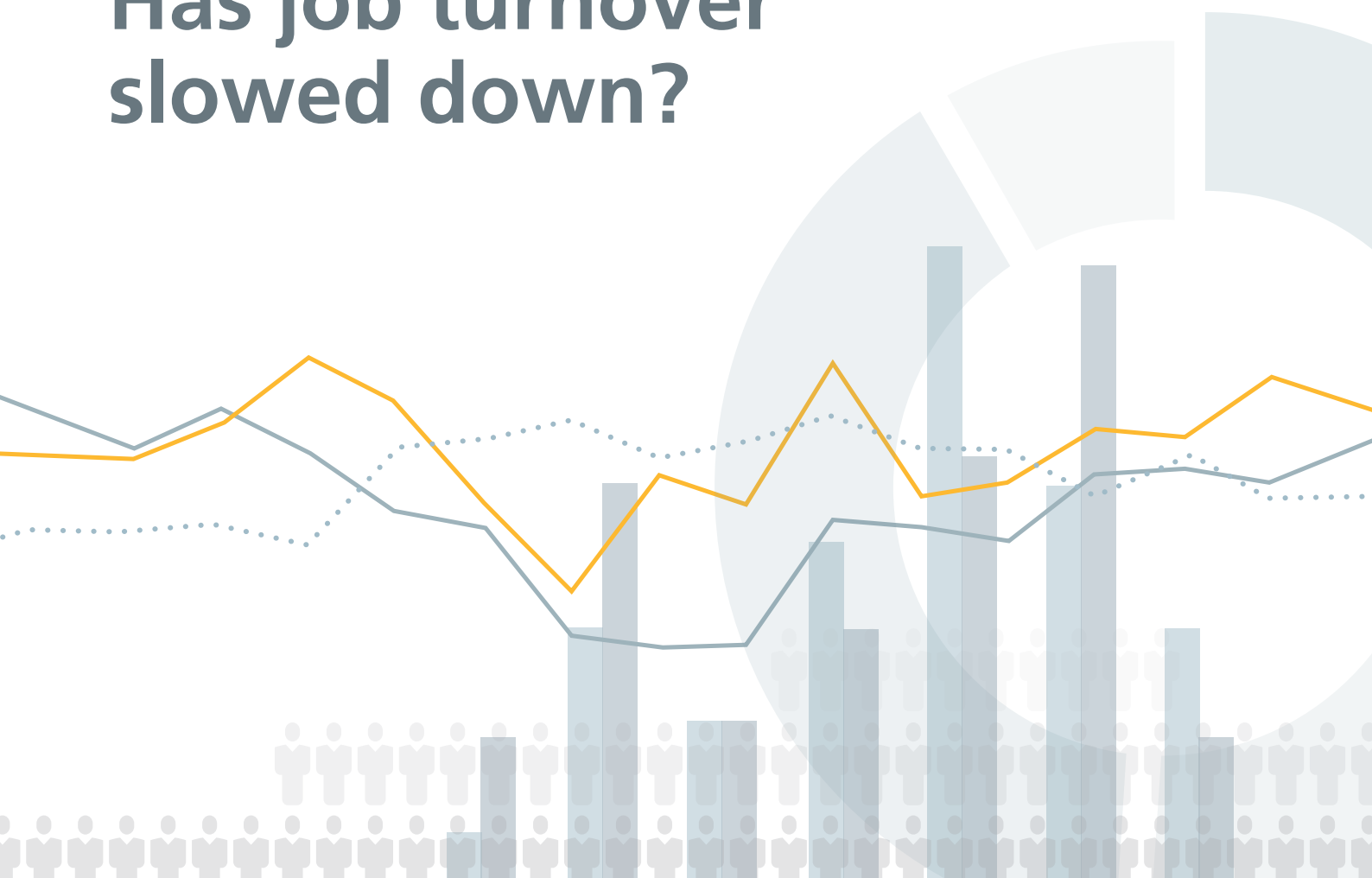


MEGATRENDS

The trends shaping work and working lives

Has job turnover slowed down?



WORK



WORKFORCE



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Championing better work and working lives

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MEGATRENDS

Has job turnover slowed down?

Foreword

In our recent *Megatrends* publication, we set out some of the big economic and social trends that have helped to shape work and working life in recent decades, such as de-industrialisation and demographic change. While the future is uncertain, it seems likely that many of these trends will continue to have an impact for years or even decades to come. Equally, past trends can stop having an impact – or even go into reverse – and new trends will emerge.

In this turbulent and changing environment, organisations need to be agile – to spot changing trends affecting them, work out how to respond to them and by doing so make them work to their benefit and thus maintain an advantage over the competition.

In *Megatrends*, we identified four potential emerging trends – issues where the data suggest there might have been a shift in practice, attitudes or outcomes that would have a significant impact on work and working lives. However, precisely because these are relatively new developments, it is still unclear whether these really are new trends or whether they are short-term disturbances to established patterns due to factors such as the economic difficulties that the UK and many other countries have faced in recent years.

In this series of publications, we take each of these four potential emerging trends and review the relevant evidence, discuss the competing explanations and explore the implications for work and working lives – including for business, for HR practice and for policy-makers. The aim is to draw the attention of our stakeholders to these issues, present the relevant facts and provide a platform for further discussion.

Our first publication considers the bread-and-butter issue of staff turnover, an important metric for all organisations. For a long time we have seen predictions of the end of the ‘job for life’ – to the extent this ever

existed in the UK. Working lives have been expected to involve more frequent changes of employer, industry, occupation, possibly even employment status (with changes between working as an employee and as a freelance or contractor, for example). This would happen because of changes in the nature of work (such as technological change meaning that skills became outmoded more quickly), the workforce (more women in the workforce meaning more diverse career patterns) and the workplace (a retreat of trade union power giving more organisations freedom to restructure their workforce).

The evidence reviewed in this publication, however, suggests a degree of stability in the UK jobs market. While self-employment has increased in the last 30 years, some four-fifths of people working in the UK are still permanent employees. In addition, the average period of time people spend with an employer did not shift greatly between the mid-1970s and the mid-2000s, albeit with some changes within the overall average.

Furthermore, our evidence suggests that job turnover in the UK has been falling over the past decade – meaning that fewer people change employers each year. Is this a new feature of the labour market or is it due to economic conditions? Are there other factors at work? And what are the implications for business, HR practice and policy-makers? In this publication, we provide more evidence on these issues as the basis for a strategic conversation. We encourage every reader to say what you think.



Peter Cheese

Chief Executive, CIPD

Summary of key findings

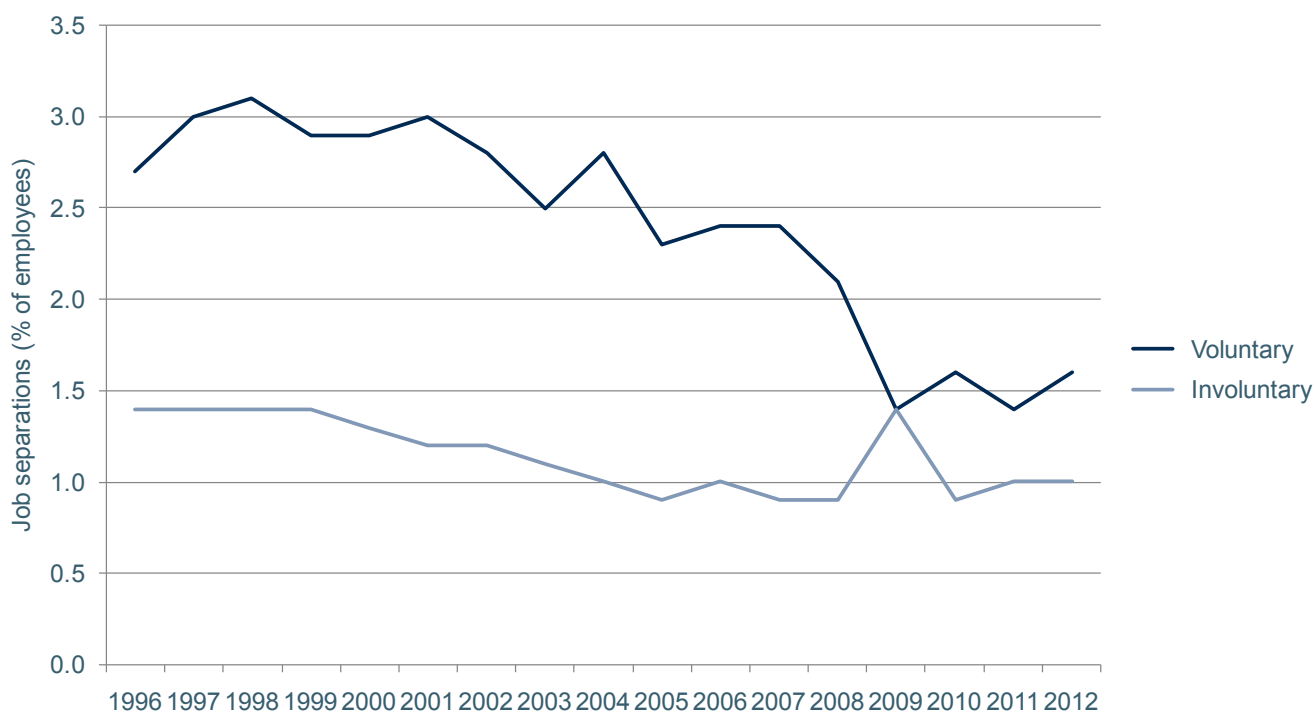
- In the three months from October to December 2012, according to the Labour Force Survey, 2.6% of employees left their job. This consisted of 1% leaving their job involuntarily (through redundancy or dismissal) and 1.6% leaving their job voluntarily (through resignation, retirement or for other reasons).
- On this measure, turnover peaked in 1998 at 4.5% and declined gradually over the period 1998 to 2007 before falling sharply in 2008 and 2009 and levelling off subsequently. This trend is almost entirely due to falling voluntary turnover. Employer-based measures also show a decline in turnover since the mid-2000s.
- A number of studies suggest that the average amount of time people spend with an employer – average job tenure – did not shift greatly between the mid-1970s and the mid-2000s. Average job tenure appears to have increased slightly in recent years – consistent with falling job turnover.
- Average job tenure in the UK is among the lowest in the OECD.
- Economic conditions are likely to be the main reason why turnover has fallen since 2008 – more employees 'sit tight' in their jobs because finding a suitable new job might prove difficult. However, this does not explain why job turnover was falling pre-recession.
- The evidence suggests that changes within the workplace over the last 10 to 15 years may also explain falling job turnover. These include changes to occupational pension arrangements increasing the cost of job exit for some employees and increases in overall job satisfaction and employee engagement – as dissatisfied and disengaged employees are most likely to say they are looking for another job. Employment legislation introduced since 1998 – such as the National Minimum Wage – may have played a supporting role.
- We would expect improving labour market conditions – such as a significant increase in job vacancies – to lead to an increase in job turnover compared to current levels.
- Population ageing is likely to have a negative impact on turnover for the remainder of this decade – so it is quite possible that turnover will remain at historically low levels.
- Greater workforce stability will be seen by many organisations as a potential benefit – more experienced staff with greater knowledge increases the potential return on investment in people.
- However, less employee turnover means fewer people seeking new employment and there may be challenges for organisations in maintaining their talent pipelines.
- Organisations will also face challenges in how they ensure long(er)-serving employees remain engaged and up to date with business practice – and how they can access sufficient new thinking to drive forward innovation.

What does the evidence say?

When discussing the evidence on 'job turnover', there is an important caveat we have to bear in mind. Virtually all of the available data on job separations, job tenure and job turnover refer to spells of time spent with a single employer and do not differentiate between different jobs performed by the individual for a single employer. Someone employed in a large company could have numerous changes of role (even, for example, a 40-year career running from sales assistant to sales manager to operations director to CEO) but most data would record that as a single employment spell or a single 'job'. One UK study that attempts to capture job changes within a single employment spell over the period 1975 to 2010 found that about 85% of individuals' spells with a particular employer did not involve an internal job move with, in contrast, about 3% of such spells involving three or more jobs with the same employer.¹

Official data from the Office for National Statistics (ONS) differentiate between involuntary separations (redundancies, dismissals and temporary jobs coming to an end) and voluntary separations (retirements, resignations, people stating they left work for health or family reasons and so on). Figure 1 shows that voluntary separations typically account for the majority of turnover, with the single exception of 2009 when low voluntary separations plus a spike in involuntary separations due to recession-induced redundancies produced parity between involuntary and voluntary turnover.² For this period at least, the rate of voluntary separations peaked in 1998. There was then a gradual decline over the period to 2007 followed by a sharper reduction in 2008 and 2009.

Figure 1: Job separations, 1996–2012



Labour Force Survey, UK, not seasonally adjusted, October–December quarter.
Source: Office for National Statistics

1 DEVEREUX, P., HART, R. and ROBERTS, E. (2013) *Job spells, employer spells, and wage returns to tenure*. Stirling Economics Discussion Paper 2013-01, January. Stirling: University of Stirling. Stirling Management School.

2 We should note, of course, that dividing lines between voluntary and involuntary separations can become blurred. Resignations, for example, can arise as a result of a disciplinary process that might otherwise have led to dismissal. Some redundancies will be 'voluntary' in that the individual might have volunteered to be made redundant.

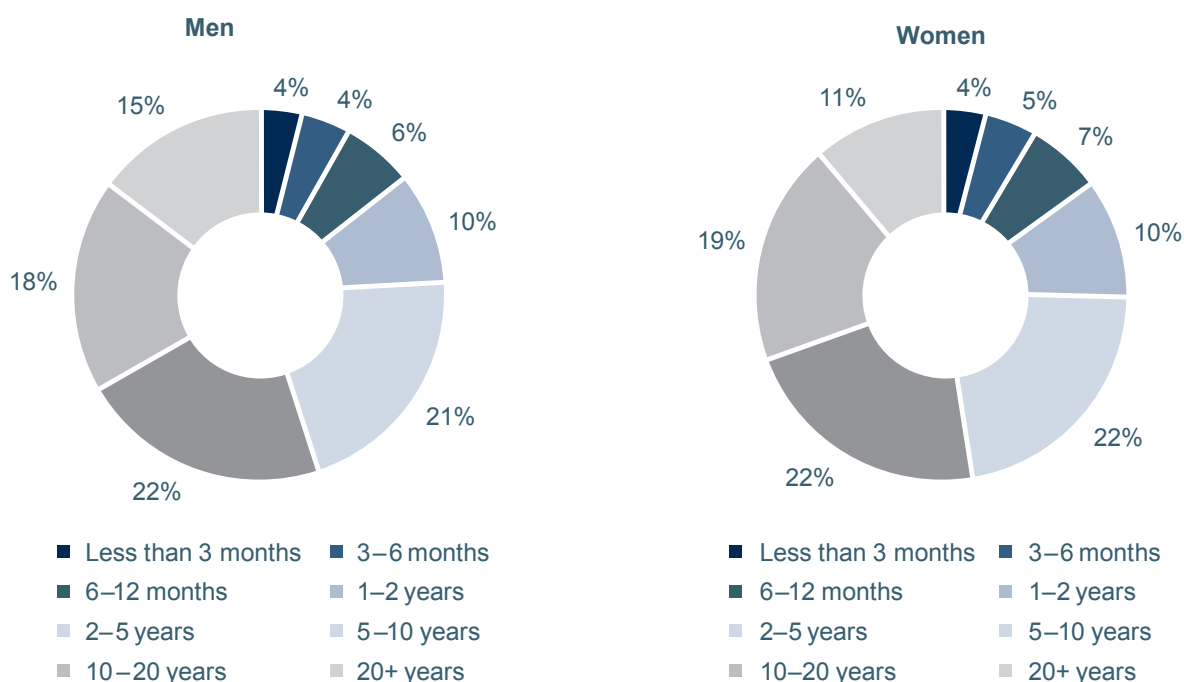
Turnover, as a measure of employees changing jobs, is therefore an indicator of the stability – as well as the instability – of employment. ONS data show that most employees are in relatively stable jobs, in terms of the length of time they have been with their current employer. Figure 2 shows the breakdown of employment by length of tenure for men and women.

Over three-quarters (76%) of men and over seven-tenths (71%) of women had been with their current employer for at least two years, with a majority having been with their current employer for five or more years.

This picture of relative stability and longevity in duration of employment can also be seen in estimates of average job tenure. This is closely related to job turnover as high turnover typically implies short periods of time in a job.

Since the 1970s, average job tenure in the UK has been relatively stable.³ To an extent, this masked different trends for men and women. Average job tenure was falling for men – possibly in part due to earlier exit from the labour market – whereas it increased quite significantly for women. Improved maternity rights led to more women remaining with their employer after giving birth to a child and fewer women either leaving the labour market altogether or changing employers to find a job that suited their new circumstances.

Figure 2: Employment by length of job tenure with current employer, October–December 2012



Labour Force Survey, UK, not seasonally adjusted.

³ BURGESS, S. and REES, H. (1998) A disaggregate analysis of the evolution of job tenure in Britain, 1975–1993. *British Journal of Industrial Relations*. Vol 36, No 4, December. pp629–655.

Figure 3 presents more recent ONS estimates of average job tenure. These show that, for the period 2001 to 2007, average job tenure was stable for men and increased slightly for women. Since 2008, average job tenure has increased for both men and women.

Job separation rates vary across the labour force.⁴ Young people are much more likely to move jobs and are much less likely to remain in their jobs over any given period than older age groups.⁵ This is a pattern picked up in other data and in part reflects the relatively fractured nature of some young people's employment patterns (for example, combining work with education) as well as young people trying a range of jobs to find one that suits them (termed 'job shopping').

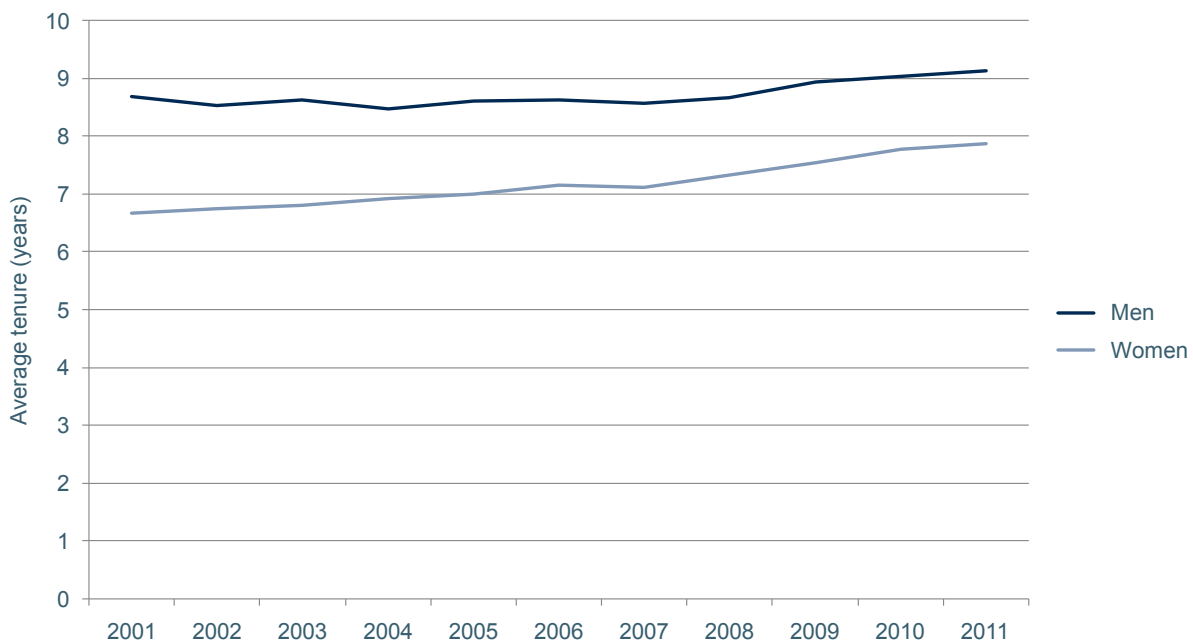
Women tend to have higher overall job separation rates than men and workers in part-time positions tend to have higher separation rates than full-time workers.

Public sector workers have tended to have lower job turnover than their counterparts in the private or not-for-profit sectors, although there is some evidence that the employment reductions in the public sector since 2010 have narrowed the gap.

All these data reflect employees' actual behaviour. The CIPD's regular *Employee Outlook* survey contains a question asking employees whether they intend to look for another job with a different employer within the next 12 months. Figure 4 shows that 21% of employees questioned in the spring 2013 survey said they intended to find another job within the next year. There is little obvious trend in this proportion since 2009, which is consistent with the trend in the voluntary separations data displayed in Figure 1. However, it is not possible yet to determine whether this measure of intended turnover might be a reliable guide to actual turnover – the question has not been asked for long enough to establish whether turnover intentions increase as the labour market becomes more buoyant.

The trend in employee-based measures of job separations and turnover is confirmed by employer surveys such as the CIPD/Hays *Resourcing and Talent Planning* survey, which shows that median employee turnover has been falling since 2005 (Figure 5).

Figure 3: Average job tenure, 2001–2011

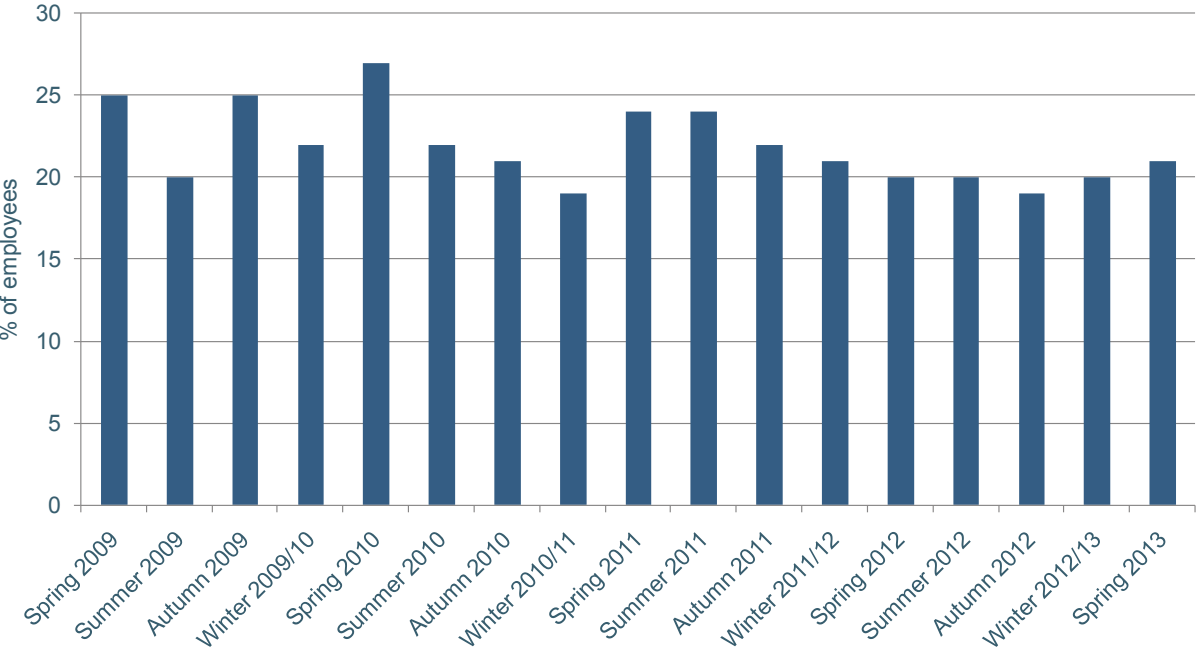


Labour Force Survey, UK, not seasonally adjusted, October–December quarter
Source: Office for National Statistics

⁴ See analyses in KENT, K. (2008) Job separations in the UK. *Economic and Labour Market Review*. Vol 2, No 9, September. pp44–47 and OFFICE FOR NATIONAL STATISTICS. (2011) *Reasons for leaving last job, 2011*. November. London: ONS.

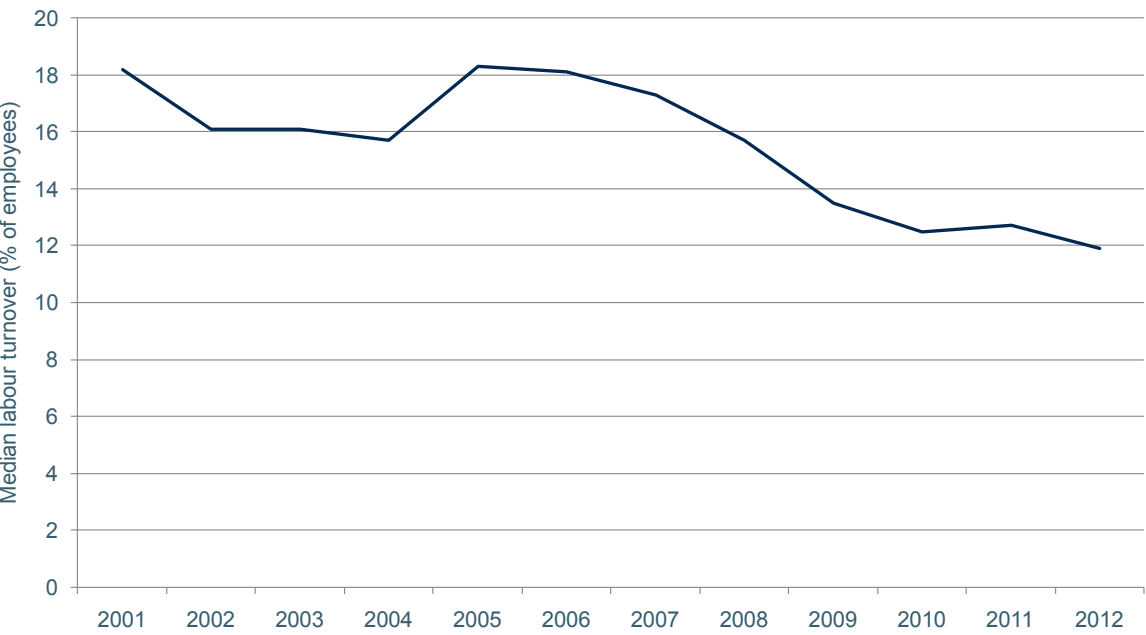
⁵ MACAULAY, C. (2003) Job mobility and job tenure in the UK. *Labour Market Trends*. Vol 111, No 11, November. pp541–550.

Figure 4: Employees looking to change jobs in the next 12 months, 2009–2013



Source: CIPD *Employee Outlook* surveys.

Figure 5: Organisation-based labour turnover, 2001–2012



Source: CIPD/Hays *Resourcing and Talent Planning* surveys.

What about other countries?

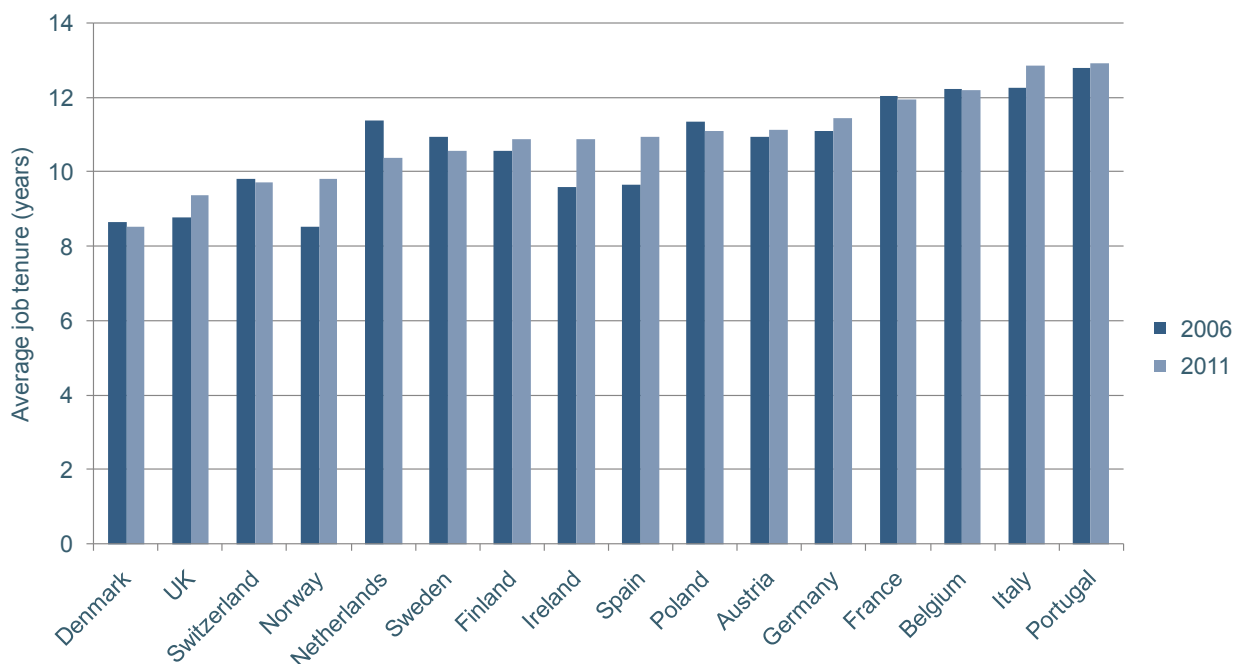
The UK is one of the countries with the shortest average job tenure in the OECD, which is consistent with other data pointing to the relative dynamism of its labour market (such as flows into and out of unemployment).

Figure 6 shows that the UK is not alone in seeing average job tenure increase in recent years. A number of other countries, such as Spain, Ireland and Norway, have seen even greater increases in average tenure. However, some countries, including the Netherlands and Sweden, have seen modest reductions in job tenure over this period, so there is no universal trend.

The USA has relatively low average job tenure (see Figure 7). Again, though, average job tenure has been increasing during the past decade for men and women. This follows a period during the 1980s and 1990s when median job tenure fell for adult men but increased for adult women.⁶

US data on quits and layoffs show a similar pattern to the UK job separations data, with quits (voluntary separations) starting to fall in 2006 and then dropping sharply between 2008 and 2010 before levelling off.⁷

Figure 6: Average job tenure in selected OECD countries, 2006–2011

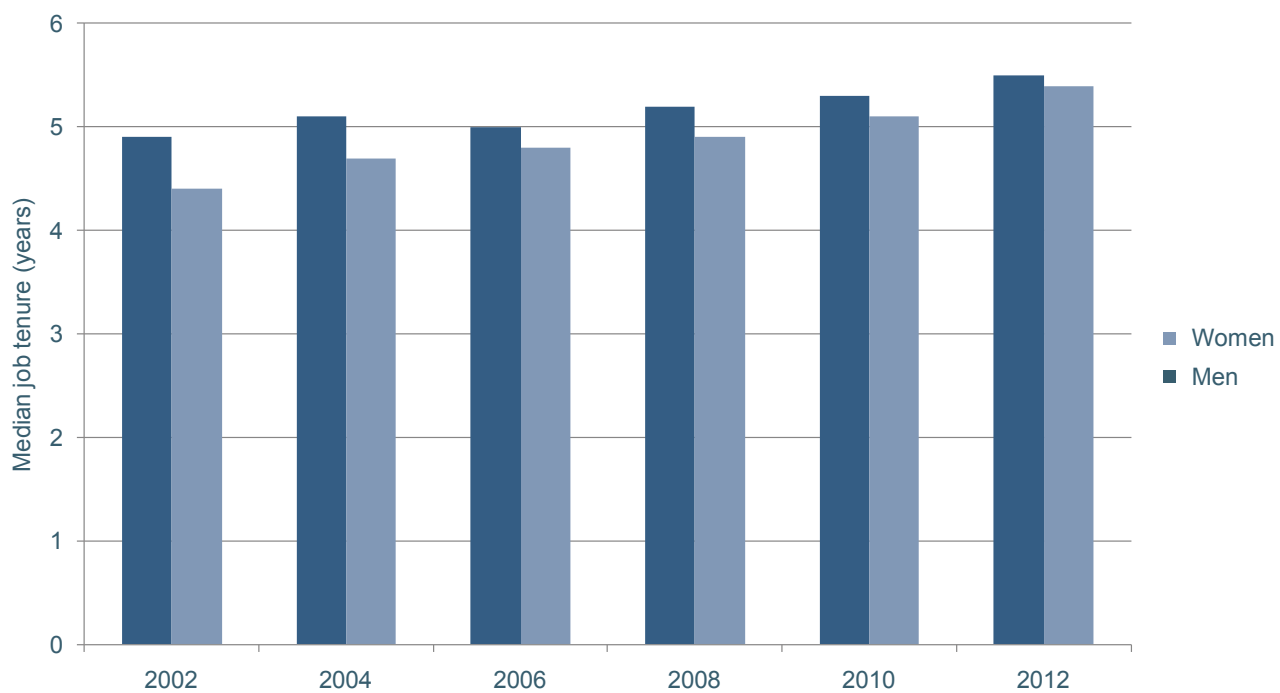


Source: OECD

6 COPELAND, C. (2010) Employee tenure trends lines, 1983–2010. *EBRI Notes*. Vol 31, No 12, December.

7 BRUYERE, C., PODGORNIK, G. and SPLETZER J. (2011) Employment dynamics over the last decade. *Monthly Labor Review*. August. pp16–29.

Figure 7: Median job tenure in the USA, 2002–2012



Employed salary workers aged 25 and over
Source: Bureau of Labor Statistics

What are the potential explanations?

The evidence reviewed in the previous section suggests that the rate of job turnover – especially voluntary job separations arising out of resignations, retirements and other quits – has fallen over the last decade or so, at first gradually, and then in a more pronounced manner since the 2008 recession. In this section we identify four potential explanations for this trend and consider their validity.

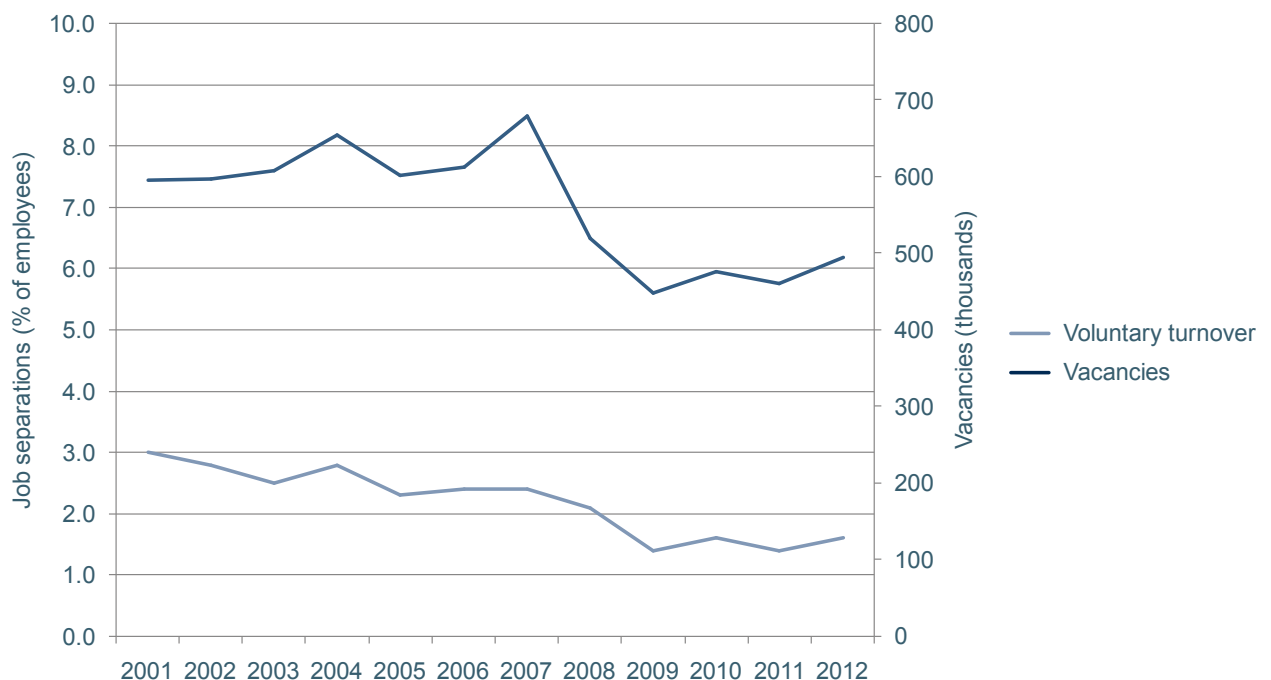
The recession?

Labour market conditions clearly play a part in explaining job turnover. Involuntary turnover goes up in recessions because redundancies increase. Voluntary turnover decreases because people are less likely to quit their job if they are worried about their chances of finding another job. Figure 1 suggests that the net effect of

these in the current recession has been to push overall job turnover down. The recession can also help to explain the increase in average job tenure if those losing their jobs are predominantly those with relatively short job tenure (which would happen, for example, if employers adopted ‘last in first out’ procedures for reducing headcount).⁸

Nevertheless, the recession can only be part of the explanation. Voluntary job separation rates were trending downwards from 1998 to 2007, a period when unemployment was falling and vacancies were tending to rise (see Figures 8 and 9).

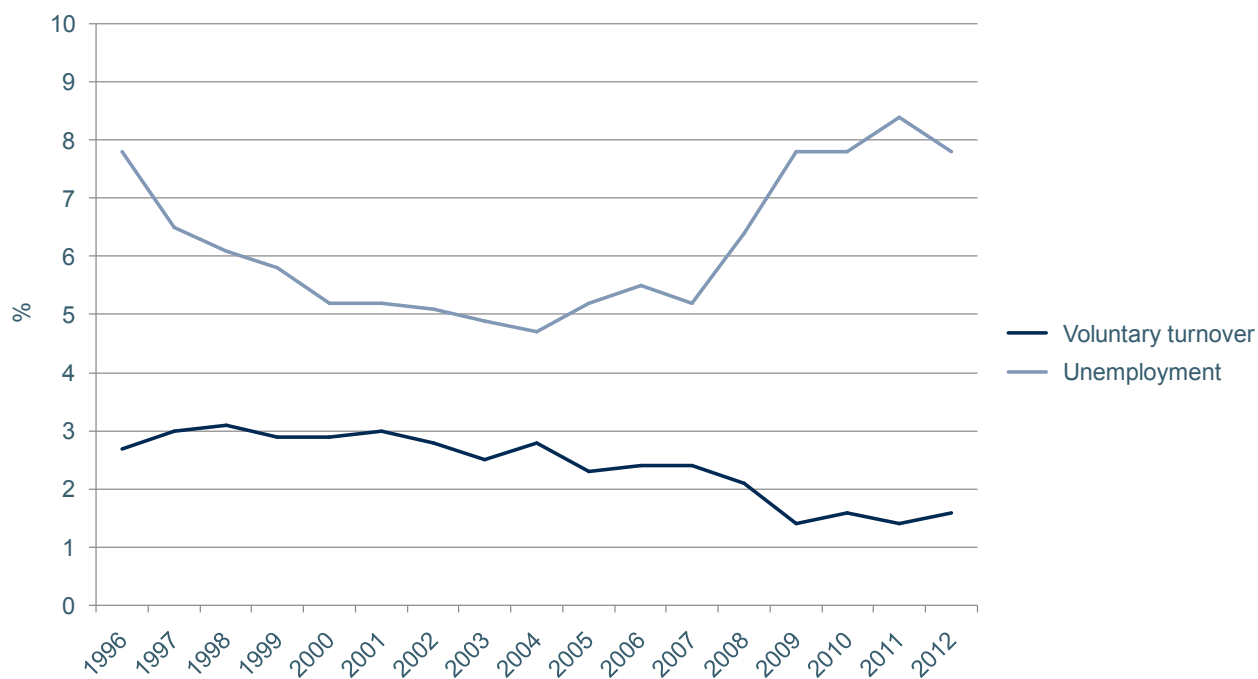
Figure 8: Voluntary job separations and unfilled job vacancies, 2001–2012



Job separations data are *Labour Force Survey, UK*, not seasonally adjusted, October–December quarter.
Source: Office for National Statistics

⁸ Burgess and Rees, *Op cit.*

Figure 9: Voluntary job separations and unemployment, 1996–2012



Labour Force Survey, UK, not seasonally adjusted, October–December quarter.
 Source: Office for National Statistics

Changes in workforce structure?

As noted in the previous section, job separation rates vary for different groups in the labour market. In particular, young people have much more rapid job turnover than older age groups, with smaller differences between women and men, part-time and full-time workers and private and public sector workers. If the composition of the workforce changes over time (for example more women workers), this might cause the overall job turnover rate to change even if the underpinning job turnover rates by age, sex and so on remained unchanged.

Women now form a greater proportion of employment than they did ten or twenty years ago, but women tend to have higher overall job separation rates than men. Similarly, part-time work as a share of employment has increased gradually over past decades but, again, workers in part-time positions have tended to have higher rates of job turnover than workers in full-time positions. So these trends would – all things being equal – have been expected to increase the overall job turnover rate, not decrease it.

The public sector grew from 20.2% of total employment in 1999 to 21.9% of total employment in 2009, before falling to 19.5% by 2012. As turnover is lower in the public sector on average, this in principle could have contributed to the fall in job turnover in the years preceding the recession. However, any such effect would be very small.

Given population ageing, one might expect some of the decline in aggregate job turnover to be due to there being fewer young people – who change jobs most frequently. However, during the pre-recession period between 1998 and 2008, when job turnover was falling, the proportion of those in employment who were aged 16–24 remained broadly constant. The number of 25–34-year-olds, who have the next highest turnover rate, did fall in absolute and relative terms over this period.

Changes in workforce composition do not appear a strong candidate for explaining the fall in job turnover.

The impact of employment regulation?

Economic theory suggests that employment protection legislation should reduce job turnover and increase job tenure by protecting employees from arbitrary, unfair and (in some cases) economically motivated dismissals – thus reducing involuntary turnover. Regulation can also reduce the rate of voluntary job turnover. For example, measures that make it easier for men and women to combine work with raising a family should reduce the number of working parents who feel forced to change employer.⁹

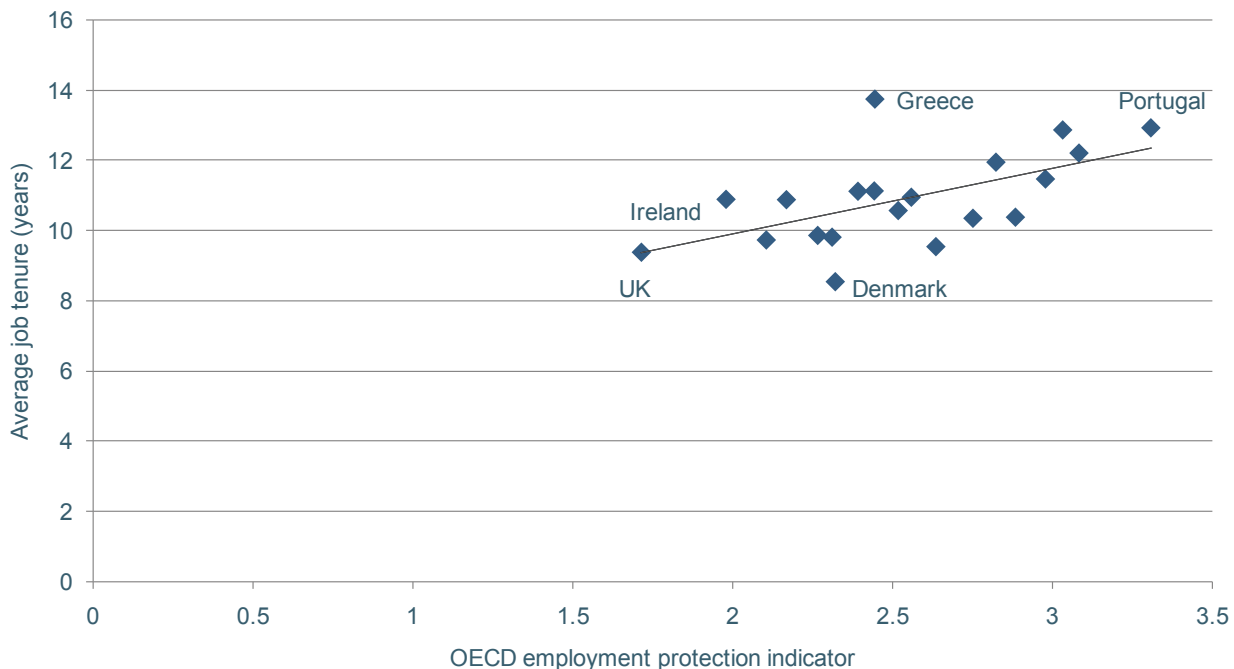
Comparisons across countries support this hypothesis. Figure 10 plots average job tenure against an OECD measure of the strength of employment protection legislation governing individual and collective dismissals. Countries with less stringent employment protection, such as the UK, tend to have relatively short average job tenure, whereas countries with more extensive employment protection, such as Portugal, tend to have relatively long average job tenure.¹⁰

Coincidence or not, the ONS measure of voluntary job separation in Figure 1 peaks in 1998, when the previous Labour Government began to implement its programme of employment relations reform. It is not difficult to identify examples of legislation passed that might – in principle – have helped to reduce job turnover:

- The National Minimum Wage, by establishing a wage floor in low-paid sectors, may have prevented some ‘job-hopping’ by employees seeking marginal improvements in very low pay rates.
- Reductions to the qualification period for unfair dismissal may have reduced involuntary separations.
- Extensions to maternity leave and pay are likely to have enabled more women to remain with their employer after finishing their maternity leave.

The previous Government’s programme of employment regulation is therefore a plausible factor explaining declining job tenure during the 2000s. However, its relative importance is not clear.

Figure 10: Employment protection and average job tenure across selected OECD countries, 2011



Employment protection indicator covers individual and collective dismissals.
 $R=0.58$
 Source: OECD

⁹ For a recent review of the literature see OECD. (2013) *OECD Employment Outlook 2013*. July. OECD Publishing

¹⁰ Similar patterns can be found in other measures of labour market dynamism, such as flows into and out of unemployment.

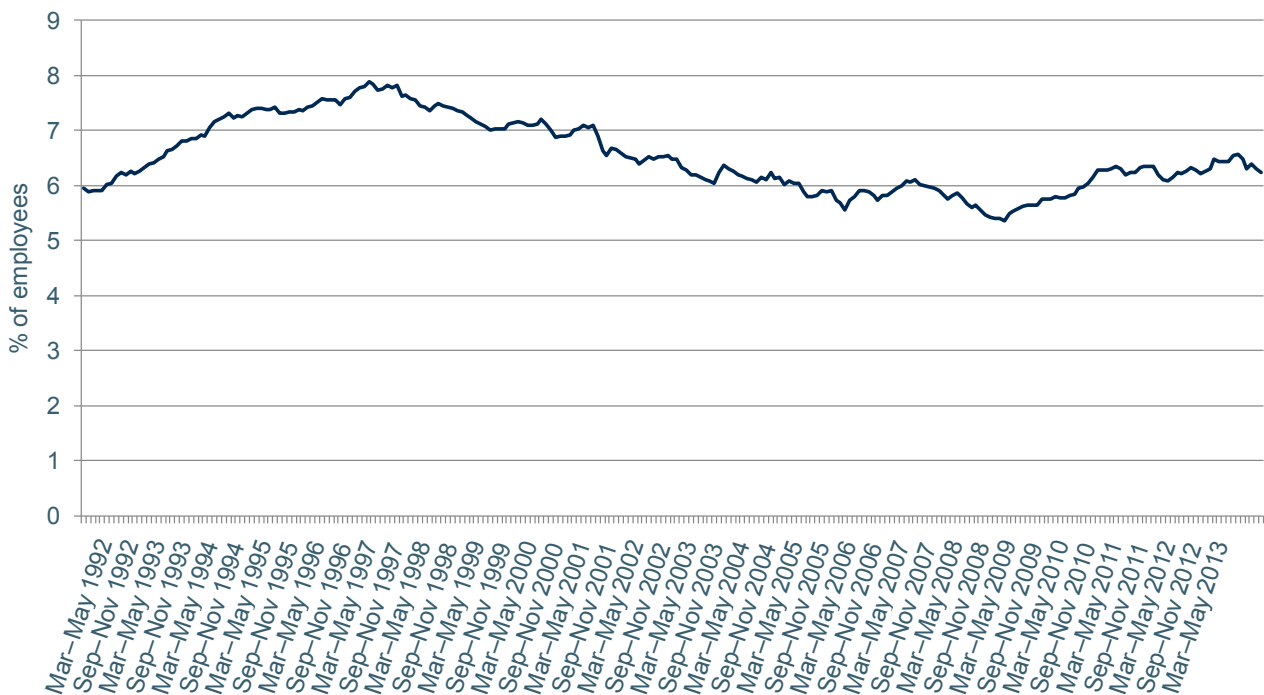
Change within the workplace?

Another possibility is that changes taking place within the workplace may be leading to less job turnover.

Organisations can have a direct influence on job turnover through their recruitment and resourcing practices. For example, deciding to hire someone on an open-ended contract – rather than through a series of short fixed-term contracts – might reduce some of the turnover likely among anxious employees as they reach the end of each contract. Effective recruitment practices reduce the risk of ‘square pegs in round holes’. It is difficult to reach a conclusion on whether recruitment and resourcing practices have had an impact on turnover. For example, ONS data show little change over the past 20 years in the proportion of employees with temporary, casual, agency or fixed-term status (Figure 11).

Changes in occupational pension arrangements could have reduced voluntary turnover by discouraging employees from changing employers. Many organisations have closed remaining defined benefit (DB) occupational pension schemes to new recruits. This creates a significant additional cost of exit for an employee below pension age who is still in a DB scheme. According to the CIPD’s 2013 *Reward Management* survey, 28% of responding organisations operated a DB scheme for at least some employees, but 55% of DB schemes were closed to new employees, including the vast majority of private sector DB schemes. Even for those employees in a defined contribution (DC) occupational pension scheme, there may be significant costs if a change of employer means joining a different DC scheme.

Figure 11: Temporary employees, 1992–2013

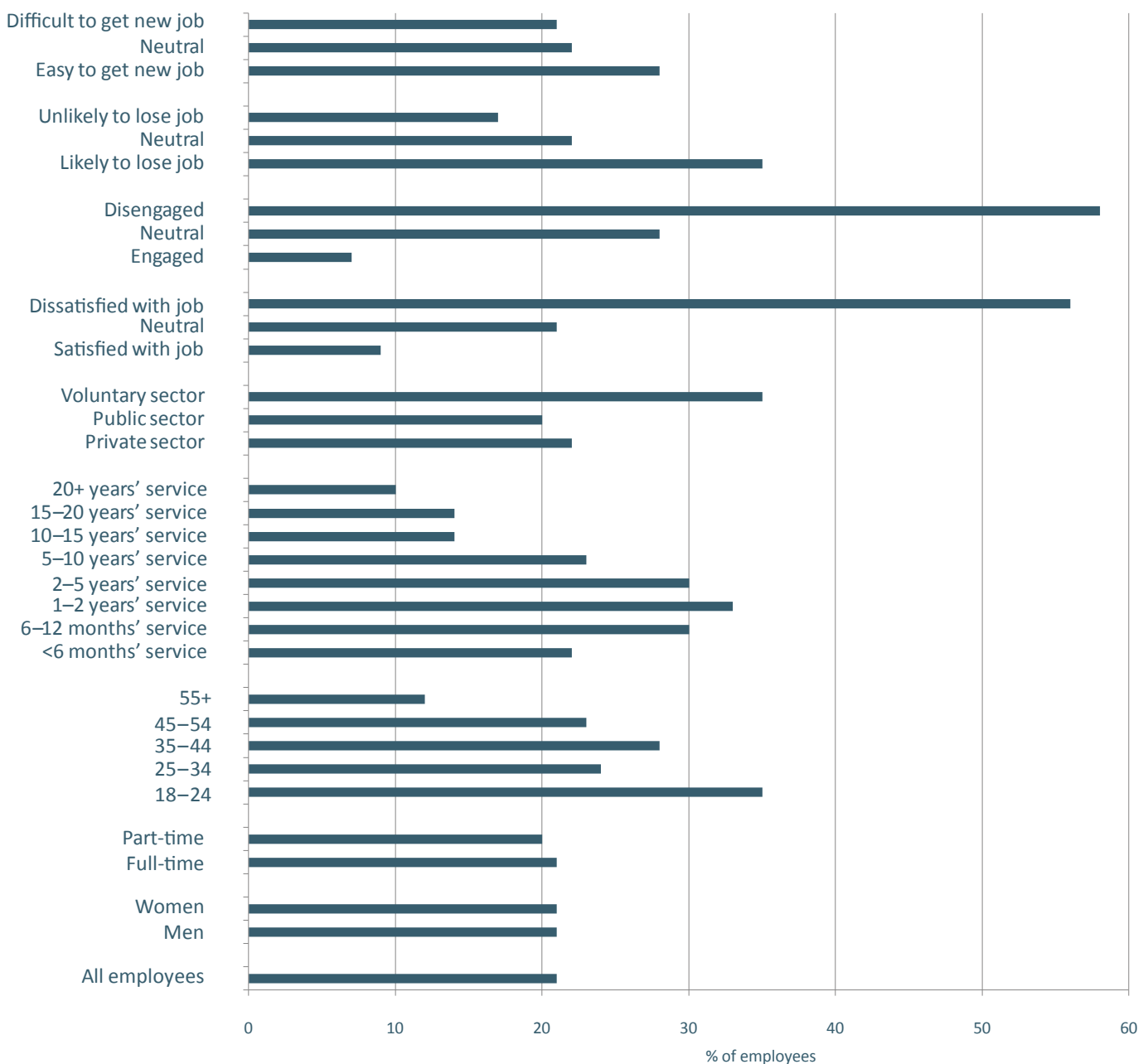


Labour Force Survey. UK. seasonally adjusted.
Source: Office for National Statistics

Job quits – along with absenteeism – have been interpreted as indicators of employee discontent, especially when voice mechanisms are absent or considered ineffective.¹¹ Whereas variations in the proportion of employees saying they intend to look for another job are relatively small across most factors that differentiate the workforce –

including gender, part-time/full-time status, industry and occupation of employment – people who are unhappy with their job appear to vote with their feet. More than half of those who state they are dissatisfied with their job, or disengaged from it, intend to look for another job within the next 12 months (Figure 12).

Figure 12: Employees looking to change their job within the next 12 months, spring 2013



Source: CIPD *Employee Outlook* survey.

¹¹ FREEMAN, R. and MEDOFF, J. (1984) *What do unions do?* New York: Basic Books.

The implication is that an improvement to average job satisfaction or employee engagement could mean fewer people quitting their employers – and hence a reduction in overall job turnover. The *Workplace Employment Relations Study* (WERS) suggests a modest but consistent improvement in employee job satisfaction between 2004 and 2011 and a noticeable improvement in employee commitment.¹² The CIPD's *Employee Outlook* survey suggests that, in recent quarters, net job satisfaction has been at higher levels than when the survey series started in 2009.

These results may well in turn reflect perceived improvements in workplace relationships and management and leadership. WERS shows that managers used more methods for engaging employees in 2011 than they did in 2004 – matched by a slight increase in positive employee perceptions of their role in decision-making.

Conclusions

Clearly, labour market conditions account for much (if not all) of the drop in job turnover from 2008 onwards. However, the fact this was preceded by a sustained period of falling turnover suggests other explanations have a part to play. The analysis suggests this is more likely to have been due to changes within the workplace than through changes in the composition of the workforce alone.

These changes within the workplace include recruitment and resourcing strategies and changes to occupational pension arrangements – as well as other changes to management and personnel practices that have increased employee engagement and job satisfaction and reduced some of the 'push' factors, such as problems in securing flexible working after a period of maternity leave. Employment legislation may have played an additional supporting role.

¹² WANROOY, B. van, BEWLEY, H. and BRYSON, A. (2013) *The 2011 Workplace Employment Relations Study: first findings*. January. London: Department for Business, Innovation and Skills.

What are the implications?

The evidence presented in this paper suggests that employee turnover and job tenure in the UK have been relatively stable over recent decades and that we even appear to be seeing a shift, on average, towards less employee turnover and longer-lasting employment relationships. The ties binding organisations and people together would appear to remain strong in many cases.

If labour market conditions improve – with significant rises in job vacancies or sharp falls in unemployment – we should expect to see increased employee turnover. Involuntary job turnover might fall further, but redundancies are already at historically low rates. It is highly likely any such effect would be outweighed by an increase in voluntary job turnover as individuals who have been ‘sitting tight’ in a difficult labour market take active steps to seek new opportunities.

While our analysis of past trends suggested that changes in workforce composition were unlikely to be a powerful explanation of past falls in job turnover, there are good reasons to believe that population ageing could further reduce job turnover in the period to 2020. First, the number of young people is projected to fall more quickly than seen in the previous decade, with a fall of 7% in the number of 15–19-year-olds between 2012 and 2020 and a fall of 9% in the number of 20–24-year-olds. Second, among the older age groups, greater numbers in the age cohorts combined with increased labour force participation and later retirement mean that the over-50s will account for a greater share of employment – and they are currently the group in the workforce with the lowest rate of turnover.

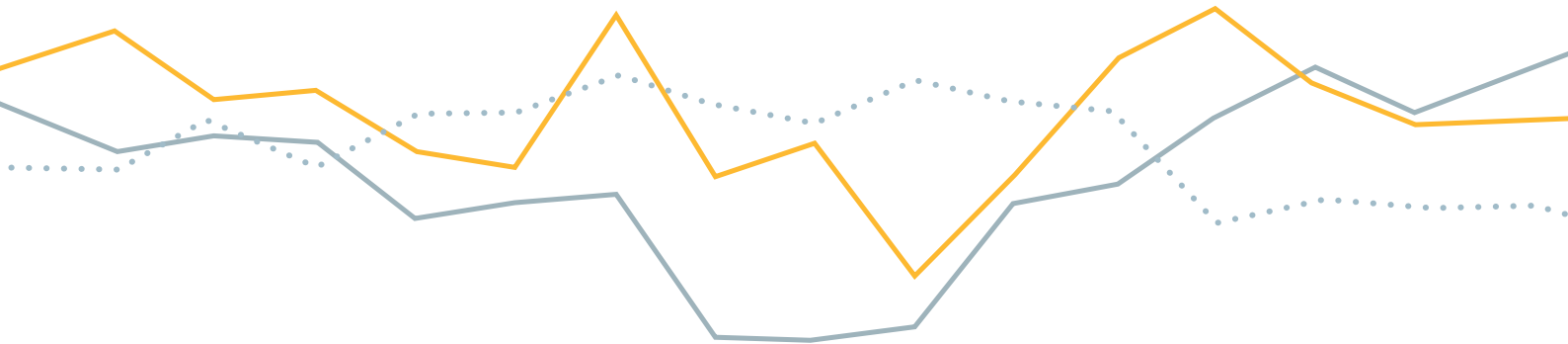
Allowing for variation over the economic cycle, what might the implications of a lower rate of employee turnover be for organisations?

A more stable workforce is likely to be welcomed by many organisations. It increases the direct returns to investment in human and organisational capital (as the average pay-off period increases). It may also increase the returns to investment in other forms of physical and knowledge capital if these complement the increased tacit knowledge (‘know-how’) possessed by a more experienced workforce. Put simply, there is the prospect of a higher rate of return from investment in people.

However, fewer people leaving their jobs also means fewer people seeking employment. Organisations looking to recruit may regard this as a mixed blessing. At a practical level, organisations may need to rethink the ‘received wisdom’ on the ‘normal’ or ‘acceptable’ rate of turnover for their organisation or sector. Informal or formal benchmarks may need to be refreshed. In addition, though, organisations might face problems in maintaining the quantity and/or quality of new recruits and hence their long-term talent pipeline.

Innovation requires new thinking and challenge to existing ways of doing things, which may be a problem if low turnover means less new blood. This lies alongside the challenge of keeping long(er)-serving employees refreshed, motivated and up to date with business thinking. Part of the response might be permanent or temporary job movement between roles, so that turnover within organisations is kept up even if external turnover is lower than in the past. Continuous learning and development will have a role to play, as will practices designed to encourage knowledge transfer between new and longer-serving employees, such as mixed teams or mentoring arrangements.

There will not be uniform answers that apply across all types of organisations. Much will depend on prevailing innovation models across industries and the organisational culture. We encourage further discussion and debate on this topic.



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