TRENDS AND DRIVERS OF WORKFORCE TURNOVER

THE RESULTS FROM MERCER’S 2014 TURNOVER SURVEY, AND DEALING WITH UNWANTED ATTRITION

16 July 2015

David Elkjaer & Sue Filmer
AGENDA
WHAT WE’LL COVER TODAY

1 Workforce turnover trends

2 Drivers of workforce turnover

3 Summary comments

4 Questions
THE MEASUREMENT CONTINUUM

What is happening?

Anecdotes
Reactive checks
Ongoing reports
Segmentation and Comparisons
Correlations
Causation
Simulations and forecasting

Why and where is it happening?

Move from “I think” to “I know”

Move from “I think” to “I know”
WORKFORCE TURNOVER TRENDS
**Key Observations:**

- In UK and Germany there was an increasing voluntary turnover trend in 2014.
- In growth markets (China, India & Brazil) there was a more flat trend.
- The US followed the same trend as Europe and there was an increasing turnover trend.

Source: Mercer’s Workforce Metrics Survey (2011 – 2013)
*Mercer’s 2015 Turnover Survey*
TURNOVER TRENDS
AVERAGE 2011-2014 INVOLUNTARY TURNOVER

Key Observations:

- Across most markets shown in the graph the involuntary turnover rate is within a small spread.
- Brazil is the outlier with considerably higher involuntary turnover rate than the other countries.

*Mercer's 2015 Turnover Survey
TURNOVER TRENDS
AVERAGE VOLUNTARY TURNOVER BY INDUSTRY

Key Observations:

- In the consumer goods industry the highest turnover is in Asia followed by the US and Europe and Latin America closely aligned.

- In Energy sector Europe and Latin America has the lowest turnover with also Asia and the US higher.

- In the Life Science Industry the turnover is much closer aligned across the regions.

Source: Mercer’s 2015 Turnover Survey
Key Observations:

- Overall the highest level of turnover is in the medium performer group where as the high/low performer groups are considerably lower.
- If the low performing employees are the employees which are most reluctant to leave the organization there may be significant cost and productivity impact.
Key Observations:

- Across generations there are different factors driving engagement and retention. If companies doesn’t have a segmented approach they may see different turnover trends across generations.

- Except for Latin America there is a clear declining trend as employee age increases.

Source: Mercer’s 2015 Turnover Survey
EMPLOYEE TURNOVER
IS IT A GOOD OR A BAD THING?

‘Good’ - refreshing the organisation:
• ‘Innovate or die’ – bringing in fresh blood and new thinking to keep ahead of the curve and encourage a thirst for the ‘new’
• Assisting with the management of workforce planning and responding to a change in skill requirements / employee profiles
• Creating ‘head-space’ for career flows and replacing instances of poor performance with more effective employees

‘Bad’ - loosing key talent:
• Critical organisational knowledge/skills
• Small pool of external talent for critical jobs / key people / core capabilities
• It is having an impact on the business
EMPLOYEE TURNOVER
KEY QUESTIONS TO CONSIDER

**What** is the business impact and **where** is the business impact of employee turnover on operations and results?
- Key individuals, specific capabilities or key roles?

**Why** is dissatisfaction and voluntary turnover happening?
- Pull - Attraction of a new job or new experiences
- Push - Dissatisfaction with the current job, manager or employer
- Pull vs Push: It is rarer for people to leave jobs in which they are happy, even for more money

**How** do you most effectively address identified issues for the specific individuals/capabilities/roles?
- Addressing an untargeted employee population may be ineffective and expensive
- The issue may be more complex than it first appears
DRIVERS OF WORKFORCE TURNOVER
Using Turnover Reporting is like driving your car but watching traffic through the rear-view mirror, not seeing what’s ahead and thereby in danger of crashing.

Using Predictive Analytics is like driving your car and watching traffic through the front windshield, anticipating traffic, making course corrections to avoid traffic jams and getting their faster and safer.
STRATEGIC WORKFORCE PLANNING
MAINTAINING A FUTURE PERSPECTIVE TO EMPLOYEE TURNOVER

1. Gain strategic insights
   - Organisation Imperatives
   - Talent Implications

2. Measure the gap risks
   - Talent Demand
   - Workforce Gaps & Risks
   - Talent Supply

3. Model talent management options
   - Talent Development (build strategy)
   - Talent Acquisition (buy strategy)
   - Contingent Workforce (borrow strategy)
   - Talent Deployment (transform strategy)
   - Talent Retention (bind strategy)

4. Take action
   - Retention
   - Engagement
   - Career Development
   - Performance
   - Rewards
   - Leadership

Demand Scenarios for Critical Segments
Risk Assessment
Workforce Plan
Talent Solutions & Ownership Model
THE WORKFORCE FLOWS
UNDERSTANDING THREE INTERRELATED LABOUR FLOWS

Attraction
Who comes into the organisation, and who of these stay within the organisation?

Development
How successful is the organisation at growing and nurturing the talent it needs to execute its business strategy?

Retention
How successful is the organisation at retaining people who have the right capabilities and produce the highest value?

- Many organisations report on these three areas in silos and struggle to see how they interact
- Workforce maps clearly show the relationship between these three flows
IDENTIFYING WHAT IS HAPPENING
INTERNAL LABOUR FLOWS

External hires made in the last 12 month period

Career Levels

TechCo
Total Workforce 1 January to 31 December

Level | Hires | % of employees
--- | --- | ---
P6 | 20 (10.3%) |
P5 | 52 (19%) |
P4 | 91 (14%) |
P3 | 442 (21.1%) |
P2 | 299 (29.9%) |
P1 | 65 (19.2%) |

Total Hires 969

Average headcount at career level during a 12 month period

Active Headcount: 4,550

% of employees promoted into next career level during a 12 month period

% of terminations from career level with a 12 month period

Total Laterals 83

Total Vol 780

© MERCER 2015
Correlation can tell you something about the relationship between variables. It is used to understand whether the relationship is positive or negative, and the strength of relationship.

Correlations are often visualised through a scatterplot diagram.
IDENTIFYING WHY IT IS HAPPENING
STATISTICAL MODELLING

CAUSE

*Independent Variable*

- External Influences
  - Unemployment Rates, Location, Market Share and Labour Pool
- Organisational Practices
  - Size of facility, Supervision, Spans of Control, Overall Turnover of Staff, Risk, Workload
- Employee Attributes
  - Age, Gender, Ethnic Background, Tenure, Education, Pay Level, Promotion History

EFFECT

*Dependent Variable*

Turnover
Understanding cause and effect:

1. Correlation
   - A relationship must be demonstrated to exist

2. Time (directionality)
   - The relationship must exist over time (causes precede consequences)

The key is to analyse multiple variables to isolate those that impact the outcome of interest.

3. ISOLATION
   - Other factors that could influence the outcome must be accounted for
The models on which these results are based control for individual attributes, organisational factors, and external influences.
Once the impact of independent variable is determined, the model can be used to analyse current employees to create a probability for that employee to quit.

Once a probability has been determined for each employee, aggregate forecasts can be created. Areas of focus can be identified to help minimise the risk and protect the opportunities.

<table>
<thead>
<tr>
<th>Location</th>
<th>Region</th>
<th>Employee Count</th>
<th>Predicted Turnover (next 12 months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>City O</td>
<td>West</td>
<td>230</td>
<td>43.7%</td>
</tr>
<tr>
<td>City P</td>
<td>West</td>
<td>210</td>
<td>40.1%</td>
</tr>
<tr>
<td>City Q</td>
<td>West</td>
<td>190</td>
<td>31.8%</td>
</tr>
<tr>
<td>City R</td>
<td>West</td>
<td>210</td>
<td>32.5%</td>
</tr>
<tr>
<td>City S</td>
<td>Central</td>
<td>310</td>
<td>20.7%</td>
</tr>
<tr>
<td>City T</td>
<td>Central</td>
<td>180</td>
<td>35.8%</td>
</tr>
<tr>
<td>City U</td>
<td>Central</td>
<td>190</td>
<td>27.9%</td>
</tr>
<tr>
<td>City V</td>
<td>Central</td>
<td>150</td>
<td>45.2%</td>
</tr>
</tbody>
</table>

At Risk Employees

- AA543755
- AA54827
- AA485432
- AA852436
- AA9687
- AA00342
- AA99564
- AA05643
<table>
<thead>
<tr>
<th>Location</th>
<th>Region</th>
<th>Employee Count</th>
<th>Predicted Turnover</th>
<th>Actual Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>City O</td>
<td>West</td>
<td>230</td>
<td>43.7%</td>
<td>25.3%</td>
</tr>
<tr>
<td>City P</td>
<td>West</td>
<td>210</td>
<td>40.1%</td>
<td>43.7%</td>
</tr>
<tr>
<td>City Q</td>
<td>West</td>
<td>190</td>
<td>31.8%</td>
<td>38.5%</td>
</tr>
<tr>
<td>City R</td>
<td>West</td>
<td>210</td>
<td>32.5%</td>
<td>31.1%</td>
</tr>
<tr>
<td>City S</td>
<td>Central</td>
<td>310</td>
<td>20.7%</td>
<td>24.7%</td>
</tr>
<tr>
<td>City T</td>
<td>Central</td>
<td>180</td>
<td>35.8%</td>
<td>66.7%</td>
</tr>
<tr>
<td>City U</td>
<td>Central</td>
<td>190</td>
<td>27.9%</td>
<td>28.2%</td>
</tr>
<tr>
<td>City V</td>
<td>Central</td>
<td>150</td>
<td>45.2%</td>
<td>48.3%</td>
</tr>
<tr>
<td>City W</td>
<td>East</td>
<td>210</td>
<td>47.3%</td>
<td>41.4%</td>
</tr>
<tr>
<td>City X</td>
<td>East</td>
<td>160</td>
<td>45.5%</td>
<td>52.0%</td>
</tr>
<tr>
<td>City Y</td>
<td>East</td>
<td>170</td>
<td>41.4%</td>
<td>48.2%</td>
</tr>
<tr>
<td>City Z</td>
<td>East</td>
<td>250</td>
<td>36.4%</td>
<td>38.0%</td>
</tr>
</tbody>
</table>

Turnover is substantially below expectation in this location, based on the characteristics of these employees and the statistical models.

Turnover is substantially above expectation in this location, based on the characteristics of these employees and the statistical models.
**APPROACH**

1. **Issues and Hypothesis**
   - Articulate clearly the employee turnover issues requiring insight, and hypothesise potential causes.

2. **Model**
   - Use statistics to understand the historical ‘cause-and-effect’ relationship.

3. **Score**
   - Create and apply a score for each employee to determine the probability that the dependent event will occur.

4. **Forecast and Optimise**
   - Forecast outcomes for particular segments and consider strategies to manage risks and opportunity.

5. **Monitor**
   - Monitor to compare deviations between actual and predicted outcomes.
APPLYING TURNOVER ANALYSIS
EXAMPLES

Google:
• Has developed an algorithm to successfully predict which employees are most likely to become a retention problem so that they can act and plan accordingly.

• Also has developed an algorithm for predicting which candidates had the highest probability of succeeding after they were hired. Its research also determined that little value was added beyond four interviews, dramatically shortening time to hire.

Hewlett-Packard:
• Has generated a “Flight Risk” score that predicts which worker will quit their job for each of its more than 330,000 worldwide employees. HP can focus its efforts on retaining those it wants to keep.
SUMMARY COMMENTS
ARMED WITH THE DATA WHAT ARE THE SOLUTIONS?
FOCUSING THE RETENTION EFFORTS

An Employee Value Proposition represents the total value an employee receives from their employer.

Emotional connection complements the contractual deal. The greater the emotional connection, the less dependence on contractual components.
QUESTIONS?

Please type your questions in the Q&A section of the toolbar and we will do our best to answer as many questions as we have time for.

To submit a question while in full screen mode, use the Q&A button, on the floating panel, on the top of your screen.

CLICK HERE TO ASK A QUESTION TO “ALL PANELISTS”

FEEDBACK

Please take the time to fill out the feedback form at the end of this webcast so we can continue to improve. The feedback form will pop-up in a new window when the session ends.

Sue Filmer
Principal, London

David Elkjaer
Senior Associate, Copenhagen
MAKE TOMORROW TODAY