Entry

Human Resources Churning

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Definition: The term churning is defined by a multifaceted approach and is quite a complex concept that has been gaining relevance in the field of human resources, due to the problematic loss of investment, originating from the voluntary exits of worker-associated costs. This phenomenon is a direct result of the rising competitive job market, causing employees to leave organizations and carry with them all the knowledge and experience acquired in the starting organization, an organization which invested in the development of its workers. Even though churning is aligned with human resource practices, it is considered a multifaceted concept because of the different contexts in which it interferes, such as economic context, per activity sector, clients, the type of organization, geographic location, etc. Although, despite its own complexity, churning is related to turnover; however, there are differences between these two concepts. While turnover is linked to the workers’ rotation within an organization, churning is mainly focused on the costs associated with voluntary exits from workers. It is simply linked to investment losses inside an organization, which has the main goal of creating mechanisms that allow the creation of awareness in organizations about the relevancy of action using strategic measurements of holding in order to minimize the churning rate, and in this way, reducing the unexpected costs, creating revenue, increasing proficiency, standing out in business activity, bettering nimbleness and expanding profits. This initial manuscript introduces the churning concept in human resources, the main causes of churning, as well as approaching how organizations take action in order to appease this event using literature, which lacks major advertising and given relevance to its pertinence in human resources. Through the analysis of the existing, this entry was guided with the objective of demystifying the subject of human resource churning.

Keywords: churning in human resources; causes; retention; costs

1. Introduction

As a result of economic globalization and constant technological innovation in today’s society, the concept of churning has been gaining relevance within the field of human resources, due to the raising occurrence in the job market, giving employees the opportunity to search for new professional opportunities in other organizations in the hopes of finding better work conditions [1].

In this time of global competition, when it comes to the job market and technological change, human resources are seen by organizations as a potential source of sustained competitive advantage [2]. Although, the increase in human resource value has aligned with the increase in churning rate because of their own volatile characteristics, contributing to minimizing job stability, leading to the growth of job searching frequency [3].

As ref. [4] states, the economy does not grow, it evolves, as we can observe in people looking for a better quality of life, naming this process as creative destruction. It is this paradox that Schumpeter defines innovation as a manifestation of self-gain search, generating at the same time the cause for financial hardships.
Organizations that invest in innovation are contributing to the reduction in the rate of churning. An innovative company has the capacity of providing better work conditions, and in this way, meet the expectations and needs of its own employees. However, to keep up and maintain the number of workers, organizations have the need to do market studies and keep their focus on innovation in correlation to their own competitors [5].

In this sense, churning in human resources follows the same principle, it creates investment loss as a result of one worker quitting in search of better work conditions. It is in the same context that ref. [6] voices that “churning is upsetting, a loss of energy and money”. A company that is not strong when it comes to hiring and keeping its best employees, has an unhappy work team, beyond projecting an image of instability that lately leads to a bad reputation to its own associates (both internal and external) and the churning rate is high.

Given the multifaceted concepts assigned by different authors and the enormous complexity when it comes to the operationalization of managing human resources, understanding what churning in human resources is, what are the causes and how organizations deal with the phenomena, is an important point of this initial manuscript.

2. Human Resources Churning

Churning in human resources is linked to the privatization trends that own superior skills when it comes to competition, skills that are related to social Darwinist beliefs (that evolve) with the ability to follow the efficiency of competitors, as much as frequent social changes, with the goal of reducing direct conflicts, planned and with the intention that leads to the decision of workers abandoning their jobs from one organization to another organization counter parting better work opportunities [7].

The historic development of the churning phenomenon is drawn in society and is taken as the blueprint and the original mark, “bismarckism” being the mark for social revolution within the churning society. Churning is a phenomenon introduced by democracy, the explanation being the rise of churning in society that focuses on intellectual factors, in particular, in liberal political theory [8].

In the present economic context in which the job market takes into consideration each individual’s labor and work expectations as their own personal best interests, it is a civil right, the freedom of remaining or leaving an organization in order to meet one’s needs [9].

The main focus of churning in human resources is the associated costs of replacing employees who voluntarily quit, as churning is only affiliated with the costs of replacement hiring [10].

Considering the dimension of this problem, it is important to mention that more important than recruiting and not undervaluing this process, as it is the determining basis for success or failure in the development of a certain function, the biggest challenge for organizations is to retain their workers through the implementation of attractive strategies that promote job satisfaction, as well as to be aware of the needs and expectations of workers, in order to meet their interests and satisfy their needs, taking into consideration the objectives of the organization, so as to prevent the occurrence of human resource churning [11].

The churn phenomenon is a notorious conflict for organizations. When the churning issue takes place within an organization and it is linked to its human resources, it is denominated human resources churning. In theory, human resource churning is a similar principle to client churning (costs related to organization exits); although, it is the human resource churning that is more concerning and has a bigger price for organizations; thus, human resource churning is significant for the several negative impact aspects that involve: It is difficult to find fitting replacements in order to replace the workers that left the organization, especially when it comes to workers with extended experience and advanced skills, for the time, effort and money invested to recruit new employees, past the fact that churning occurrence induces an unfair distribution of labor, which leads to dissatisfaction amongst workers that remain in the organization or clients and other interested parties [12].
Consequently, it is fundamental to the operationalization of this concept in order to prevent future organization exits.

In the aftermath of what is stated above, ref. [13] voices that workers tend to leave an organization derived from multiple reasons, human resources churning being a serious issue to organizations, but particularly difficult to organizations connected to high-tech industries and service provider organizations. The loss of workers is an extremely complex and dense issue originating in several problems; it is hard to find adequate replacements, particularly when it comes to workers with advanced experience and special skills, time, effort and money, which are required so that there is space for new hires. The loss of one worker negatively affects the current projects and services, creating dissatisfaction amongst stakeholders. Time and effort are necessary so that new workers can reach the same level of expertise and productivity, the loss of one worker has costs of its own, knowing that human resource churning rates can reach 12% to 15% annually.

In the next points, it is possible to observe an approach to the churning’s calculation, as the human resources churning categorizing.

2.1. Churning Rate Calculation

Churning’s rate calculation is the direct result of the total sum of hires (H) (replacements) and separations (S) (voluntary exits) divided by the total of employees (\( \sum E \)) within the organization [14].

Churning’s flow is represented using the calculation below:

\[
CF = WF \frac{- JF}{\sum E} \times 100\%
\]

The acronyms represented can be represented as CF (churning’s flow); WF (workers’ flow); JF (jobs’ flow) and \( \sum E \) (total number of employees/works within the organization).

The concept of churning diverges from the worker’s flow (WF) (hirings + separations) and the jobs’ flow (JF) (modification of the number of working employees) as it follows in the next calculations:

\[
WF = H + S \rightarrow \text{workers’ flow} = \text{hirings} + \text{separations}
\]

\[
JF = H - S \rightarrow \text{job’s flow} = \text{hirings} - \text{separations}
\]

\[
C = WF - JF \rightarrow \text{churning} = \text{workers’ flow} - \text{jobs’ flow}
\]

Churning’s flow is defined as the worker’s flow in view of the existing workflow; the rate is calculated with the difference of exiting workers and the relocation of the number of jobs divided by the total number of workers [15]. Hence, the division of the average total number of workers leads to flow percentages, either in workflow runtime (WFR), job flow runtime (JFR) or churning (CH) [15].

2.2. Categorization of Human Resources Churning

Churning in human resources is categorized into two different types: voluntary churning, when a worker leaves the organization by their own initiative, and involuntary churning, when an organization is the one organizing the dismissal of their employee [5].

In this entry manuscript, voluntary churning was regarded as a result of being troublesome to organizations, when the competition supplies better opportunities that satisfy the expectations and needs of the workers, such as more attractive jobs, better salaries, better benefits, better work conditions and easiness, an opportunity to grow career-wise, better leadership, better location, etc. [16]. However, ref. [17] mentions that the main factors leading to the valorization of human capital are related to professional recognition, respect and trust and the existence of a favorable organizational environment.

The focus of organizations is mostly on voluntary exits, if the organization does not have enough capacity to maintain it is best workers motivated and satisfied, these will end
up leaving and taking their vast acquired experience, knowledge and intellectual capacity, generating broad financial loss to the organization [18].

As mentioned previously, human resources churning reflects the costs of workers’ exits; therefore, when analyzing churning, the main causes of the result are disturbances in current operations, especially when it comes to organizations and job positions that are skilled and experienced labor dependable, being perceived as a competitive source [19].

Ref. [20] asserts two different types of human capital, general human capital, contemplating even more specialized and specific human capital and skilled human resources within the organization. Voluntary churning is most likely to happen in specific human capital in comparison with general human capital because it approaches human resources with higher transferability between companies [21].

Voluntary churning happens with a higher frequency between workers with a higher ability to find new job opportunities, these being workers with more skills and experience [22,23]. Although, these are exactly the employees that create bigger hardships to organizations as they are difficult to replace [24]. In this sense, the loss of workers negatively impacts organizational performance, mainly when it comes to higher-performance jobs [25].

In view of the ideas presented, organizational performance is affected as a result of costs associated with voluntary churning, since it affects productivity and it overloads the remaining employees. Yet, the raising coordination costs, as well as the decrease in confidence and work morale emerge as a result of voluntary churning [26].

When one worker leaves, the remaining employees inside an organization take over added responsibilities and they lose focus on their main tasks [27] harming not only the organization in terms of costs but also its productivity [28].

3. Churning Causes

Every year a substantial number of human resources personnel start working for a new employer leaving behind the old organization, becoming a systematic negative event for organizations, the voluntary exit of workers [29].

By analyzing literature and empirical studies about the theme explored in the course of this exposition, it was possible to identify some of the main causes of churning.

The above ref. [13] presents some causes for churning, these being connected to labor conditions, triggering dissatisfaction in workers that remain in the organization, for example, poor work conditions and benefits and conflicts with superiors or coworkers. A study conducted by Pirrolas and Correia [30] using semi-structured interviews with human resources directors created a space to solidify that the main causes for churning to take place were related to dissatisfaction in several factors: salary, career progression, individual development, schedules, leadership, competition, location, work environment, organizational culture, promotions, recognition, availability, work conciliation, family and motivation.

Beyond the churning causes mentioned so far that are related to work conditions, economic factors also influence the occurrence of churning in human resources.

A study performed by Ilmakunnas and Maliranta [31] during three distant economic times (expansion, recession and recovering), it was possible to observe that during the expansion phase, the churning percentage grew 36%, during the recession period the percentage decreased to 22% and during the economical recovering phase, the percentage grew again to 40%.

In this sense, the main causes for churning are related to job opportunities, meaning that during expansion periods/economic recovery, the number of job offers grows, enabling employees to change to another organization in search of better conditions; in this case, the churning rate also grows, while during recession times, the number of job offers decreases, making it harder for workers to switch organizations, leading to a low churning rate [14].
As mentioned before, it is imperative that organizations understand the motives that lead to churning causes and enact strategic prevention measures to keep their best employees in the organization and improve all existing organizational policies [32].

4. Mitigation Strategies in Churning

Considering human resources as the highest valuable inside organizations, these are left defeated by not applying retention strategies, with the intention of keeping their best workers, avoiding the exit of any knowledge and any loss of investment, since new hiring will need to take place in order to replace the lost employees and, therefore, will need to take new added costs [7].

It is worth highlighting that human resources holding is defined as the capacity of an organization in keeping its workers, so, workers are considered as being an asset by staying as part of the organization, these being employees that take fundamental strategic positions in order to develop the organization. In this sense, there is a need to implement strategic measures in service or the organization needs as well as the workers, with the purpose of finding a balance with the objective of creating satisfaction between the workers that remain in the organization and in order to hold on to the knowledge, creativity, and skills to meet the organization goals [33,34].

However, if there is no frequent control by organizations with the intention of understanding both satisfaction and needs of employees, the action measures become limited, since dissatisfaction is often concealed, when a worker decides to leave the organization they have the intention but they do not disclose it to their superiors.

Although not enough studies make the approach to churning operationalization, the organizations that act upon its causes through preventive measures with the intention of minimizing voluntary exiting have been successful [7].

In order to operationalize the concept of human resources retention, ref. [35] mentioned that implementing a retention strategy process admits four phases: initially, the first phase, consists of the organization’s perception, the motive that led to the employee exiting, using and exiting the interview or an informal conversation; the second phase, after the obtained results, analyzing the costs associated with the lost of that worker; the third phase, is taking the adequate measures based on the obtained results in previous phases and the fourth phase requires the execution of strategies that need to be applied often through the use of satisfaction questionnaires, performing individual interviews, job performance reviews, behavioral observation and through the obtained results take action prematurely in negative aspects in order to avoid the exit of organization’s workers since new hires have a higher cost than maintaining the existing workers.

5. Perspectives Future and Conclusions

Demystifying the concept of human resources churning, recognizing its causes and analyzing how organizations deal with this phenomenon, was triggered by the literature previously explored and analyzed as well as presenting the ideas formerly exposed.

The relevance of this entry manuscript, which modeled the necessity of expanding the human resources churning, turned imperative into its own operationalization in order to soften the churning rates in organizations, as well as reducing the replacement costs, avoiding the lost of investment in workers that leave given the lack of action by organizations, through strategic measures churning mitigation, promoting labor satisfaction in order of keeping the best employees within the organization and turning the organization more attractive.

In this entry, human resources churning was explored and even given to its complexity and multifaceted concepts; it is still a subject that is underdeveloped and underexplored, academic-wise, scientifically and which operationalization by organizations is still unknown and reduced.

In order to clarify the concept, the costs associated with replacements from human resources as a result of voluntary exits were adopted as a primary premise.
The option of approaching voluntary human resources churning, due to the fact that it is considered the hardest problem for organizations, considering the reality that more and more human resources managers face, given the rising competition, the constant technological innovation, and the market expansion as a result of the current economic context which allows the growth or shrinkage of job offers. Once experienced in the expansion context, job offers rise giving the workers the opportunity of switching organizations in hopes of finding better labor conditions or simply a way of satisfying their necessities both personal and professional, necessities which were not viable or possible in the organizations in which they previously belonged.

However, in other words, the voluntary exits of workers to other competitor organizations entail high costs to the organizations. These costs originated from every step of new hiring processes in order to replace these workers, including the costs of new hires, the welcoming, medical exams, training, the aiding a new worker until they are autonomous beyond the costs of losing production and productivity during the process of hiring.

In this way, there is an imposing necessity for organizations to implement strategic measures of holding in order to appease or minimize the referred costs and keep their best employees in the organization.

As appeasing measures of voluntary human resources churning, as stated in the analyzed literature, it was possible to verify that the success to positive organization development is based on the hiring process, simply put, recruiting the right person to the right place, taking into consideration the roles that are fundamental to that position, in order to promote the fulfillment of that employee and removing the need of the worker to search for a job in another organization.

In the meantime, the organizations have to be constantly aware of the needs and expectations of their employees, standing their ground opposing their competitors in order to promote good labor conditions, giving challenging and motivational work, recognizing results, enabling the feeling of belonging to a work team, grow a solid and positive leadership, adjusting salaries adequate to job market practices so it is possible to promote employee satisfaction and by effect, as previously mentioned, remove the interest of searching for work in other organizations.

As mentioned above, the causes for churning were addressed being identified through literature relevant to the subject and over two empirical studies, which allowed us to state that churning principal causes are connected with the dissatisfaction of labor conditions and that the economic cycles have an influence over churning rate, in which during economic expansion phases, the rate tends to grow and throughout economic recession periods the rate tends to decrease because of lower job offers.

However, as a closing statement, the bigger the investment by organizations in the implementation of strategic measures of retention, in implementation and/or the improvement of organizational policies and practices, having the main goal of softening negative aspects, with the intention of promoting worker satisfaction and the fulfillment of organization goals. Intending to increase the level of satisfaction and motivation of workers, enabling organizations to be more attractive and, on the other hand, increase productivity levels through the fulfillment of defined organizational goals.

In this way, operationalizing the concept referred, churning’s rate tends to decrease, avoiding costs with the replacements of workers so organizations are able to turn a profit.

In view of the above and with the aim of contributing to the increase in empirical studies on the subject, we propose the development of a quantitative empirical study, using questionnaires as a method of data collection and through statistical analysis to analyze the influence that each construct has on the occurrence of churning, as well as to analyze which variables organizations should act on in order to mitigate the occurrence of human resource churning.
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