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Does Failure to Manage Employee Turnover Constitute a Fiduciary Breach?

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Work Institute

Does Failure to Manage Employee Turnover Constitute a Fiduciary Breach?

Employee turnover can have catastrophic consequences. At its core, turnover poses serious risks to a company's financial health, operational stability, and long-term viability. The primary duty of business leaders, executives, and board members is to act in the best interest of their company's shareholders and stakeholders, and failing to manage turnover can effectively violate this responsibility.

The Cost of Turnover: Financial Implications

The financial cost of employee turnover is staggering. U.S. Companies project to spend over $900,000,000,000 to replace employees who quit in 2024.

Replacing an employee can cost anywhere from 5% to 200% of the employee's annual salary, depending on the role. For highly skilled positions, the cost can be even higher. This includes direct costs such as recruitment, onboarding, and training, as well as indirect costs like lost productivity, decreased morale, and potential disruptions in client relationships. When turnover is uncontrolled, these costs accumulate, creating a financial drain that can severely affect a company's bottom line.

For publicly traded companies, mismanaging turnover can be particularly egregious. Shareholders, investors, and employees expect the company to be managed efficiently to maximize returns. Uncontrolled turnover, however, erodes profitability and increases operational expenses, reducing shareholder and stakeholder (employee and customer) value. By not implementing effective retention strategies, businesses fail to uphold their duty to protect stakeholder's and the company's financial assets - the essence of fiduciary responsibility.

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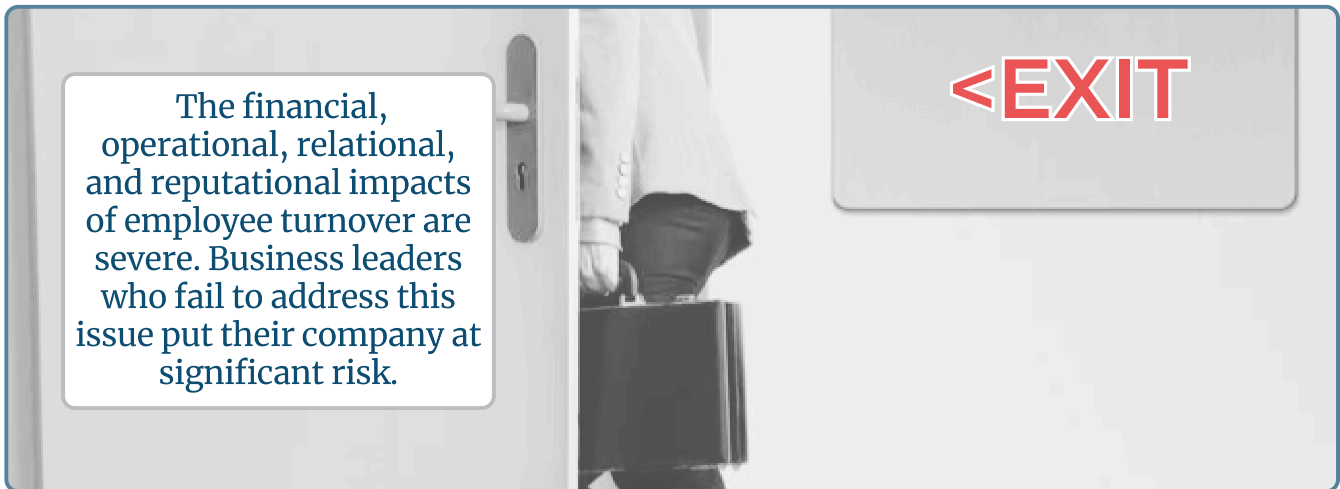


Misbehavior: Mismanaging Retention

Companies that allow turnover to go unchecked not only compromise daily operations but also risk long-term business success. The unsuccessful management of turnover undermines the company's strategic goals and its ability to compete effectively in the marketplace.

When companies experience turnover, they not only lose employees; they lose valuable institutional knowledge, skills, and relationships. Experienced employees possess an understanding of a company's culture, systems, and processes. They often have established relationships with clients, partners, and other stakeholders, which are crucial for business continuity and growth.

When these employees leave, their knowledge and expertise leave.

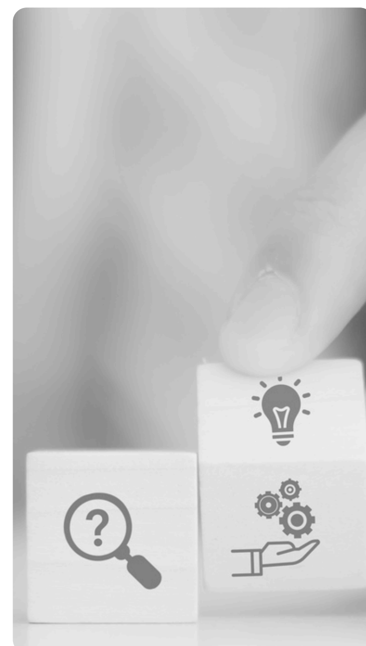
The replacement process does not just involve finding and hiring new talent (*advertisements, recruitment, agency, travel, relocation, interviews, background checks, supervisor/management time, onboarding, orientation, and training costs*, etc.); it also means reestablishing the lost knowledge base and relationships, which take additional time and resources. In industries where knowledge transfer and client relationships are key—such as healthcare, consulting, technology, and finance—this can have devastating effects.

Business leaders must implement policies and practices to retain talent and ensure the continuity of knowledge transfer, as these are essential components of safeguarding a company's intellectual capital and long-term sustainability.

Erosion of the Company’s Value Proposition

Uncontrolled turnover affects more than just the departing employees; it impacts customers and the entire workforce. When customers and employees see employee turnover, it creates instability and uncertainty.

Customers and employees begin to question the company’s management practices, leadership, and overall direction. This leads to decreased sales, lower engagement levels, and a decline in overall productivity. Losing these assets due to uncontrolled turnover erodes a company’s value proposition.



Does failure to manage turnover constitute a fiduciary breach?

A toxic cycle can form where turnover leads to low morale, which in turn increases turnover. This cycle damages the company culture, making it increasingly difficult to attract and retain top talent. For companies, particularly those in competitive industries like technology, healthcare, and finance, a strong company culture is a vital asset that drives innovation and growth.

Legal and Compliance Violations Are Not the Cost of Doing Business

Employee turnover can also expose a company to legal and compliance risks. Exiting employees may seek recourse through lawsuits if they feel unfairly treated or if they were exposed to a hostile organizational culture. Companies with high turnover rates might also struggle to comply with labor laws, such as those related to workplace safety, discrimination, or fair compensation.

The legal costs associated with such claims, combined with the damage to a company’s reputation, can be significant. Moreover, frequent litigation and compliance issues deter potential investors or business partners, further compounding the financial and operational impact of turnover. By failing to create a stable work environment, business leaders neglect their duty to protect the company’s reputation and legal standing.

Shareholder Perception and Market Value

Investors and shareholders must pay close attention to increasing measures of employee retention, which can serve as an indicator of a company's health and stability. High turnover signals management misbehavior, lack of strategic direction, or a toxic work culture—none of which are attractive to investors.

When investors perceive these issues, they lose confidence in the company's leadership, causing a decline in the company's stock price or market valuation. For public companies, this can have direct implications for fiduciary responsibility. When these employees leave, their knowledge and expertise walk out the door.

Corporate leaders are accountable to their shareholders and expected to manage the company in a way that maximizes value. If turnover results in increased costs, decreased market confidence, and declining stock value, business leaders have failed to uphold this obligation.

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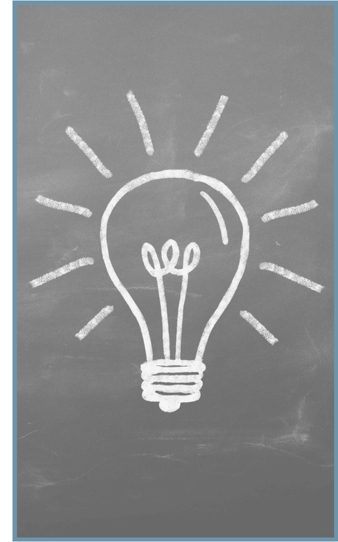
The Path to Higher Retention: Solutions and Recommendations

Hold Boards, Executives, & Operational Managers Accountable for Retention: Addressing turnover and retention is a strategic imperative business leaders must prioritize. Hold leaders accountable -- Align retention improvement with objectives and total compensation. Retention is not to be relegated as an HR responsibility/accountability. Develop and review the organization's turnover and current actions monthly and set objectives for continuous improvement.

Invest in Organizational Self-Awareness: Through responsible and accurate action research, know why, how, what, and where turnover occurs. It is important to note that many employers are using methods that do not accurately reflect the real reasons that employees quit or are at risk of leaving. Knowing the factual reasons for employee departure, not the unreliable reasons collected internally, and procedurally documented in Human Resource Information Systems.



Unsuccessful management of turnover undermines the company's strategic goals and its ability to compete effectively in the marketplace.

Identify Cost Beneficial Options: Identify cost-beneficial solutions. Ask the questions: How do I know I need it, and do the benefit outputs financially outweigh the expense? What works to retain employees at one company may not work at the next. An organization's best retention practices come from a clear and accurate understanding of why employees quit, and why employees choose to stay.

Evaluate the Effectiveness of Aligned and Selected Interventions: How do I know it works is the responsible evaluation measure. Remediate priority needs and conduct continuous action research to identify and cost benefit the next improvement. The organization's monthly Human Capital Financial Scorecard documents trend and financial improvements.

Does failure to manage turnover constitute a fiduciary breach?

Employee turnover is not just a challenge, it may be at risk of being a fiduciary breach. The financial, operational, relational, and reputational impacts are severe, and business leaders who fail to address this issue put their company at significant risk. To truly act in the best interest of shareholders, stakeholders, and employees, leaders must prioritize employee retention.