Slide 1

Thank you, Mike. It's great to be with you and speaking today about employee turnover.

Slide 2

OK, just a bit about myself. For most of the past six years I was VP of R&D for K/F Leadership and Talent Consulting which includes Lominger International, a business that was acquired by Korn/Ferry at the same time I joined the company. So I've had a wonderful experience working with an outstanding team of people developing thought leadership, tools, assessments, and other intellectual property to support talent management professionals. A couple of months ago I decided to branch out on my own as an independent Lominger associate, and I'm very much enjoying working with some great clients. You'll see on the slide that I'm on SHRM's HR disciplines panel which was established in the past year. Previously I spent a number of years on the OD panel.

Slide 3

My practice, which I call Inventive Talent Consulting, focuses on core talent management and OD practices.

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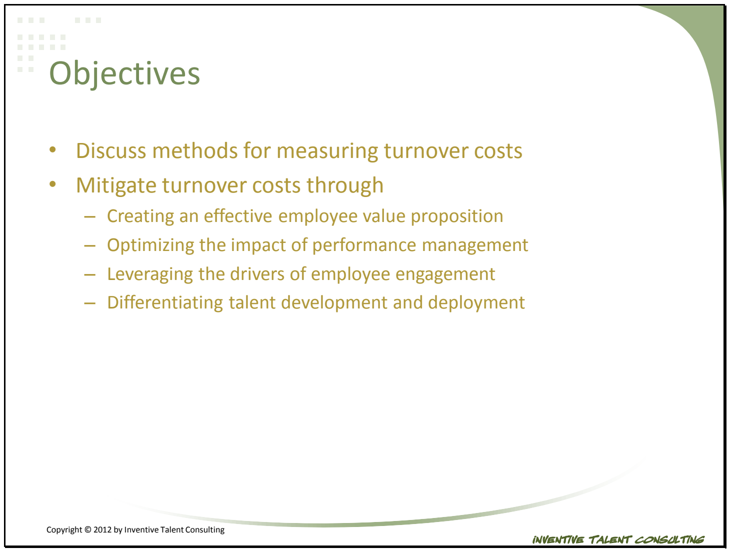

Our objectives today are to address measurements related to turnover costs and, more importantly, I think, to address methods for mitigating the costs of unanticipated voluntary turnover. You'll see sub-bullets listing four topics, but of these, low employee engagement is likely the root cause of unanticipated voluntary turnover. Turnover is often the ***end result*** of low employee engagement, and the employee value proposition and performance management, and other talent management practices all impact employee engagement. My point is that when you want to reduce turnover, you enhance engagement, and engagement is impacted by a number of factors we'll explore in this webcast.

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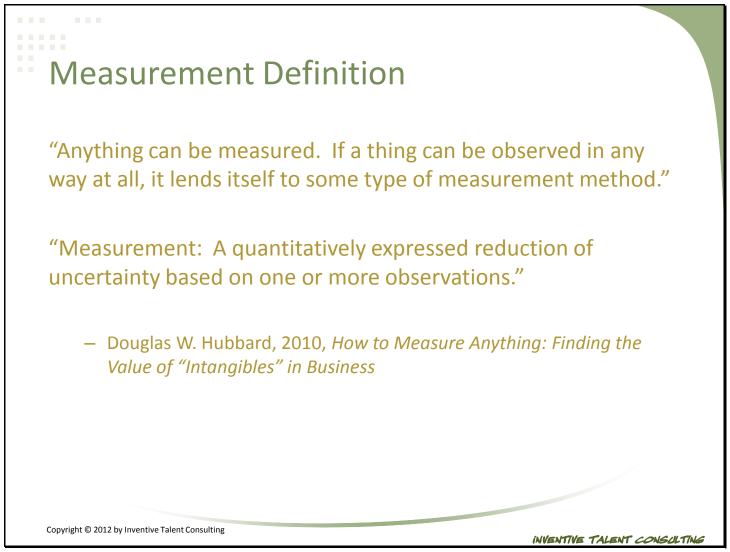

I recommend Hubbard’s book on measuring intangibles, and I’ve listed a couple of quotes here. I especially like the 2nd quote that states that measurement is the reduction of uncertainty expressed quantitatively. In talent management, we use measurement to inform decisions we make. We assess talent so we can reduce uncertainty and make better inferences and predictions about how well someone will perform in a particular role, for instance, or who will benefit from a development opportunity. All measurement, even when we’re measuring tangible, physical characteristics, are subject to error of measurement. Measuring intangibles is generally more difficult, but we don’t necessarily expect to get a precise measurement – as we said, even tangible measures have a range created by error of measurement –the idea is to reduce uncertainty about our understanding of things we care about. Certainly the cost of turnover is something we care about because it will inform decisions about reasonable investments we might make to mitigate turnover.

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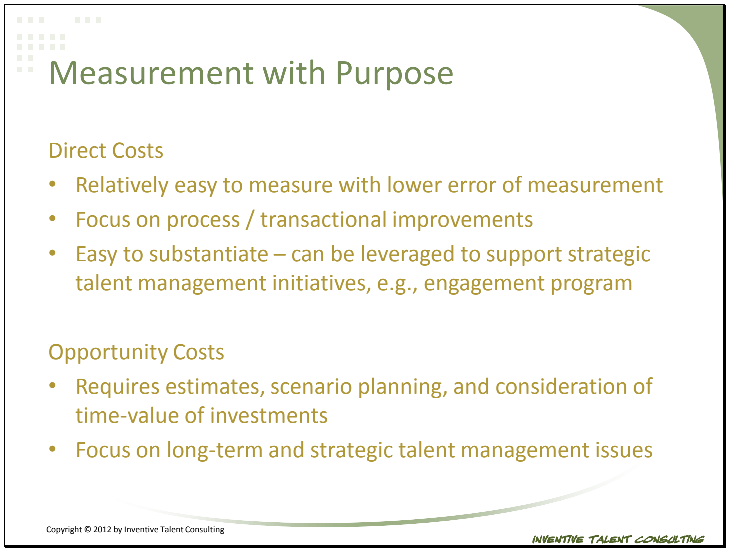

As we're considering the measurement of cost of turnover, I think it's helpful to think about two broad categories of cost. Direct costs are easier to measure and subject to less uncertainty. We also have opportunity costs that can be much more difficult to quantify but potentially have a greater negative impact on the organization. So we need to consider both of these types of costs to inform decisions about how we need to respond to employee turnover, about the investment decisions we'll make to mitigate turnover costs.

And just like costs, some of our investments will be direct investments but many of our actions to mitigate turnover will incur indirect costs from time, energy, and other resources required to impact employee engagement levels, for instance. So let's see if we can clarify this and provide some specifics about measuring turnover costs -- that is to say, how we might reduce our uncertainty about the true costs of turnover.

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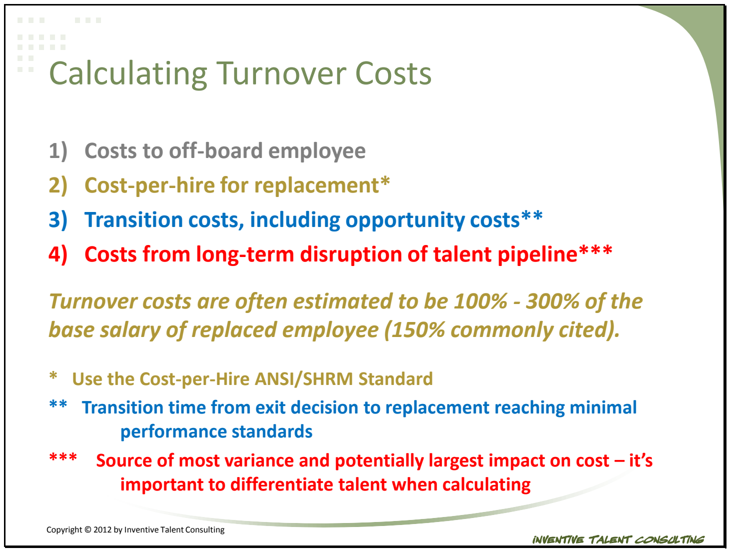

Let's start with an overview of the cost element for employee turnover.

- Generally the first cost incurred is the cost of off-boarding the exiting employee. There are costs, both direct and indirect costs as we'll see, for off-boarding an employee, even when it's voluntary turnover.
- We also need to consider the cost for replacing the employee, and fortunately, there's actually an ANSI standard that you can find on the SHRM website that addresses these costs very clearly.
- There are also costs associated with the transition, for the time between one employee exiting and another employee joining and getting up to speed. We're referring to these here as opportunity costs because the transition represents lost opportunity from the value provided by an employee in the position.
- And finally, we need to remove uncertainty to the extent possible to better understand the long-term impact of employee turnover. And as the footnote says, these costs, while most difficult to measure, are the source of most variance in measurement and have potentially the greatest negative impact on the firm.

The talent management literature frequently states as a rule of thumb that turnover costs are in the range of 150 or 200 percent of the base salary of the employee, some sources say as high as 300 percent of base pay. While a rule of thumb can be helpful, I think it's important to know the cost elements that comprise the total cost be able to speak to the source of costs, again, to make better decisions about actions to take and investments to make to mitigate turnover. So let's drill down into each of these cost components.

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I've listed here the most common cost elements for the cost of off-boarding an employee. Simply add these cost components – and others that apply in your firm – to provide a measure of off-boarding costs. Some of these cost elements are relatively straightforward, severance pay, for instance. Other cost elements will require an estimate. Remember that measurement is the reduction of uncertainty expressed quantitatively. Although you might not be able to state down to the penny the cost associated with exit interviews, for instance, you can estimate the time required and cost associate with interviewers, and that estimate informs your overall measurement and serves to reduce uncertainty about total cost of turnover. Regarding the last bullet, consider that you've invested $1000 in training an employee and that you expect that investment to be returned over three years, as an example. If the employee leaves after one year, your firm has lost 2/3 of the value of that investment. So an estimate of the lost value of those investments will inform your overall measurement and reduce uncertainty about total cost of turnover.

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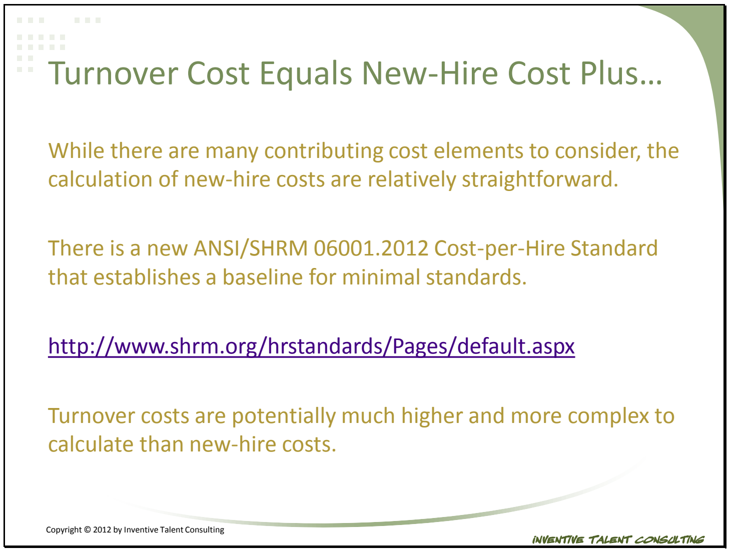

The next cost element to consider is the cost to hire a replacement employee. And fortunately, there is a new ANSI standard that you can download from the SHRM site to address these costs. The point I want to make here is that while new-hire cost is an important element of turnover cost, it's only one factor, and total turnover cost must account for other elements that we're discussing here.

Slide 10

I've listed a number of the ***external*** cost elements addressed in the ANSI standard. These are some of the common external costs associated with attracting and selecting a replacement employees. I think they're relatively straightforward and address very well in the standard so won't take time to discuss these elements here.

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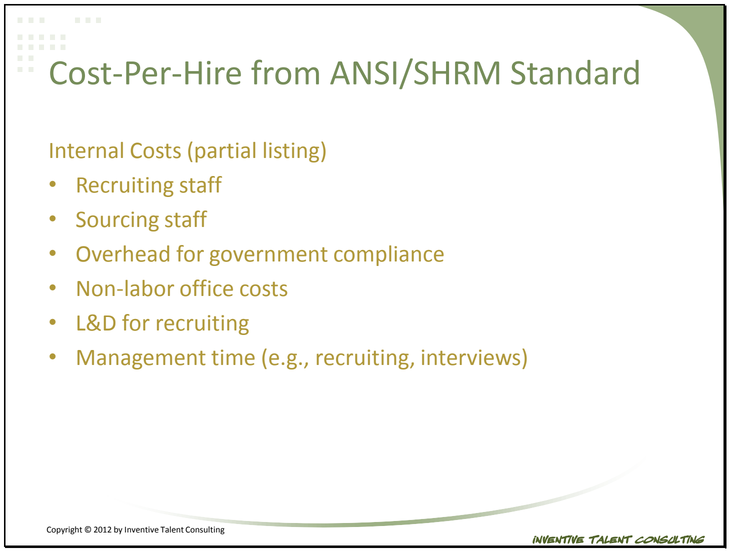

The ANSI standard also addresses what it calls internal costs. And similarly to costs associated with off-boarding, some of these cost elements are relatively straightforward, the cost of recruiting staff, for instance. Other cost elements will require an estimate. You won't be able to quantify precisely the cost of management time for hiring a replacement employee, but estimate informs your overall measurement and serves to reduce uncertainty about total cost of turnover.

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The next major cost component of employee turnover is the cost of getting the replacement employee up to speed. Earlier we used the term opportunity cost as it relates to this transition because, although there may be some direct costs, the more significant costs are likely due to the negative impact on customer service, sales, the productivity of the team, etc. These factors are significant but perhaps considered difficult to measure. My suggestion for calculating the opportunity cost is to use the company's internal hurdle rate – that's the minimum rate of return that's expected for investment decisions such as capital expenditures – and multiply that rate times the hard costs of salary and benefits for the lost employee for the time in question.

Presumably there's value for having someone on our payroll. So we're not really saving payroll expenses during the transition, we're experiencing opportunity costs that are more valuable than payroll costs. This is a generalization but one that finance people will understand. Using the example here, if the employee we're replacing would have cost our firm $75,000 in salary and benefits during the time we're replacing her, then we can multiply that amount times our internal hurdle rate, in this case I've somewhat arbitrarily selected 10%, to get an estimated opportunity cost of $7500. Although we all understand this isn't a precise amount, it's a logical and conservative way to remove uncertainty related to opportunity cost.

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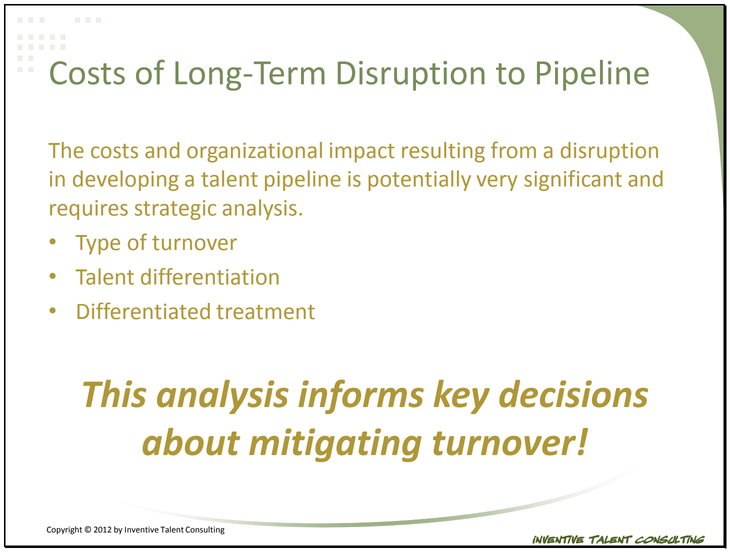

The final major cost element of employee turnover is the cost that occurs from long-term disruption to the talent pipeline. I believe this level of analysis is least likely to be done but is perhaps the most important element to consider because it's very valuable for informing our efforts to mitigate employee turnover. Not all employee turnover is created equal. Some types are more damaging than others. In fact, some turnover is unavoidable and some is even desirable. But having insight into the nature of turnover in our firm will not only help us better remove uncertainty about the cost, it will help us focus our efforts to reduce unwanted turnover.

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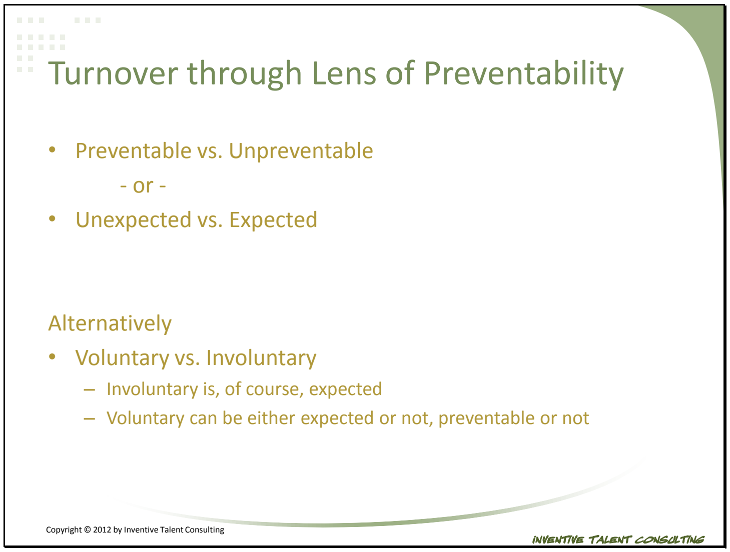

So let's look at turnover through several lenses that help us consider and classify the types of turnover that we'll experience. The first lens we might use is the lens of preventability. Some turnover is basically not preventable, it's to be expected, and I'm speaking of voluntary turnover here which is probably the assumption about all the turnover we're addressing in this discussion. My point here is that there is a certain level of voluntary turnover that is to be expected.

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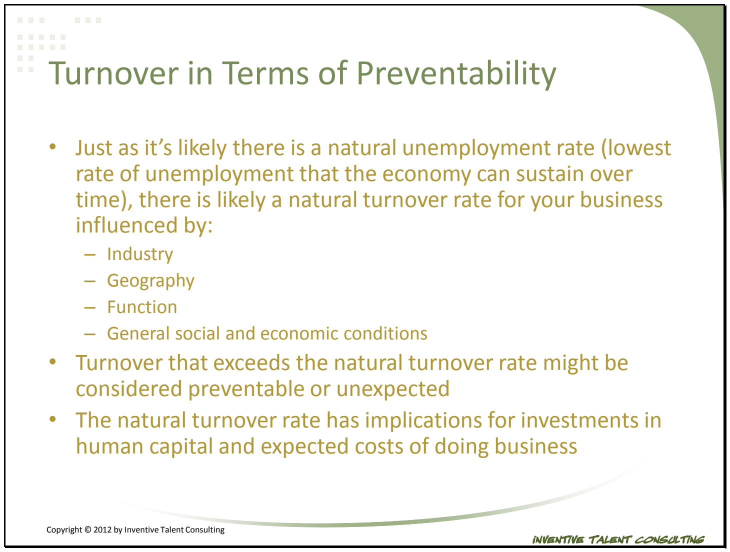

So as I'm suggesting in this slide, just as most economists would agree that there's a natural level of unemployment, there's also a natural voluntary turnover rate for your business. Economists might disagree on the exact level or percentage that constitutes natural unemployment, but they generally will agree within a few points one way or another in terms of the natural rate of unemployment.

I'm not in a position to suggest what the natural voluntary turnover rate is for your business, but I can say some things with a high level of certainty. Some voluntary turnover is unavoidable. Voluntary turnover in your firm is impacted by factors such as the industry in which you operate, geography, and there will likely be different rates between functions. Certainly the natural rate will fluctuate with the general economy, technology trends, and so forth.

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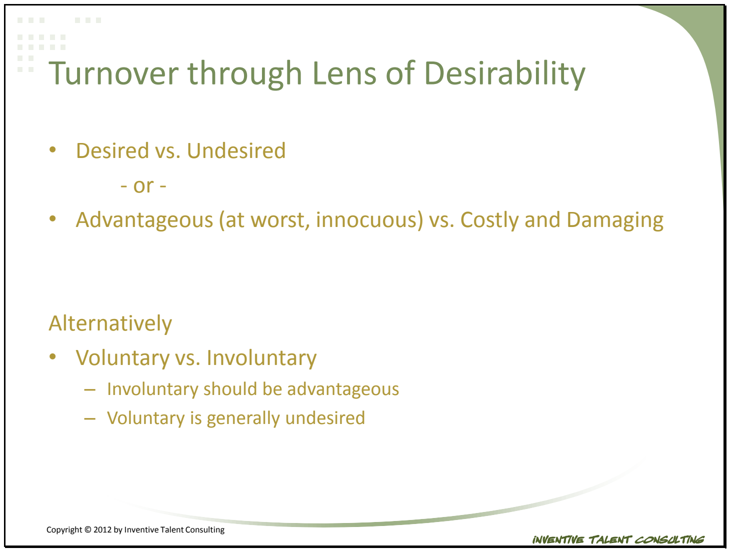

The 2nd lens to consider is the lens of desirability, and I guess this concept might be a bit counterintuitive. We might ask: Isn't all turnover undesirable? And if we reflect on that question the answer is pretty clearly NO. There's a spectrum – some turnover hurts badly. Other turnover is much less consequential and may even be a net positive.

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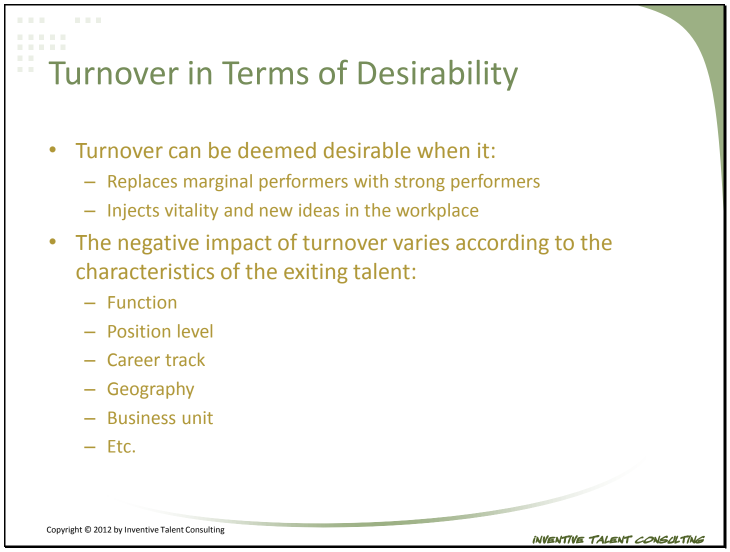

And we see that turnover can be a good thing when it results in enhanced capabilities, when there's increased energy and innovation as a result of the turnover, and so forth. And as you can see, the net impact of turnover, the level of desirability or maybe better to say, the level of undesirability, is likely a function of several factors including the function, certainly the position level, whether or not the employee is on a fast track to be a general manager or a senior specialist, for instance, as well as other factors.

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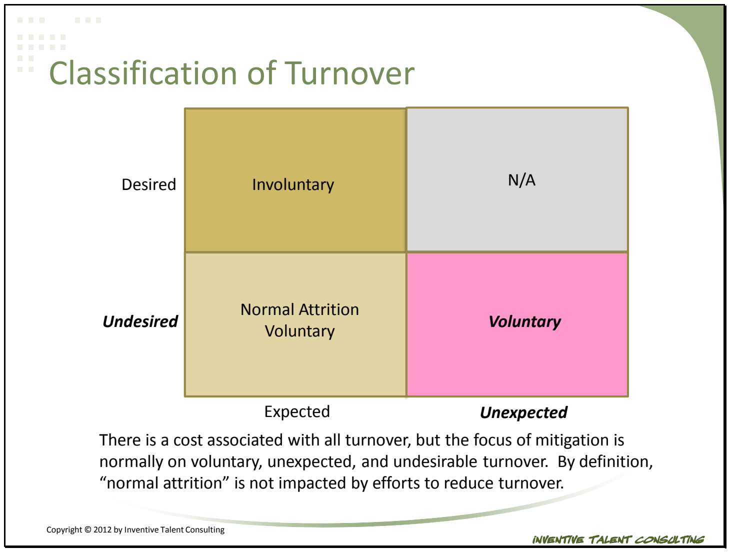

I've tried to illustrate in a two-by-two matrix here these concepts primarily to focus our efforts at turnover mitigation and inform our conversation going forward. Sometimes we have turnover because we, the firm, decides it's in the best interest of the firm. We sometimes replace employees. Presumably that's done for good reason and, as unpleasant as the scenario may be, is done by the choice of the firm. It's called involuntary because from the employee's perspective, it is involuntary. Since it's the firm's decision, it may not at face value make much sense to address mitigating the cost of this type of turnover. However, we'll see that the practices we'll be discussing in a moment will have an impact on this because to the extent performance management and employee engagement is done well, it's very likely that there will be less need to engage in replacing employees. We have a cell to account for the natural rate of attrition – it's not desired, but it is expected. And the final cell we'll address is the rose-colored cell that represents turnover that is undesired – that is, it's costly to the firm, and turnover that is unexpected – that is, it exceeds the natural attrition rate. This cell is the focus of our efforts to reduce turnover.

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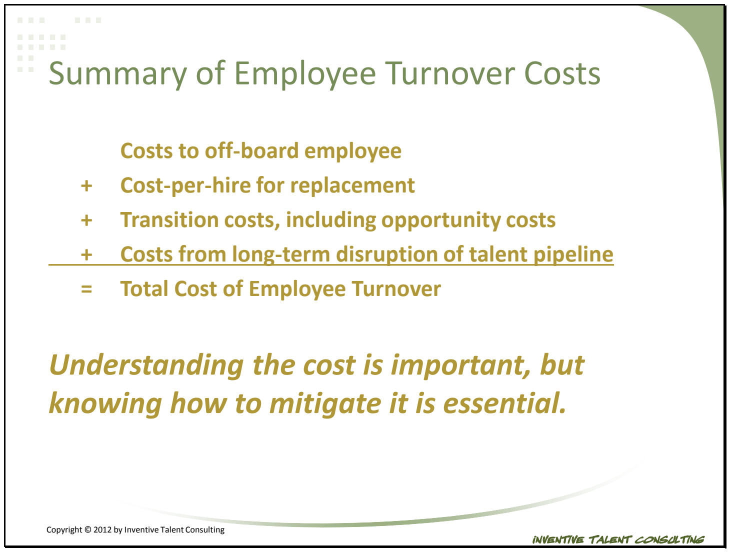

I think we'll need to have some additional discussion about the cost due to disruption of the talent pipeline, but perhaps it will be easier to address that after we have a discussion about mitigating the cost of turnover. For now, let's summarize the calculation of employee turnover costs as shown here. It is the sum of the cost to off-board, the cost-per-hire, transition costs, including opportunity costs, and finally, an estimate of the long-term cost to disruption of the talent pipeline.

And just to make sure I don't lose track of time and fail to address this further, let me say here that the way to estimate this cost is to run some scenarios, estimate the likelihood of those scenarios, assign costs to those scenarios, and then multiply cost by probability. If you go through this exercise, you will see the importance of creating a robust talent pipeline. For instance, if you have a high-professional career track and you have 10% voluntary turnover in the fast-track employees on that track, that might lead you to run some scenarios – a worst case scenario is that when you need to transition a new leader to your senior R&D role, you don't have anyone prepared to step into the role. The cost of that can be staggering – and you can almost ignore the direct costs of recruiting someone to fill the role when you consider it in contrast to the opportunity cost due to impact on innovation leadership in the firm. So the idea here is to run some scenarios – perhaps best case, worst case, and most likely case -- assign likelihood to those scenarios, and multiply the likelihood times the estimated cost. OK, we'll move on to mitigating turnover and return to this topic if time allows.

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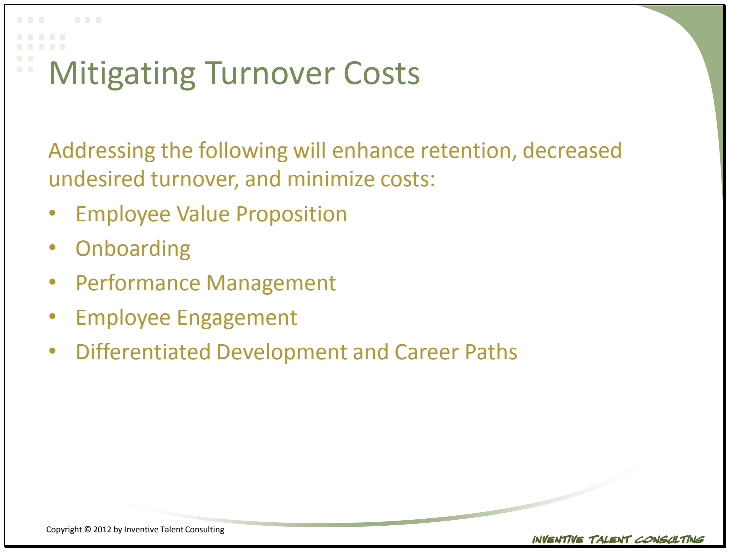
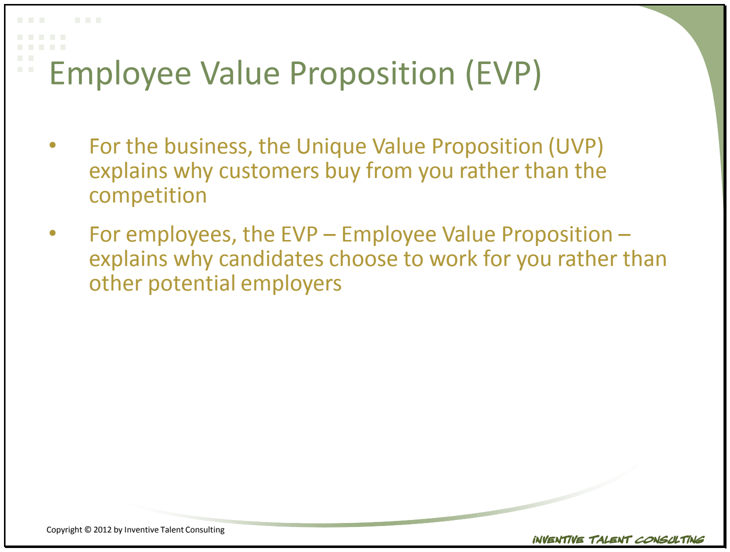


Let’s consider what we can do realistically and practically to mitigate the cost of turnover, and I want to address all of these.. Employee value proposition, onboarding, performance management, employee engagement, and finally development and career support.

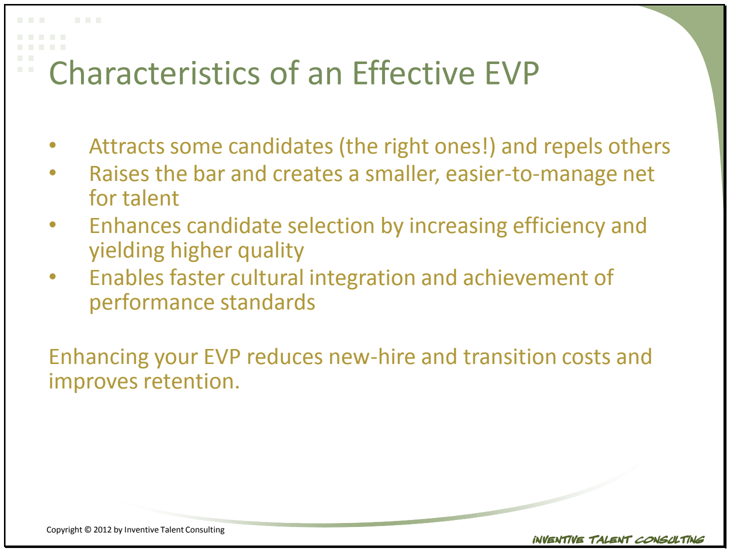
Slide 21



You business should have a unique value proposition, and you should know that value proposition well and be able to articulate clearly and simply. It's the answer to the question – why do customers buy from you rather than from the competition? Just as the UVP answers an important question for the business, the employee value proposition, the EVP, answers an important question: Why should I come to work for your firm assuming I have other opportunities?

The best value propositions are those who clearly define the customer and differentiate the firm in the competitive landscape. There is a competitive landscape for talent, too, and so the EVP is important. An EVP that tries to be all things to all potential employees is not differentiating and does little or nothing to impact employee turnover. An EVP that reads something like this: "We strive to be the employer of choice in our industry" is no value proposition at all. On the other hand, is it a differentiator to have an EVP like this one: "We make the world a better place through the application of advanced chemical engineering. Our employees are smarter than others. Our employees work harder than others. Our employees are masters of innovation. Our employees are passionate about what we do. Our employees are changing the world."

Slide 22



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An effective EVP impacts turnover costs because it results in better fit between employees and the firm and leads to higher engagement levels and reduced voluntary turnover.

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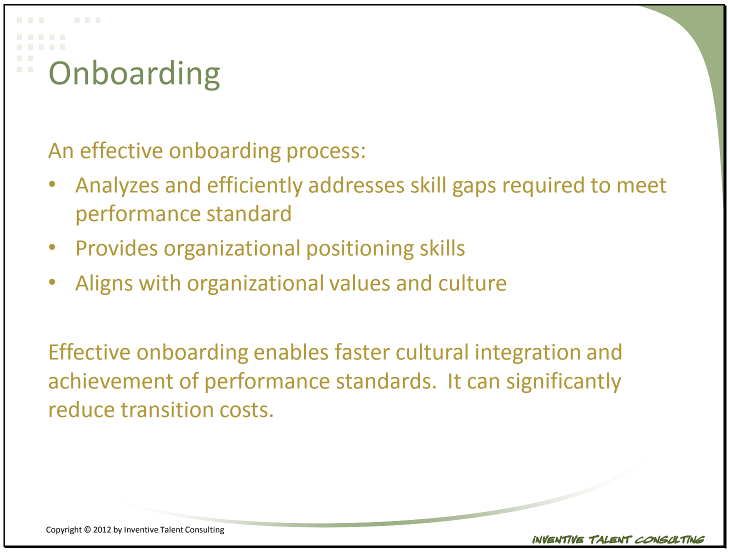
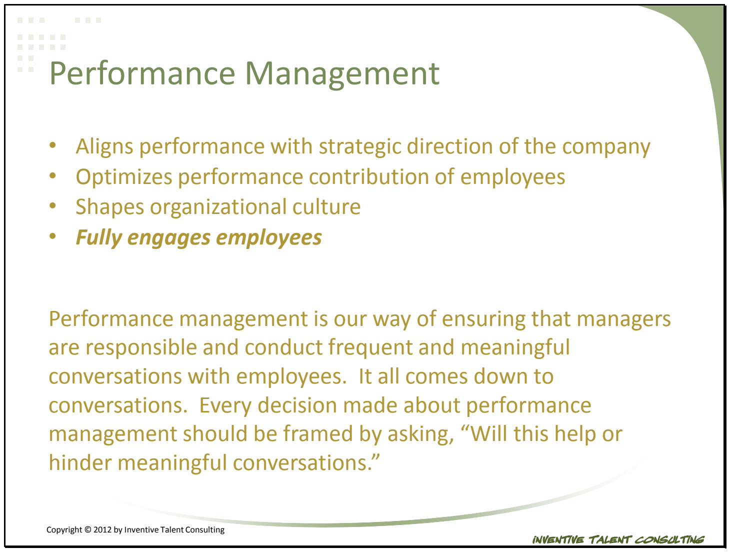


Onboarding also impacts turnover costs because it accelerates time to performance and accelerates alignment with the values, with the culture of the organization. Similar to the EVP, effective onboarding can increase engagement levels and enhance retention.

Slide 24



And now we come to performance management which I believe to be at the center of employee engagement efforts and perhaps the most important of all talent management practices. READ

Slide 25

Now let's drill down into employee engagement, especially the drivers of engagement, because engagement is our vehicle for addressing turnover. As the slide says in bold: If you want to retain employees, engage them! READ DEFINITION. If you buy this definition you can see that an engaged workforce is extremely valuable and impacts virtually every key performance indicator that we'd want to consider. There is research that links engagement to increased sales, customer loyalty, reductions in absenteeism, better safety records, and, as I said, virtually every KPI. Absolutely, engagement is correlated retention and there is a cause and effect relationship.

Slide 26

In our research, which includes meta-analysis and also primary research studies, we've identified nearly 30 drivers of engagement, and we've organized and consolidated those research-based engagement drivers in these 11. EXPLAIN AS TIME ALLOWS.

I've highlighted the 3rd driver, the immediate boss relationship, because most research studies have identified this as, generally, the most powerful driver. I think that's because the immediate boss has a big impact on nearly every other driver.

Discuss as time allows.

Now some of these drivers are more important than others to top talent. So let's discuss the importance of differentiating talent, and how that might impact our efforts to mitigate the cost of turnover.

Slide 27

Discuss

Slide 28

My suggestion is differentiate top talent from core talent, but more than just differentiating your A players, for instance, you need to consider three essential talent pools that are each a subset of the top talent population. The reason for this in a broad sense is that these three populations require different treatment – different development, different job assignments, different engagement, different compensation – they are different and treating them equally is not fair!

In regards to discussion about employee turnover costs, knowing the levels of turnover in these populations will be important, because there will be a different cost associated with turnover in each category. Remember our brief discussion about scenario planning for addressing the long-term costs of disruption to the talent pipeline. Knowing the level of turnover and costs of turnover in each of these talent pools will significantly inform our measurement of turnover costs and – very importantly – will lead us to make better decisions about mitigating turnover.

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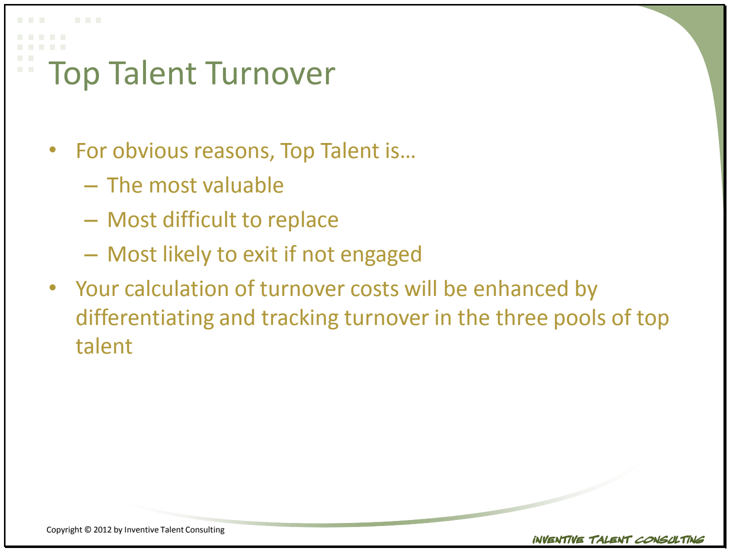

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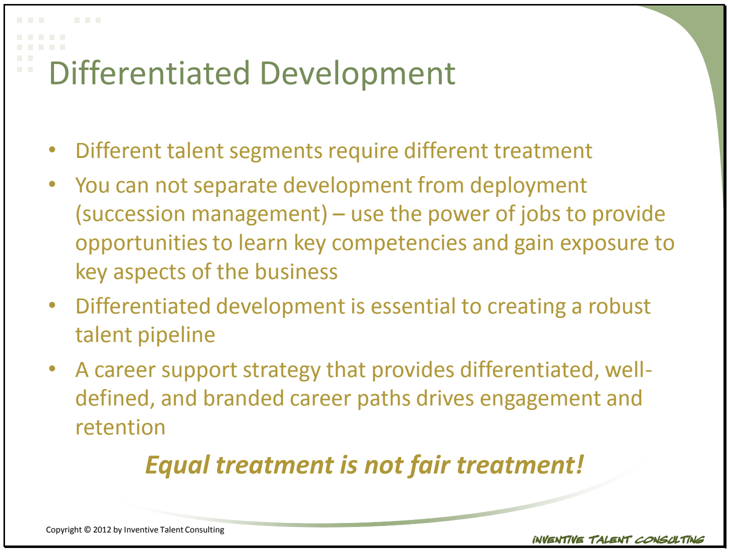
Slide 30

I've highlighted three engagement drivers that are especially sensitive to top talent. All these drivers are important to all employees. All employees care to some degree about the strategic direction of the organization and find a sense of purpose in being aligned with the strategy – being aligned with the strategy is engaging! But I can tell you that top talent considers the firm's strategy much more closely than employees in the general population. All employees want to have confidence in the capabilities of senior leadership, but top talent is looking at your senior leadership team much more closely. They are more likely to leave the organization if their confidence in the leadership team flags. Every employee wants to feel like their voice is heard, wants to feel like they actually have some influence in the organization. For top talent, this isn't an option. If they feel like they don't have a voice, if they feel like they don't have personal influence, they will someplace where they do. This is preventable turnover and it's very expensive.

Slide 31



The final engagement drive I’ll address is career support. READ-SUMMARIZE. What I’m suggesting is that being clear about your inventory of talent will lead you to make decisions about defining, developing and branding career tracks that are engaging for your top talent generalists and specialist and that provide realistic career expectations for emerging talent. Perhaps we’ll be able to do another webcast in the future to provide specifics about how to do this. >>>

Slide 32

For now, I will provide these guidelines that will help engage your top talent and can significantly mitigate the cost of employee turnover. READ.

Slide 33

READ.

I wish everyone great success in this regard. Thanks!