



Annual survey report 2005

RECRUITMENT, RETENTION AND TURNOVER

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Summary of key findings

The 2005 *Recruitment, Retention and Turnover* survey explores how UK organisations are attracting, selecting and seeking to retain their people. Personnel professionals from 715 UK organisations took part in the CIPD's annual benchmarking survey. All responses relate to the period 1 January to 31 December 2004.

Focus groups composed of members of the CIPD's special interest groups (the Recruitment Forum and the Counselling and Career Management Forum) contributed to the analysis of the survey findings. The commentary in this Survey Report draws on the focus group members' views and observations.

Recruitment difficulties

- The proportion of organisations reporting recruitment difficulties remains high. At 85%, the percentage of organisations experiencing difficulties recruiting during 2004 remains at the same level as reported the previous year.
- A lack of specialist skills is most frequently reported by survey respondents as the reason for recruitment difficulties (63%). This is followed by a lack of the required experience (59%).
- The most frequent response to recruitment difficulties is recruiting people who have the potential to grow, but don't currently have all that's required.

Labour turnover and retention

- Labour turnover in the UK is little changed. The labour turnover rate reported for 2004 is 15.7%, compared with 16.1% in 2003 and 2002.
- There is a slight easing of reported retention difficulties. This year, 73% of survey respondents report difficulties, as opposed to 77% for the previous 12 months.

- The industry sector with the highest labour turnover rates is private sector services (21.4%). Within this sector, hotels, catering and leisure report the highest labour turnover rates (64.7%).
- Twenty-two per cent of organisations made more than ten people redundant during 2004, and 19% experienced recruitment freezes.

Attracting and selecting candidates

- Local newspapers remain the most frequently used method of attracting candidates, followed by using recruitment agencies and placing information about vacancies on the organisation's website.
- A third of organisations now accept application forms completed online.
- The most commonly used selection method is interviews based on the contents of the CV, followed by competency-based interviews.
- The average recruitment cost of filling a vacancy per employee is £3,950, rising to £4,625 if the associated costs of labour turnover are also taken into account.

Working with recruitment agencies

- Recruitment agencies are used by more than eight in ten survey participants. They are most likely to be used for contingency recruitment (ie on an ad hoc basis and making use of the agency's database of candidates).
- Motivations for using a recruitment agency are most likely to be speed (63%) or the challenge of recruiting for scarce skills (57%).
- Only a quarter (26%) of survey participants using agencies have a structured approach to evaluating their performance.

Checking candidate applications

- Candidates' references were 'always' checked by 77% of responding organisations.
- One in four participants report being aware of their organisation withdrawing a job offer during 2004 as a result of a candidate lying in or somehow misrepresenting their application. A similar proportion (23%) know of an individual in their organisation being dismissed for this reason.

Overseas workers

- Almost four in ten survey participants recruited non-UK residents during 2004. This takes place most frequently in the public sector (44%).
- Of those organisations recruiting overseas workers, more than half (53%) report that the current level of recruits represents an increase compared with the previous 12 months.

Diversity

- There has been continued improvement in the last three years regarding interviewers receiving equal opportunities training (now reported by 69% of survey participants) and also in ensuring that recruitment teams reflect diversity criteria (35%).

Employee turnover and retention

- The most commonly reported key reason for employee turnover is promotion outside the organisation (53%). This is followed by lack of career and development opportunities, cited by 42% of survey participants.
- The most frequently cited retention initiative undertaken by survey respondents is improving employee communication and involvement (57%). This is followed by increasing learning and development opportunities (49%) and improving the induction process (45%).

Recruitment

The recruitment challenge

The survey explores the nature of the recruitment challenge for UK organisations, examining the scale of recruitment taking place and the kinds of difficulties encountered during 2004.

Table 1 shows the average number of vacancies survey participants sought to fill, by industrial sector.

The level of recruitment difficulties reported by organisations operating in a continuing tight labour market remains high (see Tables 2 and 3). Eighty-five per cent of organisations experience difficulties recruiting for one or more category of vacancy. In overall terms, this represents the same proportion

identified in the 2004 survey. Once again, difficulties are most frequently experienced in the voluntary, community and not-for-profit sector. There appears to be a slight easing of the public sector's recruitment difficulties: 83% of survey respondents report difficulties, as opposed to 90% in the previous year. Nursing and care staff are highlighted as having vacancies that remain particularly challenging to fill.

Table 1: Number of vacancies respondents tried to fill during 2004, by industrial sector

	Total	Manufacturing and production	Voluntary, community and not-for-profit	Private sector services	Public services
Mean score	299	68	92	531	220

Base: 656

Table 2: Organisations experiencing difficulties recruiting for one or more category of vacancy, by industrial sector (%)

	Total	Manufacturing and production	Voluntary, community and not-for-profit	Private sector services	Public services
2005 survey	85	83	91	86	83
2004 survey	85	85	92	82	90

Base: 700 (2005)

Table 3: Organisations experiencing difficulties recruiting for one or more category of vacancy, by organisation size (%)

	Fewer than 250 employees	251–500	501–1,000	1,001–5,000	5,001–10,000	More than 10,001 employees
	80	84	85	91	94	96

Base: 700

The larger the organisation, the more likely they are to experience recruitment difficulties (see Table 3).

One in four organisations (24%) report problems in this area.

The survey also considered which type of vacancy organisations are finding most difficult to fill (see Table 4). Survey respondents most frequently highlight managerial and professional vacancies (45%). This reflects the experience of organisations in 2004. This year, the survey also sought to explore organisations' experiences filling senior manager and director positions.

The survey also explored organisations' perceptions of the reasons for their recruitment difficulties (Table 5). In keeping with the findings from the 2004 survey report, a lack of specialist skills is the most commonly cited reason (63%). This is followed by a lack of the required experience and challenges around applicants' salary expectations.

Table 4: Categories of vacancies which proved particularly difficult to fill (%)

	Total	Manufacturing and production	Voluntary, community and not-for-profit	Private sector services	Public services
Managers and professionals	45	36	54	48	49
Senior managers/directors	24	19	22	28	22
Manual/craft workers	18	31	15	12	12
Administrative/secretarial and technical	15	17	19	17	8
Services (customer, personal, protective and sales)	13	13	13	17	5
Other	14	10	18	11	23

Base: 700

Table 5: Reasons for recruitment difficulties (%)

	Total	Manufacturing and production	Voluntary, community and not-for-profit	Private sector services	Public services	2004 survey
Lack of specialist skills required	63	61	62	64	64	69
Lack of the experience required	59	63	72	64	38	66
Wanted more pay than could be offered	47	51	53	48	35	51
No applicants	29	22	43	26	43	30
Image of sector/occupation	16	11	26	15	24	19
Lack of interpersonal skills	12	9	6	20	2	14
Applicants unable to accept position due to high cost of living in the area	9	7	9	10	8	14
Lack of required formal qualifications	7	8	6	6	10	–

Base: 589

The initiatives undertaken during 2004 in response to recruitment difficulties are shown in Table 6. Appointing people who have the potential to grow into the requirement of the role is the most common response.

At a time when immigration featured prominently in political debate in the run-up to the General Election, around one in five organisations (18%) opt to recruit staff overseas in response to recruitment difficulties in 2004. The public sector is most likely to use this approach at present (24%).

Companies' 'offshoring' activities have continued to make the headlines in 2004/2005. In this context, it's interesting to note that only 2% of survey participants respond to recruitment difficulties by relocating part of their business overseas.

Attracting candidates

Our survey explored the methods organisations were using to attract candidates.

Eighty-four per cent of survey participants report having a policy of advertising all vacancies internally (see Figure 1 for methods used).

Table 6: Initiatives undertaken in response to recruitment difficulties (%)

	Total	Manufacturing and production	Voluntary, community and not-for-profit	Private sector services	Public services
Appointing people who have potential to grow but don't currently have all that's required	68	72	83	72	52
Increasing starting salaries or benefits package	37	40	43	39	26
Taking account of a broader range of qualities, such as personal skills instead of qualifications, when considering candidates	34	28	59	35	32
Redefining the job (eg responsibilities, grade)	33	26	48	29	46
Appointing people who don't exactly match what the job requires	32	34	33	35	20
Providing additional training to allow internal staff to fill posts	31	33	41	27	30
Offering flexible hours of work	26	13	39	23	47
Providing a realistic description of the actual job	24	15	20	28	26
Recruiting in foreign countries and bringing staff here	18	19	13	16	24
Bounty payments to staff for introducing candidates	16	14	9	25	2
Changing the way work is organised (eg into teams)	12	8	9	13	18
Giving golden hellos	8	2	2	7	18
Relocating part of the business overseas	2	2	2	2	1
Other	8	8	9	8	8

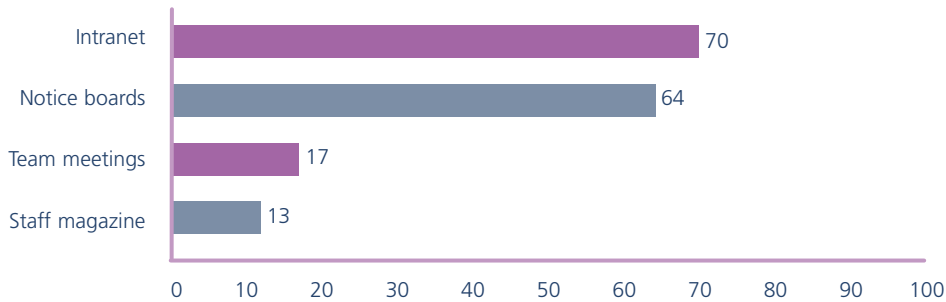
Base: 583 (all organisations experiencing difficulties)

We also used the survey to see what action employers are taking when it comes to managing an internal pipeline of 'ready' candidates (see Table 7). The results in this area haven't changed significantly from those in the 2004 survey. One in five participants report that no succession planning activity took place – and those who did were most likely to do so on an ad hoc basis.

Private sector organisations (services, or manufacturing and production) are most likely to carry out succession planning on a formal and regular basis. The size of organisation is also relevant to the likelihood of this kind of planning taking place. While only 14% of organisations with less than 250 employees formally and regularly undertake succession planning, this rises to 52% among employers of more than 10,000 employees.

This section of the survey provoked some interesting discussion in the focus group held to discuss the research findings. One group member, operating in the retail sector, said that improving internal promotions was a priority for their board. At present, they only promote 20% of internal applicants but the board would like to see this figure rise to 70%. They were currently focusing on building an internal talent pool and improving their ability to match diverse skills with business requirements and strategy to help them achieve this aim.

Figure 1: Methods used to advertise vacancies internally (%)



Base: 679

Table 7: Organisations undertaking succession planning – by industrial sector (%)

	Total	Manufacturing and production	Voluntary, community and not-for-profit	Private sector services	Public services
On a formal and regular basis	19	20	5	24	9
On an ad hoc basis	61	64	48	61	63
Not undertaking at all	20	17	46	14	27

Base: 707

Norwich Union: A year in recruitment

Successfully managing high-volume recruitment is a crucial part of Norwich Union's (NU) business. The company has 32,500 employees at 116 locations in the UK, many of whom work in the company's customer centres handling calls. In the course of a year, there will be around 7,000 vacancies to fill.

The way this recruitment activity is delivered has been transformed during 2004/2005.

Centralising recruitment activity

Recruiters now operate as part of a centralised 'operational' function. In the past, recruitment has been carried out by separate HR teams in different parts of the business – NU General Insurance, NU Life, and Central Services. To create economies of scale and avoid duplication of effort, NU Central Services now handles all recruitment activities, as well as operational HR activities such as management information, employee- and line-manager-based telephone services, people databases and HR systems.

Increasing direct hires

There has been a shift away from NU's past reliance on preferred suppliers to supply new candidates. NU now have a blended approach to attracting new candidates. Recruitment managers work with managers in the business units to develop their resource plan for the year. Targets that reflect the nature of the vacancies then suggest where the candidates will be sourced.

As an example, for high-volume recruitment (such as customer centres):

- Seventy per cent of applicants are expected to join – either at no cost (eg speculative applications) or from NU's own direct attraction activity (eg the corporate website, advertising, and Recommend a Friend scheme).
- Thirty per cent are expected to come from the preferred supplier (in this case Kelly Services).

To increase direct hires, the company has also been working with an advertising agency, TCS, to develop more innovative job advertising methods. These include pop-up messages on a commercial website (lastminute.com), DVDs playing in shopping centres about life in an NU customer centre, and vacancies posted on sandwich bags from cafés in the local area.

E-recruitment

The company has also invested in an e-recruitment solution, Global Successor, which has been running for just over a year. This was not a decision based only on its ability to attract candidates directly to NU. A major influence was a desire to effectively manage the candidate experience through more efficient processes and reporting. The e-recruitment system enables vacancies to be approved online and candidates to be sourced from NU's own internal/external website, from other job boards or from the preferred supplier. Candidates can also be screened online – making use of a scorable application form for customer service roles. Interviews can also be set up through an online interview zone.

The e-recruitment system assisted in the internal redeployment of over 500 people when redundancies were taking place. It is also enabling the creation of a pipeline of potential future NU candidates – applicants can register to be alerted by text or email if future roles of interest become available.

Measuring performance

In order to measure the effectiveness of their recruitment activity, the company uses a number of Key Performance Indicators:

- time to fill (targets are set, dependent on the vacancy)
- cost per hire (using data from the e-recruitment system and calculating costs such as advertising spend and agency fees)
- customer satisfaction (which takes account of online feedback from recruiting managers to recruiters).

Service-level agreements (SLAs) have been agreed with the recruiting business units and form the basis of monthly reports. For example, in General Insurance, 86% of vacancies are currently filled within the agreed 'time to fill'. This means a green rag rating in relation to this internal client.

The changing role of the recruiter

Changes to the way recruitment activity is delivered have been reflected in the role of NU recruiters. Jackie Lanham, Head of Recruitment at Norwich Union Central Services, describes this shift as being 'from service to consultancy'. Recruiters have been required to go on a 'personal development journey' to ensure they have the skills they need. With the new model of recruitment delivery, competence in the following areas is now vital:

- understanding how to sell the NU brand
- advertising skills
- relationship management (with line managers and suppliers)
- effective handling and interpretation of management information
- planning and IT systems awareness.

Information supplied by Jackie Lanham, Head of Recruitment, Norwich Union Central Services.

Another focus group member from the not-for-profit sector drew attention to the challenge of a pyramid structure to the organisation, which meant good people who had been developed frequently found themselves 'with nowhere to go'. The organisation is currently trying to use secondments to help address this problem. Working with similar employees, the aim is that more senior staff are able to gain experience outside the organisation in the short term, and can be retained until the point at which an appropriate promotion opportunity becomes available.

Members of the group also pointed out that a forward-looking, planned approach such as succession planning was not the only measure that would help an organisation manage its talent better. For example, at a time when a business was changing quickly (such as in a merger or acquisition), a more pacy, 'guerrilla'-type approach would be required to get the right people in the right place.

We then examined the external channels organisations used to attract applicants (see Table 8). Local newspapers continue to be the most frequently used method for attracting candidates.

Table 8: Methods used to attract applicants, by industrial sector (%)

	Total	Manufacturing and production	Voluntary, community and not-for-profit	Private sector services	Public services	2004 survey
Local newspaper advertisements	85	90	89	77	94	87
Recruitment agencies/search	80	90	80	85	50	81
Vacancies/information (own website)	67	47	73	72	83	72
Specialist journals/trade press	59	49	73	56	75	75
National newspaper advertisements	55	45	71	48	84	61
Jobcentre Plus	54	56	59	43	72	61
Encourage speculative applications/word of mouth	52	59	45	58	29	58
Employee referral scheme	38	39	18	56	3	34
Links with schools/colleges/universities	35	35	25	37	33	51
Apprentices/work placements/secondments	32	40	29	27	33	29
Vacancies/information (commercial website)	30	21	25	35	36	39
Physical posters/billboards/vehicles	14	7	21	17	16	10
Radio or TV advertisements	9	6	11	8	13	9
Other	7	4	8	9	5	-

Base: 713

We also explored which attraction methods survey participants are likely to rate as 'most effective'. The results are shown in Table 9.

Members of our focus group highlighted the importance of the employer brand when it came to attracting candidates. One representative from the private sector said that they had good customer branding in the retail area but lacked the same recognition for their employer brand. Another member of the group highlighted the emphasis they, as part of their efforts to manage recruitment costs, were placing on increasing the number of applicants directly to their company, rather than via a recruitment agency.

A representative from the charity sector pointed out that in a tight labour market – where employers in this industry would find it difficult to compete on the basis of offering higher salaries – employer branding is particularly important. A crucial aim is to make your organisation stand out as a 'good employer' when would-be candidates are making decisions where to apply.

Table 10 demonstrates the various ways candidates are able to apply to organisations participating in our survey. The results show a slight decline in the percentage of organisations accepting written application forms or CVs. In contrast, the proportion of organisations accepting application forms completed online rose from about a quarter to a third.

Table 9: Attraction methods most likely to be rated as participants' 'most effective'

Occupational group	1	2	3
Senior managers/directors	Recruitment agencies/search (48%)	National newspaper advertisements (21%)	Specialist journals/trade press (12%)
Managers/professionals	Recruitment agencies/search (43%)	Specialist journals/trade press (18%)	National newspaper advertisements (13%)
Administrative, secretarial and technical	Local newspaper advertisements (55%)	Recruitment agencies/search (25%)	Vacancies/information (own website) (5%)
Services (customer, personal, protective and sales)	Local newspaper advertisements (42%)	Recruitment agencies/search (27%)	Vacancies/information (own website) (6%)
Manual/craft workers	Local newspaper advertisements (50%)	Jobcentre Plus	Recruitment agencies/search (12%)

Table 10: Methods of accepting candidates' applications (%)

	Total	Manufacturing and production	Voluntary, community and not-for-profit	Private sector services	Public services	2004 survey
Written application forms	77	77	95	66	97	81
Written CVs and/or letters of application	73	91	38	85	31	75
Emailed CVs and/or letters of application	72	85	38	87	29	72
Application forms via email	46	37	76	40	65	56
Application forms completed online	32	19	40	32	51	24

Base: 712

Members of our focus group indicated that it was important to think about the kind of people who will be applying for your job when deciding the ways candidates may contact you. It was highlighted that where IT-literacy wasn't an element of the job in question, it would be important to make methods of application available that didn't assume access or familiarity with technology.

Selecting candidates

We also asked survey participants about the methods they are using to select applicants. The findings are shown in Table 11.

The survey also explored which selection methods survey participants were most likely to rate as 'most effective'. The results are shown in Table 12.

Table 11: Methods used to select applicants (%)

	Total	Manufacturing and production	Voluntary, community and not-for-profit	Private sector services	Public services	2004 survey
Interviews following contents of CV/ application form (ie biographical)	68	80	56	73	38	66
Competency-based interviews	58	56	40	61	59	62
Structured interview (panel)	56	45	84	45	87	55
Tests for specific skills	50	39	65	49	61	60
Structured interviews (one-to-one and critical incident/ behavioural)	41	40	31	50	25	38
General ability tests	40	41	51	33	48	53
Literacy and/or numeracy tests	39	40	49	35	42	48
Personality questionnaires	36	37	35	38	31	46
Employment reference (pre-interview)	34	30	25	30	55	31
Assessment centres	34	25	38	37	41	43
Telephone interviews	30	25	16	45	13	26
Academic reference (pre-interview)	13	10	7	9	29	14
Online tests (selection/self-selection)	5	5	4	7	2	6
Other	2	2	2	3	1	6

Base: 712

Focus group members highlighted the importance of tailoring the methods used as part of the selection process to the job in question. One member of the group, involved in recruitment to call centres, described how they had made the decision to use telephone interviews for this population, given their relevance to the job in question.

Time and cost to fill vacancies

We also asked survey participants about how long it takes them to fill their vacancies, and the estimated costs associated with recruitment and labour turnover. The findings are shown in Tables 13 and 14.

Table 12: Selection methods most likely to be rated by participants as 'most effective'

Occupational group	1	2	3
Senior managers/directors	Structured interview (panel) (25%)	Competency-based interview (20%)	Interviews based on contents of CV/application form (19%)
Managers/professionals	Structured interview (panel) (24%)	Competency-based interview (23%)	Interviews based on contents of CV/application form (20%)
Administrative, secretarial and technical	Interview based on contents of CV/application form (33%)	Competency-based interview (21%)	Structured interview (panel) (17%)
Services (customer, personal, protective and sales)	Interviews based on contents of CV/application form (32%)	Competency-based interview (20%)	Structured interview (panel) (17%)
Manual/craft workers	Interviews based on contents of CV/application form (36%)	Structured interview (panel) (16%)	Competency-based interview (15%)

Table 13: Average number of weeks to fill a vacancy*

Senior managers/directors	17.6 (580)
Managers/professionals	13 (665)
Administrative, secretarial and technical	6.4 (660)
Services (customer, personal, protective and sales)	6.9 (516)
Manual/craft workers	5.3 (447)

*Time from deciding there was a vacancy to the new employee's actual start date
Number of respondents shown in brackets

As Table 14 shows, only a small proportion of those completing the survey report were able to provide figures relating to the costs of recruitment and labour turnover. Although 49% of respondents report that they calculate the costs of recruitment, not all of these organisations are able to supply figures.

Eight per cent of survey participants calculate the broader range of costs associated with replacing a leaver as a result of turnover. The reasons given for not

making these calculations – by those who do not do so – are shown in Figure 2.

These problems with sample sizes appear to contribute to some discrepancies when examining recruitment costs alone, compared with the more general costs associated with labour turnover – which one would expect to be greater (see findings for managers/professionals and senior managers/directors in Table 14).

Table 14: Estimated total cost of recruitment* and labour turnover** per employee

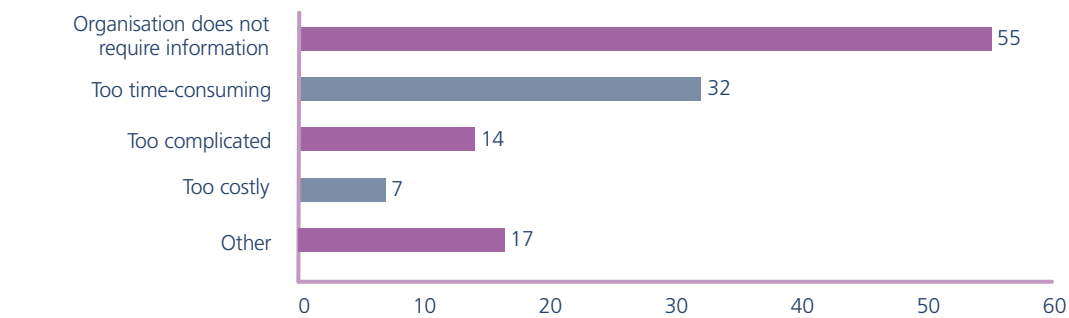
Occupational group	Costs (£) of recruitment	Costs (£) of labour turnover
Senior managers/directors	10,000 (153)	8,000 (11)
Managers/professionals	5,000 (217)	5,000 (13)
Administrative, secretarial and technical	2,000 (213)	3,500 (11)
Services (customer, personal, protective and sales)	1,745 (136)	3,000 (10)
Manual/craft workers	1,000 (110)	4,000 (5)
All employees	3,950 (240)	4,625 (14)

Median costs shown (number of respondents shown in brackets)

* ie advertising costs, agency or search fees

** ie vacancy cover, redundancy costs, recruitment/selection, training and induction costs

Figure 2: Reasons for not calculating the cost of labour turnover (%)



Base: 291

Working with recruitment agencies

This year, our survey examined in more detail the relationship between organisations and third-party recruitment agencies. More than eight in ten organisations used agencies in 2004. We sought to find out more about how and why organisations are using agencies, on what basis they select an agency and how they evaluate their performance. The results are shown in Tables 15 and 16 and Figures 3–6.

One member of our focus group described how, in her private sector manufacturing organisation, mainstream recruitment takes place via the shared-service set-up. However, for high-volume recruitment relating to a particular initiative, they use agencies on their preferred

supplier list. In terms of evaluating their performance, all suppliers must complete a monthly report relating to identified Key Performance Indicators.

Members of the focus group highlighted that the way you view the relationship with the agency is crucial to the way it works in practice. When considering arrangements for reviewing and evaluating agency performance, it's crucial to get agencies bought-in to the process to ensure continued understanding and good relations.

Only 28% of organisations have a structured approach to evaluating recruitment agencies' performance.

Table 15: Organisations using recruitment agencies in 2004 (%)

Total	Manufacturing and production	Voluntary, community and not-for-profit	Private sector services	Public services
83	93	80	84	64

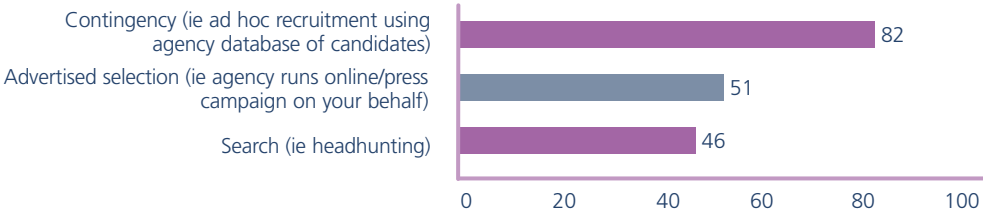
Base: 710

Table 16: Use of preferred supplier lists (%)

	Total	Manufacturing and production	Voluntary, community and not-for-profit	Private sector services	Public services
Yes	56	60	49	60	44
No	40	37	45	38	47
Don't know	4	2	6	2	9

Base: 699

Figure 3: Types of recruitment agency used (%)



Base: 585

Figure 4: Motivations for using agencies to fill vacancies (%)

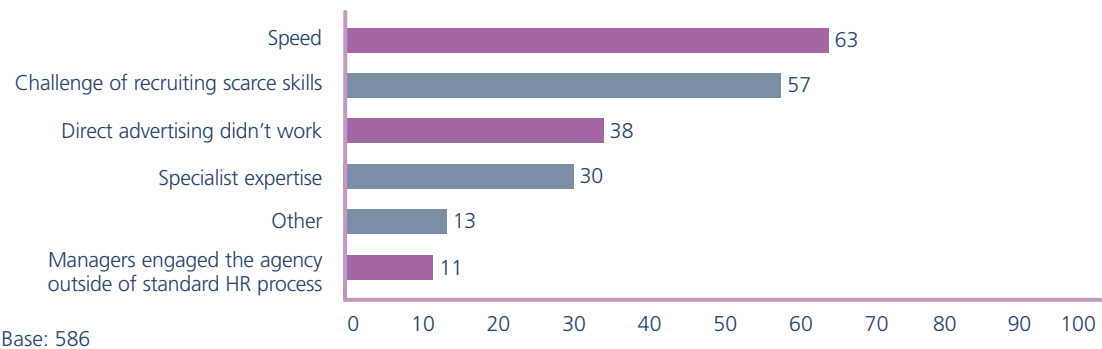
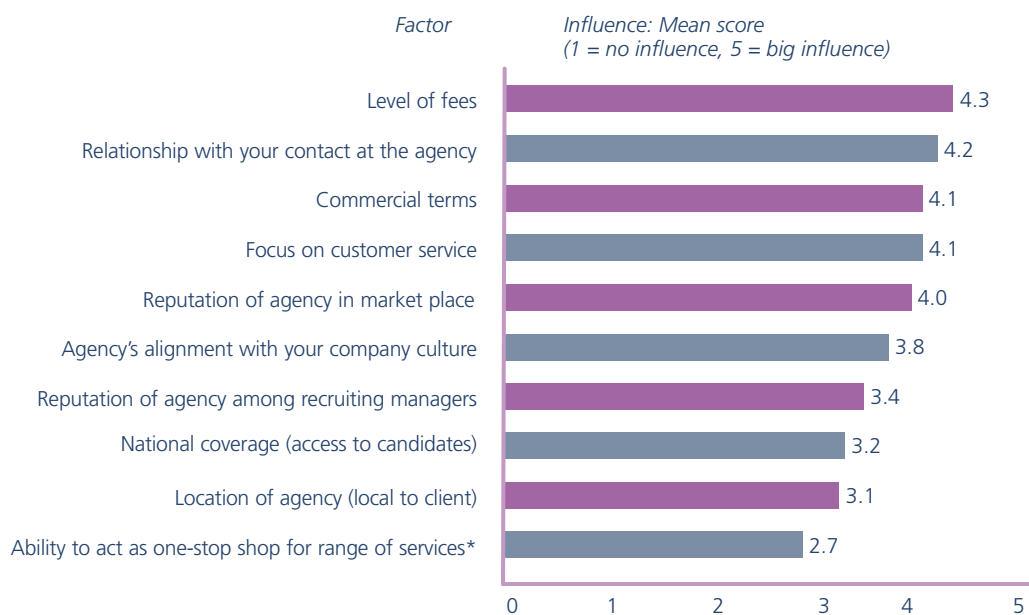


Figure 5: Evaluating recruitment agency performance



Figure 6: Choosing a recruitment agency; factors influencing the decision



*eg outplacement, training, advertising

T-Mobile: Measuring and managing recruitment agency performance

T-Mobile have a sophisticated approach to supplier management. This is reflected in the Supplier Management Programme they have put in place to manage their relationship with third-party recruitment agencies.

In terms of their overall recruitment strategy, T-Mobile's preferred option is direct recruitment. Recruitment agencies, however, do come into play in certain circumstances, for example:

- assisting with the challenge of high-volume recruitment (eg for call centre and retail positions)
- when seeking contract or temporary labour
- when working with headhunters to fill senior-level roles which may be difficult to fill and involve an element of confidentiality.

The example of how high-volume recruitment for T-Mobile call centres takes place, provides an indication of the attention devoted to carefully managing T-Mobile's relationship with recruitment agencies.

Resourcing activity in this area is not wholly outsourced – T-Mobile own the assessment process for call centre staff and also the advertising process. The agencies they work with are responsible for sourcing applicants and also for carrying out the assessment. Assessment activity might typically include screening applications, carrying out interviews on T-Mobile's behalf and carrying out role-play exercises.

At T-Mobile, there is one person who is dedicated to managing the relationship with the agencies carrying out this volume of recruitment for call centres and the retail business.

This individual works with the two identified preferred suppliers. In the last few years, this preferred supplier list has been reduced on the basis of agency performance against a range of measures such as:

- quality (ie candidate success rates during the selection process and staff turnover in the first three months of service)
- service and delivery, against recruitment targets
- cost.

The company is now working to move the work they are doing in supplier management on to the next level. They are planning to develop a supplier scorecard, one category of which will be 'innovation'. This will be an opportunity to make sure that measurement and evaluation of agency performance takes into account their ability to create new ideas and opportunities for how the company improves its recruitment process.

Information supplied by Penny Davis, Head of HR Operations.

Checking candidate applications

This year the survey highlights organisations' practices in relation to checking candidates applications (see Figure 7 and Table 17). It also explores organisations' experiences of fraudulent or misleading applications (Figures 8 and 9).

Not all organisations are currently consistent about making basic checks such as taking up candidate references – references are 'always' checked by 77% of our survey participants.

Members of the focus group were interested to see that health screening (such as health questionnaires) were so prevalent. Discussions also revealed several examples of checks on academic qualifications that had shown the

candidate's application details to be inaccurate. The group agreed that the need to check an applicant's full employment history would be dependent on the nature of the job and industry (eg for appointments to certain government departments).

Focus group members' discussions also reinforced the critical need for employers to be vigilant when recruiting to positions where the job-holder works with vulnerable people such as children and those suffering from mental health difficulties. The case study included in this report from St Mungo's illustrates the need for extra care in this area. More information can be found in the CIPD Factsheet, *Recruitment of Those Working with Children and Vulnerable Adults*.

St Mungo's: Recruitment to posts working with vulnerable people and checking candidate applications

St Mungo's is a homeless charity which undertakes outreach work and runs over 70 housing projects including short- and longer-stay hostels. St Mungo's routinely deals with street homeless people experiencing challenges such as mental health problems and alcohol abuse. Ensuring the employees they select to work with these people are the right ones is crucial. However, in the last 12 months, the organisation has had to withdraw job offers as well as take existing employees through the disciplinary process (resulting in dismissal) as a result of lies or misleading information on candidates' applications.

The organisation has stringent recruitment procedures. For successful candidates, initially there is a standard reference-checking process. Further investigation at this stage has recently revealed examples of candidates using a 'references agency' to provide references on demand and also of candidates providing references from organisations they have never worked for, using 'borrowed company stationery'.

Standard reference checks can fail to provide detailed information on applicants who have travelled extensively and moved from job to job. A CRB (Criminal Records Bureau) check is a requirement for employers recruiting individuals to work with identified vulnerable groups and this must also take place. This check will indicate any criminal activity in the individual's past.

In addition to this, St Mungo's has recently made it a requirement for all successful candidates to come to their offices in person to fill in relevant recruitment documentation and for photocopies of documents such as passports and proof of address to be taken. In the past, this information had been sent in through the post. This new practice is the result of realising that one job applicant had submitted a passport as proof of identity and right to work in the UK but the passport photo revealed the person of that name to be someone else.

Information supplied by Pete Jeffery, Executive Director, HR, Facilities & Audit.

Figure 7: Frequency of organisations taking up candidate references

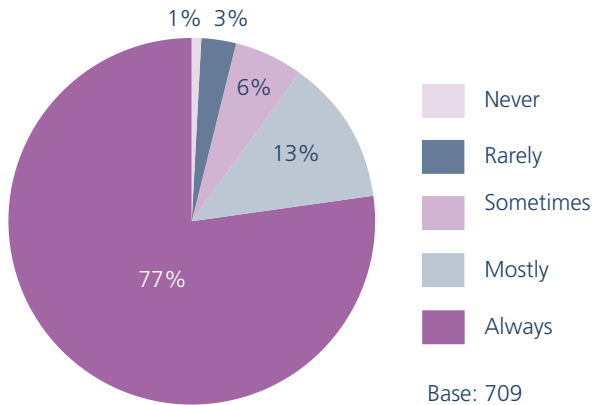


Table 17: Frequency of checks on candidate applications carried out by organisations (%)

	Never	Rarely	Sometimes	Mostly	Always
Absence records (ie number of sick days in last job)	9	11	19	17	44
Health screening (eg health questionnaire)	15	6	7	7	64
Academic qualifications	11	13	19	15	41
Professional qualifications	9	11	19	17	44
Most recent employment history	3	3	6	12	76
Full employment history	10	17	21	14	37

Base: 662

Figure 8: Are you aware of your organisation withdrawing a job offer during 2004 because you discovered someone had lied in or somehow misrepresented their application?

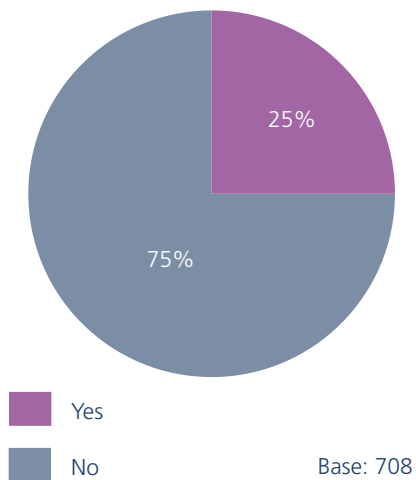
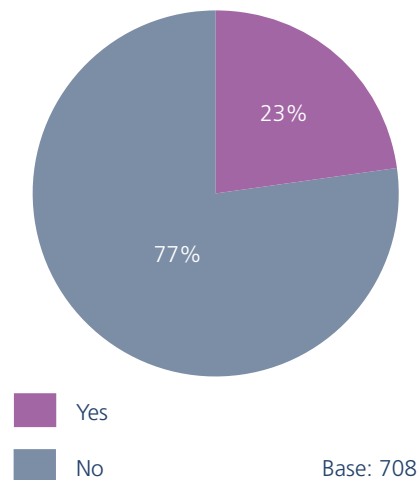


Figure 9: Are you aware of your organisation dismissing an individual during 2004 because you discovered someone had lied in or somehow misrepresented their application?



Recruiting overseas workers

The 2005 survey also considers in more detail than previous years the issue of recruiting overseas workers. In the months preceding the General Election, the issue of immigration and imported labour has continued to provoke debate.

The public sector (with well-known shortages in areas such as nursing and care staff) is currently most likely to make use of workers from overseas (see Table 18).

Figure 10 shows that among those organisations recruiting overseas workers, over half (53%) increased this activity as a proportion of overall recruitment during 2004

Among those who employed recruits from outside the UK, the 'old EU' remains the most popular source, used by 59% of those recruiting overseas (see Figure 11). Almost half of those recruiting overseas turned to the 'new EU' of recent accession states, including Poland, Latvia and Hungary.

Table 18: Organisations recruiting non-UK residents during 2004 (%)

Total	Manufacturing and production	Voluntary, community and not-for-profit	Private sector services	Public services
38	38	22	38	44

Base: 700

Figure 10: As a proportion of your overall recruitment in 2004, did the extent to which you recruited overseas ...

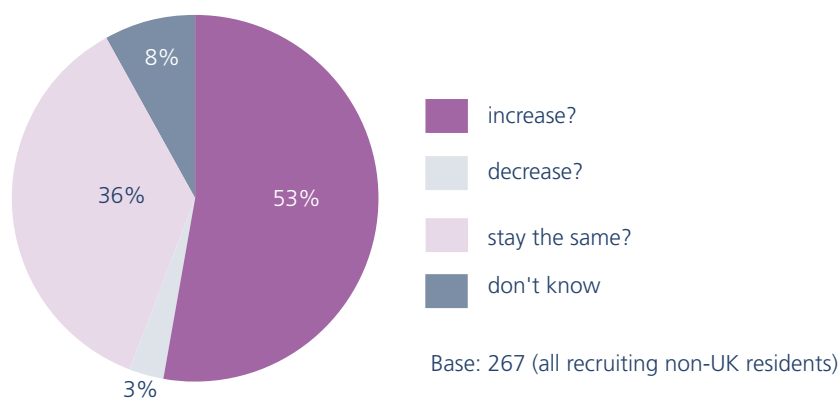
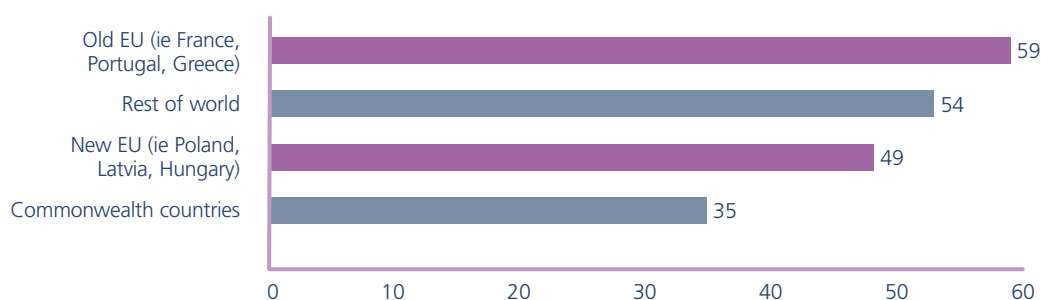
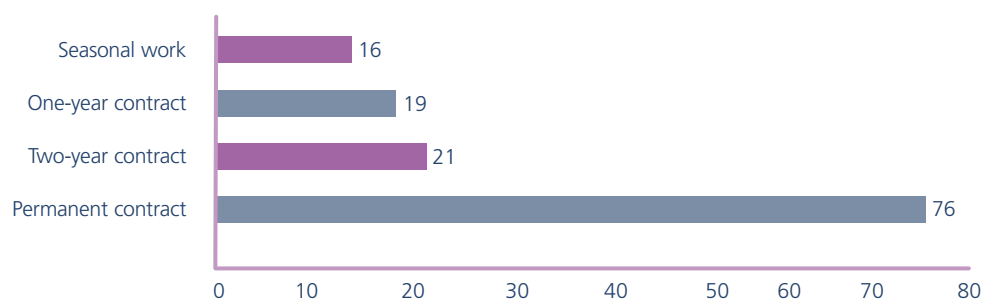


Figure 11: Sources of non-UK recruits during 2004 (%)



Base: 267

Figure 12: Basis on which non-UK residents were recruited (%)



Base: 263

As Figure 12 shows, new recruits from abroad are most likely to be employed on a permanent contract, as reported by over three-quarters of respondents recruiting overseas. However, a significant proportion are being taken on on a seasonal, one- or two-year basis.

This year's CIPD *Quarterly HR Trends and Indicators* survey has also examined the issue of overseas workers during 2004/2005. The findings from these surveys are available at www.cipd.co.uk/surveys

Diversity

We also used the survey to consider how organisations are managing diversity.

The CIPD's 2005 Change Agenda, *Managing Diversity: linking theory and practice to business performance*, highlights the business benefits associated with an approach that values employees as individuals. A proactive approach in this area can act as a valuable recruitment and retention tool. Our survey findings relating to diversity are shown in Table 19.

The trend towards training interviewers in equal opportunities/diversity issues continues, rising from 54% in the 2003 survey to 67% in 2004 and 69% this year. The past three years also show an upward trend in organisations ensuring the recruitment team reflects the organisation's diversity criteria. In our 2003 survey, only 20% of organisations were taking action in this area. By 2004, this had increased to 28% and this year's survey shows 35% of organisations doing so.

The challenge to employers of measuring the outcomes of HR interventions remains. Only 27% of

organisations (a similar proportion to last year's survey findings) evaluate their effectiveness. Those who evaluate the success of initiatives are most likely to be found in the public service and voluntary, community and not-for-profit sectors.

One member of our focus group identified the main challenge as looking beyond traditional processes. Another member of the group from a utilities company described how her company had used alternative recruitment channels. Activity included placing advertisements in publications like *The Voice* and investing effort in building relationships with leading figures at local mosques. She explained that, whereas in the past they had relied on speculative applications for engineering positions, taking these steps is enabling them to broaden the candidate base and also to tackle real issues in relation to customer service and efficiency where language and cultural issues arise.

Another member of the focus group explained how a recent talent management review in her company had pinpointed difficulties such as women hitting the glass ceiling and a failure of the workforce to reflect the locality.

The survey also asked a number of questions in relation to forthcoming age discrimination legislation, due to come into effect in 2006.

Half of those surveyed plan to make further changes to recruitment policies and practices in advance of the 2006 age discrimination legislation. This compared to 63% planning to make changes when the same question was asked in the 2004 survey.

Table 19: Methods used to encourage equal opportunities/diversity (%)

	Total	Manufacturing and production	Voluntary, community and not-for-profit	Private sector services	Public services	2004 survey
Monitoring recruitment and/or staffing information to gain data on gender, ethnic origin, disability, age etc	70	56	86	66	93	71
Training interviewers in equal opportunities/diversity issues	69	54	76	69	86	67
Operating policies that go beyond basic legislative requirements on gender, disability, sexual orientation, religion and belief	40	31	62	38	52	39
Checking that any tests used are culture-free and were tested on diverse norm groups	38	35	38	40	40	38
Ensuring the recruitment team reflects diversity criteria	35	29	38	34	45	28
Advertising vacancies beyond traditional media to target under-represented groups	31	19	58	25	51	29
Using specific images/words in your recruitment advertising to target under-represented groups	27	12	50	22	47	25
Providing recruitment documents in other formats (large print, disk etc)	26	15	46	20	51	19
Setting recruitment targets to achieve a workforce reflecting your customer base or local community	15	9	34	10	27	15
Other	3	3	4	3	3	1

Base: 636

Labour turnover and employee retention

Labour turnover rates

The median labour turnover rate is 15.7%, according to the findings of the 2005 Survey Report. This has remained stable over the past three years (see Table 20). Organisations were, however, more likely to report an increase in labour turnover rather than a decrease between 2003 and 2004 (Figure 13).

Table 21 breaks down labour turnover rates based on the reason for leaving – where this information was supplied.

Table 22 shows labour turnover rates by industrial sector for all leavers and voluntary leavers. Sample sizes are small in some sector groups (ie fewer than ten) so results must be interpreted cautiously.

The highest levels of turnover continue to be found across private sector service organisations (21.4%). Hotels, catering and leisure this year report the highest rate of labour turnover at 64.7%. The public sector has an average turnover rate of 11.5%. Staff turnover poses the greatest challenge for health, with a rate of 14.1%.

Table 20: Aggregated rate of labour turnover (%)

2005 survey	2004 survey	2003 survey	2002 survey
15.7	16.1	16.1	18.2

Base: 303 (2005)

Figure 13: Has labour turnover changed between 2003 and 2004 in your organisation?

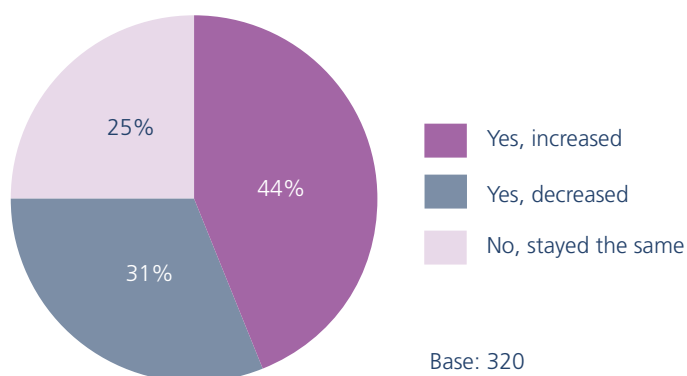


Table 21: Labour turnover rates by reason for leaving (%)

Redundancies	0.1 (304)
Dismissed	0.5 (304)
Fixed-/short-term contracts	0 (303)
Retired	0.4 (303)
Voluntary	9.7 (303)

Rate shown is median turnover, by reason, of all organisations supplying this information (number of respondents shown in brackets)

Table 22: Labour turnover rates, by industrial sector (%)

	All leavers	Voluntary leavers
Manufacturing and production	13.1 (96)	8.6 (96)
Agriculture and forestry	12.1 (2)	10.6 (2)
Electricity, gas and water	12.6 (2)	9.0 (2)
Engineering, electronics and metals	10.9 (20)	3.5 (20)
General manufacturing	18.0 (16)	9.9 (15)
Textiles	10.4 (2)	5.7 (2)
Chemicals, pharmaceuticals and oil	9.2 (7)	4.1 (7)
Construction	22.2 (15)	14.7 (16)
Food, drink and tobacco	30.2 (8)	11.2 (8)
Paper and printing	1.9 (2)	0.9 (2)
Other manufacturing and production	12.1 (22)	7.6 (22)
Private sector services	21.4 (121)	13.9 (121)
Professional services	11.8 (16)	7.0 (16)
Finance, insurance and real estate	20.5 (21)	12.9 (20)
Hotels, catering and leisure	64.7 (4)	17.2 (5)
IT services	12.3 (10)	8.1 (10)
Call centres	36.7 (1)	33.7 (1)
Media and publishing	30.8 (6)	16.7 (6)
Retail and wholesale	31.1 (21)	13.7 (21)
Transport and storage	18.1 (9)	13.9 (9)
Communications	19.0 (8)	10.7 (8)
Other private services	21.4 (25)	15.6 (25)
Voluntary, community and not-for-profit	15.9 (26)	12.0 (26)
Housing association	15.5 (13)	10.0 (13)
Charity services	23.1 (7)	16.9 (7)
Care services	0 (0)	0 (0)
Other voluntary	13.8 (6)	11.1(6)
Public services	11.5 (58)	7.5 (58)
Local government	10.3 (11)	7.9 (11)
Central government	10.1 (9)	6.1 (9)
Education	12.1 (17)	7.8 (17)
Health	14.1 (13)	9.2 (13)
Other public services	9.2 (8)	7.0 (8)

Median labour turnover rate shown (number of respondents shown in brackets)

The survey findings do not appear to demonstrate a relationship between the level of labour turnover and organisational size.

Table 23 shows reported labour turnover rates by occupation. In order to understand the distribution of the results, further detail is shown in Table 24. (For example, 51% of organisations reported 0% turnover of senior managers, 20% reported 1–10% turnover).

The retention challenge

We also sought to ascertain the level and nature of retention difficulties organisations are experiencing. The findings are shown in Tables 25 and 26.

This year’s survey found that 73% of organisations are experiencing retention difficulties. This marks a return to the level reported in the 2003 Survey Report, and a 4 percentage-point decrease compared with last year.

Managers/professionals is the category of workers organisations are most likely to experience difficulties retaining (see Table 26).

Table 23: Labour turnover rates by occupation (%)

Senior managers/directors	1.2 (100)
Managers/professionals	9.1 (94)
Administrative, secretarial and technical	14.5 (87)
Services (customer, personal, protective and sales)	16.4 (48)
Manual/craft workers	16.7 (49)

Median labour turnover rate shown (number of respondents shown in brackets)

Table 24: Labour turnover, by occupational group, by categories of turnover rates (%)

	0% turnover	1–10% turnover	11–20% turnover	20%+ turnover
Senior managers/directors	51	20	13	16
Managers/professionals	24	34	23	19
Administrative, secretarial and technical	17	15	28	40
Services (customer, personal, protective and sales)	33	6	17	44
Manual/craft workers	6	22	39	33

Table 25: Organisations experiencing retention difficulties (%)

	Total	Manufacturing and production	Voluntary, community and not-for-profit	Private sector services	Public services
2005 survey	73	71	83	73	69
2004 survey	77	69	80	83	76

Base: 682 (2005)

Redundancies and recruitment freezes

As a proportion of aggregate turnover, the percentage of people leaving organisations by reason of redundancy remains small (see Table 21). Twenty-two per cent of organisations made more than ten people redundant

during 2004 and 19% operated a recruitment freeze in the course of the year (see Table 27).

The factors influencing decisions to make ten or more redundancies are shown in Figure 14.

Table 26: Retention difficulties, by occupation (%)

	Total	Manufacturing and production	Voluntary, community and not-for-profit	Private sector services	Public services
Managers/professionals	26	23	29	25	33
Manual/craft workers	22	39	19	15	12
Administrative, secretarial and technical	21	15	29	23	23
Services (customer, personal, protective and sales)	20	13	29	29	8
Senior managers/directors	4	3	2	5	7

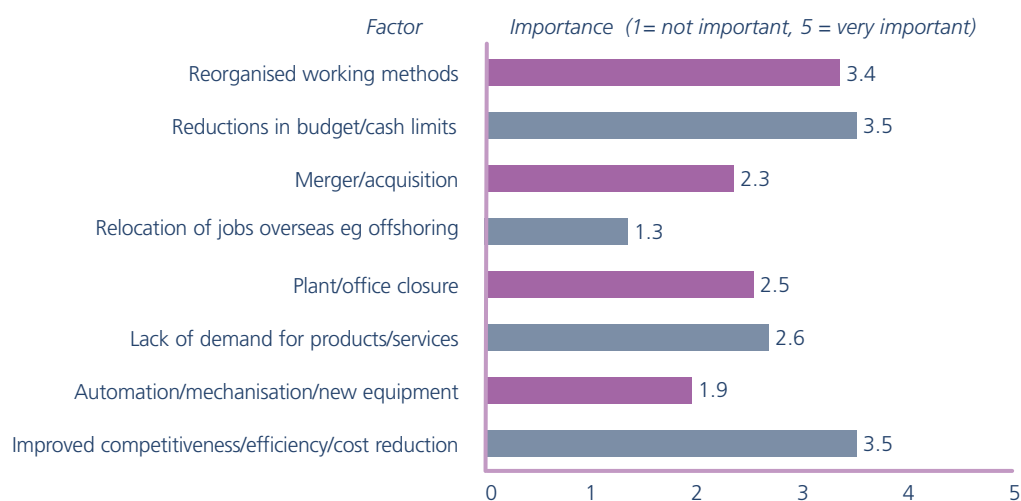
Base: 734

Table 27: Respondents making ten or more redundancies and/or using recruitment freezes (%)

	Redundancies (ten or more)	Recruitment freezes
2005 survey	22	19
2004 survey	34	25

Base: 327 supplying information relating to redundancies and 703 supplying information relating to recruitment freezes (2005)

Figure 14: Factors influencing redundancy decisions



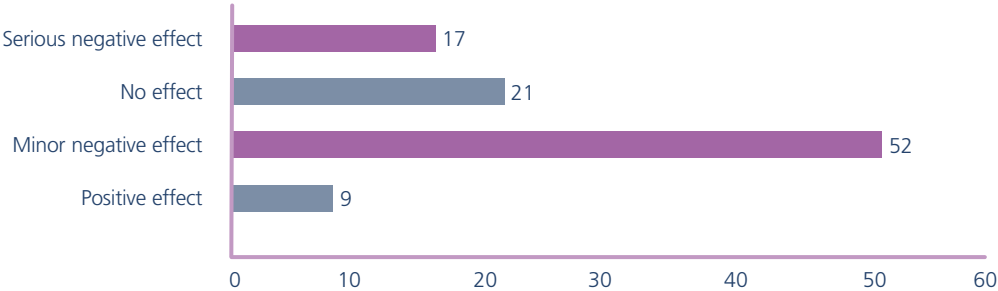
Base: 61 (organisations making more than ten redundancies)

Labour turnover and organisational performance

We sought to discover more about organisations' attitudes to labour turnover and its effect on labour turnover (see Figures 15 and 16). Employers are more likely to view employee turnover as having a negative

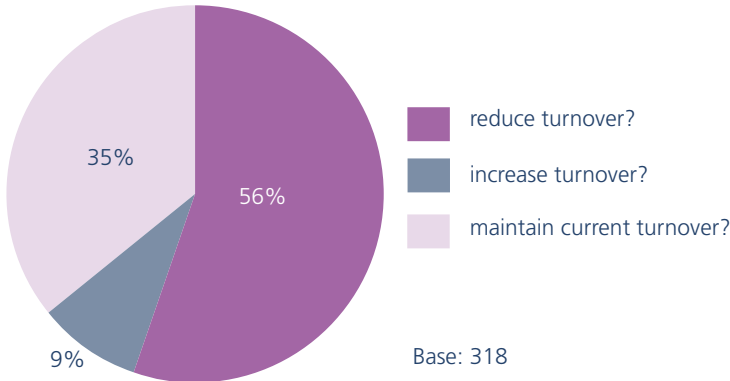
effect on organisational performance than a positive one. A fifth of organisations find it has 'no effect' on performance and one in ten believe labour turnover has a positive effect on their organisation.

Figure 15: Effect of labour turnover on organisational performance (%)



Base: 263

Figure 16: During 2004, did your organisation want to



Base: 318

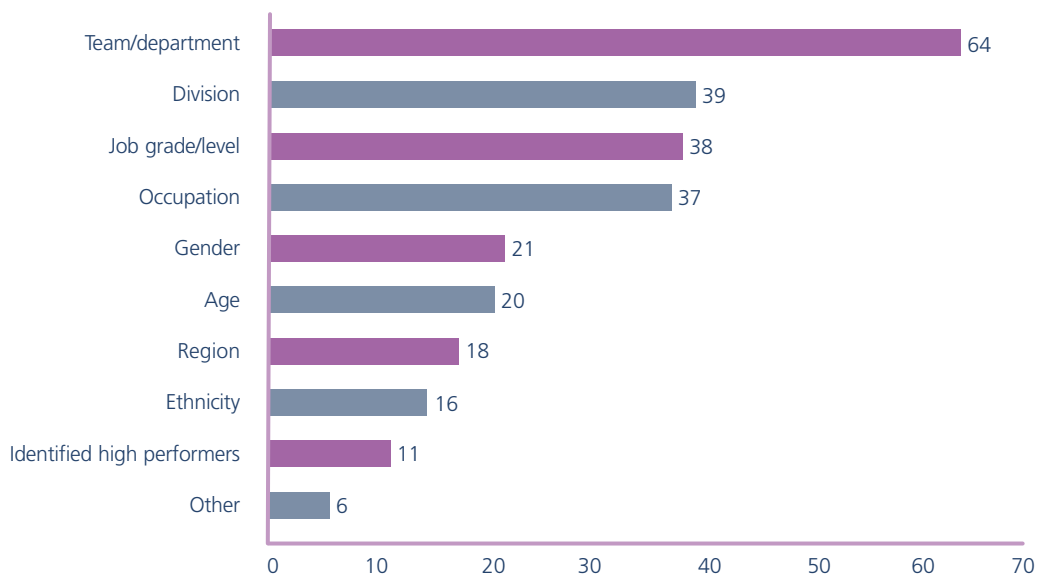
The survey was also able to ask some more detailed questions regarding the approaches organisations take to collecting and analysing labour turnover data (see Figure 17).

HR departments are under increasing pressure to be able to provide reliable metrics to help measure and manage the effect of initiatives related to people management. Employers who have understood the value of effective measure and management of human capital are more likely to recognise the value of

collecting and analysing data related to employee turnover (see the CIPD 2004 Guide, *Human Capital Reporting: an internal perspective*).

More detailed analysis of information relating to employee turnover has an important role to play in determining which retention initiatives are the most appropriate to pursue. High performers tending to leave the organisation, for example, could emerge as a major concern and one requiring a tailored, rather than organisation-wide, response.

Figure 17: Approaches taken by organisations to collecting and analysing data relating to labour turnover (%)



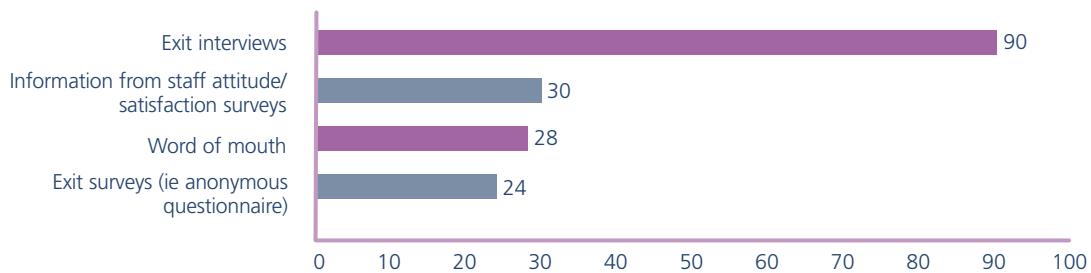
Base: 276

Why and when people leave

Ninety-four per cent of organisations taking part in the survey investigate the reasons why people leave the organisation voluntarily. Exit interviews remain the most commonly used method of gathering this information (see Figure 18).

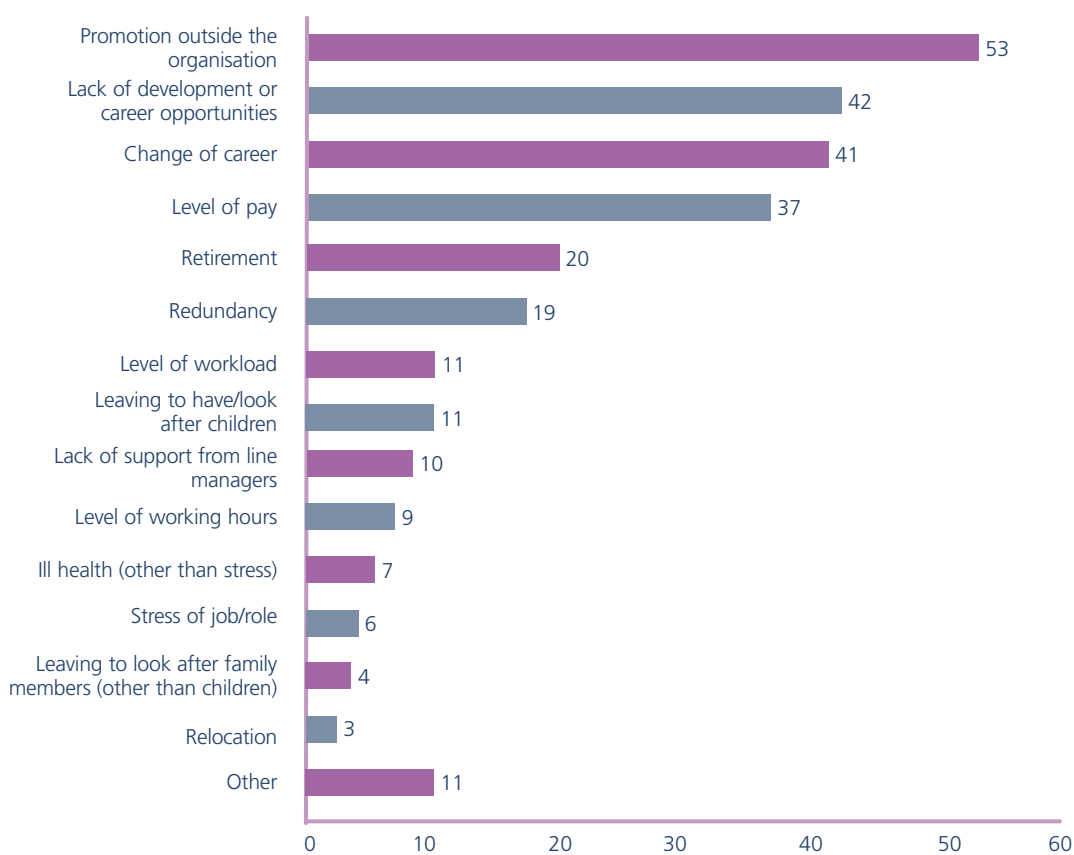
We also asked organisations to select the three key reasons for staff turnover in their organisations. The results are shown in Figure 19. The most commonly cited reason – promotion outside the organisation – reflects last year’s survey findings. Once again, lack of career and development opportunities also feature prominently among participating organisations’ responses.

Figure 18: Methods used to investigate why people leave (%)



Base: 263

Figure 19: Key reasons for employee turnover (%)



Base: 320

One member of our focus group described how her organisation outsources its global people survey to an external agency. The group discussed the merits of ensuring that people feel views expressed are given in confidence and how this helps ensure honesty and more reliable data. Another member of the focus group from the charity sector reported that her organisation is currently carrying out a 'why people stay' survey to more fully understand the issue of employee retention. Again, this has meant working with an external agency and interviews were being carried out with consultants outside of the workplace.

The survey explored when individuals leave their employers. The findings are shown in Table 28. The results appear to show a decline in the proportion of leavers with only 0–6 months' service. However, this result should be treated with some caution in view of the fact that a smaller number of organisations were able to provide data in this area compared to the previous year's survey (189 as opposed to 356).

Table 28: Job tenure – leavers' length of service (%)

	2005 survey	2004 survey (UK and Ireland)
Percentage of leavers with 0–6 months' service	13	20
Percentage of leavers with 7–23 months' service	27	30
Percentage of leavers with 2–5 years' service	24	24
Percentage of leavers with over 5 years' service	20	23

Base: 189 (2005)

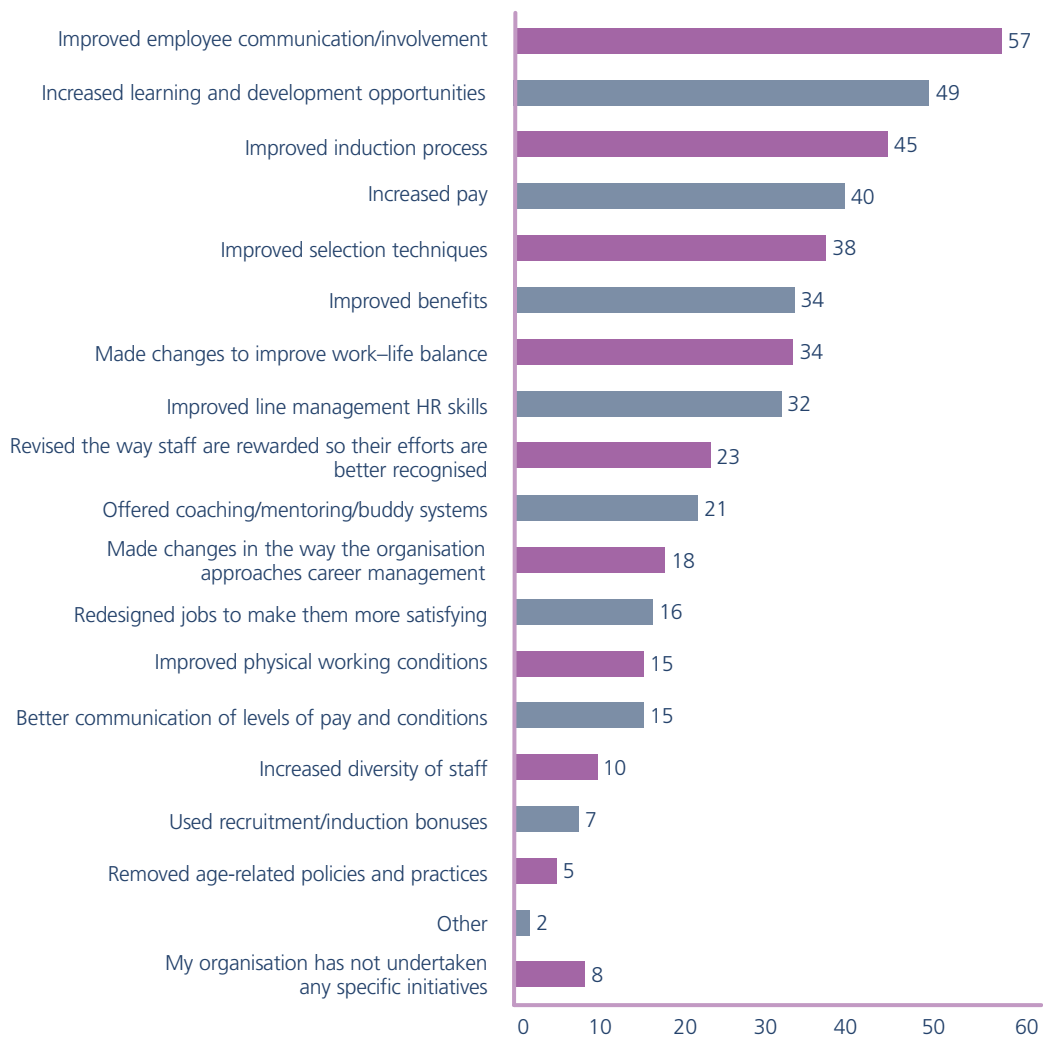
Retention initiatives

Understanding who is leaving, when, and for what reasons – as outlined in the previous sections – is crucial when it comes to determining the organisation's approach to retention. What works for one organisation, and their set of challenges, won't necessarily suit another.

The kind of steps organisations are taking to retain their people are shown in Figure 20. In keeping with the 2004 Survey Report, improving employee communication and involvement was the most frequently cited initiative.

Activity in the area may also reflect organisations' desire to ensure compliance with the Information and Consultation Directive, which has now started to come into effect in the UK. In view of this development, the CIPD has produced a new publication, *Information and Consultation*, with practical guidance for organisations seeking to make improvements in this area.

Figure 20: Steps taken specifically to address staff retention in 2004



Base: 664

The Co-operative Group: Measuring employee turnover and the value of management information

In the retail sector, managing employee retention and labour turnover are crucial issues. In the past two years the Co-operative Group has been on a journey from patchy management information, towards the creation of an 'HR dashboard' of information to help better manage their business.

In the past, management information was pulled from a number of different systems. When reports were required, they were time-consuming to create and involved mountains of paper. Reports were available in hard copy only, took various formats, included different measures for different parts of the Group and did not reflect business needs.

In contrast an HR management system is in place, including data related to payroll, HR and training. Managers were consulted in advance about what they wanted from the new system and steps have been taken to educate managers across the business about the importance of updating employee records, meaning more reliable data. Management information is now being used proactively and strategically to drive business decisions.

For employee turnover, an important step in this process was agreeing a Group-wide definition of controllable employee turnover, to ensure a consistent approach. With more accessible, relevant, online reports for managers, information relating to labour turnover is now used to tackle 'hot spots'. For example, data indicated a high proportion of new joiners were leaving during the first year of joining. Closer analysis using the reporting system revealed this to be largely because of retention difficulties in the third and fourth quarter (rather than an induction crisis) and action was taken accordingly.

Employee turnover also features prominently in business targets (such as the divisional scorecard) and relates to managers' bonus payments. The levels targets are set to reflect the nature of the operation. A call centre in the travel agency business is expected to have a less stable workforce than that in Funeralcare. When the Co-operative Group acquires new stores, managers might be targeted to bring labour turnover rates in line with the rest of the Group.

Data relating to labour turnover forms part of a wider electronic 'HR dashboard' of information. This also includes:

- absence measures (shown in comparison with the CIPD average absence rate)
- metrics relating to diversity management (such as ethnicity, diversity and gender)
- employee engagement measures (such as employee satisfaction survey results).

Quarterly updates to the Board include reports on key people metrics.

Planned next steps for the Co-operative Group include analysing turnover at different levels (eg by position, gender, part-time/full-time and age group) and creating personalised, online dashboards for users of management information.

Information supplied by Tom Holden, Group HR Process and Business Intelligence Manager.

Key challenges and implications in recruitment, retention and turnover

Turned off by yet more pages of survey statistics? In that case, it might help to start by giving them a human face.

What turnover means

Take the 15.7% average rate of labour turnover. This means that one in six employees (roughly four million people) collected their P45s last year. Only a tiny minority were shown the door (having been dismissed, finished a time-limited contract or been made redundant). The vast majority jumped ship, mostly moving to other employers. These comprised the bulk of the 4.25 million people who got new jobs, the remainder being people entering work for the first time, previously jobless people and immigrants.

As in every year, the number of people moving around in the labour market thus dwarfed the net change in the numbers that always receive most attention – the level of employment – which continued to break records in 2004 – and the jobless count. Survey data on turnover and recruitment therefore provide an invaluable measure of the underlying dynamics of the market, central to the operation of which is the day-to-day activity of thousands of HR professionals.

Competition for staff gets tougher

The high frequency of people moving from employer to employer shows that one HR professional's retention problem is simply the mirror image of another's opportunity to recruit, with the turnover rate a useful barometer of the ferocity of competition.

The measured turnover rate in 2004 is in fact fractionally down on the 16.1% recorded by equivalent CIPD surveys for both 2002 and 2003, and well down on the relatively high rates recorded at the turn of century. But the improvement comes with a sting in the tail. It mainly reflects fewer redundancies (by the end of 2004, the UK redundancy rate as measured by the official Labour Force Survey had fallen to a historical low of just 5.5% per 1,000 employees). Voluntary turnover (the quit rate), by contrast, remained high, sustained by continued tight labour market conditions and fierce competition for staff.

This is confirmed by two other related measures of labour market tightness: the extent of recruitment difficulties (as monitored by the CIPD survey) and unfilled vacancies (as available from official statistics). As in 2003, the current CIPD survey finds that 85% of employers experienced recruitment difficulties last year. In the economy as a whole, there were around 0.6 million unfilled vacancies at any one time.

Continued difficulty in filling vacancies was, in turn, one factor fuelling a rise in pay inflation last year (the underlying annual rate of growth of earnings in the economy increasing from 3.5% at the end of 2003 to over 4% by the end of 2004). The only puzzle is why in such a situation pay rates didn't rise even faster. The answer probably lies in a combination of better control of reward – which may in part account for the survey finding that almost half (47%) of employers attribute recruitment difficulties to potential recruits wanting more pay than they could offer – and greater reliance on migrant workers. As the survey finds, almost two in five (38%) employers recruited staff from overseas in 2004 (this being particularly prevalent in the public sector, where 44% of employers did so).

Retention tops HR agenda

With specialist skills and required experience in evident short supply, the various recruitment initiatives deployed by employers and identified by the survey aim both to beat competitors to untapped sources of labour and attract competitors' staff away from them. But while a tight (or sellers') labour market is obviously good news for those workers who are able to consider plenty of alternative job offers – especially the skilled professionals the survey finds to be in shortest supply – it presents employers with a potential retention nightmare.

In view of this, it's unsurprising that, whenever they have been asked of late, a clear majority of CIPD members say that staff retention is their most pressing issue. Equally unsurprising therefore is the survey finding of a wide array of steps being taken to address retention problems. Evidently most popular are measures to alleviate 'push' factors – those that erode employee commitment and make them actively consider a move – rather than combat 'pull factors', notably by improving pay and benefits to diminish the allure of preying competitors.

Desire for promotion and lack of development or career opportunities seem to be the main reasons why employees quit. Pay, though clearly significant, seems relatively less important. This is consistent with the bulk of HR research which suggests that pull factors like pay are far more likely to exert an effect if job satisfaction or the psychological contract of potential quitters is weak or getting weaker. In this respect, however, it is still somewhat disappointing to discover from the survey that only one in three employers see an improvement in line managers' HR skills as a means of increasing retention, since relations between staff and line managers are generally thought to sit at the very heart of the psychological contract in the workplace. However, the relative lack of attention given to this may stem from the survey finding that lack of support from line managers comes way down the list of factors identified by employers as causing staff to quit last year.

Retention improving?

Given the salience of retention on the HR worry list, the reported fall between 2003 and 2004 in the proportion of employers experiencing retention problems (down from 77% to 73%) is extremely welcome. The improvement stems from the outcome for private sector services (down from 83% to 73%) and the public sector (76% to 69%). There is no obvious labour market explanation for this finding, which sits oddly with overall measures of labour tightness and might have been expected to have resulted in a greater-than-observed reduction in labour turnover.

This suggests it would probably be rash to conclude from the survey findings that retention problems eased considerably last year. Indeed, the reported level of retention difficulties clearly remained high and despite the improvement was still no lower than in the 2002. Moreover, evidence from the CIPD's 2004 survey of employee attitudes suggests that many employers are managing retention on a knife-edge. According to the latter survey, up to 15% of employees intend to leave their jobs in 2005 (in line with the actual quit rate observed for 2004 in the turnover survey), with a similar proportion considering doing so.

Why measuring turnover matters

The fact that perhaps a third of the workforce is either actually or potentially foot-loose at present presents HR professionals not only with a major challenge but also a big opportunity to demonstrate their value to organisations. But to do so, greater effort will be needed to measure the causes, true extent, nature and cost of turnover in order to combat the various push and pull factors that together determine whether staff quit their jobs.

Turnover is obviously costly (an estimated £4,625 per leaver on average last year). But before determining whether an employer has a labour turnover problem, it's necessary to establish some measure of 'natural' turnover. While an organisation's voluntary labour turnover rate is usually determined in part by the way in which it manages its people, a variety of factors should be adjusted in order to establish the 'natural' rate. This, rather than the raw quit rate, represents the most appropriate measure of how problematic turnover actually is for an employer.

Clearly, too little turnover can leave an organisation short of fresh blood and vibrancy, with some looking for higher turnover (9% in the survey) to gain regular infusions. Similarly, since quit rates decrease with age – as workers become more settled in jobs and generally face fewer opportunities to switch employers – employers with relatively high proportions of younger staff will tend to have relatively high natural quit rates. This is particularly true for hotels, catering, leisure and call centres – the sectors with easily the highest turnover rates in the survey. Although high turnover in these sectors might, as is often suggested, result from low pay, poor working conditions and tough management practice, the age effect should not be overlooked.

Quit rates, as the survey shows, are also relatively low for managerial, professional and highly skilled staff. While people in these occupations will be in demand, they are typically somewhat older than average and will normally have established stable positions in their organisations. But ironically, despite their low propensity to quit, workers such as these are often a prime focus of employers' retention strategies because, as the survey also shows, they cost much more to replace.

The existence of such factors may account for why one in three employers surveyed feel that the level of turnover either has no effect (21%) or indeed has a positive effect (9%) on the performance of their organisations. This, alongside complexity and cost, probably explains why relatively few organisations attempt to calculate the cost of turnover. Nonetheless, the vast majority of employers reckon that turnover has a serious (17%) or mild (52%) detrimental effect on organisational performance, while 56% wish to reduce it. If so, there seems to be considerable scope for improving the effective measurement of labour turnover, especially now that more sophisticated human capital reporting needs to move higher up the HR agenda.

*John Philpott
Chief Economist, CIPD*

Background to the survey

This survey was carried out in February/March 2005 and relates to the period 1 January to 31 December 2004. The questionnaire was sent to HR professionals in the private, public and voluntary sectors. In total 715 responses were received from UK-based organisations.

A profile of the location of survey respondents is provided in Figure 21.

Table 29: Location of staff in respondents' organisations (%)

South-east England	25
Whole UK	24
London	20
Midlands	18
North-west England	17
South-west England	14
Yorkshire/Humberside	12
Scotland	12
North-east England	10
East of England	7
Wales	7
Northern Ireland	3

Base: 713

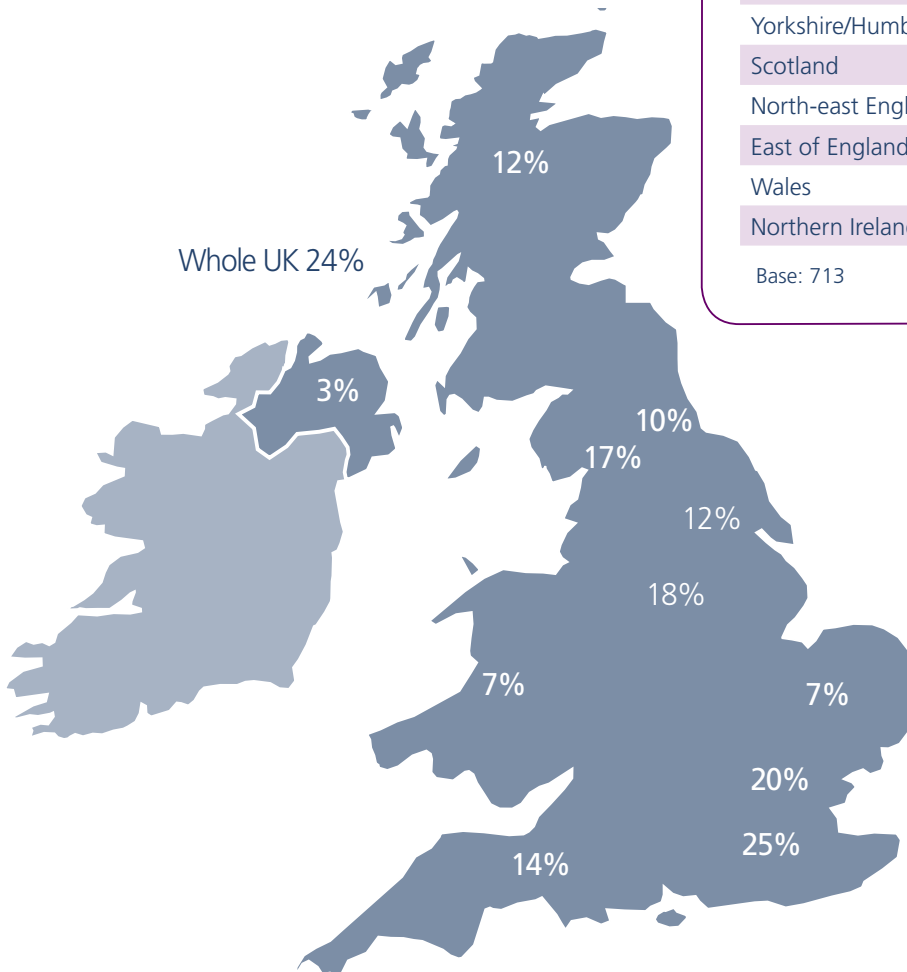


Table 30 provides a profile of the survey respondents, by industrial sector. Figure 22 shows a breakdown of the survey sample, by organisation size.

Recruitment

A total of 715 respondents supplied information relating to their organisations’ recruitment practices. Of these, 595 were able to supply information relating to the whole organisation and the remainder supplied information relating only to one particular unit, department or region.

Labour turnover

303 survey respondents were able to supply all the information for us necessary to calculate labour turnover on a whole-organisation basis – in keeping with the previous year’s survey.

This report uses the standard ‘crude wastage’ method to calculate the rate of turnover. This method is calculated as follows:

$$\text{Labour turnover} = \frac{\text{Number of leavers in a set period}}{\text{Average number employed in the same period}} \times 100$$

(NB leavers includes those leaving the organisation by way of voluntary or involuntary severance, redundancies or retirements, but does not include internal transfers.)

However, readers should be aware that this method has some shortcomings. For example, it takes no account of the characteristics of the workforce or the length of service of the leaver.

‘Average’ in the report is used to refer to the statistical mean where the data is normally distributed and to the median in the cases where the distribution is significantly skewed. Note that, in cases where the group sample sizes are small (ie fewer than ten), the results should be interpreted with caution.

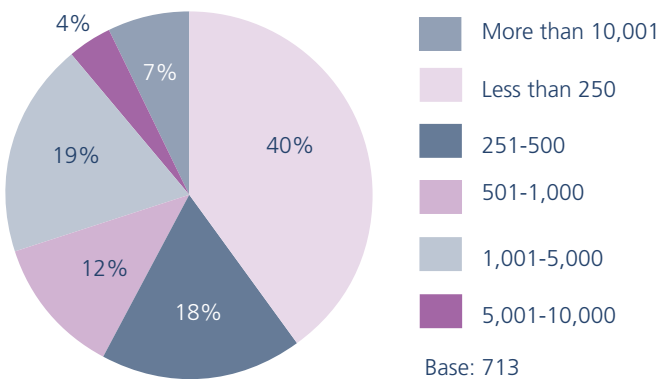
With the exception of labour turnover rates, all figures in tables have been rounded to the nearest percentage point.

Table 30: Breakdown of respondent organisations, by industrial sector (%)

Manufacturing and production	31
Private sector services	43
Voluntary, community and not-for-profit	8
Public services	18

Base: 711

Figure 22: Breakdown of samples, by organisation size – UK employees (%)



Further reading

Employee turnover and retention. (2004) Factsheet. London: CIPD.

Quarterly HR trends and indicators survey. (quarterly: 2004) Survey Reports. London: CIPD.

Recruitment of those working with children and vulnerable adults. (2004) Factsheet. London: CIPD.

MATTHEWMAN, J. and MATIGNON, F. (2005) *Human capital reporting: an internal perspective.* London: CIPD.

MULHOLLAND, G. and ÖZBILGIN, M. (2005) *Managing diversity: linking theory and practice to business performance.* London: CIPD.

WILLMOTT, B. (2004) *Information and consultation: a guide* (2004) London: CIPD.

All of the above are available for CIPD members to download from the Information Resources section of the CIPD website (www.cipd.co.uk).

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- Neil Conway of Birkbeck College
- members of the Recruitment Forum steering committee, for their input into the survey design and assistance in piloting the questionnaire
- focus group members whose thoughts and experiences helped shape the report's commentary on the findings
- all those who shared examples of their organisation's practices.

We hope that you find the research useful when considering your own recruitment and retention practices. Please contact us if you have any questions or ideas based on our findings (research@cipd.co.uk).

Notes

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