

# THE HIGH COST OF **TURNOVER** IN THE WORKPLACE



## **SUMMARY**

Employee turnover has costs associated with it. The cost to replace an \$8.00 an hour employee can range from \$3,500 to \$25,000 depending on who you listen to. The average is about \$5,500 for an \$8.00 an hour employee. That \$5,500 does not include the cost of any benefits. The number does include costs such as: Administrative Costs for the Leaving Employee, Operational Costs for the Leaving Employee, Recruitment Costs for the New Hire, Training Costs for the New Hire, Lost Productivity Costs for the New Hire, Administrative Costs for the New Hire, and Operational Costs for the New Hire.

No matter what the actual costs are for your organization, those expenses come right off the bottom line. To put this into perspective, assume that everyone in your organization earns \$8.00 an hour and turnover costs are \$5,000. For a small-sized company of 100 employees that has a 10% annual rate of turnover, the annual cost of turnover is \$50,000! For a mid-sized company of 1,000 employees who has a 10% annual rate of turnover, the annual cost of turnover is \$500,000! Do you know any organizational leader who would not want to reduce expenses by \$50,000 to \$500,000?

## **THE COST OF TURNOVER**

The SASHA Corporation of Cleveland, Ohio compared the costs of turnover as reported by organizations such as: Society Human Resource Management, Coca-Cola Retailing Research Council, American Management Association, American Hotel and Motels Association, Advance Online - Merion Publications, Cornell University Hotel School, Legislative Update, Alaska State Senator Kim Elton, Superb Staff Services, Hay Group study, and Workforce Magazine. They found results from \$3,500.00 to \$25,000.00. They found the average turnover cost for an \$8.00 an hour employee to be \$9,444.47. Using only the lowest 10 of the 15 reported numbers, they found the average cost for an \$8.00 an hour employee to be \$5,505.80. While the average cost to replace an \$8.00 an hour employee may be 1/3 to 1/2 of their annual salary, everyone agrees that the higher the salary, the more expensive the costs become. The estimates are that for a \$50,000.00 a year employee the costs can range from 100% to 200% of the annual salary. SASHA's full report can be found on their website at: <http://www.sashacorp.com/turnframe.html>.

The cost of employee turnover is hard to pin down because of the difference in job tasks, hiring requirements, certification or education requirements, unemployment rates, and many other factors. To get an idea of what employee turnover may be costing your organization consider the following possible costs.

### **Administrative Costs for the Leaving Employee**

- the cost of conducting an exit interview
- the cost of stopping payroll
- the cost of stopping benefit deductions
- the cost of stopping benefit enrollments
- the cost of COBRA notification
- the cost of COBRA administration
- the cost of processing a resigning employee
- the cost of the manager who has to understand what work remains, and how to cover that work until a replacement is found
- the cost of training the organization has already invested in for the employee who is leaving (internal training, external programs and external academic education)
- the cost of licenses or certifications the organization has helped the employee obtain
- the cost of severance and benefits continuation
- the cost impact of unemployment insurance premiums

- the cost of the time spent to prepare for an unemployment hearing
- the cost of a third party to handle the unemployment claim process on the organization's behalf

#### **Operational Costs for the Leaving Employee**

- the cost of temporary employees to fill in while the position is vacant
- the cost of existing employees to fill in while the position is vacant
- the cost of overtime for existing employees to fill in while the position is vacant
- the cost of lost productivity because temporary workers are not up to speed
- the cost of lost productivity because existing employees are stretched thinner
- the cost impact on departmental productivity because the work of those filling in will suffer
- the cost of lost knowledge, skills and contacts that the person who is leaving is taking with them
- the cost of the loss of customers that the employee is going to take with them

#### **Recruitment Costs for the New Hire**

- the cost of advertisements
- the cost of an employment agency
- the cost of internet posting
- the cost of the internal recruiter's time to understand the position requirements, develop and implement a sourcing strategy, review candidates backgrounds, prepare for interviews, conduct interviews, prepare candidate assessments, conduct reference checks, make the employment offer and notify unsuccessful candidates
- the cost of the recruiter's assistant who will do a basic level review of resumes, developing candidate interview schedules and making any travel arrangements for out of town candidates
- the cost of the hiring department (immediate supervisor, next level manager, peers and other people on the selection list) time to review and explain position requirements, review candidates background, conduct interviews, discuss their assessments and select a finalist
- the cost of handling, processing and responding to the resumes considered for each opening
- the cost of drug screens, educational and criminal background checks and other reference checks on each candidate for the position
- the cost of the candidate pre-employment assessments to help assess a candidates' skills, abilities, aptitude, attitude, values and behaviors

#### **Training Costs for the New Hire**

- the cost of orientation and materials
- the cost of the person who conducts the orientation
- the cost of the salary of the new employee while they attend orientation
- the cost of departmental and job specific training and materials (internal training, external programs and external academic education)
- the cost of the salary of the new employee while they attend departmental and job specific training
- the cost of the person(s) who conducts the departmental and job specific training
- the cost of licenses or certifications the organization has to help the employee obtain

#### **Lost Productivity Costs for the New Hire**

- the cost of learning the new job, company policies and practices, etc.
- the cost of coworkers and supervisors lost productivity due to time spent on bringing the new employee "up to speed"
- the cost of mistakes the new employee makes during this elongated indoctrination period
- the cost of lost department productivity caused by a departing member of management who is no longer available to guide and direct the remaining staff
- the impact cost on the completion or delivery of a critical project where the departing employee is a key participant
- the cost of reduced productivity of a manager or director who loses a key staff member, such as an assistant, who handled a great deal of routine, administrative tasks that the manager will now have to handle

### **Administrative Costs for the New Hire**

- the cost of putting the new employee on the payroll
- the cost of establishing computer and security passwords and identification cards
- the cost of internal and external publicity announcements
- the cost of establishing email accounts
- the cost of establishing credit card accounts

### **Operational Costs for the New Hire**

- the cost of business cards
- the cost of telephone hookups
- the cost of other equipment such as cell phones, automobiles, pagers
- the cost of a manager's time spent developing trust and building confidence in the new employee's work

The costs associated with replacing an employee who leaves the organization can be significant. It is not realistic to think that all employee turnover can or should be eliminated. However, given the high cost, a well thought-out program designed to use less expensive options to achieve desired results only makes sense or cents. **Motivation** is a much less expensive option to retain a great employee or redirect a good employee. **Remediation** is used to redirect, retrain, or retool a once good or great employee that is struggling or not producing results that measure up to their potential. Remediation, while more expensive than motivation, is still much less expensive than termination. **Termination** should be used to remove an employee that is harmful to the organization, fellow employees, or the customers.

Stormy helps organizational leaders know when to motivate, when to remediate, and when to terminate. He also helps organizations design and implement programs to help employees produce as close to 100% as possible.

### **SERVICES**

- Counseling—to encourage and challenge individuals to learn, explore, and grow, in order to reclaim control of their thoughts and behaviors.
- Consultation—to analyze negative outcomes and determine corrective plans of action.
- Mediation—to assist the participants to reach a consensual and informed settlement, addressing each party's needs.
- Training—to teach and equip individuals the skills they need to adapt to and even excel in a dynamic workplace.
- Risk Assessment—to assist the organization in dealing with potentially violent or dangerous individuals.
- Critical Incident Response—a recovery process to help the organization and individuals recover from a traumatic event as quickly as possible.

### **How Stormy Can Help**

Stormy helps organizations maximize performance and profit by helping organizational leaders deal with people and people issues. He is a people and relationship specialist. He brings confidence and peace of mind to leaders by offering:

- Expertise - handling people and people issues.
- Guidance - during potentially turbulent times.
- Support - for leaders as they work through tough people issues.

**For more information call Stormy at 325-672-9106 ext 2#**