



Annual survey report 2007

Recruitment, retention and turnover

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Summary of key findings

The 2007 *Recruitment, Retention and Turnover* survey contains valuable information on current and emerging trends in people resourcing practice. This annual benchmarking survey is based on 905 respondent organisations from the UK and relates to the period 1 January to 31 December 2006. Working with recruitment agencies and employer branding are the two areas that we've chosen to focus on in more detail this year.

Focus groups composed of members of the CIPD's Recruitment Forum contributed to the analysis of the survey findings. Some of the commentary in this survey report draws on the focus group members' thoughts and experiences.

Resourcing strategies and objectives

- Fifty-one per cent of survey participants report having a formal resourcing strategy.
- Eight in ten respondents cite attracting and recruiting key staff to the organisation as the main objective of their resourcing activities. Enabling the achievement of the organisation's strategic goals (56%) and meeting future skills requirements (44%) are the second and third most important resourcing objectives according to survey participants.

Recruitment difficulties

- Although in the main there was a dip in employers' recruitment intentions last year, a high proportion of these organisations still experienced recruitment difficulties (84%).
- The key reasons for recruitment difficulties were a lack of necessary specialist skills (65%), followed by higher pay expectations (46%) and insufficient experience (37%).
- Appointing people who have the potential to grow but who currently don't have all that's required is the most frequently used initiative to overcome recruitment difficulties (70%).
- Some of those recruitment initiatives having a positive impact by those using them to tackle recruitment difficulties are providing additional

training to allow internal staff to fill posts (89%), using the employer brand as a recruitment tool (75%), targeting migrant workers from EU accession countries (75%) and offering flexible working (74%).

- Just 30% of organisations say they make use of talent banks (ready candidate details saved electronically) before looking to recruit externally.

Attracting and selecting candidates

- For the first time, corporate websites have broken even with local newspaper advertisements as the most common method for attracting candidates (75%).
- Interviews based on the contents of the CV/ application form are found to be the most frequently used selection method (77%), followed by competency-based interviews (63%).
- The average recruitment cost of filling a vacancy per employee is £4,333, increasing to £7,750 when organisations are also calculating the associated labour turnover costs.

Working with recruitment agencies

- More than 70% of organisations engage recruitment agency services to help fill job vacancies (73%).
- Eighty-one per cent of those employers using

recruitment agencies do so for hiring temporary workers and 78% for seeking permanent staff.

- Where organisations are moving away from using recruitment agencies the key driver is to cut down on recruitment costs (72%). Adopting a direct-hire strategy is also identified as another motive for not using or reducing the use of agency services (53%).
- A third of employers don't possess a preferred supplier list (33%) and nearly six in ten fail to evaluate agency performance in a structured manner (59%).
- Practically all participants think that the quality of candidates is important or very important when assessing agency performance (99%). The service received from agency staff (94%) and value for money (90%) are also pivotal in this process.
- Most respondents agree or strongly agree that using agencies considerably increases the cost of their recruitment spend (76%).

Employer branding

- Almost seven in ten organisations describe themselves as having an employer brand (69%).
- Attracting the people you want to recruit is cited by 80% of survey participants as the main resourcing objective for investing in employer branding. Fifty-seven per cent say they are also keen to improve the external perceptions of the organisation and 41% are hoping to differentiate themselves from the competition.
- The company's mission, culture and values are noted as the main elements of the employer brand to be communicated (85%). Many employers also use their employer brand to promote their career and development opportunities (71%).
- Recruitment advertising and communication materials are identified as the key resourcing activities to be shaped by the employer brand (76%). The employer brand also plays a big role in influencing the design of induction training (65%).

Diversity

- Overall, only half of those organisations surveyed have a formal diversity strategy (50%). Public service employers seem to be more diversity-conscious, with 83% of them adopting a strategic approach to diversity.

- This year more employers are monitoring recruitment and information on the diversity of their staff (71%), and training interviewers to understand diversity and the effects of stereotyping (61%).

Labour turnover

- The labour turnover rate of 18.1% remains almost the same as the previous year's 18.3%.
- The private sector reports the highest labour turnover rates (22.6%).
- Over 70% of employers believe employees' departure from the organisation has a minor, or serious, negative effect on business performance.
- Change of career is deemed to be the most common cause of voluntary turnover (52%). Other reasons include promotion outside the organisation (47%), level of pay (39%) and lack of career development opportunities (39%).
- Twenty-four per cent of respondents have made ten or more redundancies, and 22% have used recruitment freezes.

Employee retention

- The number of employers experiencing retention difficulties has climbed from 69% in last year's survey to 78% in this year's survey. Private sector businesses claim to be struggling more to hold on to employees than any of the other sectors (83%).
- The most frequently cited actions taken by organisations to address retention was increasing learning and development opportunities (38%), improving the induction process (36%) and improved selection techniques (35%).

Recruiting employees

This section explores the nature and scale of recruitment activity taking place within UK organisations during 2006. As well as reporting on the challenges that resourcing professionals faced over the last year, it provides a snapshot of the current strategic focus and taps into employers' use of initiatives to overcome recruitment difficulties. It also includes information on the trends and changes in attraction and selection methods, diversity issues, and reports on the time and costs of recruitment and labour turnover.

Resourcing strategies and objectives

Table 1 shows that only half of those organisations surveyed have a formal resourcing strategy in place (51%). This is not much change on the previous year (53%). These findings are surprising, given that eight in ten employers rank attracting and recruiting key staff to the organisation in their top three resourcing objectives (Figure 1).

Other resourcing priorities include enabling the achievement of the organisation's strategic goals (56%) and planning to meet the future skills requirements of the organisation (44%).

Recruitment difficulties

Table 2 shows, by industrial sector, the average number of vacancies respondents sought to fill. In comparison with the previous year, there has been a significant drop in employers' recruitment intentions. This is particularly evident in the voluntary sector and private sector – where figures are more or less half that of a year ago. However, in 2006 manufacturing and production companies appeared to step up their search for staff.

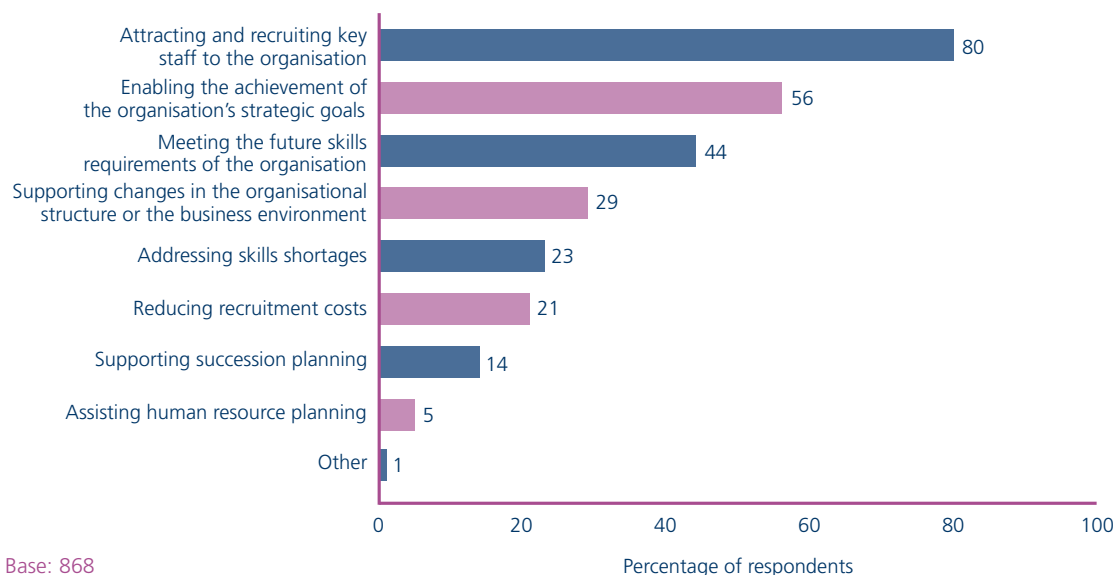
Although in the majority there has been a fall in employee demand, the level of recruitment difficulties (84%) reported by organisations has risen since 12 months ago (see Table 3 for a breakdown by industry

Table 1: Organisations with formal resourcing strategies in place, by sector and size (%)

All	51
Sector	
Manufacturing and production	52
Voluntary, community and not-for-profit	42
Private sector services	49
Public services	62
Number of employees	
Fewer than 250	40
251–500	42
501–1,000	61
1,001–5,000	63
5,001–10,000	77
10,001 or more	74

Base: 887

Figure 1: Main objectives of resourcing activities (respondents were restricted to selecting a maximum of three objectives)



sector). The only exception to this is the public sector, where finding employees seems to have eased. This may be due to the effects of the Gershon efficiency drive being played out – that is, taking on fewer staff and more internal redeployment.

The increase in recruitment difficulties can also be seen in Table 4, which breaks the results down by organisation size.

Table 2: Number of vacancies respondents tried to fill during 2006, by industrial sector

	Total	Manufacturing and production	Voluntary, community and not-for-profit	Private sector services	Public services
2007 survey	263	112	64	227	671
2006 survey	381	77	147	479	683

Base: 830

Table 3: Organisations experiencing difficulties recruiting to one or more category of vacancy, by industrial sector (%)

	Total	Manufacturing and production	Voluntary, community and not-for-profit	Private sector services	Public services
2007 survey	84	86	81	86	80
2006 survey	82	80	76	81	89

Base: 879 (2007)

Table 4: 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 10,000 employees
2007 survey	81	86	90	86	90	84

Base: 879

Table 5: Categories of vacancies that proved particularly difficult to fill (%)

	Total	Manufacturing and production	Voluntary, community and not-for-profit	Private sector services	Public services
Managers and professionals	45	49	39	48	36
Senior managers/directors	25	23	16	30	22
Administrative/secretarial and technical	17	15	17	16	19
Services (customer, personal, protective and sales)	14	10	13	19	5
Manual/craft workers	12	18	13	8	11
Other	11	11	12	7	21

Base: 879

Table 5 highlights which categories of vacancy organisations are having the most difficulty recruiting for. This year, the findings suggest that employers have found it slightly harder to recruit administrative/secretarial and technical staff – 17% in 2006 compared with 14% in 2005 – and senior managers/directors – 25% in 2006 compared with 23% in 2005.

We also asked respondents to specify the reasons for their recruitment difficulties (Table 6). The findings

were similar to our 2006 survey. The three most frequently cited causes are lack of necessary specialist skills (65%), higher pay expectations (46%) and insufficient experience (37%).

Overcoming recruitment difficulties

In an attempt to overcome recruitment difficulties, organisations are taking a number of different approaches (Table 7). Appointing people who have the potential to grow but don't currently have all

Table 6: Reasons for recruitment difficulties (%)

	Total	Manufacturing and production	Voluntary, community and not-for-profit	Private sector services	Public services	2006 survey
Lack of necessary specialist skills	65	77	55	66	55	68
Looking for more pay than you could offer	46	41	56	43	56	45
Insufficient experience	37	42	29	40	28	37
No applicants	28	20	30	28	33	30
Image of sector/occupation	16	18	26	12	19	18
Lack of interpersonal skills	13	16	5	17	4	13
Lack of formal qualifications	8	10	10	4	14	7
Applicants unable to accept position due to high cost of living in the area	7	2	12	6	14	9
Other	8	8	11	7	12	5

Base: 737

that's required is the most popular initiative (70%) – although not the one with the most positive effect (58%). This year the initiative most frequently seen to have had a positive impact was providing additional training to allow internal staff to fill posts (89%).

Discussion from our focus group – held to explore the research findings – highlighted that organisations offering lower salaries, such as those in the voluntary sector, are more likely to employ individuals with future potential and take account of a broader range of qualities when considering candidates.

This year we decided to include as an option the use of employer branding as a recruitment tool. While only about a third (31%) of respondents used it in response to recruitment difficulties, three-quarters (75%) of them thought that it had been effective. Offering flexible working (74%), targeting migrant workers from EU accession countries (75%) and recruiting in foreign countries to bring staff here (75%) also had a beneficial effect on overcoming recruitment difficulties.

One of our focus group members working in a manufacturing company spoke of their experience of

Table 7: Initiatives undertaken in response to recruitment difficulties (%)

	Used during 2006	Respondents saying this initiative has a...			Used during 2005 (2006 survey report)
		Negative impact	Neutral impact	Positive impact	
Appointing people who have potential to grow but don't currently have all that's required	70	6	36	58	66
Taking account of a broader range of qualities, such as personal skills instead of qualifications, when considering candidates	47	2	31	67	43
Appointing people who don't exactly match what the job requires	43	40	34	26	37
Increasing starting salaries or benefits package	36	7	33	61	34
Redefining the job (for example, responsibilities, grade)	35	7	37	57	29
Using the employer brand as a recruitment tool	31	2	24	75	N/A
Offering flexible working	30	3	24	74	29
Providing additional training to allow internal staff to fill posts	29	1	11	89	33
Bounty payments to staff for introducing candidates	28	2	35	63	26
Providing a realistic job preview	22	3	22	75	16
Targeting migrant workers from EU accession countries	14	8	17	75	15
Giving golden hellos	13	4	31	65	11
Changing the way work is organised (for example, into teams)	12	3	30	69	11
Recruiting in foreign countries and bringing staff here	11	4	21	75	12
Offshoring	4	5	32	64	4

Base: 698 (all organisations experiencing difficulties)

recruiting staff from Poland. In 2005 people would have 'bitten their hand off' to come and work for their organisation in the UK, but a year later they found people to be more selective. At the same time, where individuals with higher skill levels were required, applicants often didn't have the depth of technical English required to explain and demonstrate their knowledge and suitability for the role.

More information on the new points-based system for migration can be found in the CIPD factsheet, *Immigration Law Changes: What employers should know* (www.cipd.co.uk/factsheets).

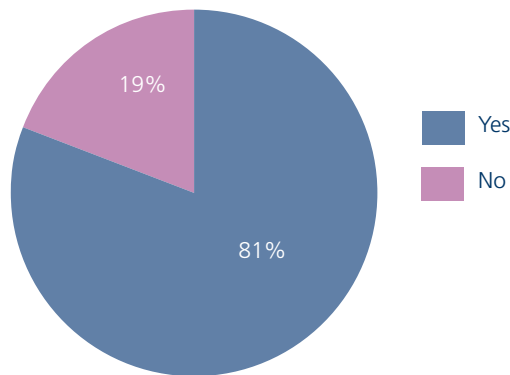
Figure 2 shows that 81% of respondents have a policy of advertising all vacancies internally. This year our survey also considered whether employers are making use of talent banks. Surprisingly, given the level of recruitment

difficulties, nearly seven in ten organisations (69%) don't make use of 'ready' candidate details stored electronically before embarking on external recruitment (Figure 3).

A focus group member commented on how talent banks are often too big and keeping them up to date has significant cost and resource implications, which are difficult to justify internally. In reality it would be better to concentrate on certain areas of the business. The case study featured in this report illustrates the approach Nestlé takes to storing candidate details and keeping talent warm.

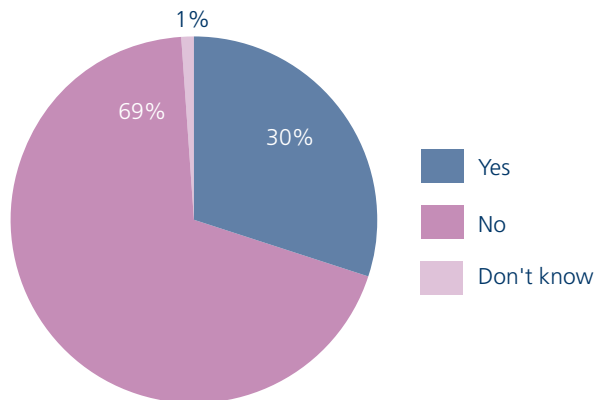
Turning our attention to graduates, Table 8 reveals that almost a quarter of surveyed organisations run structured graduate recruitment programmes (24%). Larger organisations are more likely to devise a separate recruitment programme for graduates.

Figure 2: Do you have a policy of advertising all vacancies internally?



Base: 895

Figure 3: Does your organisation make use of a talent bank (ready candidate details saved electronically) before looking to recruit externally?



Base: 896

Table 8: Organisations operating a structured graduate recruitment programme, by sector and by size (%)

All	24
Sector	
Manufacturing and production	27
Voluntary, community and not-for-profit	9
Private sector services	28
Public services	23
Size – number of employees	
Fewer than 250	12
251–500	15
501–1,000	22
1,001–5,000	38
5,001–10,000	37
10,001 or more	66

Base: 898

Talent puddles helping to feed the people capability needs at Nestlé

Nestlé is a large global food and beverage manufacturer. Its aim is to manufacture and market products in such a way as to create value that can be sustained over the long term for shareholders, employees, consumers and business partners. The business focus at the moment is very much on nutrition, health and wellness and coming up with new products to meet countrywide trends, while at the same time driving down costs.

Nestlé employs 6,000 people in the UK and recruitment services are responsible for the resourcing issues relating to all of them.

In November 2001 the HR function within Nestlé UK moved from the HR generalist model to the 'three box' model of HR business partners, shared services and centres of expertise. The latter are: recruitment services, learning and development, the information and administration centre, and policy, remuneration and reward.

Initially the recruitment team was made up of a mixture of new hires with recruitment backgrounds and some generalist survivors from the HR restructuring. According to Fiona White, Head of Recruitment at Nestlé, 'Now, five years on it has transformed itself and is a group of true experts in their field operating as an in-house recruitment agency.'

(continued)

Talent puddles helping to feed the people capability needs at Nestlé (continued)

People capability requirements

Nestlé's multi-channel talent pipeline aims to feed two broad capability requirements of the organisation. First, the core capability pool is populated with employees who make up the larger portion of the workforce and have the technical skills and capabilities that are essential to keep the organisation running.

The second group of people is the high potential pool. This comprises employees who make up the smaller portion of the workforce who are considered to have sufficient potential to become their high performers and senior managers of the future. Each category is filled through a combination of existing employees and new recruits.

Introducing talent puddles

Recruitment services have worked with a number of functions to develop a multi-channel approach to filling their recruitment needs. Supported by the HR business partners, the function identifies its talent shortfalls and recruitment services subsequently devise an attraction strategy to fill the specific talent gap.

The pool of talent Nestlé is seeking to tap into is from a candidate-driven market. The latest initiative to help overcome the shortage of skilled applicants is Nestlé's 'talent puddles'. This is a targeted pool of talent that is easier to access and manage than a broad generic talent database, which after time grows too unwieldy to identify the appropriate candidates.

Earlier efforts to implement talent pools failed due to poor IT systems – recruiters were unable to find suitable people as the search facility was inadequate. However, the talent puddles are much smaller and contain potential talent for each function rather than the whole company. White describes them as 'the same as talent banks, just separated from a huge speculative pool'.

The first talent puddle was set up in September 2006 with a £5,000 budget. Creating micro-sites for jobs the department needed to recruit for was the initial step. This was followed by a targeted online campaign to generate candidates who were then interviewed and kept warm until an appropriate role arose. This candidate relationship management strategy allows the company to have candidates who are 'offer ready' and interested in Nestlé when a vacancy comes available.

'Essentially it was a selling job to drive more traffic to Nestlé's website. Persuading senior management wasn't difficult. Our business case highlighted a £56,000 cost of placing 13 people within the organisation via agencies versus the talent puddle and candidate relationship management concept, which generated 14 offers from just £700,' explained White.

The attraction strategy is designed to fill specific jobs and 'difficult-to-fill' roles. Because of this the company is up front with people that there are no jobs in existence. The motives for choosing the supply chain first was the interest they showed in the initiative and the fact that their career paths and succession planning were the most advanced.

The supply chain talent puddle, which was launched at the end of last year, now contains 120 shortlisted candidates and has placed eight people. Nestlé have also implemented it for finance and are about to launch it for the marketing and sales functions.

Talent puddles helping to feed the people capability needs at Nestlé (continued)

The recruiter's role

This new approach to resourcing has affected the recruiters' roles. A significant portion of their time is now spent calling people and sifting through CVs from the talent puddle. When people apply, recruiters look at the quality of the applications and assess what level/grade they are operating at, ranking and recording them accordingly. Candidates are met and interviewed by the recruitment team and line managers before being placed in the talent puddle.

Business benefits

Reducing the time to hire and fill vacancies and the cost of recruiting are just some of the business benefits. One vacancy filled via this method led to an offer being accepted in 24 hours.

White points out that 'managers are beginning to think ahead, for instance the resourcing team were asked by one manager to start looking for someone to replace a member of staff who is to be promoted in future months.' White believes it has also encouraged the organisation to become better at its resource planning by turning line managers' conversations to focus on identifying talent gaps and what are we going to do to fill them proactively as opposed to reacting "once the horse has bolted" as we have done in the past'.

With their candidate relationship management strategy, referral scheme and drive to increase the number of direct hires, the company has also reduced their agency dependency over the past five years from 80% to 29% (against an industry norm of 30%), saving the business £300,000 during 2006 in agency placement fees.

'This approach is just one part of the multi-channel approach we have to generating a talent pipeline to meet the business's needs,' says White.

Information provided by Fiona White, Head of Recruitment, Nestlé

Attracting candidates

We also enquired about the methods employers are using to attract applicants (Table 9). For the first time it's a tie between local newspaper advertisements (75%) and the company's own corporate website (75%) in terms of how often these methods were used. In last year's survey newspaper advertisements were still more common. Employee referral schemes also remain popular (47%).

Recruitment agencies are still widely used by many respondents (73%). The two heaviest users are manufacturing and production companies (86%) and private sector employers (78%). Likewise the use of search consultancies is also more prevalent among these

sectors. However, only 52% of public sector and 59% of voluntary sector organisations use recruitment agencies. This suggests a preference towards greater internal resourcing control in these sectors.

Selecting candidates

We then went on to investigate the methods organisations are using to select applicants. The findings are shown in Table 10 and highlight that interviews following contents of CV/application form (that is, biographical) are the most common selection method (92%). Ranked second and third in terms of those used in some way are structured interviews (88%) and competency-based interviews (86%).

Table 9: Methods used to attract applicants, by industry sector (%)

	Total	Manufacturing and production	Voluntary, community and not-for-profit	Private sector services	Public services	2006 survey
Local newspaper advertisements	75	83	87	63	88	79
Own corporate website	75	65	69	76	87	75
Recruitment agencies	73	86	59	78	52	76
Specialist journals/trade press	61	54	61	57	77	66
Employee referral scheme	47	49	22	66	11	47
Encouraging speculative applications/word of mouth	44	52	39	52	20	49
Jobcentre Plus	43	42	53	35	58	51
National newspaper advertisements	42	32	58	33	68	45
Links with schools/colleges/universities	32	5	26	32	30	37
Apprentices/work placements/secondments	33	36	28	29	37	36
Search consultants*	29	33	14	35	19	N/A
Commercial job boards	21	15	14	28	18	16
Physical posters/billboards/vehicles	11	4	17	13	13	10
Radio or TV advertisements	6	5	6	6	9	7
Other	10	6	15	9	11	7

Base: 899

* included in the recruitment agencies figure for 2006

Table 10: Methods used to select applicants (%)

	Used in some way	Not used	Rarely used	Occasionally used	Frequently used	2006 survey
Interviews following contents of CV/application form (that is, biographical)	92	8	5	10	77	85*
Structured interviews (panel)	88	12	9	21	58	88
Competency-based interviews	86	15	6	17	63	85
Tests for specific skills	80	20	14	37	29	82
General ability tests	72	28	16	30	26	75
Literacy and/or numeracy tests	70	30	16	29	25	72
Telephone interviews	61	39	23	23	15	56
Personality/aptitude questionnaires	56	44	12	26	18	60
Assessment centres	47	53	12	19	16	48
Group exercises (for example, role playing)	46	54	18	18	10	48
Pre-interview references (academic or employment)	45	55	15	13	17	50(E) 48(A)
Online tests (selection)	30	71	10	11	9	25

Base: 843

*result in 2006 survey refers only to interviews following contents of CV/application form (that is biographical) as removed structured interviews (1:1) from this year's survey

'E' refers to employment reference and 'A' relates to academic reference results from the 2006 survey, as this year we have combined both categories.

Time and cost to fill vacancies

We also explored how long it takes respondent organisations to fill job vacancies, and the estimated costs associated with recruitment and labour turnover. The findings can be found in Tables 11 and 12 on the following page.

As Table 12 shows, not all organisations surveyed were able to provide figures relating to the costs of

recruitment and labour turnover. Although 53% of respondents report calculating recruitment costs, not all of them have supplied figures.

Ten 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 don't do so are shown in Figure 4 on the following page.

This limited data appears to contribute to some discrepancies when examining recruitment costs alone, compared with the costs associated with labour turnover. For instance, surely labour costs should be much higher for senior managers/directors than recruitment costs (see Table 12).

Figure 4 shows that 66% of respondent organisations don't require information on labour turnover costs. This is surprising given the increased focus on human capital metrics/measurement to demonstrate the value of HR and people management activities.

Table 11: Average number of weeks to fill a vacancy*

Senior managers/directors	16.3 (761)
Managers/professionals	12.6 (814)
Administrative, secretarial and technical	6.6 (797)
Services (customer, personal, protective and sales)	7.4 (678)
Manual/craft workers	5.9 (611)

Number of respondents shown in brackets

*Time from deciding there was a vacancy to the new employee's actual start date

Table 12: Estimated total cost of recruitment* and labour turnover** per employee

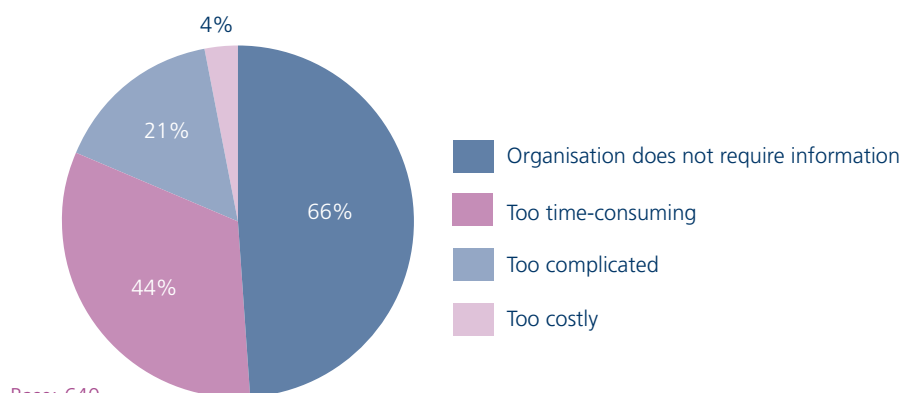
Occupational group	Costs of recruitment (£)	Costs of labour turnover (£)
Senior managers/directors	10,000 (240)	11,000 (16)
Managers/professionals	5,000 (289)	11,000 (19)
Administrative, secretarial and technical	2,500 (288)	5,000 (18)
Services (customer, personal, protective and sales)	2,000 (198)	5,000 (19)
Manual/craft workers	900 (143)	1,174 (12)
All employees	4,333 (337)	7,750 (24)

Median costs shown (number of respondents shown in brackets)

* Advertising costs, agency or search fees

** Vacancy cover, redundancy costs, recruitment/selection, training and induction costs

Figure 4: Reasons for not calculating the cost of labour turnover (%)



Working with recruitment agencies

According to earlier survey findings, more than seven in ten organisations are still using recruitment agencies as part of their attraction process (73%). But are recruiters working in partnership with selected agencies to ensure that their service adds value to the organisation’s resourcing strategy? And are employers assessing agency performance and, if so, how is this carried out?

This year, we chose to examine the relationship between organisations and third-party recruitment agencies. This is an area we covered in our 2005 survey and therefore some comparison can be made with these results.

In our 2007 survey, 81% of respondents used recruitment agencies for hiring temporary workers and 78% contacted them for help in filling permanent jobs. There has also been some movement around the rise and fall of agency usage (Table 13).

Figure 5 on the following page clearly highlights that where there has been a move away from or decline in agency use, the key reason is minimising recruitment costs (72%). Just over half (53%) are also choosing to adopt a direct-hire strategy.

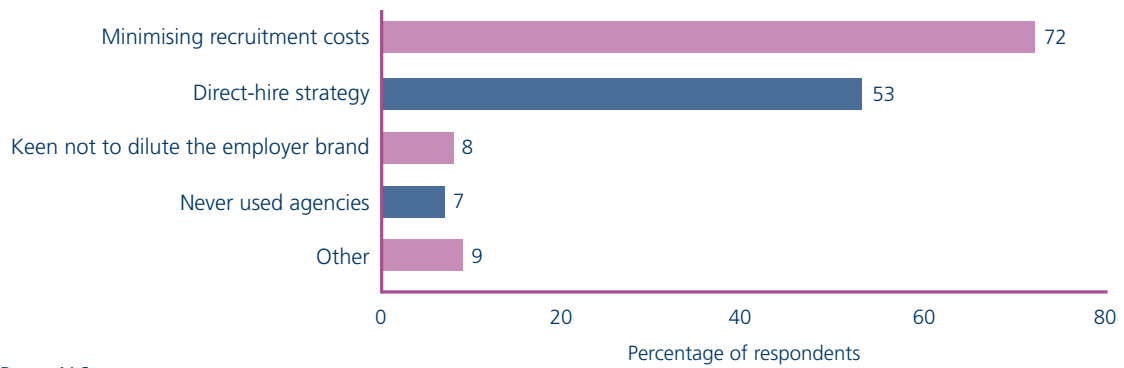
Despite those organisations turning their backs on recruitment agencies claiming it is primarily because of cost, those continuing to engage agency services are in the main using them on an unplanned basis (contingency – 78%) (Figure 6). Sixty-six per cent of respondents used advertised selection in 2006, compared with 51% in 2004, and search (such as headhunting) has declined in use from 46% two years ago to 37% in 2006.

Table 13: Change in organisations’ use of recruitment agencies (%)

	For permanent vacancies	For temporary vacancies
Don’t use	22	19
Significant decrease in use	12	10
Slight decrease in use	11	8
Use has stayed the same	35	42
Slight increase in use	15	14
Significant increase in use	7	7

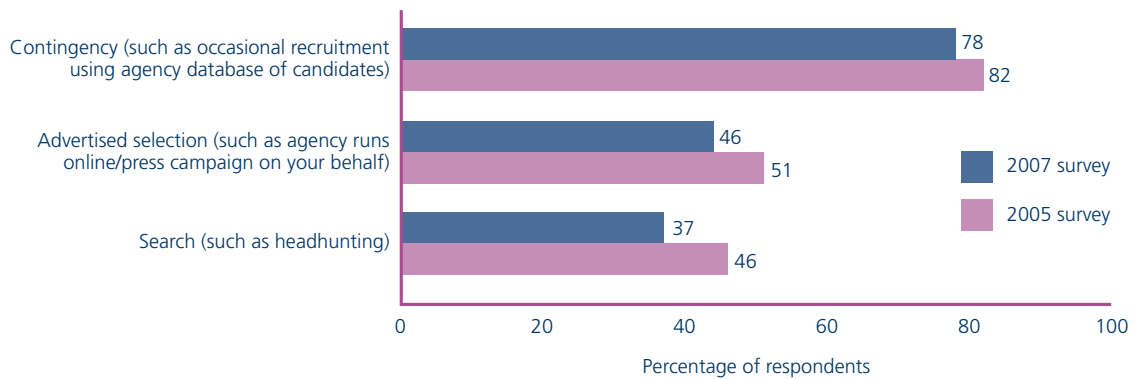
Base: 870 – permanent vacancies
Base: 821 – temporary vacancies

Figure 5: Organisations' reasons for not using or declining use of recruitment agencies



Base: 416

Figure 6: Types of recruitment agency used (%)



Base: 772

Table 14: Organisations with preferred supplier lists (PSLs) in place, by sector and by size (%)

All	66
Sector	
Manufacturing and production	68
Voluntary, community and not-for-profit	50
Private sector services	71
Public services	67
Size – number of employees	
Fewer than 250	59
251–500	62
501–1,000	70
1,001–5,000	79
5,001–10,000	77
10,001 or more	73

Base: 858

Table 14 opposite reveals that, overall, a third of companies (33%) don't have a preferred supplier list (PSL). This is an improvement on the 2005 survey findings, which show that 44% of respondent organisations didn't possess a PSL that year.

We were also keen to find out how many employers are assessing the performance of the recruitment agencies

they work with (Table 15). The results we found were rather bleak – nearly six in ten of those surveyed didn't have any process in place to evaluate agency performance (59%).

Figure 7 shows that ownership for recruitment agency contracts is primarily HR's responsibility (79%). However, it's crucial to involve other relevant parties.

Table 15: Organisations with a structured approach to evaluating the performance of recruitment agency/agencies, by sector and by size (%)

All	
Yes	36
No	59
Don't know	5
Sector	
Manufacturing and production	36
Voluntary, community and not-for-profit	23
Private sector services	41
Public services	34
Size – number of employees	
Fewer than 250	28
251–500	28
501–1,000	34
1,001–5,000	50
5,001–10,000	57
10,001 or more	53

Base: 837

Figure 7: Those in the organisation with primary responsibility for recruitment agency contracts (%)

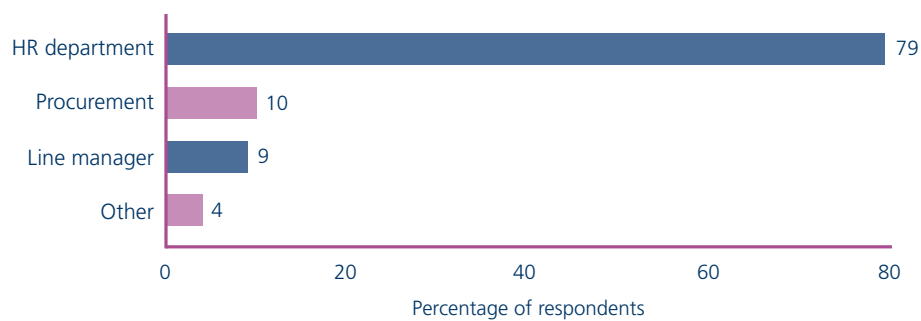


Table 16 displays resourcing professionals' views on what is of importance to them when assessing agencies' credibility. Ninety-nine per cent of those answering this question believe the quality of candidates to be important or very important. When looking at the same levels of importance, the service received from agency staff (94%) and value for money (90%) are also vital.

There appears to be little change in the last couple of years on what factors influence employers' choice of

recruitment agency (Table 17). The two main considerations are level of fees (59%) and their relationship with the agency contact (54%). Agencies' level of legal awareness and compliance of employment is also a serious determinant (47%) in choice of agency.

However, Table 18 highlights that only 53% of respondents think that most agencies are legally aware and don't discriminate.

Table 16: Views on measures organisations could use to assess agency performance

	Not important	Quite important	Important	Very important
Quality of candidates	0	1	10	89
Service you receive from agency staff	0	6	38	56
Value for money	1	9	37	53
Time taken to fill vacancy(ies)	1	15	47	37
Feedback from recruiting managers	3	17	49	30
Diversity of candidates	9	22	44	26
Feedback from candidates on quality of agency briefing	5	25	44	25
Ratio of number of placements made versus number of vacancies to fill	14	32	38	17
Added-value initiatives (for example in market activity)	25	33	30	12

Base: 773

Table 17: Factors influencing organisations' choice of recruitment agencies

	No influence	Minor influence	Some influence	Big influence
Relationship with your agency contact	2	8	37	54
Level of legal awareness and compliance of employment	5	13	36	47
Commercial terms	4	9	42	45
Agency's alignment with the organisation's culture and values	8	17	34	41
Reputation of agency in marketplace	2	9	49	40
Reputation of agency among recruiting managers	9	18	47	27
National coverage (access to candidates)	20	26	35	19
Level of fees	1	5	35	59
Location of agency (local to client)	19	27	38	16
Ability to act as a 'one-stop shop' for a range of services (for example training, advertising)	39	29	20	12

Base: 779

Table 18: Views on the value of recruitment agency products and services

	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
Engaging services of agency(ies) is helping us to overcome recruitment difficulties	4	12	31	46	7
Using agencies is quicker than using other direct recruitment advertising methods	4	20	28	38	9
Candidates put forward by agencies normally fit the job criteria	3	19	37	40	2
Most recruitment agencies are legally aware and don't discriminate	2	12	33	48	5
We have a partnership relationship with our recruitment supplier(s)	4	15	30	40	11
We're spending more time with recruitment agencies to ensure our requirements are fully understood	5	19	27	40	9
Agencies offer employers the ability to track down individuals who possess specialist expertise	2	11	26	54	8
The agency(ies) focus is on 'making a sale' rather than delivering the best candidate	2	16	37	33	12
Using agencies considerably increases the cost of our recruitment spend	1	8	16	39	37

Base: 822

Further analysis from the views on the value of agency products and services (Table 18) reinforces the key theme from these particular findings, which is that employers tend to associate agencies with increased recruitment costs – 76% of participants agree or strongly agree that using agencies considerably increases the cost of their recruitment spend.

However, it's quite encouraging to find that 51% (those selecting agree and strongly agree) of employers surveyed believe they have a partnership relationship with their recruitment supplier(s). Additionally, almost half of those answering the survey agree or strongly agree with the statement that they're spending more time with agencies to make sure that their requirements are fully understood (49%).

Working in partnership with the Recruitment Employment Confederation, the CIPD will be carrying out some more in-depth research into the relationship between HR and recruitment agencies during the coming year.

This section of the survey also provoked some lively discussion among focus group members. One attendee who used to work for a recruitment agency thought that while there was a lot of emphasis in organisations on having PSLs or service-level agreements in place, the key was never to push for too good a price. Where fees are too low, agencies will pick up the phone to your competitor who is prepared to pay that bit more for their services. They emphasised that you should look for value for money rather than the very lowest cost.

Our case study from Rolls-Royce demonstrates how their resourcing team has been working more closely with a small number of chosen agencies, and in conjunction with their procurement department to streamline agency usage and ensure it contributes to the company's resourcing needs and business objectives.

The benefits of HR, recruitment suppliers and purchasing working closely together at Rolls Royce

Rolls-Royce provides power systems and services for use in four global markets – civil aerospace, defence aerospace, marine and energy. It employs 38,000 people in offices, manufacturing and service facilities in 50 countries.

With an order book for the future worth £26.1 billion, the resourcing team in Rolls-Royce plays a crucial part in ensuring the company has sufficient people resource – those with the right skills to meet the business needs. Iain Snape, Operations Manager – Resourcing, HR Shared Service Centre, says, 'Rolls-Royce is constantly striving to achieve excellence in everything we do and in support of this objective from an HR perspective, we set up a centralised recruitment shared service three years ago to support the company's resourcing activities across the UK workforce of 22,500.'

Streamlining agency usage

Before the creation of the shared service function, the company used approximately 280 recruitment agencies to help them find staff in the UK. Today, the company has just six preferred suppliers and a handful of approved suppliers. The change has enabled Rolls-Royce to build much stronger relationships with the selected agencies that now clearly understand their business and make the experience more manageable and successful.

The company has also exploited the opportunity to gain greater control of agency usage and spend by working closely with their purchasing colleagues. Snape believes, 'Working in partnership with purchasing has enabled the company to explore a number of different strategic resourcing options. It is not a one-way street in terms of who controls the purse strings. We have jointly agreed and bought into each other's strategic objectives and this will help us work more efficiently on behalf of the business with our suppliers and try to educate the business on all aspects of resourcing through agency suppliers.'

However, while the HR shared service centre and the increased usage of the website has allowed Rolls-Royce to source many employees directly, they still rely on agencies for about 50% of all their external job vacancies. Job market changes mean that there are times when the business struggles to find people with specialist skill sets and in these situations they turn to their agency suppliers for assistance.

Engaging line managers

To engage line managers, the new policy was communicated through the HR business partner network, working jointly with purchasing, to explain the procedures and benefits of the new approach for line managers.

The resourcing function adopts a consultative approach when speaking with line managers. Recruitment conversations with line managers – when talking specifically to them about recruitment agency campaigns – includes helping them to understand the most effective steps to take when engaging agency services. Interview packs are also prepared and contain details of the competencies agreed, guidance notes and caveats to look out for to ensure legal compliance.

Evaluating agency performance

Monitoring and reviewing the services delivered by the preferred agencies is pivotal to maintaining efficiency and agency performance. To achieve this, quarterly strategic reviews are held with each preferred supplier and a number of measures are discussed that cover aspects of the contract, pricing,

The benefits of HR, recruitment suppliers and purchasing working closely together at Rolls Royce (continued)

diversity and legal requirements. Strategic changes in both Rolls-Royce and the agency supplier that affects the relationship and risk management from the point of view of business continuity planning are also discussed at these meetings. For example, if the supplier's main office location was not able to function, how would they continue to deliver their service?

At the same time quarterly performance statistics are reviewed and compared against other providers. According to Snape, 'We are honest with the feedback we give our agency suppliers. If the performance of one agency is low in comparison to another, we will discuss the factors that have caused the dip in performance.'

Collecting management information also allows the company to monitor:

- cost – spend on temporary and permanent rates for hiring and new ideas suggested by the agency to help recruit more efficiently
- quality – of CVs, speed of responses to vacancies, number of candidates submitted for roles, numbers interviewed and then finally recruited
- delivery – breadth of skills and national locations, ability to fill a range of roles
- management – ease of the business relationship, response to demands and delivery of management information and provision of accurate invoicing.

Progress made and the advantages of working in partnership

In the past – with 280 agencies in circulation – the service received from agencies consisted of faxing through CVs. Since then, developing closer relationships with selected providers has – as well as driving down costs – given the business greater control and the ability to work with agencies to find the best employees. Snape believes 'Getting an open and honest relationship is worth its weight in gold. It has positively impacted the entire recruitment process and has been critical in securing the level of temporary workers we require.'

Suppliers have also provided advice on seeking staff from eastern block countries at times when the company has drawn a blank with their search in the UK. Agency suggestions are welcome, even if it only acts to push change through in the thoughts of the resourcing team. Essentially the organisation expects their suppliers to be updating them with what is going on in the job market.

Not surprisingly there are still non-preferred agencies targeting Rolls-Royce who are charging fees far in excess of the levels that the company have agreed with their preferred agency suppliers. 'Although this is happening much less than it used to, it does reinforce the importance of continuing to educate our line managers as to the cost and service benefits of using our preferred suppliers,' says Snape.

The outcome will differ in each organisation. But in Rolls-Royce, partnering with chosen agencies has led to a positive outcome: managing and reducing recruitment agency expenditure and also sourcing candidates more effectively for the business.

Information provided by Iain Snape, Operations Manager – Resourcing, HR Shared Service Centre, Rolls-Royce plc

Employer branding

Employer branding seems to be very much in fashion at the moment, as companies are increasingly seeking to make use of their employer brand to help attract, recruit and retain talent within their organisation. But what role does it play in employee resourcing?

Employer branding can be described as how an organisation markets what it has to offer both potential and existing employees. Based on this definition Table 19 shows that nearly seven in ten organisations would describe themselves as having an employer brand (69%). When questioned about the three main resourcing objectives for investing in employer branding, 80% of respondents said it was to attract the people they wanted to recruit. Fifty-seven per cent were looking to improve the external perceptions of the organisation and 41% were keen to differentiate themselves from their competitors (Table 20).

The results highlighted some inconsistencies between industry sectors. The focus in public service organisations seems to be slightly different to other sectors. Employer branding efforts appear to be centred more around

getting the right people to apply (85%) and improving their image as a prospective employer (67%) rather than on improving employee engagement (12%) or employee retention (24%).

Not surprisingly, respondents noted company mission, culture and values as being the main element of the employer brand communicated (85%). Having an employer brand has also given employers the opportunity to promote their career and development opportunities (71%) (Figure 8).

With regard to those resourcing activities that are shaped by the employer brand, 76% of those answering the survey use it to influence their recruitment advertising and communication materials, and 65% say it plays a role in the design of their induction training (Figure 9).

Table 19: Organisations claiming to have an employer brand, by sector and by size (%)

All	69
Sector	
Manufacturing and production	64
Voluntary, community and not-for-profit	68
Private sector services	72
Public services	75
Size – number of employees	
Fewer than 250	64
251–500	66
501–1,000	71
1,001–5,000	72
5,001–10,000	77
10,001 or more	89

Base: 895

Table 20: Main resourcing objectives for investing in employer branding (respondents were restricted to selecting a maximum of three objectives) (%)

Main objectives	All	Manufacturing and production	Voluntary, community and not-for-profit	Private sector services	Public services
Attracting the people you want to recruit	80	79	75	80	85
Improving external perceptions of the organisation	57	55	56	54	67
Differentiating your organisation from the competition	41	30	37	47	39
Retaining talent within the organisation	36	44	26	36	32
Improving employee retention	31	34	36	32	24
Reducing recruitment costs	21	23	22	22	21
Improving employee engagement	20	25	25	22	12

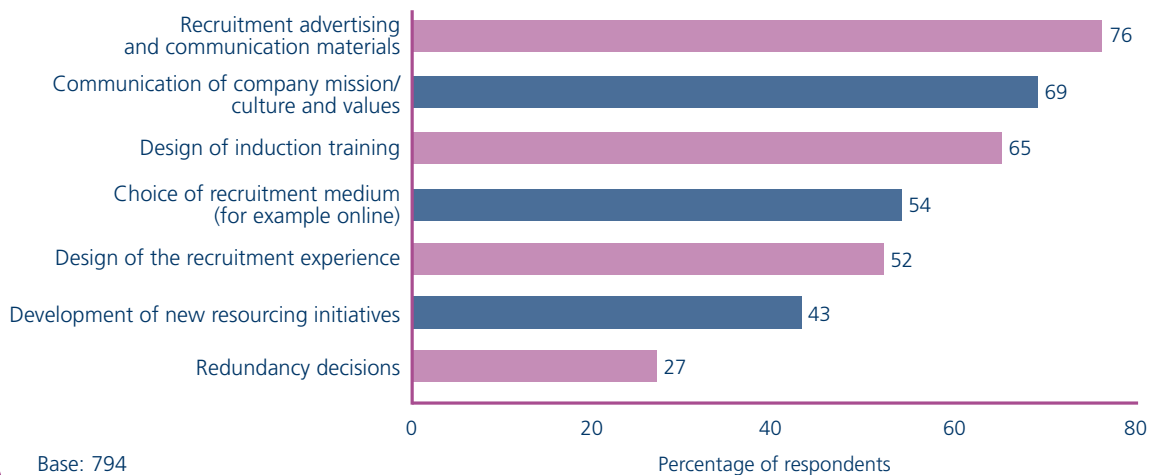
Base: 855

Figure 8: Elements of the employer brand that organisations communicate (%)



Base: 801

Figure 9: Resourcing activities shaped by the employer brand (%)



Base: 794

Debate during our focus group raised some important issues around the employer brand and its role in the recruitment process. Those who took part thought that 'people talk' when their application is handled badly. One member spoke of how the external and internal brand in her old company didn't match. There were also lots of long-serving employees and, therefore, how the organisation engaged with new staff should in theory be no different from those, for

example, with 15 years' service. Everyone needs to feel part of the organisation irrespective of which career ladder they choose to climb.

Describing their experience of a poor recruitment process, another focus group member said it didn't reflect the hiring company's employer brand at all. Once the recruitment process kicked in, their perception of the employer brand changed for the worse.

Marks & Spencer's employer brand journey

Everyone has heard of the high street retailer Marks & Spencer (M&S). On average, over 15 million people visit its UK stores every week. With a workforce of 70,000 employees worldwide (of which approximately 65,000 are based in the UK), a compelling employer brand is vital to attract, engage, develop and retain talent. Moreover, a positive shopping experience for the M&S customer is dependent on the employees 'living the brand'.

Like most retailers, M&S has to keep focused on keeping ahead of the competition. A key business priority (particularly in today's macro-environment) is its policy on corporate social responsibility (CSR). The company's latest CSR initiative is 'Plan A' – a five-year, 100-point plan to tackle some of the biggest challenges facing its business and the world in general.

Why invest in employer branding?

Given this backdrop, what does employer branding mean to M&S? Juan Pemberton, Head of Recruitment, Learning and Development at M&S, describes it as 'connecting on every level with current and potential employees in a manner which aligns the organisation with its people and motivates them to deliver the very best service for the customer'.

With the HR function in congruence with the business plan and responsible for maintaining the employer brand, M&S wanted an employer brand that complemented its customer brand proposition.

Steps to a compelling employer brand

Analysing the status quo was the starting point for understanding and redefining the employer brand at M&S. Specific criteria emerged as contributing to overall employee satisfaction levels, namely:

- management capability
- encouragement to develop personally – technical skill and behavioural competence
- fair employment policies and integrity around people management
- empowerment to make decisions and take ownership
- recognition for a job well done
- team unity and a spirit of co-operation
- information that is easily accessed and understood
- opinions that are listened to and acted upon
- pride in the company.

Marks & Spencer's employer brand journey (continued)

These were then measured. The quantitative analysis explored the factors that drive job satisfaction; the qualitative analysis uncovered the insights that would develop a compelling and differentiated employee proposition, at the same time pinpointing what makes working at M&S unique.

According to Pemberton, 'For our employer brand to be in keeping with our customer brand proposition it had to be credible and compelling, playing to M&S's strengths and in doing so differentiating us from the competition.'

Graphs to illustrate how M&S's performance stacked up against employee satisfaction were used to plot the findings. M&S at its best was the source of great pride for its workforce but this was too often as a result of it having a parent-child approach to its employee relations. At its worst, therefore, opinions didn't always count, good work was not consistently singled out for recognition and people were too often left feeling that the company didn't value them as individuals.

To redress the balance, M&S determined what it wanted from its people, what it wanted more of and what it wanted less of. As a result, a new relationship between the company and its employees has emerged based on mutual respect and 'joint ownership' of the challenges being faced. Put simply, in return for optimal productivity and increased commitment, the company would work towards further improving employment terms and conditions, modernising where appropriate its policies and better involving its people in the decision-making process. Underpinning all of this is a comprehensive programme of targeted and ongoing training: 'Career Path' programmes in stores; and the Buying Academy and Food Academy in head office.

Communicating and measuring the employer brand

Driving internal value involves measuring and communicating all aspects of the employer brand. The annual 'Your M&S, Your Say' employee survey and the business involvement groups at store, divisional and national level are vehicles that have at their heart the opportunity to engage with employees about how the business is managed. Critically, they provide both quantitative as well as qualitative measurement around all company initiatives, particularly those that support change.

'Team briefs' in stores and 'department huddles' in the head offices informally capture the current mood and serve as mediums for which information is exchanged. The *Your M&S* magazine for employees, video and telephone conferencing and the regular briefing sessions given by the executive board are further examples of the company taking every opportunity to engage with its employees and, in doing so, disseminate the employer brand values.

Pemberton says, 'In terms of quantitative measurement, attendance (or absence), staff turnover, the DNA (did not arrive) metrics around peak recruitment and the number of speculative CVs received by the company and converted into job offers all indicate the level to which the employer brand is contributing to business value.'

Information provided by Juan Pemberton, Head of Recruitment, Learning and Development, Marks & Spencer plc

Diversity

With regard to diversity, not much has changed since last year. Table 21 highlights that only half of the respondents possess a diversity strategy.

Table 22 indicates a slight increase this year in training interviewers to understand diversity and the

impact of stereotyping (61%) and also monitoring recruitment and/or information in relation to staff diversity (71%). However, overall these findings highlight that there are opportunities for improvement, given the business advantages to be gained from creating a diverse workforce.

Table 21: Does your organisation have a formal diversity strategy? (%)

	All	Manufacturing and production	Voluntary, community and not-for-profit	Private sector services	Public services
Yes	50	36	62	41	83
No	45	58	32	55	14
Don't know	5	6	6	4	3

Base: 891

Table 22: Methods used to encourage diversity in organisations

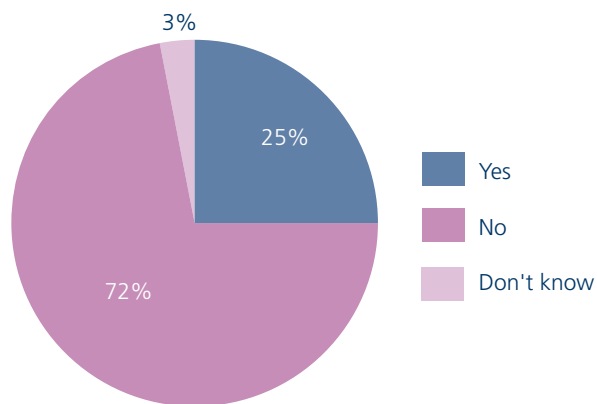
	Total	Manufacturing and production	Voluntary, community and not-for-profit	Private sector services	Public services	2006 survey
Monitoring recruitment and/or staffing information to gain data on gender, ethnic origin, disability, age and so on	71	61	80	62	90	66
Training interviewers to understand what diversity is about and the impact of stereotypes	61	56	55	56	75	53
Operating policies that go beyond basic legislative requirements on gender, disability, sexual orientation, religion and belief	45	37	46	36	66	46
Advertising vacancies in different sources to widen interest from under-represented groups	41	30	55	33	61	41
Checking that any tests used are valid, reliable and culture-free and were tested on diverse norm groups	38	35	28	36	43	37
Using specific images/words in your recruitment advertising to appeal to a wider audience	37	32	44	32	47	39
Providing recruitment documents in other formats (large print, disk and so on)	22	10	29	10	55	23
Setting recruitment targets to correct a workforce imbalance	12	7	10	6	29	11

Base: 704

At the same time 72% of employers don't have a policy for recruiting ex-offenders (Figure 10). The CIPD's *Employing People with Criminal Records* factsheet outlines best practice in recruiting and managing people with criminal records and contains information on the latest government initiatives and consultations.

Another CIPD survey report – *Diversity in Business: A focus for progress* – offers employers help in assessing their performance on managing diversity and determining where they need to focus their attention to ensure that diversity has a positive impact on business performance.

Figure 10: Do you have a policy for recruiting ex-offenders?



Base: 855

Managing labour turnover

Labour turnover is inevitable. Yet most employers are looking to achieve favourable levels of turnover – where it is high organisations face a loss of knowledge and their ability to meet business objectives comes under threat. In contrast, working environments with very low turnover tend to become stale and business growth can be limited. This section of our survey investigates trends in labour turnover and employee retention.

Labour turnover rates

Our survey shows a median labour turnover rate of 18.1% – very much on par with last year's figure (Table 23). Figure 11 illustrates that survey participants reported in the main a rise in employees departing the organisation (39%). Where this information was supplied, evidence suggests that the majority of this turnover is voluntary (Table 24).

Table 25 splits labour turnover for all leavers and voluntary leavers into individual industrial sectors.

Sample sizes are small in some sector groups (that is, fewer than ten) so results must be interpreted carefully. Although the hotel, catering and leisure industry remains the sector with the highest level of labour turnover, the 'all leavers' finding in this category of 32.6% reflects a 10% fall on the 42.5% turnover rate reported in last year's survey. While this finding relates to a small sample of five organisations it's possible the impact of migrant workers from other EU countries may be helping to ease the pressure of high turnover in this industry.

Table 23: Aggregated rate of labour turnover (%)

2007 survey	2006 survey	2005 survey	2004 survey
18.1	18.3	15.7	16.1

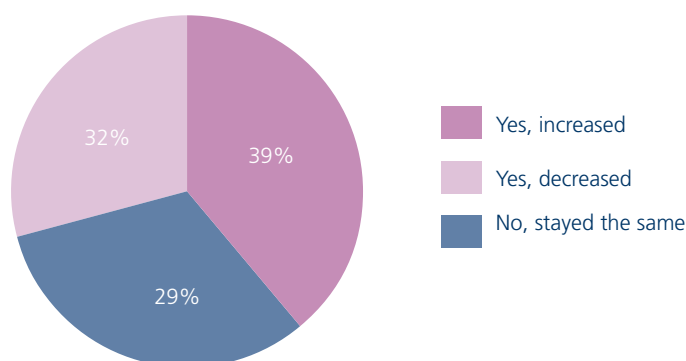
Base: 390 (2007 survey)

Table 24: Labour turnover rates by reason for leaving (%)

Redundancies	0.5 (310)
Dismissed	1.2 (307)
Fixed-/short-term contracts	0.9 (273)
Retired	0.4 (281)
Voluntary	11.5 (340)

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

Figure 11: Has labour turnover changed between 2005 and 2006 in your organisation?



Base: 431

Table 25: Labour turnover rates, by industry sector (%)

	All leavers	Voluntary leavers
Manufacturing and production	13.4 (60)	8.7 (49)
Agriculture and forestry	13.5 (1)	9.8 (1)
Chemicals, pharmaceuticals and oil	11.4 (10)	6.5 (8)
Construction	27.1 (5)	21.7 (3)
Electricity, gas and water	15.1 (3)	9.6 (3)
Engineering, electronics and metals	7.5 (9)	3.7 (5)
Food, drink and tobacco	16.0 (3)	6.1 (2)
General manufacturing	20.9 (11)	10.6 (10)
Paper and printing	13.7 (4)	9.9 (4)
Textiles	6.4 (4)	4.1 (3)
Other manufacturing and production	11.7 (10)	9.6 (10)
Private sector services	22.6 (94)	14.5 (84)
Professional services	20.0 (20)	16.7 (18)
Finance, insurance and real estate	14.5 (14)	9.9 (13)
Hotels, catering and leisure	32.6 (5)	28.3 (5)
IT services	20.8 (8)	12.7 (7)
Call centres	24.6 (6)	19.2 (6)
Media and publishing	27.1 (9)	18.8 (7)
Retail and wholesale	27.5 (5)	10.5 (5)
Transport and storage	20.3 (6)	8.7 (6)
Communications	23.5 (1)	11.7 (1)
Other private services	25.8 (20)	18.2 (16)
Voluntary, community and not-for-profit	15.2 (27)	12.9 (22)
Care services	25.0 (6)	20.7 (6)
Charity services	14.1 (7)	6.0 (5)
Housing association	12.9 (6)	11.9 (5)
Other voluntary	17.6 (8)	14.2 (6)
Public services	13.7 (54)	7.8 (8)
Central government	6.2 (5)	4.6 (4)
Education	13.1 (9)	7.9 (6)
Health	17.2 (20)	12.0 (20)
Local government	13.7 (8)	7.8 (8)
Other public services	11.6 (12)	3.8 (11)

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

Table 26 shows reported labour turnover rates by occupation. To understand the distribution of the results, further detail is shown in Table 27. (For example, 53% of organisations reported 0% turnover of senior managers, 10% reported 1–10% turnover).

Redundancies and recruitment freezes

As a proportion of aggregate turnover, almost a quarter of respondent organisations made more than ten people redundant in 2006 (24%). Twenty-two per cent also operated a recruitment freeze over the course of

the year. Table 28 highlights that these results are lower than the 2006 survey.

Figure 12 explains the reasons for those employers' making ten or more redundancies. Reorganised working methods and reductions in expenditure remain the two key causes.

Table 26: Labour turnover rates, by occupation (%)

Senior managers/directors	0.0 (121)
Managers/professionals	10.5 (118)
Administrative, secretarial and technical	15.6 (119)
Services (customer, personal, protective and sales)	20.0 (74)
Manual/craft workers	15.3 (58)

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

Table 27: Labour turnover, by occupational group by categories of turnover rates (%)

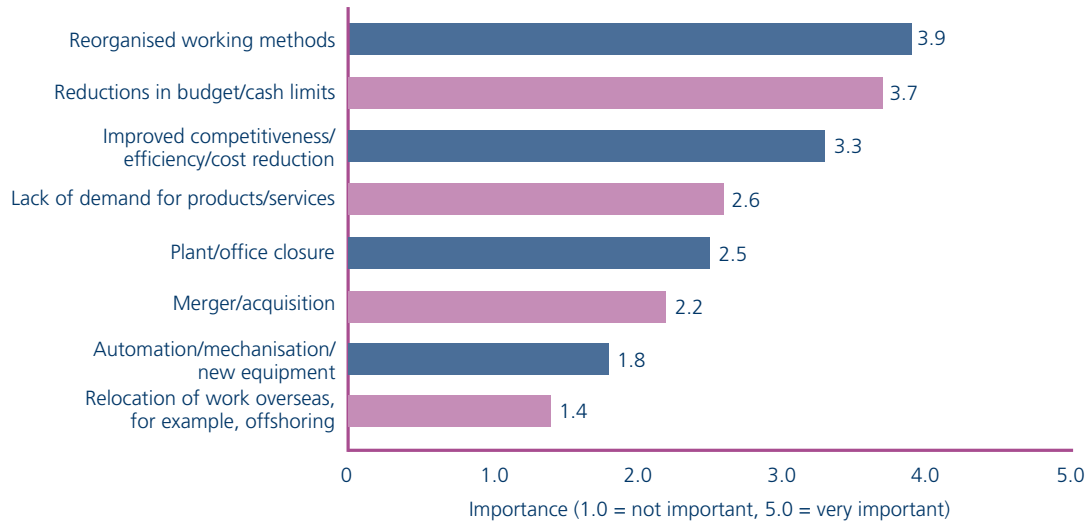
	Turnover			
	0%	1–10%	11–20%	21%+
Senior managers/directors	53	10	13	24
Managers/professionals	31	19	25	25
Administrative, secretarial and technical	19	16	24	41
Services (customer, personal, protective and sales)	19	14	20	47
Manual/craft workers	16	17	33	35

Table 28: Respondents making ten or more redundancies and/or using recruitment freezes (%)

	Redundancies (ten or more)	Recruitment freezes
2007 survey	24	22
2006 survey	28	24

Base: 836 supplying information relating to redundancies and 897 supplying information relating to recruitment freezes (2007 survey)

Figure 12: Factors influencing redundancy decisions



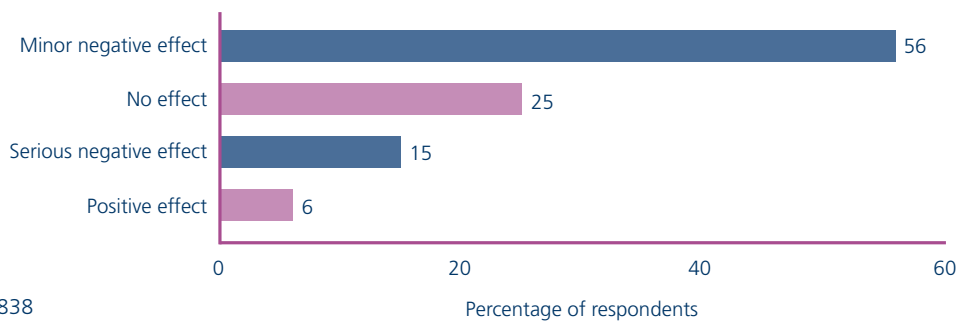
Base: 350 (organisations making more than ten redundancies)

Labour turnover and organisational performance

As in previous years we sought to capture employers' views on labour turnover and its impact on organisational performance (Figures 13 and 14). Seventy-one per cent

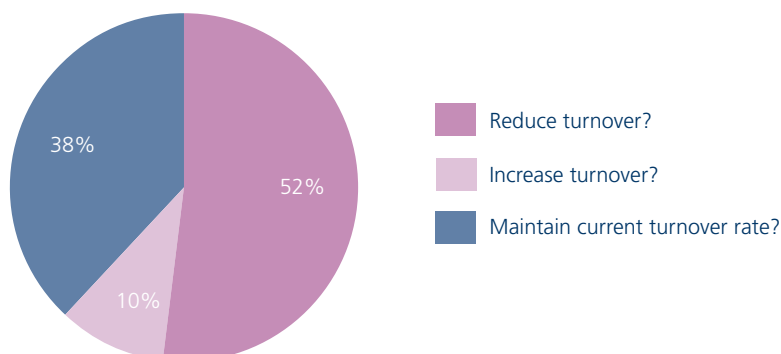
reported a minor, or serious, negative effect to business performance as a result of employees leaving organisations. However, only half of employers were aiming to reduce their level of turnover in 2006 (52%).

Figure 13: Effect of labour turnover on organisational performance



Base: 838

Figure 14: During 2006, did your organisation want to...



Base: 838

Our survey also asked some more detailed questions regarding the approaches organisations take to collecting and analysing labour turnover data (see Figure 15). The most common method is team/department (69%), but organisations are still unlikely to drill down to uncover the level of turnover among their identified high-performing staff.

In an increasingly knowledge-based economy, human capital is fast becoming the most valuable business asset. While labour turnover offers one measure of human capital reporting, there are other types of human capital data that, when recorded, can provide a powerful business case in influencing senior management decisions and agenda. The latest guidance in this area can be found in our human capital factsheet and research.

Why and when people leave

Ninety-five per cent of participants taking part in the survey explore the reasons why people leave the organisation voluntarily. Exit interviews remain the most popular method for gathering this information (Figure 16), despite the fact that organisations may receive a truer picture from an anonymous exit survey or employee attitude survey as to why individuals leave the organisation.

Further analysis drilled down into the key reasons for employee turnover in organisations (Figure 17). In line with our 2006 survey findings, a change of career was the most commonly cited cause (52%) for labour turnover. Promotion outside of the organisation (47%), level of pay (39%) and a lack of career development opportunities (39%) also account for a large majority of resignations. Twenty-seven per cent of employers also report retirement as a reason for people departing the organisation in this year's survey in relation to 19% in our 2006 survey.

Table 29 (page 34) examines the patterns associated with leavers' length of service. Again, due to the small number of respondents answering this question, data in this area fluctuates every year, so this result should be treated with caution. Judging by the findings there is still a high proportion of new starters leaving the organisation within the first six months (19%). This emphasises the importance of the induction process, to ensure people joining the organisation are able to integrate effectively into the workplace early on.

The Merchant Hotel in Belfast operates in a high-turnover industry. However, one of the objectives

Figure 15: Approaches taken by organisations to collecting and analysing data relating to labour turnover (%)

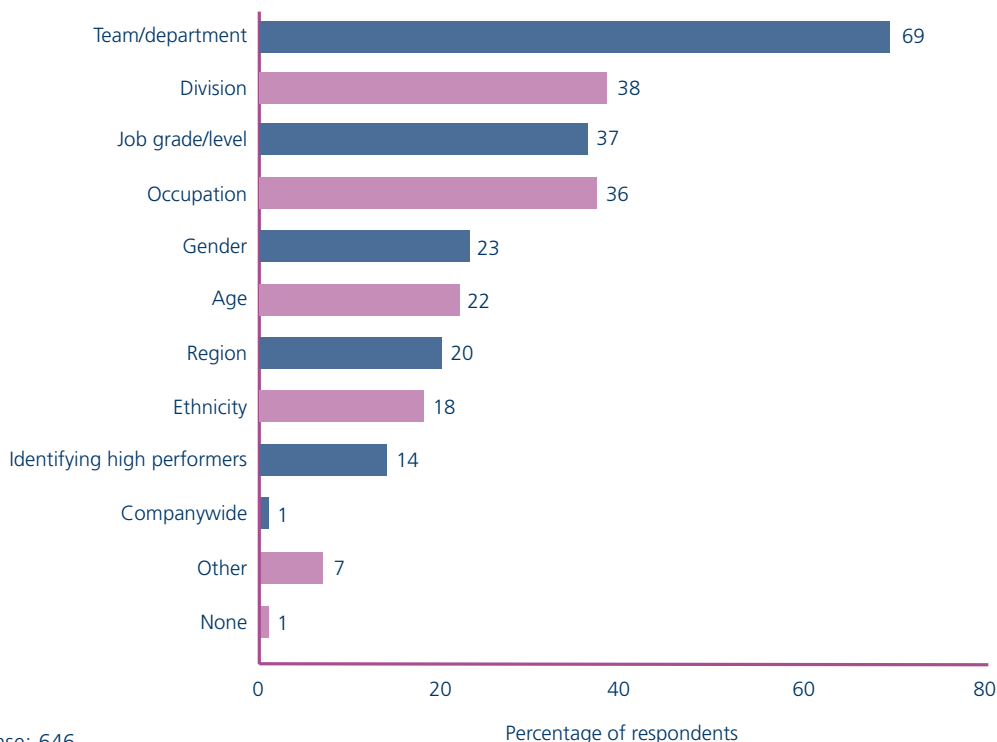


Figure 16: Methods used to investigate why people leave (%)

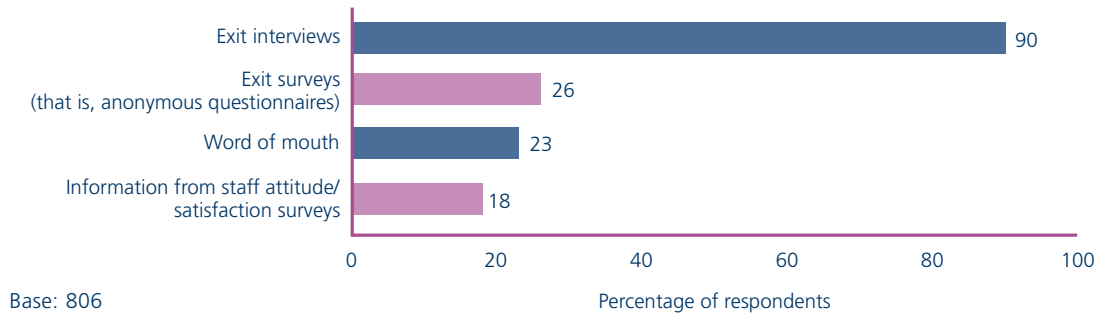
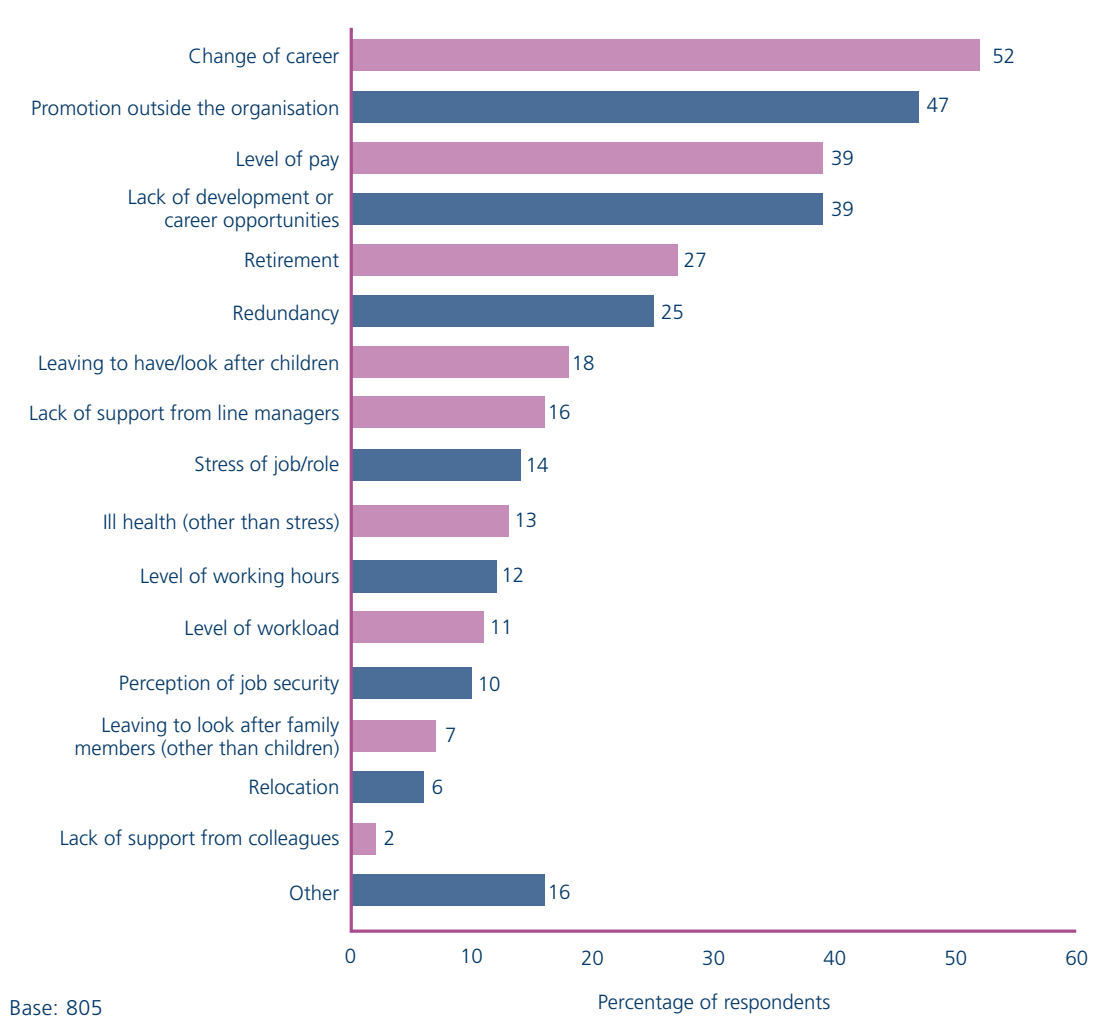


Figure 17: Key reasons for employee turnover (%)



of their induction process was to help retain staff. Details of their approach to inducting employees can be found overleaf in our next case study.

The CIPD's factsheet on induction is a good starting point for employers that are planning to redesign an existing or implement a new induction programme.

Table 29: Job tenure – leavers' length of service (%)

	2007 survey	2006 survey
Percentage of leavers with 0–6 months' service	19	19
Percentage of leavers with 7–23 months' service	28	26
Percentage of leavers with 2–5 years' service	26	26
Percentage of leavers with over 5 years' service	24	27

Base: 255

Inducting employees at The Merchant Hotel

The five-star Merchant Hotel opened in Belfast in April 2006. It's an intimate establishment with only 26 bedrooms and is owned by an independent businessperson. The focus is on food and beverage, with accommodation revenue accounting for just 20% of the business.

Fiona Humphreys, HR Manager at The Merchant Hotel, says that 'the organisation's vision was to create something that the city had never seen before. It wanted to be the best hotel in Ireland and quite different from the other hotels in Belfast. For example, a highly trained mixologist was recruited for the cocktail bar and quirky hallmarks, such as reception staff shaking hands with all guests, were designed to distinguish it from other hotels.'

From the outset all of the management team were committed to making the business objectives a reality. But the biggest challenge was how to get staff further down in the organisation to buy into the vision and values and make it happen. One key initiative to help overcome this challenge was to put all 150 employees through an induction programme.

The biggest programme HR ran was for those 80 individuals that had been recruited for the hotel opening. This group of staff consisted of chefs, waiters, bartenders, front-of-house staff, concierge and housekeeping employees.

The induction programme

The induction programme took place over five days – three days off-site and the remaining two days back on-site.

Day one was a chance for everyone to get to know one another and included an introduction from the managing director. Rather than spending time covering the more mundane administrative details, the aim was to build in lots of teambuilding and learning activities. Taking a bus tour of the city and hearing from a speaker who had been commissioned to research the history of the hotel building were ways of injecting some geographical and historical knowledge into the workforce.

Because the business aimed to attract clientele from the top end of the market and knew it would capture the interest of lots of important people, the hotel arranged for a famous butler, David Anderson from Hillsborough Castle, to come along and give a talk. This was to share his learning on what to expect from guests and what customers would expect in return.

Inducting employees at The Merchant Hotel (continued)

On the second day inductees participated in four specifically designed short training sessions. These were on:

- diction – why it's important, tips on how staff should address guests and what words to use, for instance 'good morning' as opposed to 'hi'
- grooming – as the business had invested £60,000 on staff uniform, it was keen to ensure accessories and make-up complemented the professional attire. Proper maintenance of the uniform was also crucial
- welcoming customers – how to greet guests, make them feel valued and the psychological impact of how people are treated during their stay
- turning complaints into opportunities – creating the right mindset so staff understand the implications of service that stretches above and beyond customer expectations; and how to achieve greater loyalty from dissatisfied customers.

As customer-facing staff, it was crucial to embed the importance of service at an early stage. At the same time it helped to set the tone for future training in this area.

By the third day it was time to quiz the new recruits on the company's policies and procedures. On day one all of them were given a copy of the staff handbook to read. 'Through testing their understanding we could determine their level of knowledge and we thought that this way individuals were more likely to retain the most important parts of the handbook,' said Humphreys. Instead of spending time studying the handbook in depth, the hotel concentrated on building up cross-functional product knowledge, as this was vital in facilitating a positive customer experience.

To continue with the theme of keeping morale and motivation levels high and developing staff commitment to the business's vision, the afternoon was assigned for crazy golf, another teambuilding activity. Taking the incentive approach one step further, everyone was given the chance at some point in the first few months of employment to stay overnight at the hotel and have dinner in the Fine Dining Great Room Restaurant. By stepping into the shoes of the guest it was hoped that employees would understand how their role had an impact on the customer experience. Feedback was also taken from staff and used to develop them further.

The last two induction days revolved around the more administrative tasks, statutory health and safety training and time spent with heads of department.

Challenges

With 80 people to train and the hotel not yet operational, the general manager and HR manager had to be realistic about the design and content of the induction programme. Enlisting the assistance of other managers was therefore essential, but being new to training meant it was important all of them understood and were comfortable with their roles. Ensuring part-timers were able to attend was also difficult and in the end some were unable to go through the process.

Successes

Employee turnover at 24% is low in comparison to the industry norm. And according to Humphreys, 'The hotel's reputation as a prospective employer is excellent. We have no problem attracting new staff and receive enquiries all the time from staff contacts.' Not only do employees communicate with one another, but there is a sense of loyalty and an understanding of service expectations, which is reflected in the customer feedback. Humphreys believes that 'the induction programme has laid the foundations to help contribute to our success'.

Information provided by Fiona Humphreys, HR Manager, The Merchant Hotel, Belfast

Retaining employees

Developing an employee retention strategy is one step organisations can take to avoid high levels of turnover. As well as keeping costs under control, cleverly thought-out retention objectives that support resourcing and business goals will also strengthen the internal employer brand and therefore contribute to the organisation's ability to attract new talent.

Overall employee retention difficulties are considerably up in comparison with last year's survey (Table 30). Voluntary and not-for-profit organisations are the only sector to buck this underlying trend.

One focus group member from a private sector organisation explains that skilled people, for instance technicians, are not necessarily thinking of a career structure; they're financially motivated and therefore will move to the company offering the most pay. Obviously people have different drivers, but another attendee

added that the common denominator is feeling valued, which translates into the need for a more holistic approach where the benefits of working for the organisation are broken down into tangibles, such as share options, and intangibles, such as flexible working.

Someone else commented that managers play a key role in keeping hold of employees. However, at their company, retention doesn't stop when individuals leave, only when people don't respond to their emails. The outcome of their policy to call leavers three months after their departure has been successful to date in that most of them have returned to the organisation.

Findings displayed in Table 31 highlight that the increase in retention difficulties is widespread and not occupation-specific. In comparison with a year ago, the biggest increase has been in the private sector among managers and professionals (35%) and administrative, secretarial and technical employees (25%).

Table 30: Organisations experiencing retention difficulties (%)

	Total	Manufacturing and production	Voluntary, community and not-for-profit	Private sector services	Public services
2007 survey	78	76	75	83	72
2006 survey	69	67	77	70	65

Base: 835 (2007)

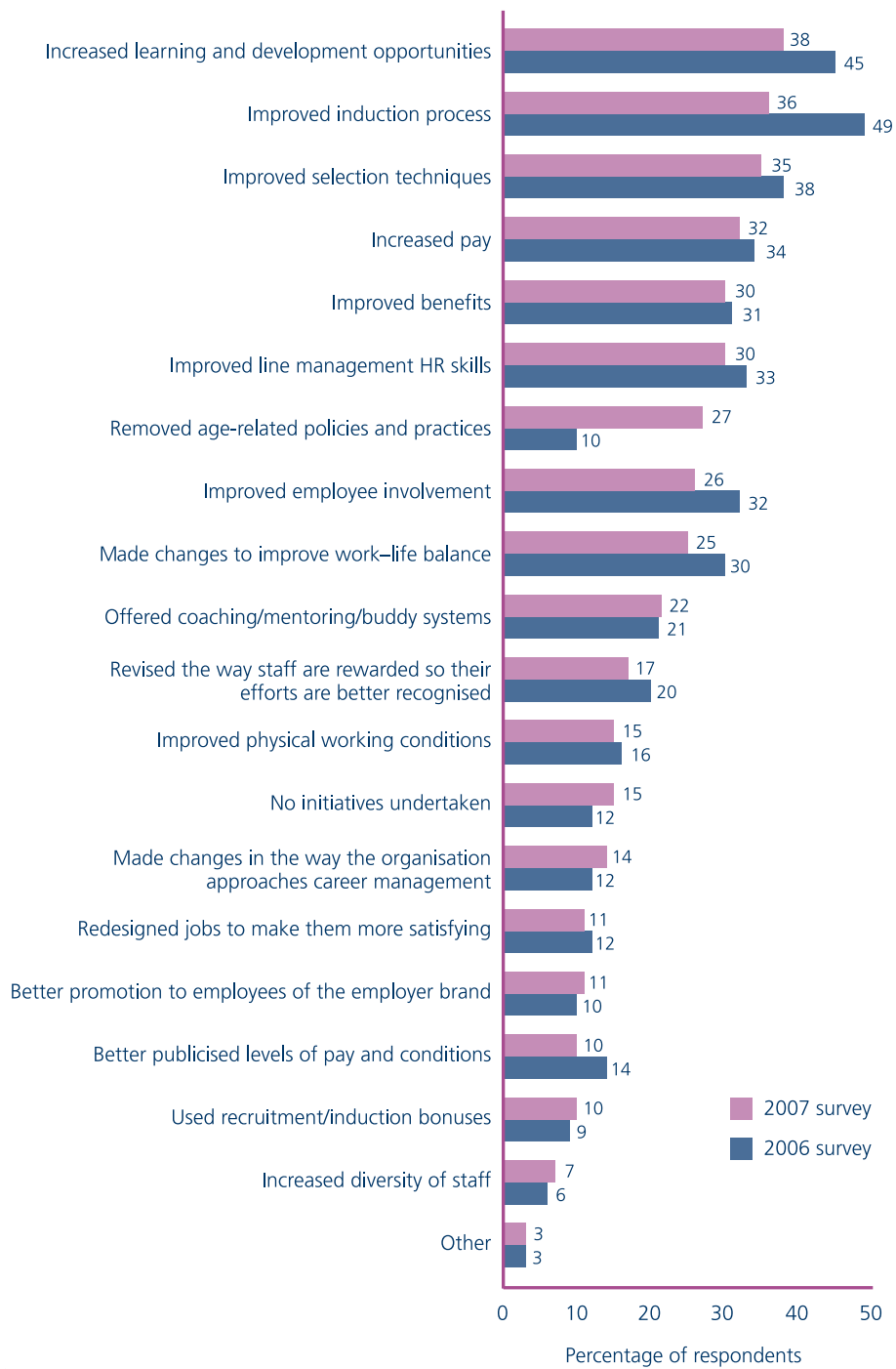
Table 31: Retention difficulties, by occupation (%)

	Total	Manufacturing and production	Voluntary, community and not-for-profit	Private sector services	Public services
Senior managers/directors	8	7	8	8	9
Managers/professionals	33	28	19	35	37
Administrative, secretarial and technical	23	21	20	25	26
Services (customer, personal, protective and sales)	22	16	25	28	11
Manual/craft workers	20	28	17	13	10

Base: 835

Figure 18 also shows that employers haven't been as proactive in their overall approach to tackling staff retention in 2006 as they were in 2005.

Figure 18: Steps taken specifically to address staff retention in 2006 (%)



Base: 831

Key challenges and implications in recruitment, retention and turnover

John Philpott Chief Economist, CIPD

The media is awash with stories about employment trends. But the headline numbers that grab most attention – how many more people are in work, what is happening to unemployment and so on – only tell part of the story. Far more interesting is what is going on under the surface, as revealed in the CIPD's annual *Recruitment, Retention and Turnover* surveys. And this year's survey – which relates to events in 2006 – once again offers invaluable insights into the dynamics of the UK labour market, helps provide answers to a number of puzzling questions posed in the following reflection, and highlights what this means for the work of HR professionals.

Why is the labour turnover rate unchanged in a stronger economy?

The total number of UK employees increased by 100,000 last year to around 24 million – a net rise of 0.4%. Unemployment meanwhile jumped by 150,000 to 1.7 million. These net changes seem quite small. But as the CIPD survey shows, they mask substantial flows of people around the labour market.

An 18.1% average rate of labour turnover means that around 4.4 million people left their jobs in 2006 – almost one in five employees. Interestingly, this is nearly an exact repeat of what happened in 2005 (when the turnover rate was 18.3%) – which is at first sight surprising, given that 2006 was a year of much stronger expansion in the UK economy (the annual rate of growth rising from a well below par 1.8% to a slightly above par 2.8%). What emerges from the survey, in combination with other evidence, however, is that employers initially responded to improved economic

conditions by reducing redundancies (therefore lowering involuntary labour turnover), operating fewer recruitment freezes and gradually increasing overall recruitment (in the process raising voluntary labour turnover by providing potential job-quitters with more alternative job options to choose from). The offsetting net combination of these recruitment and redundancy patterns was thus to leave the overall labour turnover rate broadly unchanged.

This outcome is consistent with official data (published by the Office for National Statistics (ONS)), which show that the level of job vacancies increased by 20% (to 0.63 million) in 2006, while the level of redundancies fell by 5% (to 136,000 per quarter). And although these figures sit oddly with the annual CIPD survey finding that the level of recruitment activity was lower in 2006 than in 2005, this is because – as the CIPD's more regular quarterly *Labour Market Outlook* surveys show – the pick-up in recruitment activity did not accelerate until the second half of 2006.

How tight is the labour market?

As the annual CIPD survey shows, people leaving their jobs voluntarily account for the bulk (80%) of overall labour turnover – which when translated into figures for the whole economy terms amounts to around 3 million employees in 2006. We know from ONS data that roughly two-thirds of these moved to another job, the remainder taking time out to search for a job.

Most of the voluntary leavers represent what HR practitioners will have experienced as their organisation's retention problem – and judging by the survey the

problem generally got worse in 2006 (the proportion of employers experiencing retention difficulties increasing in all the broad sectors of the economy and on average from 69% to 78%). But every cloud has a silver lining, and one HR professional's retention problem is simply another's opportunity to recruit, though recruiters can also turn to people not already in employment – those just out of school or college going into work for the first time, students combining work and study, jobless people seeking work and, of increasing importance in recent years, immigrants.

Economists gauge changes in the total supply of labour available to employers by observing trends in the so-called 'economically active' population, that is people either in work or not in work but actively looking for jobs. This figure currently stands at around 30 million in the UK and increased by 370,000 in 2006, boosted mainly by migrant workers, especially those from the eight central and eastern European countries that joined the enlarged European Union (EU) in 2004. At least 580,000 people from these latter countries came to work in the UK in the first two and a half years following EU enlargement. Indeed, the rise in labour supply outstripped the gradual improvement in the demand for labour, which meant that unemployment was higher at the end of the year than at the start of the year despite a stronger economy.

An increase in supply relative to demand meant that the labour market overall was less 'tight' in 2006 than in several preceding years. This helps explain why pay pressure – which is one indicator of the tightness of the market – remained subdued. According to the ONS the annual rate of growth of 'regular pay' (that is, excluding bonuses) dropped from 3.8% to 3.6% during the course of 2006 (even though many economic commentators had raised fears that a sharp rise in price inflation and a higher cost of living would trigger bigger pay rises).

Are migrant workers the answer to recruitment difficulties?

A larger migrant workforce thus seems to have operated as a safety valve against inflationary pay pressure and, as the CIPD survey shows, a quarter of employers in 2006 were either actively targeting newly arrived EU migrants to fill job vacancies (11%) or

engaged in recruitment overseas to 'import' migrant workers to the UK (14%). What is also clear from the survey, however, is that this did not provide anything like a full solution to recruitment difficulties. The incidence of recruitment difficulties not only remained very high in 2006 (reported by 84% of employers), but in fact got worse in all broad sectors of the economy apart from the public services even though the supply of labour was expanding.

It is of course likely that recruitment difficulties would have got worse still in the absence of large-scale migration, not to mention the fact that migrants themselves are also consumers of goods and services and therefore add to demand for labour as well as supply. But in addition, as the survey focus groups note, migrants sometimes have difficulty with English and don't always have the kinds of UK-accredited skills and/or relevant work experience employers require. This explains why 80% of migrants from the new EU member states are employed in less skilled jobs earning between £4.50 and £5.99 an hour. It also helps explain why the rate of growth in average earnings including bonus payments increased from 3.6% to 4% during 2006 even though growth in regular pay slowed. The greater availability of migrants to perform low-skilled jobs enabled employers to contain basic pay settlements, while at the same time offering higher reward to staff with the skills and experience they want to retain without having to greatly inflate the total wage bill.

Are employers adopting the right approach to recruitment and retention?

With specialist skills and required experience still in short supply, and the market for the latter therefore tight even though the labour supply as a whole has expanded, it is little wonder that HR professionals commonly describe addressing recruitment and retention pressures as their top priorities.

The range of initiatives undertaken to address both problems in 2006 is similar to that identified by CIPD surveys over several years. Once again the main response to recruitment difficulties is to hire people with potential even if they aren't fully up to the job at the time of recruitment. But the degree to which organisations are seeking to tap into relatively

underused sources of potential labour still seems limited. For example, the survey finds that only half of responding organisations have an explicit diversity strategy that would guide recruitment practice, with three-quarters lacking a policy for recruiting ex-offenders. In mitigation employers might argue that available groups of jobless people, not only ex-offenders but also people that have been living on welfare benefits for long periods of time, lack skills and experience and offer little more, if not less, than migrant workers. Yet even so there would appear to be considerable scope for improving diversity practice.

As for retention, according to the survey the desire for a change of career, or the possibility of promotion opportunities in another organisation, are the main reasons why employees quit their jobs. The pay on offer in a job, though clearly important, is no more significant than lack of development or career opportunities within an employee's current organisation. It's therefore encouraging that increased learning and development opportunities heads the list of initiatives taken by employers in 2006 to address retention problems. Less encouraging is that improvements in pay and benefits take precedence over improved line management HR skills, even though the bulk of research suggests that pay is far more likely to have an effect on quit rates if relations between managers and potential job-quitters is poor or getting poorer. However, this might reflect the survey finding that lack of support from line managers came way down the list of factors identified by employers as causing staff to quit in 2006.

How much does labour turnover matter?

The survey finds that the cost of labour turnover averaged £7,750 per job leaver in 2006. The general assumption is that this should provide an incentive for employers to minimise turnover. But in advocating this course it's important to recognise that a high measured rate of labour turnover doesn't necessarily mean that an employer has a turnover 'problem' that needs to be better managed. 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 other factors should be adjusted for to establish its 'natural' rate of turnover. This, rather than the raw quit rate, represents the most appropriate measure of how problematic labour turnover actually is for an employer.

For example, 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 therefore tend to have relatively high natural quit rates. This is particularly true for hotels, catering and leisure – 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 poor management practice, the age effect should not be overlooked.

Similarly, as the survey also shows, quit rates are 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. Yet despite their low propensity to quit, workers such as these are often a prime focus of employers' retention strategies because, as the survey finds, they cost much more to replace.

Such factors help explain why almost one in three employers surveyed felt that the level of turnover either had no effect (25%) or indeed a positive effect (6%) on the performance of their organisations, presumably because they feel that too little turnover can leave an organisation short of vibrancy. Nonetheless, the vast majority of employers reckon that turnover has a serious (15%) or mild (56%) detrimental effect on organisational performance, while 52% wish to reduce it – presenting considerable scope for HR professionals in those organisations to raise their game.

Background to the survey

This survey was carried out in February and March 2007 and relates to the period 1 January to 31 December 2006. The questionnaire was sent to HR professionals in the private, public and voluntary sectors. In total 905 responses were received.

A profile of the location of survey respondents is provided in Figure 19.

Table 32: Location of staff in respondents' organisations (%)

Whole UK	32
London	20
South-east England	20
Midlands	15
North-west England	12
South-west England	10
Yorkshire/Humberside	8
Scotland	9
North-east England	7
East of England	7
Wales	5
Northern Ireland	4

Base: 892

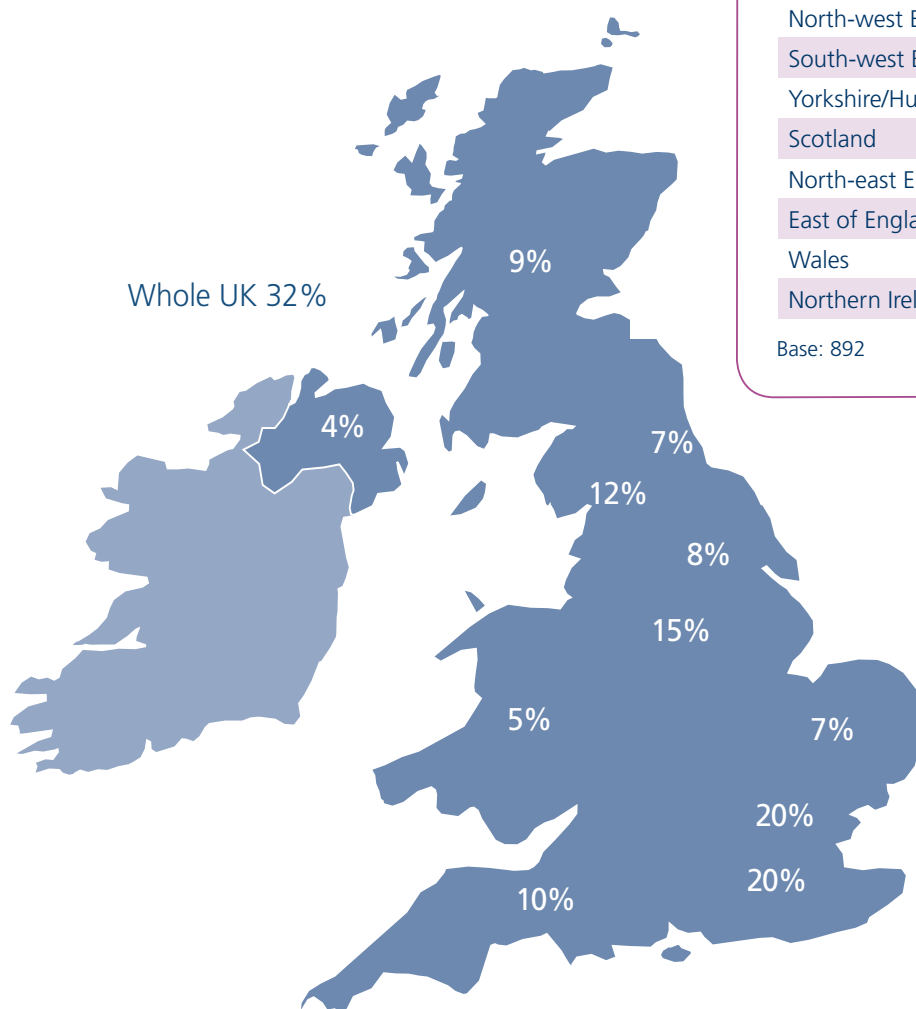


Figure 19: Location of staff in respondents' organisations (%)

Table 33 provides a profile of the survey respondents, by industrial sector. Figure 20 shows a breakdown of the survey sample, by organisation size.

Table 33: Breakdown of respondent organisations, by industrial sector (%)

Manufacturing and production	27
Private sector services	49
Voluntary, community and not-for-profit	12
Public services	22

Base: 897

Recruitment

A total of 905 respondents supplied information relating to their organisation's recruitment practices. Of these, 768 were able to supply information relating to the whole organisation and the remainder supplied information relating to only one particular unit, department or region.

Labour turnover

A total of 478 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:

Labour turnover =

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

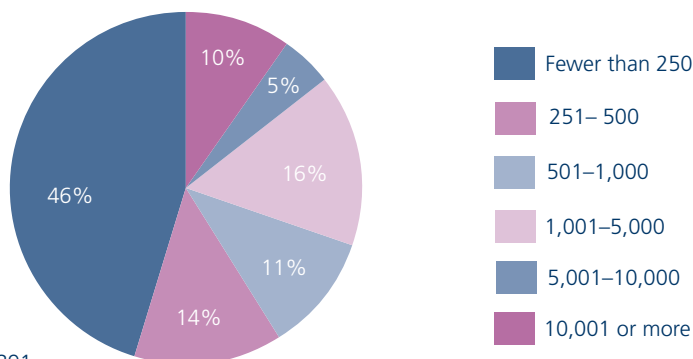
(Please note: leavers includes those leaving the organisation by way of voluntary or involuntary severance, redundancies or retirements, but does not include internal transfers.)

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 (that is, 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.

Figure 20: Breakdown of samples, by organisation size – UK employees (%)



Base: 891

Further reading

CIPD. (2007) *Diversity in business: a focus for progress*. Survey report. London: Chartered Institute of Personnel and Development. Available at http://www.cipd.co.uk/subjects/dvsequl/general/_dvstybsfcs.htm [Accessed 14 May 2007].

CIPD. (2007) *Employing people with criminal records*. Factsheet. London: Chartered Institute of Personnel and Development. Available at <http://www.cipd.co.uk/onlineinfodocuments/factsheets.htm> [Accessed 14 May 2007].

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CIPD. (2006) *Employee turnover and retention*. Factsheet. London: Chartered Institute of Personnel and Development. Available at <http://www.cipd.co.uk/onlineinfodocuments/factsheets.htm> [Accessed 14 May 2007].

CIPD. (2006) *Human capital*. Factsheet. London: Chartered Institute of Personnel and Development. Available at <http://www.cipd.co.uk/onlineinfodocuments/factsheets.htm> [Accessed 14 May 2007].

CIPD. (2006) *Induction*. Factsheet. London: Chartered Institute of Personnel and Development. Available at <http://www.cipd.co.uk/onlineinfodocuments/factsheets.htm> [Accessed 14 May 2007].

CIPD. (2006) *Labour market outlook: a quarterly report monitoring the state of the UK labour market*. London: Chartered Institute of Personnel and Development. (4 issues) Available at: <http://www.cipd.co.uk/onlineinfodocuments/atozresources.htm> [Accessed 14 May 2007].

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

Available from the CIPD Bookstore at www.cipd.co.uk/bookstore:

KEARNS, P., WALTERS, M. and MAYO, A. (2006) *What's the future of human capital?* Executive briefing. London: Chartered Institute of Personnel and Development.

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- 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).

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