

Employee turnover as a factor in the optimization of HR processes

Rotacja pracowników jako czynnik optymalizacji procesów kadrowych

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Abstract

This article discusses employee turnover and the need to retain employees. Both issues are important for ensuring the appropriate number of employees and stable performance levels. Taking into account the current situation on the Polish labor market, employee turnover is a phenomenon nowadays more often induced by the employees themselves rather than by the organization for which significant workforce fluctuation generates the risk of increased costs of recruitment and decline in performance (in terms of quantity and quality). Consequently, a systematic analysis of the level of employee turnover and its causes are of key importance, in particular in terms of the organization's actions aimed at reducing it. Therefore, the research problem addressed in the article is to identify the role of the personnel function and processes implemented as part of it in minimizing or intensifying the external, negatively perceived employee turnover. The empirical part of the research is based on an analysis of case studies of 11 enterprises.

Keywords: employee turnover, HR processes, personnel function.

Streszczenie

Niniejszy artykuł dotyczy problematyki rotacji pracowników i potrzeby zwiększania retencji zatrudnienia. Są one istotne dla kształtowania odpowiedniej liczby pracowników i zapewnienia stabilnego poziomu wydajności pracy. Biorąc pod uwagę aktualną sytuację na polskim rynku pracy, rotacja jest zjawiskiem częściej indukowanym przez samych pracowników niż przez organizację, dla której znaczna fluktuacja generuje ryzyko wzrostu kosztów pozyskania pracowników oraz pogorszenie wydajności pracy (ilościowo i jakościowo). W związku z tym kluczowa staje się systematyczna analiza poziomu rotacji oraz jej przyczyn, w szczególności pod kątem podejmowania działań wewnątrz organizacji. Problemem badawczy podjętym w niniejszym artykule jest zatem identyfikacja roli funkcji personalnej i realizowanych w jej ramach procesów w ograniczaniu lub nasilaniu zewnętrznej, negatywnie postrzeganej rotacji pracowników. W warstwie empirycznej wykorzystano wyniki badań prowadzonych metodą *case study*, w ramach której przeanalizowano przypadki 11 przedsiębiorstw.

Słowa kluczowe: rotacja pracowników, procesy kadrowe, funkcja personalna.

1. Introduction

Enterprises operate nowadays in the conditions of increasing complexity and unpredictability of the environment that boasts a rising focus on innovations. As the background of these changes one can indicate globalization, advancement of human civilization and dynamic development of technology as well as hyper-competition in business [Workforce of the future 2017]. In the face of such rapid organizational and business transformations, a question arises about the role of the personnel function and one of the greatest challenges faced by its executives who are responsible for the evolution and shaping of a new model of work and employee [Castells 2000]. In the new model of work the vertical hierarchy of the organization gives way to horizontal relationships, there is a rising demand for skills crucial to the enterprise while employment evolves towards more flexible models [Antczak 2005]. At the same time, new employees are open to diversity and mobility and are increasingly focused on achieving their own goals, thus becoming the source of a more or less desirable employee turnover.

In the light of this, Polish economy with its employee’s market observed in the recent years poses a particular challenge. On the one hand, unemployment rate on the Polish labor market is currently at its historical low but on the other, there is a high demand for employees for both simple tasks as well as those with a particular set of skills [Statistics Poland 2019]. One of the reasons behind this is Poland’s demographic situation leading to the aging and thus shrinking of the working age population. Next to low birth rate and mortality, other factors that further exacerbate this situation include mass economic migration of Poles to other countries [Kałużna-Kopias 2016] and, politically and legally, lowering of the retirement age and implementation

of the governmental program “Family 500+” [Institute for Structural Research 2017, p. 12]. With a steady rise in the employment rate, resulting in the lowest unemployment levels since the systemic transformation in Poland, it is becoming increasingly more difficult for employers to attract and retain employees. People are nowadays more eager to change their employer more frequently, seeking not so much just any job but a job that offers high quality. Consequently, organizations are struggling with insufficient availability of employees and are therefore forced to adapt their offer to the growing expectations of candidates and current employees, which results in changes in HR processes.

The aim of this article is to define the role of the personnel function in reducing employee turnover. The discussion presented below is based on subject literature and empirical research, with the latter including an analysis of case studies of 11 enterprises.

2. Employee turnover as a challenge for HR function executives

In its broad sense, employee turnover (personnel fluctuation) in an organization denotes workforce circulation processes resulting from employee hiring, leaving and changing their positions and organizational roles, either externally or internally [Pocztowski 2018, p. 414]. It is treated as an element (next to retention) as well as a synonym of employee mobility, volatility and fluctuation, i.e. quantitative and qualitative changes in the employment structure [Pocztowski 2018, p. 415; Hom et al. 2017; Rubenstein et al. 2017; Aguenza, Mat Som 2012; Taylor 2006; Listwan (ed.) 2005, p. 40]. The importance of personnel fluctuation for an organization is neither obvious nor is it always negative. This is well illustrated

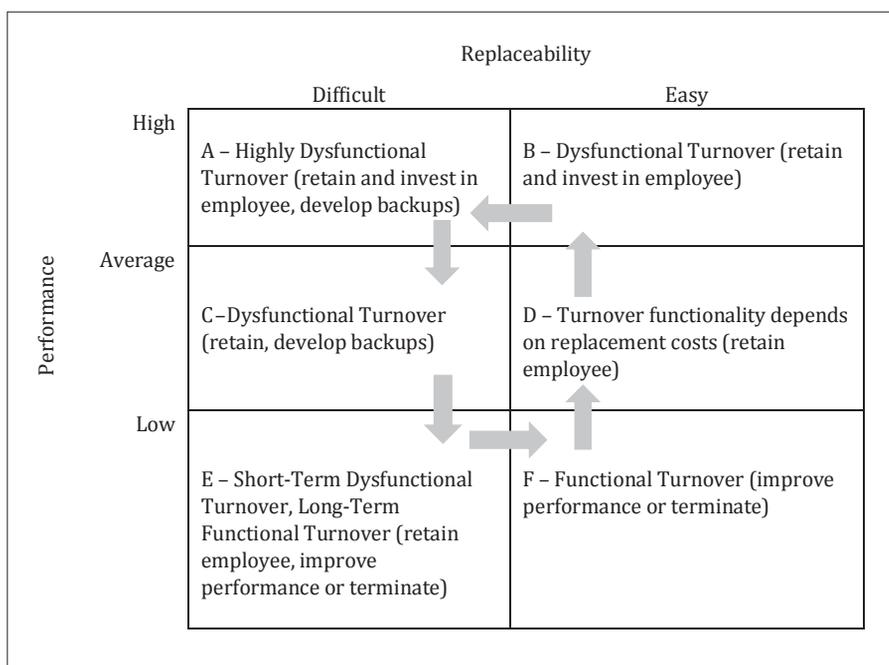


Figure 1. The Performance-Replaceability Strategy Matrix (arrows illustrate the direction of changes)

Source: [Gajdzik 2014].

by the Performance-Replaceability Strategy Matrix, in which Martin and Bartol distinguish six approaches to the problem of employee turnover (Figure 1).

In this concept personnel fluctuation is recognized as positive (functional) when there are organization parts with low-performers or as negative (dysfunctional) when it loses valuable employees – mostly high-performers but also people crucial to the company due to their skills. What is particularly interesting here is the U-shaped relationship between employee performance and employee turnover, which means that it is both the most and the least efficient employees that leave their jobs most frequently [Struman et al. 2012].

According to Oleksyn [2017, p. 541], in its narrow, and thus more correct sense, personnel fluctuation actually involves only cases when employees leave work at their own request. Hence, in order to choose a strategy and actions aimed at tackling employee turnover, particularly its dysfunctional type, it is necessary to define:

- 1) The scale and scope of personnel fluctuation: What is its scope in terms of employee turnover rates? Who is affected by it? Can any patterns be detected with respect to employees' age, skills or function?
- 2) Reasons behind personnel fluctuation: Is it the employee's will or is it caused by the organization? Are the reasons objective (e.g. changing one's place of residence) or subjective (e.g. dissatisfaction with working conditions).

Table 1 lists universal rates and indices used in the assessment of employee turnover. In the analysis of this phenomenon it is necessary to select one of them and decide at what value it becomes a reason for concern. Some authors believe that the level of 10-20% is considered optimal [Listwan (ed.) 2005, p. 40]. However, the current situation in particular sectors and individual enterprises in different periods of business activity may allow for a higher level of employee turnover to be acceptable.

The second aspect of the analysis of employee turnover deals with its causes. Taylor [2006, p. 72] points to four types of factors behind personnel fluctuation: attracting (to other organizations), discouraging (from a given organization), unavoidable (have nothing to do with work in one place or another) and initiated by management. In terms of employee turnover in its narrow sense (i.e. initiated by the employee), any impact on employees' decisions in this respect is possible only in the first two categories. Another set of causes behind employee turnover also focuses largely on factors that may be influenced by the employer, which include [Holtom et al. 2008]:

- job satisfaction,
- employee commitment,
- stress at work,
- job security,
- the content of the work,
- the way in which the organization is managed.

This suggests that employee turnover may to a certain extent be avoided or reduced if appropriate actions are taken on the part of the personnel function. Focused on transaction processes such as administering payrolls, calculating and settling

Table 1. Employee turnover rates and indices

Name	Description
General turnover rate	Ratio of employees who left the company to the number of all current employees or to the average annual number of employees.
Stability index	Ratio of employees who have worked for at least a year to the number of employees working in the organization in the previous year. It focuses on employees with at least one year of employment history in the organization, excluding those with a shorter term of employment.
Voluntary turnover rate	Ratio of employees who voluntarily leave the organization to all resignations in a given year.
Dismissal rate	Ratio of dismissal (terminations of the employment relationship initiated by the employer) to all terminations in a given year.
Hire rate	Number of new employees (employed in a given year) with respect to all employees (at the time of measurement or compared to the average number of employees per year).
Return to work (RTW) rate	Number of employees who previously worked in the organization and returned to work in it after a break of minimum one month.
Experienced employee turnover rate	Number of employees who left the organization having worked in it for at least five years with respect to all employees who left the organization in a given period.

Source: [https://wskaznikihr.pl/biblioteka/wskazniki_ktore_zapobiegaja_rotacji_pracownikow_2655c734].

working time, managing personnel files and remuneration systems, HR departments may turn out to be insufficient in preventing a negative turnover. Nowadays, executives of the personnel function are expected to implement actions that extend beyond transactional processes. These expectations revolve, among other things, around ensuring employee development and motivation, diagnosing problems and personnel requirements and proposing solutions that will contribute to the company's overall performance. Implementation of transformation processes aimed at ensuring individual skills of employees and competencies of the entire organization can satisfy all these expectations.

3. The role of the HR function in increasing employee retention in the light of empirical research

The nature of our analysis inspired us to carry out empirical research with the aim to identify what is the effect of actions undertaken as part of the HR function on reducing negative phenomena related to employee turnover. In view of the above, we chose case studies as the most suitable method for our research. Our project consisted of two main stages and analyzed data from 11 companies which operate in the sector of production (6 entities) and services (5 entities). The first stage included a quantitative study based on an analysis of statistical data and figures obtained from the studied enterprises. The second stage was a qualitative study with interviews used as

the research tool. Interviews were conducted with employees of the studied companies who recruited from middle and senior management. Respondents were asked, among other things, to indicate the key dysfunctions in their organizations and in the ways in which the HR function was implemented in them.

With reference to the results of the quantitative study, taking into account the purpose and nature of the analysis, the article presents its findings referring to the problem of employee turnover in general, including the so-called "undesirable" terminations of the employment relationship. In order to define the existing situation in the studied companies, two rates were calculated based on the source data:

1. Employee turnover rate – calculated as the ratio of the total number of employees who left work in the previous year to the average number of employees in the previous year (expressed in %).
2. "Undesirable" termination rate – calculated as the sum of employees who leave work at their own request, are

dismissed from work due to their fault or leave work voluntarily, to the total number of employees (expressed in %).

The rates were also subjected to a horizontal analysis to study their dynamics in the period 2013-2017. Consequently, the subject of the study was recognized as dysfunctional turnover, the scale of which was analyzed through the prism of the rates defined above, without focusing on one particular group, with respect to its reasons and their origins in personnel processes.

When analyzing the employee turnover rates in the studied enterprises (Table 2), their direct negative impact on enterprises cannot be unequivocally stated as there are no generally accepted standards or objective reference points in this area. However, linking the results of the quantitative research with the results of the interviews with representatives of the studied enterprises shows that in most cases the values of the rates are clearly perceived as negative from the perspective of personnel risk and impact on the functioning of the organizations. A similarly negative tendency was observed with respect to

Table 2. Employee turnover rate in the studied companies in 2013-2017

	Sector	2013	2014	2015	2016	2017	Average per company
C1	Production	10.3%	9%	12.8%	15.6%	19.4%	13.42%
C2	Production	14%	28%	17%	16%	22%	19.4%
C3	Production	9.71%	9.1%	11.68%	13.5%	17.2%	12.24%
C4	Services	0%	0%	0%	7%	13%	4%
C5	Services	33%	13%	23%	25%	28%	24.4%
C6	Services	9%	5%	8%	10%	14%	9.2%
C7	Services	33%	34%	27%	29%	31%	30.8%
C8	Production	12%	14%	19%	21%	24%	18%
C9	Services	5%	5%	0%	7%	9%	5.14%
C10	Production	6%	6%	12%	15%	14%	10.58%
C11	Production	7%	8%	11%	11%	14%	10.2%
Average per year		12.6%	11.89%	12.89%	15.46%	18.69%	

Source: own study.

Table 3. "Undesirable" termination rate in the studied companies in 2013-2017

	Sector	2013	2014	2015	2016	2017	Average per company
C1	Production	10%	8%	15%	19%	23%	15%
C2	Production	5%	3%	7%	10%	16%	8%
C3	Production	55%	68%	66%	69%	61%	64%
C4	Services	0%	0%	1%	50%	25%	15%
C5	Services	40%	45%	50%	55%	59%	50%
C6	Services	66%	100%	66%	69%	63%	73%
C7	Services	64%	51%	41%	49%	52%	51%
C8	Production	16%	19%	27%	35%	44%	28%
C9	Services	50%	50%	0%	45%	60%	41%
C10	Production	27%	27%	33%	45%	41%	35%
C11	Production	12%	13%	15%	20%	27%	17%
Average per year		31%	35%	29%	42%	43%	

Source: own study.

changes in the discussed rates over time as the employee turnover rate in all companies included in the analysis tended to rise. It seems surprising that no connection was found between the sector represented by a given company and the employee turnover rate, with both its lowest and highest value observed in the companies from the sector of services.

Equally interesting are the results of the study aimed at establishing the “undesirable” termination rate (Table 3), whose trend upwards may be clearly interpreted and assessed as having a negative impact on the company.

The analysis shows that the problem of “undesirable” terminations initiated by employees is also independent of the company’s business profile. In addition, the analysis of the rate changes over time revealed a clear trend upwards, giving the studied companies a reason for concern. Unplanned terminations of the employment relationship increase the risk of the company losing control over its organization and internal processes. Moreover, “undesirable” terminations generate termination costs, including costs related to low performance prior to the termination of the employment contract, lost opportunities during the vacancy period and severance pay for the leaving employee.

Therefore, a qualitative study was conducted in order to determine possible, company-dependent reasons for the rising number of undesirable terminations. Combined with the previously obtained figures, the findings of the study provide a basis for drawing some conclusions. The respondents were asked to indicate the key dysfunctions in the HR function in their organizations that might affect the analyzed employee turnover rates. No ready or pre-defined responses were offered in the interview forms. Consequently, the number of answers and indications obtained was rather high. Because of this only selected and aggregated excerpts of the results are quoted here which are directly related to the aim of this article. The analysis of the interviews allowed us to identify interesting

relationships between the results of both studies (quantitative and qualitative). The representatives of the companies with the highest rates of undesirable terminations pointed to the same dysfunctions in the HR area despite the fact that company C3 operates in the sector of production while C6 and C7 in the sector of services. An overview of the dysfunctions reported in the interviews is presented in Table 4, with the identified overlapping parts marked in bold.

Table 4. Declared dysfunctions in the HR area in companies with the highest rates of “undesirable” terminations

Company	Average rate of “undesirable” terminations	Indicated dysfunctions in the HR area
C3	64%	<ul style="list-style-type: none"> • Lack of precisely defined personnel strategy • Lack of personnel procedures • Lack of HR structures • Lack of quantitative approach to personnel processes
C6	73%	<ul style="list-style-type: none"> • Lack of employee satisfaction surveys • Informal recruitment process • Lack of HR structures • Incorrect design and implementation process of new employees • Lack of personnel strategy • Lack of HR parametrization
C7	51%	<ul style="list-style-type: none"> • Lack of HR structures • Lack of a training system • Lack of regular performance evaluations • No development of employees’ skills • Lack of an incentive system • Lack of personnel strategy • Lack of HR analytics

Source: own study.

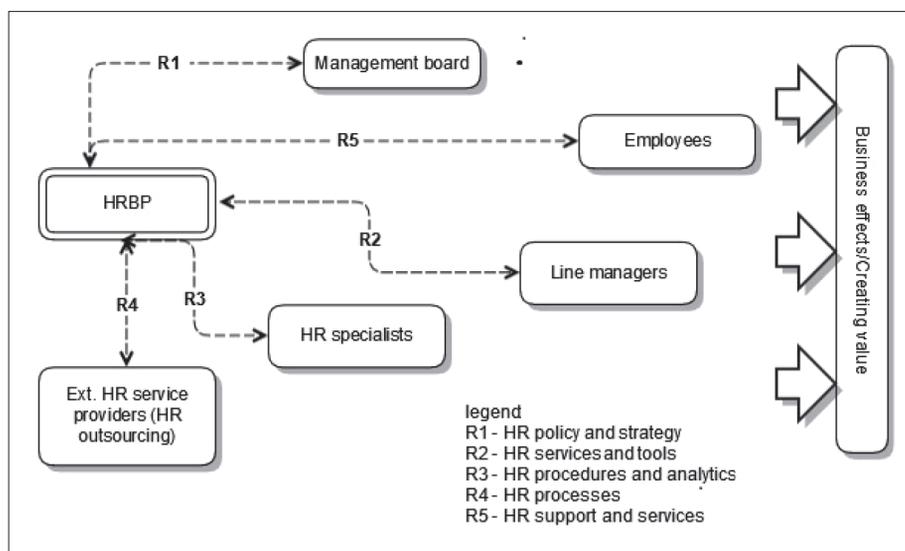


Figure 2. Idea diagram of HR Business Partnering

Source: [Gołembski 2019, p. 103].

The analysis shows that the high percentage of unplanned terminations of the employment relationship is exacerbated by these dysfunctions, among which the most frequently indicated ones included: lack of HR structures, lack of personnel strategy, lack of HR parametrization and HR analytics. The term "HR structures" denotes the adjustment of the HR area, both organizationally and functionally, to the actual needs of the company and its business model. The risk of such dysfunctions appearing in the organization may be reduced by implementing the HR Business Partnering model presented in the figure below.

Business partnering clearly stretches beyond the HR area, including people responsible for the HR function in business processes, which is a condition necessary to ensure actual support and added value. Therefore, HR Business Partnering may be defined as a strategic and at the same time operational construction of processes and networks of relationships among HR Business Partners, line managers, management board, HR specialists, external service providers and employees with the aim to provide real support to the organization members in order to achieve business goals [Gołębski, 2019, p. 104].

4. Conclusion

Employee turnover is of key importance for maintaining stable (retention) but at the same time flexible human resources in the organization [Pocztowski 2018, p. 415; Bor, Skowron-Mielnik 2015].

Although the results presented here cannot be generalized, they may be treated as a contribution to a discussion on future directions of development and possible changes in the design and implementation of the personnel function.

The analysis presented here shows that the role of the personnel function in reducing employee turnover is growing; however, it is necessary to adapt the HR tools and methods to the needs of both managers and employees. Therefore, further research should focus on exploring such areas as parametrization of the HR function and HR risk management. They should serve as starting points for a debate on how the broadly understood HR infrastructure could be accordingly adjusted to provide for the elimination of the phenomena presented in this article. This further implies the need to address, both in theory and in business practice, the evolution of the competencies and skills of people who execute the personnel function, particularly in the context of contemporary challenges on the labor market.

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