TOPSY TURVY TURNOVER
by Kathy Graham

If turnover is so bad, why are so many companies doing it?

Even at the top of corporations, turnover is high:
- CEO turnover globally was the highest in 15 years in 2015. For the U.S., it was the second highest in 15 years.[1]
- CFO turnover is near or at an all-time high in the consumer/food, financial, and healthcare/life science sectors while the longest tenured CFOs (retail industry) are only averaging 6.3 years on the job, according to numerous reports.[2] Ditto for GCs, Chief Information Officers, and Chief Human Resources Officers overall.[3]
- CMO's have a job turnover rate of 25% per year—that's a horrific rate that means a company's CMO must be actively looking for their next job all the time because their positions on average don't last more than a year or two.[4]

The benefits of such high turnover can be:
1. TRAINING COST SAVINGS: No need to retrain existing staff—just lay them off when the company is realigning human capital to match skills needed to pursue new strategic directions. Note that "the maturing of Internet-based technology has made it possible for companies of all sizes to measure and revise goals and objectives quarterly—not annually—and make strategic moves immediately afterwards—INCLUDING HIRING and/or FIRING EMPLOYEES to match the skills needed in the new direction."[5]
2. MARKET SIGNAL THAT PROBLEM NO LONGER EXISTS: Earnings not what they should be? Compliance or regulatory issue surfaced? Bad press generated? Just have a CxO decide to retire, pursue other interests, or devote more time to their family and then replace with fresh talent that's not associated with whatever caused the corporate distress. This scenario happens all the time, so doing so will not make a company stand out among the crowd.
3. FRESH NEW IDEAS: Revenues, product development, or some other area lagging? Just hire your competitor's top talent and with the acquisition of that new human capital comes a wealth of new information, techniques, etc.
4. SEEDING FUTURE GROWTH: There was an accounting firm that once excelled at this approach. They would hire an excess of fresh college graduates every year, give them the best training available, even created an active alumni network for those who chose to leave the company for corporate positions instead of staying to become a Partner with the company. Pretty quickly, this accounting firm became the dominant industry leader as its alumni rose to CFO ranks in corporations everywhere…and guess who these CFOs usually chose to do their audit work?

The negatives of high turnover can be:
- TEAM COHESIVENESS LOST: When a group of people work together over a period of time, they get to know what each other's weaknesses, strengths, even what a person really means when they say whatever…and those effectiveness promoting dynamics are lost when replacing existing staff with fresh blood, so do expect more of the unexpected to occur with higher turnover because strangers are working together, which increases the probability of misunderstandings and confusion.

- BLOWOUTS: If a problem really will disappear with the hiring of fresh talent, then benefit #2 is a good solution. If, however, the problem is more systemic or pervasive, the situation that the problem is creating will continue to grow until it blows up, with possibly disastrous consequences. A good analogy is that you can patch a hole in your car's tire if the hole is caused by a nail, but if there's structural or larger problems with your car's tire, a patch won't solve the problem, it just delays the blow out.
- THE USUAL: Reasons for minimizing turnover are well documented and include: reputational risk affects ability to hire top talent; soaring human capital costs as competitors wage talent acquisition wars; loss of corporate memory; lower production caused by learning curve dynamics; low morale/survivor guilt; unnecessary overtime; the costs of hiring and training a new employee, etc.

The costs for high turnover can be significant, ranging between 30% to upwards of 150% of the employees' remuneration package[6], and are tricky to calculate since there are a number of associated indirect costs that are hard to quantify. For example, how do you accurately measure a slowdown and/or increased errors or absenteeism due to morale problems?

Traditionally turnover was seen as only beneficial when a low-performing or disruptive employee left or there were no further growth opportunities to provide to an excellent employee at the top of the pay scale.

It's a topsy turvy world now where sometimes high turnover can be beneficial. It feels weird for me to say, but currently there are variables at play that have created positive outcomes for some turnover situations. That being said, exercising caution before engaging in these approaches is highly recommended. The cost of getting this decision wrong is easy to miscalculate, hard to reverse, and very expensive.

References

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