Executive Brief: Differences in Employee Turnover Across Key Industries

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Introduction

Employee turnover is an important issue that poses a significant challenge for organizations. Since human capital is central to an organization's performance, workforce attrition can have a profound impact on an organization's performance, growth and general business outcomes.

To explore this topic in greater detail, this article examines differences in turnover rates across seven industries, as well as the factors that may influence employees' decisions to leave their jobs. Areas of comparison include productivity measures such as revenue per full-time equivalent (FTE), the cost of hiring new employees and the number of positions filled in 2010.

Why Is Employee Turnover an Important Metric?

Employee turnover is defined as "the rate at which employees enter and leave a company in a given fiscal year." [1] HR professionals and organization executives focus on turnover for three main reasons: it has significant cost implications; it affects overall business performance; and it has the potential to become difficult to control, resulting in a talent crunch, where it is hard to find quality candidates with the skill sets required to fill open positions.[2]

Employee departures affect organizations in terms of measurable financial costs as well as intangible knowledge-based and productivity costs. According to a 2008 SHRM study, the cost to replace and hire new staff may be as high as 60% of an employee's annual salary, whereas total costs of replacement, including training and loss of productivity, can range from 90% to 200% of an employee's annual salary.[3] Those expenditures can be difficult to absorb, whether an organization is a small company or a large global firm.

Loss of employee talent hinders the development of new products, disrupts client relationships and delays customer deliverables. These production delays, along with replacement costs of employee turnover, negatively affect overall business performance and success.

Vacant positions also cause a decline in overall productivity.[4] Employees who remain with the organization are less productive and efficient while they assume the responsibilities of the vacant position in addition to their own job duties. Once a vacant position is filled with a new employee, those individuals are still contributing less to their primary job responsibilities—and, subsequently, to the organization overall—as a result of having to train the new hire.

Organizations that do not develop strategies for addressing employee turnover may find themselves with pervasive skill shortages to fill the positions in the future. According to Manpower, Inc., the workforce is changing dramatically; with demographic shifts, increased outsourcing and entrepreneurship on the rise, specific skill sets and competencies may be moving rapidly out of various industries.[5] The impact is already being felt in today's economy. In a SHRM survey of HR professionals, 75% of respondents reported difficulties hiring workers with skill sets essential to the job, with skilled professionals making up the bulk of desired staff.[6] SHRM has noted annual increases in recruiting difficulty since December 2009.[7]

What Factors Influence Employee Turnover?

Employee turnover is a naturally occurring event at any organization. Some employees leave by choice (known as voluntary turnover), and some staff changes are initiated by the organization itself (known as involuntary turnover). Employees voluntarily leave organizations for a variety of reasons, including low satisfaction with their jobs, low satisfaction with their employer, limited promotion and growth opportunities, a better opportunity elsewhere, or disapproval of organizational changes or restructuring. On the other hand, not all separations are voluntary. And as a result of a deep and extended recession over the past few years, many organizations have had to undertake headcount actions such as downsizing in order to stabilize their budgets. In reaction to concerns about the struggling economy, employees have rated job security as the most important aspect of their job satisfaction for two years in a row.[8]

The following sections examine annual overall turnover rates[9] from SHRM's 2011-2012 Human Capital Benchmarking database. An analysis of several workforce analytics metrics offers insight into the implications of high and low turnover rates on an organization's productivity and overall business performance.

Turnover Rates Within Key Industries

In order to get a better sense of how turnover affects organizations in key industries in the United States, data from the 2011-2012 SHRM Human Capital Benchmarking Database were analyzed by industry. Industries with the highest turnover rates were services—accommodation, food and drinking places (35%); arts, entertainment and recreation (27%); and retail/wholesale trade (22%). Industries with the lowest turnover rates were high-tech (11%), state/local government (9%), and association—professional trade (8%) and utilities (8%), which were tied for third. Across all industries, the average turnover was 15%.

Explanations for Turnover Rates: A Closer Look at the Industries

When considering why turnover rates are high in some industries and lower in others, first take into account the characteristics of each industry. The three industries with the highest turnover rates—accommodation, food and drinking places; arts, entertainment and recreation; and retail/wholesale trade—are often typified by nonexempt seasonal workers whose jobs may be temporary and have little room for upward mobility. Since hiring costs for these industries are low (see Table 1), hiring can be cyclical as the need grows and subsides. For example, retailers often recruit more staff to meet the holiday shopping crunch and, in turn, let them go once customer needs retreat to normal levels. In addition, because compensation for these jobs is often low, employees in the service industries may readily leave their employer when enticed by another organization for small increases in pay. Finally, as the economy remained weakened, consumer spending decreased 2% in 2010, on top of a decrease of 2.8% in 2009. As a result, expenditures on nonessential services such as hotels, entertainment, retail and restaurants also decreased, resulting in revenue declines in these industries.[10]

Table 1: Productivity Metrics

Industry	Average Annual Turnover	Revenue per FTE	Cost-Per-Hire
Services—accommodation, food and drinking places	35%	$183,173	$1,062
Arts, entertainment and recreation	27%	$188,817	$1,394
Retail/wholesale trade	22%	$523,529	$2,549
All industries	**15%**	**$339,785**	**$3,196**
High-tech	11%	$207,763	$3,357
Government/public—state/local	9%	$204,594	$2,293
Association—professional/trade	8%	$294,582	$5,582
Utilities	8%	$413,086	$3,936

Source: SHRM Human Capital Benchmarking Database (2011)

Contrary to the service-based industries noted above, industries such as high-tech , government, professional trade associations, and utilities reported lower turnover and fewer vacancies in 2010. Since these industries typically require more specific skill sets than found in service industries, organizations must invest more dollars to recruit, train and onboard their staff. In fact, cost-per-hire for high-tech industry was $3,357, compared with $1,062 for service industries. With such financial investments, organizations not only are hesitant to let go of staff, but also provide more inducements, such as benefits, to retain employees. For example, associations incentivize their employees to remain at their organizations by offering a comprehensive benefits package. In 2010, associations spent an average of $7,791 on health care costs per covered employee and paid 86% of premium costs for employee-only coverage.[11]

Another industry with low turnover rates in 2010 was local and state government, which reported single-digit turnover rates. Many government agencies use staffing strategies that rely on contractors to fulfill certain responsibilities. Thus, when reductions in staff do occur, government agencies focus on retaining their core workforce and shed the contractors first, particularly given the fact that this is a highly unionized workforce.[12]

Organizations that reported higher overall turnover in 2010 also had more positions to fill. Table 2 indicates that, in general, organizations with higher turnover filled an average of 209 positions in 2010, as opposed to 83 positions for organizations with lower turnover rates. The implication is that these organizations are in a constant cycle of having to fill vacancies and spend money to train new employees. Correlation analyses revealed significant relationships between turnover and the number of positions filled for all industries[13] and retail/wholesale trade.[14]

Table 2: Number of Positions Filled in 2010

Industry	Average Annual Turnover	Number of Positions Filled in 2010
Services—accommodation, food and drinking places	35%	316
Arts, entertainment and recreation	27%	184
Retail/wholesale trade	22%	127
All industries	**15%**	**109**
High-tech	11%	79
Government/public—state/local	9%	131
Association—professional/trade	8%	10
Utilities	8%	110

Source: SHRM Human Capital Benchmarking Database (2011)

The metric revenue per FTE is a measure of employee productivity.[15] This ratio conceptually links the time and effort associated with the firm's human capital to its revenue output. If the revenue per FTE ratio increases, it indicates that there is greater productivity because more output is being produced. Industries reporting lower turnover rates, such as utilities and professional trade associations, report higher productivity levels than found in services—accommodation, food and drinking places, and arts, entertainment and recreation industries, which have the two highest turnover rates (Table 1). This differential may suggest that industries with higher revenue per FTE are more likely to hold on to their staff, compared with industries with low revenue per FTE, which are profiting less from their staff.

Conclusion

Employee turnover rates vary across industries, and the reasons behind high and low turnover are not always clear. Organizations with higher turnover rates can find themselves in a vicious cycle of trying to address vacancies through frequently filling many positions, which increases pressure on existing staff and affects the overall success of an organization. This is most critical for those industries where the cost to replace staff is high and jobs are hard to fill.

Workforce attrition can be a disadvantage, particularly in a competitive job market where the skills gap is increasing. For organizations with high employee turnover rates, it is important to look at the possible root causes of turnover and undertake retention efforts. An examination of key indicators, such as the types of employees leaving, their tenure at an organization, and the positions they occupied, may reveal trends that organizations can proactively address. Strategies for succession planning, workforce retention, new staff recruitment and job satisfaction can help reduce vacancy rates and subsequently reduce costs and loss of knowledge capital, and improve the overall organization.

Methodology

The 2011 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 2010, along with expectations for hiring and revenue change in 2011.The survey was created by SHRM's Strategic

Research 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

[1] Society for Human Resource Management. (2011). SHRM 2011-2012 Human Capital Benchmarking Report. Alexandria, VA: SHRM.
[2] Allen, D.G. (2008). *Retaining talent: A guide to analyzing and managing employee turnover*. Alexandria, VA: SHRM Foundation.
[3] Ibid.
[4] PricewaterhouseCoopers. (2006). Driving the bottom line: Improving retention [PricewaterhouseCoopers Saratoga Institute White Paper].
[5] Manpower. (2010). Knowledge retention and transfer in the world of work [Manpower White Paper].
[6] Society for Human Resource Management. (2011). *Jobs outlook survey report: Q4 2011.* Alexandria, VA: SHRM.
[7]Society for Human Resource Management. (2011). LINE employment report for December 2011. Retrieved from www.shrm.org/line.
[8] Society for Human Resource Management. (2011). *2011 employee job satisfaction.* Alexandria, VA: SHRM
[9] 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.
[10] U.S. Bureau of Labor Statistics. (2011). Consumer expenditures (annual) news release. Retrieved December 5, 2011, from http://www.bls.gov/news.release/cesan.htm.
[11] SHRM 2011-2012 Health Care Benefits Benchmarking Database.
[12] Data from SHRM 2011-2012 Human Capital Benchmarking Database indicate that 32.6% of local government workforce is unionized.
[13] Correlation is significant at the 0.01 level (r =.271).
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[15] Revenue per FTE is the total amount of revenue received during an organization's fiscal year divided by the number of FTEs.

December 2011