.

#### Formula for first year turnover:

$$\frac{\text{Number of employees who leave after less than 1 year of employment}}{\text{Number of separations during the same period}} * 100$$

#### Review of Literature

It is necessary to refer briefly the previous studies and research in the related areas of the present subject to find out the different Sources of Employee turnover and to know how Employee turnover effecting and incurring high cost to the firm. Organizations invest a lot on their employees in terms of induction and training, developing, maintaining and retaining them in their organization. Therefore, managers at all costs must minimize employee's turnover. Although, there is no standard framework for understanding the employees turnover process as whole, a wide range of factors have been found useful in interpreting employee turnover Kevin et al. (2004). Therefore, there is need to develop a fuller understanding of the employee turnover, more especially, the sources.



Adapted from: Griffeth, R. and Hom, P. (2001) *Retaining Valued Employees* Thousand Oaks, CA: Sage.

### SOURCES OF EMPLOYEE TURNOVER JOB RELATED FACTORS:

Most researchers (Bluedorn, 1982; Kalliath and Beck, 2001; Kramer et al., 1995; Peters et al., 1981; Saks,1996) have attempted to answer the question of what determines people's intention to quit by investigating possible antecedents of employees' intentions to quit. There are several reasons why people quit from one organisation to another or why people leave organisation. low pay scale, for better job

opportunity, conflict with Manager, conflict with other employee ,Limited Resources, Relocation, Family and Personal reasons, Career change . This clearly indicates that these are individual decisions which make one to quit. They are other factors like personal agency refers to concepts such as a sense of powerlessness, locus of control and personal control. Locus control refers to the extent to which people believe that the external factors such as chance and powerful others are in control of the events which influence their lives Firth et al. (2004). Manu et al. (2004) argue that employees quit from organization due economic reasons. Using economic model they showed that people quit from organization due to economic reasons and these can be used to predict the labour turnover in the market. Good local labour market conditions improve organizational stability

Large organizations can provide employees with better chances for advancement and higher wages and hence ensure organizational attachment (Idson and Feaster 1990). Trevor (2001) argues that local unemployment rates interact with job satisfaction to predict turnover in the market. Role stressors also lead to employees' turnover. Role ambiguity refers to the difference between what people expect of us on the job and what we feel we should do. This causes uncertainty about what our role should be. It can be a result of misunderstanding what is expected, how to meet the expectations, or the employee thinking the job should be different Kahn et al. Muchinsky, 1990 If roles of employees are not clearly spelled out by management/supervisors, this would accelerate the degree of employees quitting their jobs due to lack of role clarity.

Organizational instability has been shown to have a high degree of high turnover. Indications are that employees are more likely to stay when there is a predictable work environment and vice versa (Zuber, 2001). In organizations where there was a high level of inefficiency there was also a high level of staff turnover (Alexander et al., 1994). Therefore, in situations where organizations are not stable employees tend to quit and look for stable organisations because with stable organisations they would be able to predict their career advancement. The imposition of a quantitative approach to managing the employees led to disenchantment of staff and hence it leads to labour turnover. Therefore management should not use quantitative approach in managing its employees. All these approaches should be avoided if managers want to minimize employee turnover an increase organizational competitiveness in this environment of globalization.

Griffeth et al. (2000) noted that pay and pay-related Variables have a modest effect on turnover. Their analysis also included studies that examined the relationship between pay, a person's performance and turnover. From the Griffeth et al. (2000) analysis reveals that Pay and Performance of an individual is closely related. Hence Performance related Pay become imperative to retain skilled employees in the organization. When high performers are insufficiently rewarded, they quit. So Variable Pay is worth for high performers .If jobs provide adequate financial incentives the more likely employees remain with organization.

Though there are many causes for staff turnover in an organization, all of those do not have negative impact on well being of an organization. Organizations should differentiate between voluntary and involuntary turnover and take actions on the one under their control. Voluntary turnovers are those caused by the employee out of his/ her own choice (*e.g.* to take job in other organization for better salary) while involuntary turnovers are because of the decision of management (*e.g.* dismissal for gross misconduct). In general, all resignations not formally initiated by employers are voluntary resignations (Loquercio *et al.*, 2006).

Voluntary turnovers are further distinguished into functional and dysfunctional turnovers. Functional turnovers are the resignation of substandard performers and dysfunctional turnovers refer to the exit of effective performers. Dysfunctional turnover is of greatest concern to the management due to its negative impact on the organization's general performance. Dysfunctional turnover could be further classified into avoidable turnover (caused by lower compensation, poor working condition, etc.) and unavoidable turnovers (like family moves, serious illness, death, etc.) over which the organization has little or no influence (Taylor, 1998).

A low level of employee turnover is acceptable in any occupation, in that it offsets potential stagnancy, eliminates low performers, and encourages innovation with the entry of new blood. However, high levels of employee turnover lead to low performance and ineffectiveness in organizations, and result in a huge number of costs and negative outcomes (Ingersoll & Smith, 2003). Several researchers have found that high turnover rates might have negative effects on the profitability of organizations (Aksu, 2004; Hinkin & Tracey, 2000 among others). Johnson (1981) viewed turnover as a serious problem having a strong bearing on the quality of products and services and incurring considerable replacement and recruitment costs. Curtis and Wright (2001) opined that high turnover can damage quality and customer service which provide the basis for competitive advantage, thereby inhibiting business growth. Also, it has been observed that people who leave are those who are most talented as they are the ones likely to get an opportunity elsewhere (Hinkin & Tracey, 2000). Turnover often ends up in valuable talent moving to competing entities (Stovel & Bontis, 2002). Therefore, it is only desirable that management should accord special attention to prevent turnover and puts in place a sound strategy for improving staff retention. For most part, voluntary turnover is treated as a managerial problem that requires attention, thus its theory has the premise that people leave if they are unhappy with their jobs and job alternatives are available (Hom & Kinicki, 2001). Therefore, most studies have focused on voluntary rather than involuntary turnover (Wright, 1993).

### **Employee turnover in Efftronics systems Pvt Ltd: A Brief Context**

Research has been conducted in HR department on employee turnover in different departments in the Efftronics System Pvt Ltd Company. This research mainly focused on causes of employee turnover, what are the steps must be taken to reduce turnover, Employee Satisfaction in terms of pay and benefits. I had taken the exit employee interview questionnaires for analysis. Employee dissatisfaction, limited resources,

low pay scale, better job opportunity, Career change ,Relocation ,Conflict with Managers, Conflict with Colleagues, Family and personal reasons are Majorly considered in this research. After analyzing all the questionnaires of exit employees, I rated every cause to know what is the common and major issue faced by employees in the organization. Finally it is founded that major issue is low pay scale. I found that rather than increasing fixed pay, providing incentives/variable pay will motivates employee towards work and also they concentrate on earning path. Receiving Performance related pay leads to Employee Satisfaction because rather than fixed pay moreover they get incentives here the concept is how much they work hard that much they can earn ,then they work hard to give maximum productivity which leads to finishing target within stipulated time that result satisfaction for management in terms of Productivity and Receiving incentives is the Satisfaction of Employees which results in retaining Skilled Employees and High performers in the Organization.

## CONCLUSION

The purpose of this paper is if the above strategies are taken into account the business would be able to survive in a dynamic environment by treating their employees as one of their assets which needs a lot of attention. Employees are the backbone of any business success and therefore, they need to be motivated and maintained in organization at all cost to aid the organization to be globally competitive in terms of providing quality products and services to the society. And in the long-run the returns on investments on the employees would be achieved. Leaders should examine the sources of employee turnover and recommend the best approach to fill the gap of the source, so that they can be in a position to retain employees in their organization to enhance their competitiveness in the this world of globalization. Managers must understand that employees in their organizations must be treated as the most liquid assets of the organization which would make the organization to withstand the waves of globalization. This asset needs to be monitored with due care, otherwise their organizations would cease to exist. Griffeth et al. (2000) noted pay and pay-related variables have a great effect on employee turnover. Management must compensate employees adequately. They should pay employees based on their performance and in addition they should given employees incentives like individual bonus, lump sum bonus, sharing of profits and other benefits. Hence, if these are implemented at workplace we would minimize employee turnover.

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