Strategic commentary

What is the true cost of attrition?

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A ttrition is an inevitable fact of life for companies. However, this should not stop them from understanding how much it costs organisations and the wider economy and what action can be taken to stem the loss of money and productivity. According to our research, based on PwC figures, up to $27bn is being wasted in the US economy alone because people are not hiring the right candidates: clearly there is a serious issue here that needs to be redressed.

First-year-of-service turnover among US organisations is around 24 per cent, according to PwC[1], and each leaver costs the organisation 1 to 1.2 times their annual salary. On this basis, in a hypothetical 10,000-employee company with a 10 per cent hiring rate, 240 of its 1,000 annual recruits are being lost. For an employee earning $50,000, the cost would be $50,000 to $60,000. In our hypothetical organisation, the ultimate cost of employee attrition would be $60,000, 240 times over – a figure not far short of $15m. If this company could hang on to just 10 per cent of those 240 leavers, they would save more than $1m annually.

More extraordinary are the estimated costs of attrition to the general economy. Nearly 5.1 million Americans quit or were laid off from their jobs in December 2016[2] making it the biggest month for job separations since 2008. The financial impact of this is huge, even using conservative estimates. Let us estimate a more conservative level of quits – 1.5 million per month – and only 10 per cent of them are addressable. Let us also assume a more conservative estimate of the costs of attrition at 30 per cent of average US salary. This is still an estimated $27bn cost to the US economy from attrition.

What can we do to stem the tide?

It is commonly said that employees represent 70 per cent of the costs in a business, so it is therefore imperative that organisations understand why their most valuable assets are leaving. Employee turnover can be roughly split into four types:

1. *Voluntary* turnover is initiated by the employee, for example, a worker quits to take another job.

2. *Involuntary* turnover is initiated by the organisation, for instance, a company dismisses an employee because of poor performance or an organisational restructuring.

3. *Functional* turnover is when the organisation fires or loses poor performers or employees whose talents are easy to replace.

4. *Dysfunctional* turnover is harmful to the organisation and can take numerous forms, including the exit of high performers and employees with hard-to-replace

skills and departures of women or minority group members that erode the diversity of your company's workforce.

Companies must prioritise investigating the causes of functional and dysfunctional attrition and build this into a rigorous HR process. Was it avoidable? Could the departure have been avoided by better management? Should hiring take more account of certain demographic factors which influence tenure?

It may well help to use a third party to do this to improve accuracy; collecting data on attrition and its causes falls into the "important but not urgent" box for too many organisations. Procrastination is easy, especially if the costs you are incurring through inaction are hidden. However, there is a clear return on investment involved if companies both collect the data and then act on the insight.

Assessing for culture: the missing piece?

Despite the clear benefits involved in establishing the HR processes described above, the picture is only partially complete. Harvard Business Review estimates[3] that as much as 80 per cent of employee turnover is because of bad hiring decisions. Generating an understanding of why employees are leaving will only take companies so far. Organisation must prevent "bad hiring" in the first place.

Businesses are in general very good at developing selection approaches which assess a candidate's hard skill set, and rightly so, these assessments are very important. However, I would argue that these methods are less effective when assessing more "invisible factors", such as a candidate's cultural fit.

Cultural fit can be defined as an understanding of the culture of an organisation and how to select candidates that will work well within the job, the team and the wider organisation. In a survey by Ultimate

Software[4], 82 per cent of respondents (including both professionals and jobseekers) worldwide believed that measuring cultural fit is an important factor in recruitment, yet only 32 per cent of employees surveyed said that their organisation currently incorporates cultural fit into their recruitment processes. Half of the organisations believe culture fit is important and are doing nothing about it.

Understanding a candidate's job fit is the easier part. Approaches to test whether a candidate's personality and behaviours and will "gel" with the job are available and useful to test potential "danger zones" to explore with the candidate. "You seem to like being spontaneous and yet this job requires a high degree of planning and organising, are you comfortable with that?" However assessing team and organisational fit is much more difficult.

To measure team fit, the assessor must first have an understanding of the shared values between existing members of that team, before then determining whether the candidate would be a good addition. This should be done through rigorous cultural assessment, something that is not done nearly enough in today's organisations. Saberr's own research has indicated that a lack of shared values and a tolerance for each other's values (known as "resonance") is strongly correlated with attrition.

Assessing organisation fit involves understanding the company's culture as a whole and whether a candidate will fit into that culture. This may start with espoused company mission and values. However, it is critical to make this real: "how do things *really* get done around here". A structured cultural interview and assessment must provide a clear risk assessment of poor cultural fit. If a candidate is switching from one sector to another or from a large company to a small one, there will clearly be differences in underlying values and working

practices. Hiring managers must be explicit with candidates in what these might be and assess candidates on whether those differences are insurmountable.

Something needs to be done to put a dent in the $27bn black hole caused by attrition. While there are no magic bullets this does not mean businesses should not start addressing the problem. First, calculate the cost of attrition to your organisation – it will focus attention on the issue. Second, understand why people are leaving. Third, assess better for cultural fit in hiring: this is where many problems start. Assess fit with the job, fit with the team and fit with the wider organisation culture for each candidate. Log a "risk score" that you can check against performance and attrition data. New tools that leverage the much larger sets of data available now will be able to be used to provide insight into all aspects of cultural fit. The human side used to assess candidates will remain crucial but each interviewer should be given more to base their decision on than gut feel.

Notes

1. www.pwc.com/us/en/hr-management/ publications/assets/pwc-trends-in-workforce-analytics.pdf

2. www.usnews.com/news/articles/2016-02-09/hiring-quits-climb-to-9-year-high-says-jolts-report

3. http://insights.dice.com/report/the-cost-of-bad-hiring-decisions/

4. www.slideshare.net/ChrisBennett24/ recruiting-for-cultural-fit-54661129

About the author

Tom Marsden is CEO of Saberr, a people analytics company aiming to help people make better decisions about their teams with data. He is an entrepreneur with experience in strategy consulting, talent management and finance. Before joining Saberr Tom worked at Alexander Mann Solutions and McKinsey & Co.