

American Journal of Economics and Business Management

Vol. 9 Issue 10| pp. 1224-1232**| ISSN:** 2576-5973
Available online @ https://www.globalresearchnetwork.us/index.php/ajebm

Article

The Economic Cost of Staff Turnover in Service Enterprises and Retention Strategies

Sultonov Sanjar Jahongir o'g'li*

1. Researcher at Samarkand State University named after Sharof Rashidov

*Corresponding: sjeyzar@gmail.com

Abstract: The article examines the economic cost of staff turnover in service enterprises and substantiates retention strategies. The cost structure of a single departure is decomposed into five components, of which the two largest – lost productivity and lost client relationships – together account for 48 per cent and are not recorded in accounting systems. The relationship between the turnover rate and its cost is shown to be close to linear within the observed range, rising from 0.9 to 2.9 monthly payrolls as turnover increases from 10 to 30 per cent. Six retention drivers are assessed, and the two strongest are found to be career development opportunities and the quality of the immediate manager, both outranking compensation level. Practical implications for retention policy are formulated.

Keywords: staff turnover, retention, service enterprise, human capital, turnover cost, organisational knowledge, labour resources.

Citation: o'g'li, S. S. J. The Economic Cost of Staff Turnover in Service Enterprises and Retention Strategies. American Journal of Economics and Business Management 2026, 9(10), 1224-1232.

Received: 25th Jul 2026
Revised: 20th Aug 2026
Accepted: 15th Sep 2026
Published: 27th Oct 2026

Copyright: © 2026 by the authors. Submitted for open access publication under the terms and conditions of the Creative Commons Attribution (CC BY) license (https://creativecommons.org/licenses/by/4.0/)

1. Introduction

Staff turnover is usually treated as a personnel issue and measured by a single coefficient. In service enterprises this treatment understates its significance, because the departing employee takes with them assets that the enterprise cannot readily replace.

The distinctive feature of service activity is the inseparability of the product from its provider. In manufacturing, replacing a worker does not alter product quality, which is determined by technology. In services the quality of the outcome depends directly on the individual performing it.

A further consideration concerns client relationships. In many service segments the client is attached to a specific specialist rather than to the enterprise. The departure of that specialist therefore carries a risk of losing the client as well.

The economic significance of turnover is consequently much greater than the visible recruitment expenditure. Its main components are not recorded in accounting systems and remain outside management attention.

The purpose of the study is to decompose the economic cost of staff turnover in service enterprises and to substantiate retention measures on that basis [1].

Employee turnover and its economic consequences have become significant research issues in contemporary human resource management, organizational economics, and service-sector development. In service enterprises, human resources

constitute a fundamental component of organizational competitiveness because employees directly influence customer satisfaction, service quality, operational efficiency, and financial performance. High employee turnover generates substantial direct and indirect costs, including recruitment expenditures, selection procedures, training investments, productivity losses, service disruptions, and the deterioration of organizational knowledge [2]. Consequently, the scientific literature increasingly considers employee retention not merely as a personnel management function but as a strategic instrument for improving organizational sustainability and economic efficiency.

The theoretical foundations of employee turnover research have been extensively examined by Hom, Lee, Shaw, and Hausknecht who reviewed a century of scientific developments in employee turnover theory. Their research demonstrated that employee turnover is a complex organizational phenomenon influenced by individual attitudes, employment relationships, organizational conditions, and external labor market opportunities. The authors emphasized the evolution of turnover research from traditional explanations based on job dissatisfaction toward more comprehensive models incorporating employee attachment, organizational embeddedness, and collective turnover processes. Their findings suggest that the economic consequences of employee turnover should be evaluated within a broader organizational framework that considers both the immediate costs of employee replacement and the long-term implications of human capital losses.

An important contribution to understanding the economic cost of employee turnover was made by Hinkin and Tracey who investigated the financial implications of staff replacement in the hospitality industry. Their research demonstrated that employee turnover generates expenses extending considerably beyond recruitment and hiring costs. In particular, the authors emphasized the importance of the learning curve, during which newly recruited employees require additional training, supervision, and practical experience before reaching the productivity levels of experienced personnel. This period of reduced efficiency represents a significant but frequently underestimated component of turnover-related expenditure. The study established an important methodological foundation for assessing the total economic cost of workforce instability in service organizations [3].

Further empirical evidence was presented by Tracey and Hinkin who examined contextual factors affecting employee turnover costs across 33 hotels in the United States. Their findings indicated that turnover-related expenses vary depending on organizational characteristics, job complexity, establishment size, occupancy levels, and service positioning. In particular, the replacement of employees performing complex tasks was associated with higher economic costs because of increased training requirements and longer adaptation periods. The researchers also identified recruitment, selection, and training practices associated with lower turnover costs. These findings demonstrate that the financial consequences of employee turnover are not uniform across service enterprises and should be assessed according to organizational and operational characteristics.

The relationship between employee turnover and organizational profitability was examined by Simons and Hinkin who investigated the effects of staff turnover on hotel operating performance. Their research demonstrated that turnover can have measurable financial implications for hospitality enterprises and that the magnitude of these effects depends partly on the economic characteristics of individual establishments. By connecting employee turnover rates with gross operating profit, the authors provided empirical support for treating workforce stability as an important determinant of organizational financial performance. Their approach suggests that turnover costs should be assessed not only through direct human resource expenditures but also through their influence on profitability and overall business efficiency [4].

From a broader theoretical perspective, Griffeth, Hom, and Gaertner conducted a comprehensive meta-analysis of the antecedents and correlates of employee turnover. Their findings highlighted the importance of job satisfaction, organizational commitment, employment alternatives, and other individual and organizational characteristics in explaining employee departure decisions. The study demonstrated that turnover behavior is shaped by multiple interconnected factors rather than by financial compensation alone. This conclusion is particularly relevant for service enterprises, where working conditions, interpersonal relationships, supervisory practices, and career development opportunities frequently influence employee retention. Accordingly, effective retention strategies require a multidimensional approach addressing both economic and non-economic determinants of workforce stability.

rther developed the theoretical and practical foundations of employee retention by examining the relationship between scientific evidence and managerial decision-making. Their study challenged several common assumptions about employee turnover and proposed evidence-based strategies for improving retention outcomes. The authors emphasized that organizations should identify the specific factors responsible for employee departures rather than implementing standardized retention measures without considering organizational context [5]. Their findings indicate that recruitment quality, employee socialization, managerial support, professional development, and organizational practices should be integrated into a comprehensive retention management system. Such an approach can contribute to reducing avoidable turnover and improving the economic effectiveness of human resource investments.

The concept of organizational embeddedness represents another important theoretical direction in employee retention research. Mitchell, Holtom, Lee, Sablynski, and Erez introduced job embeddedness as a framework for explaining why employees remain within organizations. This approach considers the relationships connecting employees to their workplace, the compatibility between individual characteristics and organizational environments, and the sacrifices associated with leaving employment [6]. Unlike traditional turnover models focusing primarily on dissatisfaction and alternative employment opportunities, job embeddedness emphasizes the structural and psychological factors that encourage workforce stability. In service enterprises, strengthening employee relationships, organizational identification, and professional development opportunities may therefore contribute to reducing voluntary turnover.

The influence of human resource management practices on employee retention has also received considerable attention. Huselid investigated the relationship between high-performance work practices, employee turnover, productivity, and corporate financial performance. The study demonstrated the strategic importance of human resource management systems in shaping organizational outcomes. Practices associated with employee development, participation, and performance management were examined in relation to workforce stability and business performance. These findings support the argument that investments in effective human resource management can generate economic benefits extending beyond immediate improvements in employee satisfaction [7].

Similarly, Shaw, Delery, Jenkins, and Gupta examined the relationship between human resource management practices and voluntary and involuntary employee turnover. Their research demonstrated the importance of distinguishing different forms of workforce separation when evaluating organizational outcomes. Voluntary turnover, which occurs when employees independently decide to leave an organization, may require different managerial responses from involuntary turnover initiated by employers. This distinction is particularly important for the economic assessment of staff turnover because the causes, financial consequences, and potential benefits of different separation types may vary considerably. Therefore, comprehensive turnover cost models

should distinguish avoidable and unavoidable turnover and account for differences in employee roles and organizational circumstances.

The economic implications of employee turnover are closely associated with organizational performance and human capital preservation. Shaw, Gupta, and Delery investigated the relationship between voluntary and involuntary turnover and organizational performance, emphasizing that different turnover categories may produce different organizational consequences. Their findings contribute to a more differentiated understanding of workforce instability and demonstrate the importance of considering the organizational context when interpreting turnover-performance relationships. For service enterprises, this perspective suggests that the economic consequences of employee departure depend not only on the number of employees leaving but also on their professional competencies, organizational responsibilities, and contribution to service delivery.

Employee retention is also closely connected with organizational commitment. Meyer and Allen developed a three-component conceptualization of organizational commitment encompassing affective, continuance, and normative commitment. Their theoretical framework explains employee attachment through emotional identification with the organization, perceived costs associated with leaving, and a sense of obligation to remain. This approach provides a useful foundation for analyzing retention strategies in service enterprises because it highlights the importance of organizational culture, employee relationships, perceived employment benefits, and psychological attachment. Strengthening organizational commitment may contribute to reducing voluntary turnover and supporting long-term workforce stability [8].

Another important contribution was made by Hausknecht, Rodda, and Howard, who investigated the reasons employees remain with organizations and how these reasons vary across performance levels and employment tenure. Their research demonstrated that retention is influenced by a combination of factors, including job satisfaction, organizational rewards, relationships, and perceived employment opportunities. The authors emphasized that employees with different characteristics may respond differently to retention incentives. These findings suggest that service enterprises should adopt differentiated retention strategies based on employee performance, professional experience, and organizational importance rather than applying identical measures to all workforce categories.

The relationship between employee turnover and organizational productivity was further examined by Hancock, Allen, Bosco, McDaniel, and Pierce, who conducted a meta-analysis of employee turnover and firm performance. Their research provided evidence of an overall negative relationship between employee turnover rates and organizational performance, while also identifying contextual factors influencing the strength of this relationship. The findings are particularly important for service enterprises because operational performance frequently depends on employee experience, teamwork, and the continuity of customer relationships. High turnover may disrupt established working processes and reduce the efficiency of service delivery, thereby generating economic losses that extend beyond direct replacement costs [9].

The role of human resource management in service-sector performance was also investigated by Batt who examined the relationship between human resource practices, employee quit rates, and organizational performance in service establishments. The study demonstrated that workplace organization and human resource practices are associated with employee retention and business outcomes. In particular, the research emphasized the importance of employment systems that support employee involvement and organizational commitment. These findings reinforce the argument that retention strategies should be considered part of an integrated organizational development policy rather than isolated administrative measures.

A comprehensive understanding of workforce stability also requires consideration of employee engagement and organizational performance. Harter, Schmidt, and Hayes conducted a meta-analysis examining the relationship between employee satisfaction, engagement, and business-unit outcomes. Their research identified meaningful relationships between employee attitudes and several organizational performance indicators, including customer satisfaction, productivity, profitability, and employee turnover. The findings provide additional support for the strategic importance of improving workplace conditions and employee engagement. In service enterprises, where customer experiences are strongly influenced by employee behavior, engagement-oriented management practices may contribute to both workforce retention and service quality improvement.

A synthesis of the reviewed literature demonstrates that the economic cost of staff turnover can be classified into several interconnected categories. Direct costs include recruitment advertising, candidate assessment, selection procedures, administrative documentation, and initial employee training. Indirect costs encompass temporary productivity reductions, increased workloads for remaining employees, managerial supervision expenses, service interruptions, and the loss of accumulated organizational knowledge. In addition, strategic costs may arise through reduced customer satisfaction, weakened organizational reputation, declining employee morale, and the deterioration of long-term business relationships. The relative importance of these components depends on the characteristics of the enterprise, the complexity of employee responsibilities, and the conditions of the relevant labor market [10].

From a methodological perspective, existing research supports the development of an integrated economic assessment framework combining turnover frequency, replacement costs, productivity losses, and organizational performance indicators. Such a framework should distinguish between employee categories, incorporate the duration of vacant positions, and consider the time required for newly recruited personnel to achieve expected productivity levels. Furthermore, the evaluation of retention strategies should account for implementation costs and the measurable economic benefits associated with reduced turnover.

Despite the substantial contributions of previous studies, several research gaps remain. First, existing investigations frequently concentrate on specific industries, particularly hospitality, while comparatively less attention is devoted to developing unified turnover cost assessment models applicable across different service sectors. Second, direct replacement expenditures are generally easier to measure than indirect costs associated with lost productivity, organizational knowledge, and customer relationships. Third, the economic effectiveness of retention strategies is not always evaluated through comprehensive cost-benefit analysis. Finally, variations in organizational size, labor market conditions, technological development, and employee qualification requirements create additional challenges for comparative assessment [11].

Therefore, the reviewed literature provides a theoretical and methodological foundation for developing a comprehensive framework for evaluating the economic cost of staff turnover and the effectiveness of employee retention strategies in service enterprises. Such a framework should integrate financial, organizational, behavioral, and human capital indicators while distinguishing between direct and indirect economic consequences. The application of evidence-based retention measures, including competitive compensation, professional development, employee engagement, supportive leadership, and improved working conditions, can contribute to reducing avoidable turnover and strengthening the long-term economic sustainability of service enterprises.

2. Materials and Methods

The study applies cost decomposition, comparative analysis and expert assessment. The cost of a single departure is decomposed into five components according to the stage at which it arises: before replacement, during replacement and after replacement.

Costs are expressed in monthly payrolls of the departing employee rather than in absolute monetary terms. This form of expression makes the estimates comparable across enterprises of different size and across positions of different remuneration level.

The relationship between the turnover rate and its cost is examined across a range from 10 to 30 per cent, which corresponds to the range typically observed in service activities.

Retention drivers are assessed on a five-point scale, where one denotes negligible influence and five denotes decisive influence. Assessment is conducted by expert judgement, and this is acknowledged as a limitation of the study: quantitative confirmation would require a survey among employees of service enterprises.

3. Results

The economic assessment of turnover begins with establishing what precisely is lost when an employee departs. Recruitment expenditure is the most visible component but by no means the largest.

Losses arise over an extended period. Productivity declines before the departure, remains low during the vacancy, and recovers only gradually as the replacement reaches full effectiveness. Each of these stages carries its own cost.

The decomposition below distinguishes five components and relates the aggregate cost to the turnover rate (Figure 1).

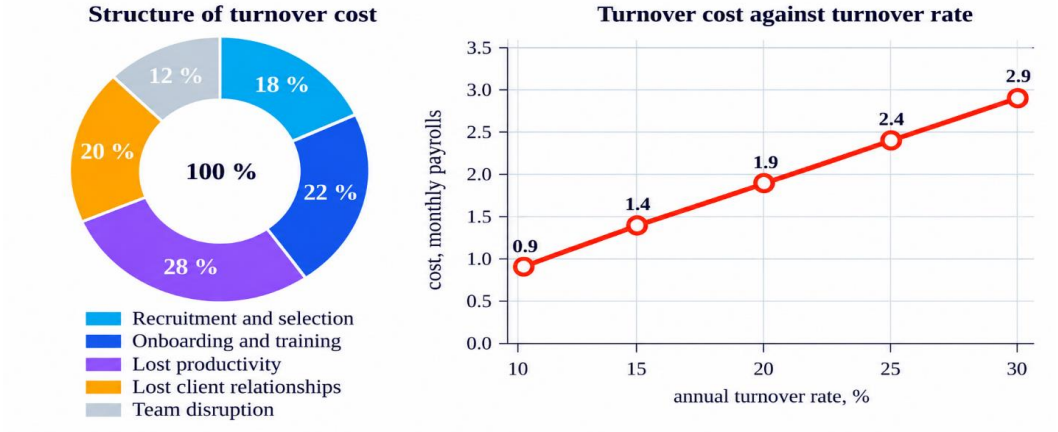


Figure 1. Cost structure of a single departure and its relation to the turnover rate

The left panel shows that lost productivity constitutes the largest single component at 28 per cent. This includes reduced performance during the notice period, the vacancy itself, and the learning period of the replacement.

Lost client relationships account for a further 20 per cent. This component is specific to service activities and is largely absent from turnover cost estimates developed for manufacturing settings.

Taken together, these two components represent 48 per cent of the total cost, and neither appears in any accounting record. Recruitment and onboarding, which together account for 40 per cent, are the only components that generate documented expenditure.

This asymmetry explains why turnover is systematically underestimated in management practice. The visible part of the cost is less than half of the actual loss, and decisions based on it understate the value of retention measures.

The right panel shows that the cost rises steadily with the turnover rate, from 0.9 monthly payrolls at a 10 per cent rate to 2.9 at a 30 per cent rate. Within this range the relationship is close to linear, although the literature suggests that it becomes disproportionate at higher rates as established working patterns break down [12].

Establishing the cost of turnover is only the first step. The practical question is which measures actually reduce it, and here management intuition frequently proves misleading.

The most common response to turnover is a compensation increase. It is fast to implement and visible to employees, but its effectiveness is limited for two reasons: competitors replicate it quickly, and compensation is not the principal reason employees stay.

The assessment below ranks six retention drivers by their influence (Figure 2 and Table 1).

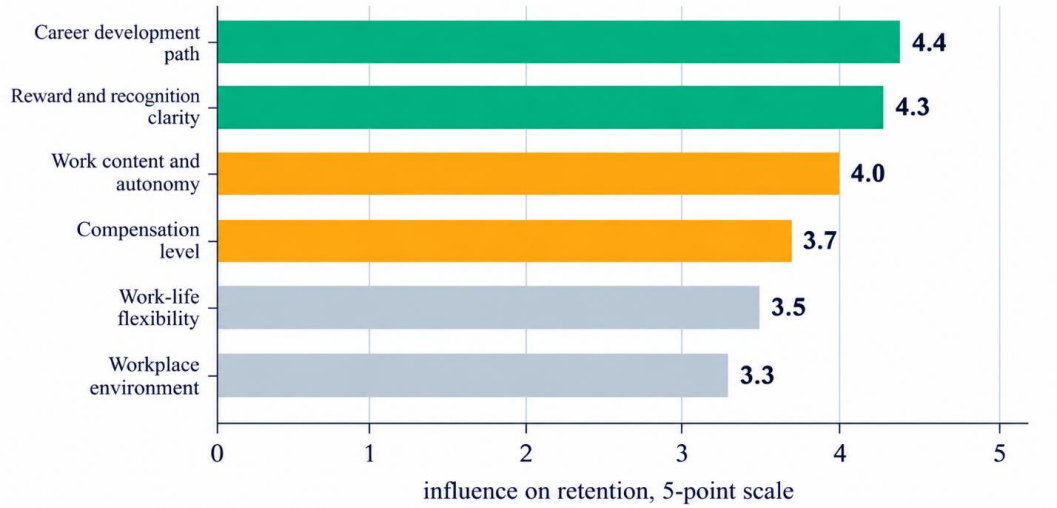


Figure 2. Influence of retention drivers

The two strongest drivers are career development opportunities (4.4) and the quality of the immediate manager (4.3). Both outrank compensation level, which scores 3.7 and occupies only fourth position.

The prominence of the immediate manager deserves particular attention. Employees rarely leave an enterprise in the abstract; they leave a specific working relationship. This makes managerial capability at the first supervisory level a direct determinant of retention.

Schedule flexibility (3.5) has gained importance in recent years, particularly where remote or hybrid arrangements are feasible. In service activities requiring physical presence its applicability is naturally limited [13].

Workplace conditions receive the lowest score (3.1). This does not indicate irrelevance: poor conditions push employees to leave, but good conditions alone do not retain them. The factor operates asymmetrically.

Table 1. Retention measures, their cost and effectiveness

Measure	Implementation cost	Time to effect	Effect durability	Replicability by competitors
Career development paths	Low to moderate	12-24 months	High	Low
Development of supervisory capability	Moderate	12-18 months	High	Low
Enrichment of	Low	6-12 months	Moderate	Moderate

Measure	Implementation cost	Time to effect	Effect durability	Replicability by competitors
work content				
Compensation increase	**High, recurring**	**Immediate**	**Low**	**High**
Schedule flexibility	Low	3-6 months	Moderate	High
Improvement of working conditions	Moderate to high	6-12 months	Moderate	Moderate

The table reveals an inverse relationship between speed and durability. Compensation increases act immediately but their effect decays as the market adjusts; career development paths take one to two years to produce results but the effect persists [14].

The last column is decisive for strategy. Measures that competitors can replicate easily confer no lasting advantage: once the market adjusts, cost levels rise across all enterprises while relative positions remain unchanged.

Career development and supervisory capability are the least replicable, because they depend on internal organisational arrangements rather than on expenditure. An enterprise cannot purchase a development path; it has to build one.

The practical conclusion is that retention policy should combine measures across time horizons. Fast measures stabilise the immediate situation, while slow measures address the underlying causes. Relying on fast measures alone produces recurring expenditure without lasting improvement [15].

4. Conclusion

First, the cost of a single departure is decomposed into five components. The two largest – lost productivity (28 per cent) and lost client relationships (20 per cent) – together account for 48 per cent of the total and are not recorded in accounting systems.

Second, this asymmetry explains the systematic underestimation of turnover in management practice: the documented portion of the cost represents less than half of the actual loss.

Third, the cost rises from 0.9 to 2.9 monthly payrolls as the turnover rate increases from 10 to 30 per cent. Within this range the relationship is close to linear.

Fourth, the strongest retention drivers are career development opportunities and the quality of the immediate manager. Both outrank compensation level, which occupies only fourth position among the six drivers assessed.

Fifth, an inverse relationship exists between the speed and the durability of retention measures. Measures that competitors replicate easily confer no lasting advantage and raise cost levels across the market without altering relative positions.

Further research will quantify the cost components through enterprise-level data collection and examine the relationship between turnover and service quality indicators.

REFERENCES

[1] R. W. Griffeth, P. W. Hom, and S. Gaertner, 'A meta-analysis of antecedents and correlates of employee turnover: Update, moderator tests, and research implications for the next millennium', *Journal of Management*, vol. 26, no. 3, pp. 463–488, 2000, doi: 10.1016/S0149-2063(00)00043-X.

[2] J. P. Meyer and N. J. Allen, 'A three-component conceptualization of organizational commitment', *Human Resource Management Review*, vol. 1, no. 1, pp. 61–89, 1991, doi: 10.1016/1053-4822(91)90011-Z.

[3] J. D. Shaw, N. Gupta, and J. E. Delery, 'Alternative conceptualizations of the relationship between voluntary turnover and organizational performance', *Academy of Management Journal*, vol. 48, no. 1, pp. 50–68, 2005, doi: 10.5465/AMJ.2005.15993112.

[4] J. D. Shaw, J. E. Delery, Jr. G. D. Jenkins, and N. Gupta, 'An organization-level analysis of voluntary and involuntary turnover', *Academy of Management Journal*, vol. 41, no. 5, pp. 511–525, 1998, doi: 10.5465/256939.

[5] J. K. Harter, F. L. Schmidt, and T. L. Hayes, 'Business-unit-level relationship between employee satisfaction, employee engagement, and business outcomes: A meta-analysis', *Journal of Applied Psychology*, vol. 87, no. 2, pp. 268–279, 2002, doi: 10.1037/0021-9010.87.2.268.

[6] J. B. Tracey and T. R. Hinkin, 'Contextual factors and cost profiles associated with employee turnover', *Cornell Hospitality Quarterly*, vol. 49, no. 1, pp. 12–27, 2008, doi: 10.1177/0010880407310191.

[7] R. Batt, 'Managing customer services: Human resource practices, quit rates, and sales growth', *Academy of Management Journal*, vol. 45, no. 3, pp. 587–597, 2002, doi: 10.5465/3069383.

[8] J. I. Hancock, D. G. Allen, F. A. Bosco, K. R. McDaniel, and C. A. Pierce, 'Meta-analytic review of employee turnover as a predictor of firm performance', *Journal of Management*, vol. 39, no. 3, pp. 573–603, 2013, doi: 10.1177/0149206311424943.

[9] P. W. Hom, T. W. Lee, J. D. Shaw, and J. P. Hausknecht, 'One hundred years of employee turnover theory and research', *Journal of Applied Psychology*, vol. 102, no. 3, pp. 530–545, 2017, doi: 10.1037/apl0000103.

[10] D. G. Allen, P. C. Bryant, and J. M. Vardaman, 'Retaining talent: Replacing misconceptions with evidence-based strategies', *Academy of Management Perspectives*, vol. 24, no. 2, pp. 48–64, 2010, doi: 10.5465/AMP.2010.51827775.

[11] J. P. Hausknecht, J. M. Rodda, and M. J. Howard, 'Targeted employee retention: Performance-based and job-related differences in reported reasons for staying', *Human Resource Management*, vol. 48, no. 2, pp. 269–288, 2009, doi: 10.1002/hrm.20279.

[12] T. R. Hinkin and J. B. Tracey, 'The cost of turnover: Putting a price on the learning curve', *Cornell Hotel and Restaurant Administration Quarterly*, vol. 41, no. 3, pp. 14–21, 2000, doi: 10.1177/001088040004100313.

[13] T. Simons and T. R. Hinkin, 'The effect of employee turnover on hotel profits: A test across multiple hotels', *Cornell Hotel and Restaurant Administration Quarterly*, vol. 42, no. 4, pp. 65–69, 2001.

[14] M. A. Huselid, 'The impact of human resource management practices on turnover, productivity, and corporate financial performance', *Academy of Management Journal*, vol. 38, no. 3, pp. 635–672, 1995, doi: 10.5465/256741.

[15] T. R. Mitchell, B. C. Holtom, T. W. Lee, C. J. Sablynski, and M. Erez, 'Why people stay: Using job embeddedness to predict voluntary turnover', *Academy of Management Journal*, vol. 44, no. 6, pp. 1102–1121, 2001, doi: 10.5465/3069391.