Managing Hidden Costs of Contact Center Teams in the New Economy

Introduction

Employers have not worried about turnover during the economic downtown and slow recovery of the past few years. The turnover rate has remained low since 2009 as employees stayed with current employers, many thankful to have jobs. According to recent research, all that is about to change. A November 2011 survey conducted by Right Management concluded "a whopping 84% percent of employees said they planned to search for a new job in 2012". This is echoed in an article in the July 2012 issue of HR Magazine which predicts massive turnover numbers in the near future.

A benefit of the economic downturn is that contact centers have learned how to do more with less and are operating with the fewest possible agents. Competition thrives in this period of economic uncertainty, driving most organizations to balance drastic cost saving initiatives while maintaining or improving customer service and quality. Organizations cannot afford bad hires, high turnover costs, productivity losses, or a shortage of key skills. Managers need to be proactive and take action now to prevent the inevitable exodus as the economy recovers.

TURNOVER

The cost of TURNOVER

Turnover is the percentage of the total number of agents leaving the call centre over 12 months, divided by the number of seats during the same 12 months. Turnover can be healthy or unhealthy, functional or dysfunctional, voluntary or involuntary, avoidable and unavoidable.

Research from Chris Bracken of Call Me! IQ reports that "Industry data shows large call centers average 49% annual attrition, . . . call centers focused on outbound dialing average more than 60% annual attrition."

Turnover costs have a significant impact on the department budget and company profitability. **Total costs can range from 60 to 200% of an employee's annual salary**, according to various reports. One study estimated that turnover-related costs represent more than 12% of pre-tax income for the average company and up to 40% for companies in the 75th percentile.

CallMe! survey results indicate that the average turnover cost is $3,500 per agent. For larger call centers (>1,000 agents), that number climbs to $4,000 per agent. To put that in context, a 1,000-seat call center running an industry average 70% annual turnover is wasting **about $2.8 million per year on turnover costs.**

There are both tangible and intangible costs associated with turnover. Intangible costs include:

- Low morale
- Lack of commitment
- Breakdown of trust
- Critical skills or knowledge drain
- Dissatisfied customers
- Lost intellectual capital
- Reduced reputation
- Potential lost customers

Tangible costs (both voluntary and involuntary) include hiring costs associated with replacing an employee:

- Third party recruiter fees, online system, and advertising costs
- Candidate interviews (assessment, testing, and screening fees)
- New hire bonuses, referral fees, and sign-on incentives
- Processing and time associated with replacement (HR, management, multiple interviews and departments involved)
- Training new hire costs – on boarding process and associated costs of acclimating a new employee to the environment (mentor or co-worker time)

Tangible costs also include separation costs of exiting employees – time and expense required to exit an individual from the organization as well as any separation severance or termination payments.

In the case where a replacement cannot be found quickly or it is decided not to replace, there are costs associated with redesigning the work, as existing employees must be retrained to cover the vacancy and overtime must also be paid in order to cover the additional work.

In addition, there are lost productivity or business costs – includes the "savings" incurred by not paying wages for the exited employee, and it also includes costs associated with low morale, lost revenue and the performance differential for the new employee as well as costs associated with lost sales.[i]

Calculating turnover

$$\text{Turnover Rate} = \frac{\text{Average number of employees}}{\text{Employees who are leaving}} \quad \text{X } 100$$

Your turnover metric calculations do not need to be exact, but it is important that you are consistent in your methodology, so that your analysis, conclusions, and recommendations are credible and documented.[ii]

Turnover rate Benchmarks

- Typical global call centers report 20% turnover (4% in Austria to 40% in India)
- Large global call centers average 49% annual turnover
- Typical US call centers average turnover rates of 43% (median = 35%)
- Large US call centers with more than 1,000 agents average 70% turnover annually
- Subcontractor average turnover rates are 25%
- Typical turnover in call centers with very high quality jobs (high discretion/low monitoring) is 9%
- Typical turnover in call centers with very low quality jobs (low discretion/high monitoring) is 36%
- Centers focused on outbound calls average more than 60% annual turnover
- Industries with lower turnover, such as utilities and professional trade associations, report higher revenue per full-time equivalent than industries with higher turnover, such as services and recreation
- One-third of typical global call centers indicate less than one year of tenure at work

The annual turnover rate averages 15 percent across all industries, according to the Society for Human Resource Management's (SHRM) Human Capital Benchmarking database. In contrast:

- Companies in the services industry, such as accommodation and food and drinking establishments, have the highest annual rate at 35 percent.
- The arts, entertainment and recreation industry has a 27 percent turnover rate.
- The retail and wholesale trade industry has a 22 percent turnover rate.
- The health care and social assistance industries have a turnover rate of 20 percent.

Turnover often means that key skills and knowledge are walking out the door, often into the door of a competitor. Companies can have little impact on employees who leave through attrition; however, improved turnover rates will have a direct and immediate impact on the bottom line.

Turnover matters for three key reasons: (1) turnover related costs are costly; (2) turnover affects a business's performance; and (3) if not managed proactively and properly can result in talent shortages of critical skills. Most companies track a turnover metric in the Human Resource Department, yet many frontline managers do not know the calculation for their department or stopped tracking the true cost of turnover or attrition during the periods of low turnover.

Addressing the cost of turnover

In order to affect turnover, organizations first need to identify why employees leave, why employees stay, and the costs associated with retention and replacement.

Managers and front line leaders must look at their resources and learn to maximize those resources in the 'new normal' work environment. Managers and front line leaders need to ask:

How do I retain my employees in the most positive, productive, proactive environment possible?

HR and front line leaders must work together to make the most of their talent. Everyone from top to bottom must be aligned with the corporate goals, strategy, and the talent and human capital assets. Talent management cannot take place in a vacuum and expect to help business growth and profitability. Managers must play an active role in recruiting the right talent, developing their team, giving productive performance feedback, creating an engaging environment, identifying critical roles, and retaining critical skills and talent.

Why people leave and what can be done about it

You may have heard that people leave great companies and great jobs because of bad bosses. Various research and personal experience supports this claim! The quality of employees' relationships with their supervisor is an important driver of turnover. A recent survey of turnover of women and minorities confirmed that supervisor bias was a significant driver as well as lack of recognition and praise.

Benchmark data consistently points out that contact centers struggle with the problem of high agent turnover. But ***what is behind an agent's eagerness to leave a contact center?***

ICMI poll results: **15%** of respondents said the "pace of work was too fast", **17%** felt that their work was repetitive and their skill sets were not being fully utilized, **28%** said that "low pay" was their reason for leaving, but it was not the top answer. "Lack of career development opportunities" claims the top spot, with **32%** of the vote, and the remaining **8%** responded "other."

DDI's 2011 Global Workforce Study revealed that:

- Those who said they currently work for their "best-ever leader" were three times less likely to leave their job
- 39% of employees said they had left a job primarily due to their leader at the time; 55% of the employees said they have considered leaving a job because of their leader
- 34% of respondents said they don't consider their manager to be effective at his or her job
- Only 56% of employees reported that their current leader helps them be more productive

Managers and frontline leaders must be:

- Trained and developed to lead and build effective relationships with subordinates
- Held accountable for professional, productive, positive work environments and team members
- Recognized and rewarded for retention measures, in addition to meeting corporate goals and objectives

The value of employee engagement

In addition to the costs of turnover, research shows that employee engagement contributes directly to the bottom line. Engagement is seen as a heightened level of commitment and ownership where an employee wants to do whatever they can for the benefit of their internal and external customers, and for the success of the organization as a whole. Engagement suggests that people are motivated by intrinsic factors (e.g. personal growth, working to a common purpose, being part of a larger vision) rather than simply focusing on extrinsic factors (e.g., pay, bonuses, and rewards). According to an October 2011 Gallup Management study, **only 29% of employees are actively engaged in their jobs.**

In contrast, according to a Profiles International study of 8,000 employees in a cross-section of industries, **about $350 billion per year is lost because of employee disengagement**. Many employees today are stressed due to constantly giving or being asked to contribute 110 percent on the job – to do more with fewer staff, work long hours and handle work-related issues after hours from home. Most people have more stress at home during these challenging times as well possibly taking care of aging parents, less income if only one spouse is working, or other home demands. They are willing to go the 'extra mile' for the company, but they are growing increasingly cynical because they see leaders often saying one thing and doing another.

This stress can lead to a condition known as Presenteeism**.** The term "presenteeism" was coined by Professor Cary Cooper in the mid-90's, a psychologist specializing in organizational management at Manchester University in the UK. There are many definitions floating around, but generally it is defined as the practice of coming to work despite illness, injury, anxiety, etc., often resulting in reduced productivity or the practice of working long hours without performing real work, such as spending time surfing the web, chatting, or texting.

The total cost of presenteeism to US employers has been increasing, and estimates for **current losses range from about $150 to $250 billion annually.** Research indicates there is a strong relationship between employees' workplace engagement and their respective company's overall performance. Research by Gallup shows that engaged employees are more productive, more profitable, more customer-focused, safer, and more likely to withstand temptations to leave. The best-performing companies know that an employee engagement improvement strategy linked to the achievement of corporate goals will help them win in the marketplace.

According to Gallup research, there are significant differences of the engaged workgroups in productivity, profitability, safety incidents, and absenteeism versus disengaged workgroups. Gallup results have proven that **engaged organizations have 3.9 times the earnings per share** (EPS) growth rate compared to organizations with lower engagement in their same industry.

What can be done?

Often relegated to the edges of the company, call centers have a direct and immediate impact company productivity, quality and profit. The Cornell Global Call Center report reveals that call centers have taken on a strategic importance: they manage the behavior of customers – by setting expectations, shaping customer buying patterns, and ultimately influencing company revenues. The emerging Call center sector poses challenges for managers as well as other stakeholders – consumers, governments, employees, and employee representatives.

Managers face the challenge of providing low cost, high quality service in a highly competitive international environment. Employees often describe call center work as monotonous, and turnover rates are often high. Consumers may gain from new or lower cost services, but often complain of poor service quality, self-service menus, and doubts about the privacy and security of their personal information. Managers and frontline leaders have the incredibly difficult job of keeping themselves motivated while meeting the needs of their leaders, their employees, and their customers.

The following 10 best practice steps will help you proactively manage and minimize turnover:

1. **Use research based retention management strategies** available through professional associations such as Academy of Management, the Society for Industrial and Organizational Psychology, and research studies such as America's Most Productive Companies by Profiles International, http://www.americasmostproductive.com/

- Provide 360-degree feedback from peers and subordinates to identify and address potential managerial blind spots and career derailers
- Know the core behaviors, capabilities, and interests of your employees and make strong efforts to place them into jobs in which they best fit
- Survey your employees to identify how the organization might use their abilities better

- Take a strategic view of staffing. Think carefully first about the results that the organization needs to achieve and the departmental goals needed to drive the results
- Monitor employee performance and satisfaction to help determine if they really are overworked. High levels of absenteeism, injury, excessive turnover, and missed performance targets can be key indicators of sub-optimal staffing levels. Pay close attention to exit interviews
- Consider temporary staffing or contracting out before adding permanent staff. This will help you determine more precisely what permanent staff you will need and give you more flexibility to make your decision
- Develop a mindset that employee performance management is a continual process between an employee and their manager and not an annual event related to determine a minuscule base-pay increase
- Establish clear goals with each employee and a clear understanding of how their efforts and achievements contribute to the organization's objectives and results

2. **Benchmark turnover rates** with external companies or obtain market data for your industry or functional area.

- Determine what is an acceptable level of turnover for your industry, company, and department
- Sources of external benchmarking data include the U.S. government, www.bls.gov/jlt, industry/membership organizations such as ICMI, www.icmi.com/, CallMe! IQ iq.callme.io/ , and private benchmarking organizations such J.D. Power, www.jdpower.com/consumer-ratings/programs/call-center.htm, Aberdeen, www.aberdeen.com and Forrester, http://www.forrester.com.

3. **Review your spans of control.** The proportion of agents to supervisors in your call center, defined as the span of control, has a direct impact on agent turnover rates, according to CallMe! "While there are many different ways to reduce turnover, few call centers consider how the ratio of agents to supervisors – or Span of Control – can make an impact. ***Call centers with an average of 10 agents per supervisor have 58% lower turnover than those with 30 or more."***

4. **Understand your numbers.** Identify the turnover drivers and turnover rate for your industry, calculate by average rate of pay for specific positions, and include the total cost to the business. You must be able to communicate turnover to senior leaders, but also demonstrate its impact to senior leaders, the board of directors, and managers throughout the company. By analyzing, monitoring, and reporting turnover and retention ratios, you can document and build your business case for additional headcount, technology enhancements, and proactively manage pay and reward increases.

5. **Capture the "real why" someone leaves.** Exit interviews can be controversial, surveys may provide limited feedback, or comments may only be visible to HR or a third party. The most valuable or reliable data is captured two to three months after the employee

has left, but if that is not possible, you can track turnover rates after an employee is promoted to first-time front line leader, seasonal spikes in turnover, timing turnover such as increases, quarterly or annual bonus payouts, transfers to new department leaders, or other organizational changes. Best practice organizations are also tracking high performers, high potentials, and generational turnover to better attract, retain, and manage critical skill requirements.

6. **Analyze the actual data.** Take emotion out of the equation!

- Include total labor costs (rate, overtime, benefits), factor in additional overtime for workers who fill in for the missing employee, recruiting costs, on-boarding costs, training costs, and the capacity/productivity gap (discussed below)
- New hires are not as productive as experienced workers. The Global Call Center Report asked managers how long it took for a newly hired employee to become proficient on the job. Results indicate newly hired employees require an average of 11.5 weeks (almost three months) to become proficient
- Combined costs of recruitment, training, and lost productivity may cost 3-4 months' pay of the typical call center employee
- Cost of impact on the manager who spends most of their time dealing with the churn and downside of turnover
- Cost of impact and morale on the team members who typically assume additional responsibilities and workload during turnover and training of new hires.

7. **Pay attention to fit.** The leaders of America's Most Productive Companies tend to have a consistent, shared understanding of both the company's current culture and its future culture. These leaders tend to promote individual initiative and high levels of teamwork, both of which are essential ingredients for achieving results.

Online assessment tools can help hire the right, quality talent. Aberdeen's 2011 report found that companies using assessments, on average, experienced 28% higher employee engagement, 10% greater overall achievement of goals, and 64% greater improvement in quality of hire. Using team or behavioral based interviewing for competencies and attributes, proactive workforce planning, and open dialogue about success factors will encourage hiring smart and reducing turnover.

8. **Provide post-hire support.** "Some companies work very hard to convince people to join the organization," Cooper says in the SHRM HR Magazine, "and then these people are treated like a problem as soon as they show up on the first day." A better approach, he says, involves a more thoughtful and hands-on approach to orientation and on-boarding. How you treat employees on the first day and the first month has a huge effect on whether or not they stay.

It goes a long way to have the new employees' badge, computer, IT passwords, desk supplies, Day 1 agenda, and welcome procedures ready.

Other suggestions include:

- Conduct an initial performance discussion to set expectations
- Assign a mentor to help orient the new employee

- Introduce the employee to other managers
- Check on the new employee periodically to see how they are assimilating and encourage them to come to you with concerns or suggestions

9. **Recognize and Reward in a meaningful way**. This is a huge topic and warrants more than a paragraph, but some best practice highlights include:

- Find out what motivates your employees (do not assume you know…times have changed!)
- Lead by example and model the behavior you want others to follow
- Benchmark with your peers for market salaries, bonuses, and workplace rewards
- Realize that one type of recognition no longer fits all
- Read and understand that money is not enough (non cash based ideas are more personal and meaningful)
- Measure the impact of rewards. It is true, if you can't measure it (whatever "it" is), you can't manage it

According to Dr. Bob Nelson, author of *1501 Ways to Reward Employees*, 99.4% of today's employees expect to be recognized when they do go work. Recognition improves job performance, increases morale, leads to higher job productivity, greater customer loyalty, increased customer satisfaction, and lowers turnover risk and costs.

10. **Engage employees.** Low employee engagement is one of the largest drivers of turnover. Research by Gallup Consulting has shown a strong correlation between the degree of well-being of an individual and the extent to which they are engaged as an employee - high well-being yields high engagement. A well and engaged employee is likely to have less sick days, lowering the cost of lost productivity to their organization, and come to work energized and focused. A well and engaged employee is efficient, effective, and a valuable asset in the workplace. Various studies support that companies with highly engaged employees enjoy 28% increase in earnings per share and 19% increase in operating income.

Fostering an engaged workforce requires the frontline leader to:

- Listen to employees and use their input
- Set the tone by how you behave and what you do
- Avoid constantly criticizing, micromanaging, and failing to recognize and reward employee efforts
- Be actively involved and honestly interested in the well-being of employees
- Manage the workload, provide equality, good working conditions, and challenging opportunities
- Communicate clearly, consistently, and provide relevant feedback
- Be genuine, thoughtful, and say "thanks" often
- Do not assume this is an issue that can be handed off to the Human Resources department.

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CONCLUSION

Employees are the backbone of any business success and managers are the critical muscles and nerve centers that hold the framework of the business together. When turnover is high, business leaders face increased costs associated with recruiting, selecting, and training replacements. Other, more-difficult-to-quantify effects also arise, such as declines in productivity, morale, customer satisfaction and innovation.

As the economy improves and the demand for many skills increases, reducing turnover will become increasingly important for most organizations. Talented employees who stayed during the challenging economy may find better offers from other organizations. Making changes now in the employee experience may encourage them to stay, re-engage, and grow with the current company. Tracking turnover is a must, but analyzing the data, leading effectively, and proactively managing turnover is a win-win situation for employees, for you, and your company's bottom line.

Various studies and surveys show employees want to work for organizations that (1) have a clear, compelling vision or mission, (2) have direct, open, and honest communication with employees, (3) recognize and reward high performance, (4) provide employee career growth and development opportunities, (5) encourage employee involvement, autonomy, and flexibility, (6) share what they expect from the employee and why they expect it.

As a frontline leader, can you connect how doing your job well at work increases the profits of your company? According to a Gallup report, out of 25 managers in one training session, only 5 could make a credible connection between their jobs and the profits of the company. The role of the manager and frontline leader is to not only make that connection for their own job, but also for every member of their team to understand how their work contribute to the overall goals and profits of the company.

An "effective" manager is more than a supervisor. He or she takes responsibility for ensuring that an individual succeeds and that the team, department, or business unit achieves its expected results. The Gallup Most Productive Company managerial success traits include:

Communication: Listens to others, processes information, communicates effectively
Leadership: Instills trust, provides direction, delegates responsibility
Adaptability: Adjusts to circumstances, thinks creatively
Relationships: Builds personal relationships, facilitates team success
Task Management: Works efficiently, works competently
Production: Takes action, achieves results
Development of Others: Cultivates individual talents, motivates successfully
Personal Development: Displays commitment, seeks improvement

Are you an "effective" manager? How would your employees answer that question?

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"Make service your first priority, not success, and success will follow."

Debra Cox, the author of this paper, is a consultant, trainer, and speaker on human resource, corporate wellness, shared services, and process improvement issues. To learn more, contact (210) 355-6096 or **dcox@ix.netcom.com.**

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[i] Survey results at: http://iq.callme.io/2011/08/28/call-center-turnover-problem-check-your-span-of-control/
[ii] There are many online tools to assist you with a quick turnover calculation, such as http://www.expresspros.com/turnover/ or you can link to the Society of Human Resource Management at http://www.shrm.org/templatestools/howtoguides/pages/determineturnoverrate.aspx for a template and detailed example of calculating monthly and annualized turnover rates
[iii] International Customer Management Institute. http://www.icmi.com/Resources
[iv] Employee Engagement, A Leading Indicator of Financial Performance. Gallup® http://www.gallup.com/consulting/52/Employee-Engagement.aspx