

ACADEMIA | Letters

About Churning

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The term churn is usually associated to clients, that is, client-based churn, however, this essay focuses on the churning in human resources. Despite its complex and relevant nature, the phenomenon of churning in human resources remains a largely unexploited topic both by academics and researchers in the field of Human Resource Management.

The purpose of this essay is to contribute to the expansion of the literature available on the subject matter, to help demystify the aforementioned given the multiplicity of available concepts attributed by several authors which in turn presents a degree of complexity for its implementation in Human Resource management.

To understand the latter, its influence and the way organizations deal with this phenomenon are all crucial aspects in helping organizations take proper mitigation measures.

Taking the aforementioned into consideration, this essay is subdivided in three sections, namely:

- Churning in Human Resources
- The Categorization of Churning
- The Role of Organizations for the Mitigation of Churning.

Churning in Human Resources

Oftentimes, when approaching the topic of churning, there is a tendency to consider it as a client-based phenomenon, thus evidenced as client churn. Client churn is more frequently

addressed, both in literary terms as well as in corporate settings. Client-based churn is a well-known issue for most industries, given the loss of a client hampers revenues, the company's brand image and the future acquisition of new clients.

In this context, the approach to churning in human resources emerges, quite similarly to the latter but with some key differences (Saradhi and Palshikar, 2011).

Client-based churn is a substantial problem for highly competitive markets. Given the seriousness of resultant losses organizations must endure due to the latter, the phenomenon of churning in human resources can be seen and felt in quite similar terms. Despite its differences, the latter is also a notorious problem for such corporations.

Focusing on the phenomenon of churning in human resources and taking Information Technology corporations as an example, its churning rates are very high, averaging 12 to 15%. A major issue arises for such companies given the costs stemming from it. When a worker chooses to leave such a company, this oftentimes amounts to incurred expenditures reaching 1.5 times their annual salaries. (Saradhi e Palshikar, 2011).

Churning in Human Resources can be defined by the excess of turnover (Burgess et al., 2001). The excess of turnover can be described as the difference between the flux of workers, that is, workers who voluntarily choose to leave the organization and the need to recruit new people to replace them (Wynen and Kleizen, 2017).

The process of churning is a direct consequence of the excessive overflow of voluntary exits, thus, consisting in the difference between the flux of employees and employment flux (Burgess et al, 2000).

To calculate churning rates, Burgess et al. (2000) mention calculation formulas resulting from the sum of hirings (H) (replacements) and separations/resignations (S) (voluntary departures) over the total amount of employees of a given organization ($\sum E$).

In this regard, the flux of churning is defined by the following calculation formula:

$$CF = WF - JF / \sum E \times 100\%$$

The initials stand for:

CF (churning flow); WF (workers flow); JF (job/employment flow) and $\sum E$ (total employees/workers in the organization).

The empirical framework allowing for the conceptualization of churning is set by correlating the difference between the workers flow (WF) (new hirings + separations/resignations) and job/employment flow (JF), that is, the change in the number of employed workers, through the following calculation formulas:

$WF = H + S$ (Workers Flow = hirings + separations/resignations)

$JF = H - S$ (Job flow = hirings – separations/resignations)

$C = WF - JF$ (Churning = workers flow – job flow)

Where the division from the average of total workers results in the percentages of flows, those being workflow rates (WFR), job flow rates (JFR) or Churning (CH).

Despite the definition and formulas presented above regarding the concept and calculation of churning in human resources, the aforementioned raises some doubts regarding the difference between the concepts of churning and turnover.

To clarify such an issue, it is mentioned that the turnover rate consists only of resignations in a given organization (Chievenato, 2014).

Chiavenato (2014) presents as a formula for the calculation of the turnover rate, the number of employees who departed from the organization over the average number of total workers.

Churning flow is defined as the flow of surplus workers in regard to job/employment flows, meaning that its rate can be calculated through the difference between the resignation of employees and the reallocation of jobs over the total number of workers (Alda et al., 2005).

To clarify the former, Alda et al. (2005) present the following example: a company employing ten workers, intending to employ an eleventh one, will only refer to the replacement of voluntary departures. In such particular a case, the tax of churning is zero. However, if from the ten workers, two of them decide to leave the company, the company has the need to hire two other workers so to replace the ones that left, plus one, so to meet their intention to hire an eleventh employee. Thus, amounting to two resignations and two substitutions. In other words:

$2 \text{ departures} + 2 \text{ replacements} / 10 \text{ workers} \times 100 = 40\% \text{ churning.}$

The Categorisation of Churning

Given the current economic context in which the labour market is set and, considering individual expectations regarding working conditions and vested interests, it is an individual's right of freedom to decide whether to stay in or resign from the current position within the organization they work for so to meet their personal needs (Pirrolas and Correia, 2021a).

Considering the decision to stay in or departure from the company, churning can be subdivided in two ways: voluntary and involuntary churning. Voluntary churning is based on the premise that said worker voluntarily chose to depart from the organization he or she was

working for. Involuntary churning is when that decision is made by the organization itself (Cappelli and Neumark, 2004).

Focusing on voluntary churning, considered the most problematic for organizations, several can be the appointed reasons stemming from it. From a positive standpoint, those could arise from better job opportunities offered to the employee, where one would feel he or she could be able to meet current expectations and needs, namely: a better job position; attractive salary; extra benefits; better working conditions; career development and professional growth; have better leadership representatives; a better job location, and so forth (Pirrolas e Correia, 2021b). In the opposing spectrum, voluntary churning could also stem from a plethora of negative reasons, that is, conflicts with supervisors or colleagues; lack of overall recognition/acknowledgement; demotivation; lack of challenging and exciting tasks; absence of further vocational training; scarce career progression opportunities; low wages; poor working conditions, and so forth (Pirrolas e Correia, 2022).

Companies tend to focus more on voluntary resignations, given these are usually related to the loss of a skilled worker, someone they have invested their time and resources on. These workers tend to leave either due to newly found better working conditions or for negative reasons, where they feel their current job position is not meeting personal career expectations or due to on-going in-house conflicts (William et al., 2020).

Voluntary churning is considered the most problematic for and within organizations. Management teams are faced with the need to implement and set forward retention strategies so to minimize costs associated with the departure of said workers: the hiring of new personnel, welcoming activities, training, not to mention the impact these may have on productivity levels and the increased workload for the remaining employees (Dolatabadi and Keynia, 2017).

The Role of Organizations for the Mitigation of Churning

The foundation for a successful development both for Human Resources and Organizations lies in the recruitment process: in selecting, training and the ability to retain key workers. For such a process to occur, Human Resources' teams have to develop and implement a set of retention strategies: ensure that tasks given are challenging enough so to keep workers motivated; recognition for the work produced which helped accomplish corporate goals and targets; ensure one feels they are a part of a team; to have good leadership representation; enable work autonomy; to provide for flexible working hours; to provide for proper remuneration for the work produced and other given benefits, these are some of the main factors helping guarantee the retention of said workers (Kaye and Evans, 2001).

Although there is no consensus on the definition of talent (Ishiyama, 2021), Collings and

Mellahi (2009) refer that when it comes to human resources, talent is directly associated with having exceptional characteristics, abilities, and skills.

Hudson (2015) refers workers are considered talents due to their acquired experience, knowledge, performance, and competence, thus being considered an asset for the development of the organization.

In this regard, the phenomenon of churning in human resources constitutes one major disruptive issue for organizations, specifically when it comes to the departure of their most talented workers (Pirrolas e Correia, 2020). According to Price's Law, we can calculate the number of talented employees in an organization through the square root of the total number of workers of said organization. Its result amounts to the number of key workers, that is, workers considered to be the most talented, given these are also the ones performing 50% of all work produced in that organization, thus, the ones worth maintaining and being kept motivated.

The churn in human resources occurs due to a set of several reasons, causing serious setbacks for organizations belonging to the service industry, the high-tech industrial sector, in short, industries requiring the most qualified labour force.

The loss of a worker becomes a problem due to several reasons: the hardships in finding substitutes that have the right amount of experience and knowledge in such fields of work; the time, effort and money spent in doing so; not to mention that the loss of a worker will consequently have a negative effect on on-going projects being developed, and in the services provided by that same company at the time. This can ultimately induce distress for the remaining employees and cause client and other stake-holders dissatisfaction.

It surely takes time before a newcomer can reach the same levels of productivity to the ones performed by the worker who left the company.

The loss of a worker costs money, the churning rate can reach 12% to 15% annually.

To understand the motives leading to the departure of an employee, personal interviews performed to the latter when departing can be a good source of information in understanding one's decision to leave. However, there is still the need to support such reasonings by resourcing to other means, for example consulting previous performance evaluations done in the past.

The implementation of prediction models of churning in human resources would be beneficial so to deepen the understandings behind the decisions that lead to the churn of workers, to allow the possibility of adopting more effective strategies and retention plans of action, to devise new strategies of recruitment, as well as better planning for team management.

Not every worker is able to perform exceptionally, hence, skilled workers presenting exceptional abilities and capabilities are the most valuable to an organization and these are precisely the ones whom organizations should foster a greater interest in maintaining.

In this regard, prediction models of churning would be a tremendous asset on identifying the predictability for the occurrence of churning and assessing whose workers are considered the most valuable, thus being a truly well-thought-out process for organizations to consider (Saradhi and Palshikar, 2011).

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