Employee Turnover:

Definitions and Calculations

This brief guide looks at the various different ways of defining and calculating employee turnover. It provides suggestions as to the most appropriate definition to use and highlights the best method for calculating turnover.

Key Points:

- There are several alternative definitions of employee turnover.

- The most common formula used is:

    Number of exits / (divided by) number of employees

- If you are producing figures for internal use, it is more sensible to calculate voluntary turnover.

- Calculating early turnover is often wise.

- Benchmarking your figures against competitors is problematic given the definitions used by many firms.

The Definition Of Employee Turnover

Be careful when defining employee turnover. The wide range of alternative definitions of employee turnover can prove problematic for those with responsibility in this area. Appreciating the subtle differences between similar sounding definitions helps to avoid errors of judgement and potentially expensive mistakes.

Most firms will experience the departure of a number of employees during the course of a year. Yet behind the raw figures lies a variety of explanations: some individuals may have retired, others been dismissed, some may have moved out of the area, others opted to change career, some poor performers may have left, so too some good performers, some departures may have been regretted, others not.

Employee Turnover Rate

The number of avoidable separations divided by the average number of employees during that same time period.

The key word here is avoidable. Which categories of departures do you include and which ones do you leave out?

If you are doing a calculation for your own internal purposes, for example if you are looking to improve employee retention, or reduce avoidable turnover, it is more sensible to omit departures such as retirements, dismissals and redundancies.

However, if your main aim is to compare your figures to external benchmarks, then they will often use a raw figure that includes all separations. So their figures will often show the total number of exits divided by the number of employees.

The problem with comparisons made using this definition is that you have no idea how many of their departures were retirements, dismissals or redundancies. Hence the comparison is of limited value.

Employee Attrition (total turnover or wastage rate)

Sometimes known as total turnover or wastage rate. A commonly used figure, but with significant risk of misleading; retirees, dismissals and redundancies included, making comparisons practically worthless.

The employee attrition rate is the number of exits during the period divided by the average number of employees.

Retention Rate

The retention rate is the percentage of employees who were employed at the beginning of a period, and remain with the company at the end of the period.

This figure can be useful but it hides the departures of employees that joined and subsequently left during the period.

Voluntary Turnover (contrast involuntary)

An improvement over the total turnover definition; retirees and employees dismissed or made redundant no longer included. This definition is more precise and more relevant to internal decision-making. If you are considering investing resources in retention strategies then using a definition such as voluntary turnover is sensible.

Early Turnover Rate (within initial 6 months)

Early turnover concerns those employees that leave during the first six months. These departures may reflect problems in the recruitment or orientation processes. For example: candidates may have joined under mistaken assumptions, or simply been inappropriate selections.

Dysfunctional Turnover (contrast functional turnover)

Dysfunctional turnover is those high performing employees that you would have liked to retain, where as functional turnover is the departure of poor performers.

The departure of poor performers is likely to be beneficial to the firm in the medium term, where as the loss of high performing employees can cause significant damage to the business.

Cohort Analysis

Cohort analysis follows a group that joined at the same time. It is commonly used to track graduate recruits. This measure can highlight areas of concern. For example: a tendency for recruits to leave after 2 years might indicate a need to focus on the employee value proposition on offer at that stage.

Regretted Turnover (contrast non-regretted)

This can sometimes be a useful definition. Regretted departures are likely to be far more costly to the firm, yet it would be a mistake to ignore non-regretted turnover.

Commentary

With so many similar sounding definitions for employee turnover it can be difficult to be sure that everyone is using the same formula.

It is quite common for managers to use quite different formulas for arriving at the turnover rate. This makes comparisons, whether external or internal, of limited value.

If you need information from different units, be clear about the precise definition you want to be used. Otherwise you may find that some include categories of departures that others omit.

Calculating The Employee Turnover Rate

In the following calculation we will use our data to arrive at 3 different figures:

1) The total turnover rate (including retirements, dismissals and redundancies) – for external benchmarking purposes

2) Voluntary turnover rate (excluding retirements, dismissals and redundancies) – for internal purposes

3) Early turnover (first 6 months) – to determine the effectiveness of the recruitment and orientation processes.

In this example our figures are as follows:

> Number of employees at the start of the year = 1000
> Number of employees at the end of the year = 1200
> Total number of exits = 220

This total figure breaks down into the following components:

> Retirements = 40
> Dismissals = 30
> Redundancies = 40
> Voluntary departures

Voluntary departures = 220 – (40 +30 + 40) = 110

(Of which early departures = 55)

Step 1. Calculate the average number of employees

The number of employees is calculated by adding the number at the start of the period, to the number at the end of the period. Then dividing by 2 to arrive at the average number of employees.

For example:

At the start of the year the firm employed 1000 people. At the end of the year the firm employed 1200. To arrive at the average we add together 1000 + 1200 = 2200. Then divide by 2 to get our answer 2200/2 = 1100

This figure is the average number of people employed during the period.

Step 2. Calculate the number of departures during the period

The key here is to make sure that we only include those departures that are actually relevant. That means those that come within the definition we are using. (See earlier section on definitions)

So for the definitions we are using in this example the relevant figures are:

Total number of exits = 220
Voluntary = 110
Early = 55

Step 3. Divide departures by number of employees

To arrive at our final figures, we divide the number of relevant departures by the average number of employees. Then multiply by 100 to get the percentage rate.

For total turnover we have:

220 / 1100   (x 100) = 20%

For voluntary turnover we have:

110/1100   (x100) = 10%

For early turnover we have:

55/1100   (x100) = 5%

Commentary

What should now be clear is that the apparently simple matter of calculating the employee turnover rate is in fact not at all straightforward.

In such circumstances the best approach is often to place more emphasis on internal comparisons, than attempting to make sense of external figures that may, or may not, have been calculated using a similar definition.

You may wish to track a number of different definitions, for example: total, early, voluntary and dysfunctional turnover, in the hope that this provides additional clarity.

I hope this brief guide has been of some help to you.

Thanks

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