

Voluntary Turnover: Why It Exists and What It Costs

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One sign of a culturally and financially healthy organization is low voluntary turnover. High turnover in an organization indicates employee dissatisfaction with the organization providing what employees need and desire in a place to work. In the U.S. healthcare industry, healthcare workers want to work in a team-oriented, collaborative environment so that they can achieve their own personal goals of providing high-quality medical care for others.

Turnover

Turnover in an organization refers to the inevitable change in the employee population of an organization.

Turnover can be broken down into two types: *voluntary turnover* and *involuntary turnover*. Voluntary turnover refers to an employee's choice to terminate association with an organization. Involuntary turnover refers to an employee's discharge by the organization.

Involuntary turnover happens for a number of reasons, including a decline in corporate revenue, retirement, or career changes. In every case, an employee's departure is not a result of a negative relationship with the employer. In most cases, involuntary turnover is unavoidable and part of the cost of business and life.

Voluntary turnover occurs when the employee chooses to leave the organization. In this case, the organization loses a valuable employee who has to be replaced. Employees leave employment for many reasons but research shows that the primary reasons are conflict or dislike of a boss or supervisor, not fitting into the organizational culture, or being attracted to another employer that offers more of what the employee is looking for in a job.

Employers can do little to change involuntary turnover but they have great sway over voluntary turnover.

In fact, the best organizations should strive to have a 0% voluntary turnover rate. The goal of many organizations to be the “employer of choice” in their market area. As the employer of choice, an organization is filled with people who see their jobs as fulfilling and rewarding.

This paper will focus on voluntary turnover, which is the metric that tells an organization that its employees are quitting for reasons over which the organization has control.

What people look for in a job

Many studies have attempted to discover what a person seeks in a job. Money is almost never quoted as a primary reason for taking a job. Studies have shown that people want to work for an organization that offers them the ability to do personally meaningful work as an integral and valued part of an organization that is committed to achieving a worthwhile cause.

Voluntary turnover usually misunderstood

I once heard the claim that organizations should strive for a “healthy” turnover rate because some turnover was healthy for the organization. New people supposedly bring fresh, new ideas to an organization. My response is that there is no such thing as “healthy” turnover. In fact Jim Collins in [Built to Last](#) has shown that the most successful organizations in dealing with change are those that promote from within. Involuntary turnover is something that all organizations must deal with, but voluntary turnover – *any* voluntary turnover – indicates that employees are dissatisfied with the organization.

Healthcare cultures as toxic environments

Voluntary turnover rates have been kept by the U.S. Department of Labor for many years. The voluntary turnover rate for healthcare from 2000 to 2008 has remained fairly steady and ranges from 19.9% to 25%. For the rest of this article, I will use 20% as a conservative estimate of the U.S. healthcare industry voluntary turnover rate. Why does healthcare have voluntary turnover as a problem?

A nurse once told me that she hired on at a hospital, stayed as long as she could stand it, quit, and then hired on at another hospital. She is a prime example of why high voluntary turnover exists in healthcare. As another nurse said, "Healthcare organizations are toxic environments."

Some evidence as to why hospitals are toxic environments is that bad behavior has become expected and even institutionalized. The Joint Commission now requires hospitals seeking accreditation to comply with new standards addressing "intimidating and disruptive behaviors" by workers in a healthcare setting.

The news – from the *New York Times* to mainstream healthcare journals – is rife with articles about disruptive physician behavior. I know from my experience in working with physicians that most of them seek to have collaborative relationships in a team-oriented environment. Physicians, however, receive no training in leadership, relationship dynamics, or collaboration skills in medical school, and exacerbating the problem is the pervasive idea that doctors are set apart from everyone else as the "expert" in charge.

The solution to the problem of toxic cultures in healthcare organizations is to make them sticky. A sticky organization is one that attracts highly qualified people and retains them after they are hired. A sticky organization has a culture that is collaborative, team-oriented, and has a network of equal and respectful relationships among all employees in the organization – from the board and CEO down to every hourly worker. If healthcare organizations were sticky organizations with collaborative, team-oriented cultures, the need for codifying and, of course, spending money on managing bad behavior would disappear.

Cost of turnover

Healthcare executives often don't see voluntary turnover as a signal of the health or sickness of their culture. However, the cost of voluntary turnover is an industry-wide acknowledged problem.

I have heard many estimates of the costs of voluntary turnover. Rulon Stacey, CEO of Poudre Valley Health System in Fort Collins, Colorado (a 2008 Malcolm Baldrige-award winner), estimates that the cost of recruiting, hiring, training, developing, and engaging a new employee is equal to one year's salary of that position. Al Stubblefield, CEO of Baptist Health Care in Pensacola, Florida (a 2003 Malcolm Baldrige-award winner), has a broader estimate of anywhere from one to two

year's salary. A seasoned accountant with Ernst & Young told me that the rule of thumb at Ernst & Young was to calculate the cost of turnover at 1.5 times the annual salary. The Chief Operating Officer of a Texas healthcare system related to me that each 1% of voluntary turnover cost his system \$5.8 million. A study reported in the *American Journal of Maternal/Child Nursing* (March/April 2005) shows that the cost of replacing a specialty nurse is 156% of annual salary.

In my own calculations of the cost of voluntary turnover, I use the conservative end of what seasoned healthcare executives and accountants use, i.e., one times annual salary.

It is straightforward to conservatively estimate the cost of voluntary turnover for a healthcare organization. First, find the annual payroll for the organization. Second, find the voluntary turnover rate. Multiply those two quantities and you have a very good if conservative estimate of the annual cost of voluntary turnover. This is a recurring expense, year after year.

For example, take a medium-sized healthcare organization with 5,000 employees. Annual payroll for this healthcare organization would be approximately \$250,000,000. With an average U.S. healthcare industry voluntary turnover rate of 20%, the annual cost of voluntary turnover is $\$250,000,000 \times 20\% = \$50,000,000$.

Soft dollars vs. Hard dollars

For an executive (usually the Chief Executive Officer or the Chief Operating Officer) to be able to make a business case for spending money on culture-transformation initiatives in order to create a sticky organization, the executive must be able to show real savings brought about by the initiative. Skeptics may term the savings as "soft dollars" while advocates term the savings in "hard dollars."

Soft dollars are usually thought of as savings that multiple people or actions can claim, or savings that can't be tied to specific actions.

Hard dollars are usually thought of as savings that can be tied to both a direct accountable savings of money as well as to one specific reason for those savings.

For example, in a healthcare system, hard dollars are spent on contracting with a temporary agency to staff a new heart hospital with surgical nurses instead of hiring surgical nurses as permanent

employees. With a temporary agency, the costs per hour are significantly higher than paying permanent employees and, at the end of the day, the temporary nurses will turn over in favor of permanent employees. The healthcare system will save hard dollars by being able to hire permanent employees for staffing when the new facility opens. And the healthcare system will be able to hire those permanent employees at opening if they have transformed themselves into a sticky organization.

Thus, in building a case for saving hard dollars as a result of culture transformation bringing on voluntary turnover reduction, professional program evaluation must be done in conjunction with culture-transformation initiatives. While no evaluation research can be as certain as scientific research, program evaluation can provide a very believable case if it is done with rigor and care.

Potential cost savings

Healthcare organizations have many fixed expenses. There are many areas in which they simply can't realize any financial savings. But the high voluntary turnover rate is an area that contains a continual unnecessary, but preventable, hemorrhaging of money. It's not inconceivable at all that the voluntary turnover rate can be slashed by 75% just by changing the conditions under which valuable employees leave voluntarily. People want to work for an organization that offers them the chance to do personally meaningful work as an integral and valued part of an organization that is committed to achieving a worthwhile cause. Creating a team-based collaborative culture is a crucial aspect of providing those conditions.

In our example, the medium-sized healthcare organization has annual voluntary turnover costs of \$50,000,000. Reducing the voluntary turnover rate by 75% would result in annual savings of \$37,500,000. The actual cost of voluntary turnover would be \$50,000,000 — \$37,500,000 = \$12,500,000.

The medium-sized healthcare organization has an annual payroll of \$250 million. In the healthcare industry the rule of thumb is that annual payroll is about 2/3 of the total annual budget. Thus, the total annual budget for this medium-sized healthcare organization is about \$375 million ($\$375,000,000 \times \frac{2}{3} = \$250,000,000$).

The final annual savings from reducing voluntary turnover for this medium-sized healthcare organization with an annual budget of

\$375,000,000 is \$37,500,000 or 10% of the entire annual budget! And this savings stays in place year after year after year.

If you don't already calculate these metrics in your organization, skip to the last page in this article which contains a simple worksheet to calculate your annual cost of voluntary turnover.

Creating a healthy culture and reducing turnover

In an era of constantly rising healthcare costs, the one thing that a healthcare organization can do to control costs is to make an investment in creating a team-based culture in which people are valued, engaged in achieving the vision of the organization, and an integral and valued part of the organization. This investment will pay for itself many times over in both financial and quality of healthcare terms.

This is what everyone wants, including healthcare executives. It's time the healthcare industry take notice of the parallel processes of creating a great place to work, improving healthcare delivery, and saving dollars spent on replacing people.

I wish you the best in making yourselves a sticky organization and taking your place among the U.S. healthcare systems that are finding creative solutions to provide better workplace environments as well as solving the fiscal crisis facing the U.S. healthcare industry.



Annual Voluntary Turnover Cost Worksheet

Annual voluntary turnover in healthcare is preventable. The first step to take in saving voluntary turnover costs is to calculate what they are in your healthcare organization. This is a simple worksheet based on the ideas in the article **Voluntary Turnover: Why It Exists and What It Costs** by Tommy Thomas, PhD. This worksheet will enable you to estimate what you spend on voluntary turnover in your organization *every year*.

Name of your organization _____

Your annual payroll = \$ _____

Your annual voluntary turnover rate = ____%

Your annual cost of voluntary turnover =
Your annual payroll X Your annual voluntary turnover rate

Your annual cost of voluntary turnover = \$ _____ X ____%

Your annual cost of voluntary turnover = \$ _____

To begin the process of culture transformation and reduce these avoidable costs, contact us to see how Thomas Concept can partner with you to turn these avoidable costs into hard dollar savings for you.

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