

The Cost of Employee Turnover

by William G. Bliss

This article consists of a comprehensive checklist of items to include when calculating the cost of employee turnover in any organization. To determine the expense, have the hourly and weekly fully loaded payroll costs (i.e. salary plus benefits) of the departing employee, as well as that of the management staff, recruitment personnel, and others as mentioned below.

It should be noted that the costs of time and lost productivity are no less important or real than the costs associated with paying cash to vendors for services such as advertising or temporary staff. These are all very real for the employer.

You may be surprised to learn that the calculations can easily reach 150% of the employee's annual compensation figure. The cost will be significantly higher (200% to 250% of annual compensation) for managerial and sales positions.

To put this into perspective, let's assume the average salary of employees in a given company is \$50,000 per year. Taking the cost of turnover at 150% of salary, the expense would then be \$75,000 per departing employee. For the mid-sized company of 1,000 employees that has a 10% annual rate of turnover, the annual total is \$7.5 million!

Do you know any CEO who would not want to add \$7.5 million to their revenue? As you can see, there's value in keeping employees on staff. And by the way, most of that figure would be carried over to the profit line. What about the company with 10,000 employees? At the same 10% turnover rate, the sum would be \$75 million!

Here's the list:

1. Costs Due to a Person Leaving

a. Estimate the cost of the person(s) who fills in while the position is vacant. This can be either the cost of a temporary or the cost of existing employees performing the vacant job along with their own. Tally this figure using overtime rates.

b. Calculate the cost of lost productivity at a minimum of 50% of the person's compensation and benefits for each week the position is vacant, even if there are people performing the work. Figure the lost productivity at 100% if the position is completely vacant for any period of time.

c. Compute the cost of an exit interview to include the time of the person conducting the interview; the time of the person leaving; the administrative expense of stopping payroll, benefit deductions, and benefit enrollments; COBRA notification and administration; and time spent on various forms needed to process a resigning employee.

- d.** Estimate the cost of the manager understanding what work remains and how to cover that work until a replacement is found. Calculate the expense of the manager conducting their own version of the employee exit interview.
- e.** Tally the cost of the training your company has invested in the employee who is leaving. Include internal training, external programs, and external academic education. Include licenses or certifications the company has helped the employee obtain to do their job effectively.
- f.** Determine the impact on departmental productivity because the person is leaving. Who will pick up the work, whose work will suffer, and what departmental deadlines will not be met? Consider the cost of department staff discussing their reactions to the vacancy.
- g.** Calculate the cost of severance and benefits continuation provided to employees who are leaving that are eligible for coverage under those programs.
- h.** Tally the cost of lost knowledge, skills, and contacts that the departing person is taking out of your door. Use a formula of 50% of the person's annual salary for one year of service, increasing this figure for each year employed by 10%.
- i.** Determine the cost impact of unemployment insurance premiums as well as the time spent to prepare for an unemployment hearing, or the cost paid to a third party to handle the unemployment claim process on your behalf.
- j.** Estimate the cost of losing customers that the employee is going to take with them, or the amount it will cost you to retain the customers of the sales person or customer service representative who leaves.
- k.** Subtract the cost of the departing person for the amount of time the position is vacant.

2. Recruitment Costs

- a.** Consider the cost of advertisements (from a \$200 classified to a \$5,000+ display advertisement); agency costs at 20 - 30% of annual compensation; employee referral costs of \$500 - \$2,000 or more; Internet posting costs of \$300 - \$500 per listing.
- b.** Tally 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. This can range from a minimum of 30 hours to over 100 hours per position.
- c.** Calculate the cost of a recruiter's assistant who will spend 20 or more hours in basic level review of resumes, developing candidate interview schedules, and making any travel arrangements for out-of-town candidates.

- d.** Determine the cost of hiring (immediate supervisor, next level manager, peers, and other people on the selection committee) including time to review and explain position requirements, review the background of candidates, conduct interviews, discuss their assessments, and select a finalist. Also include their time to do their own sourcing of candidates from networks, contacts, and other referrals. This can take upwards of 100 hours of total time.
- e.** Add up the administrative cost of handling, processing, and responding to the average number of resumes considered for each opening at \$1.50 per resume.
- f.** Calculate the number of hours spent by the internal recruiter interviewing internal candidates along with the cost of those internal candidates being away from their jobs while interviewing.
- g.** Estimate the cost of drug screens, educational and criminal background checks, and other reference checks, especially if these tasks are outsourced. Don't forget to calculate the number of times these are done per open position as some companies conduct this process for the final two or three candidates.
- h.** Consider the cost of the various candidate pre-employment tests that help assess a candidates' skills, abilities, aptitude, attitude, values, and behaviors.

3. Training Costs

- a.** Calculate the cost of the orientation and the cost of the person who conducts the orientation. Also include the cost of orientation materials.
- b.** Determine the cost of departmental training as the actual development and delivery cost plus the cost of the salary of the new employee. Note that the cost will be significantly higher for some positions such as sales representatives and call center agents who require four to six weeks or more of classroom training.
- c.** Figure the cost of the person(s) who conducts the training.
- d.** Tally the cost of various training materials needed including company or product manuals, computer or other technology equipment used in the delivery of training.
- e.** Calculate the cost of supervisory time spent in assigning, explaining, and reviewing work assignments and output. This represents lost productivity of the supervisor. Estimate the amount of time spent at seven hours per week for at least eight weeks.

4. Lost Productivity Costs

As the new employee is learning the job, the company policies and practices, etc., they are not fully productive. Use the following guidelines to calculate the cost of this lost productivity:

- a.** Upon completion of whatever training is provided, the employee is contributing at a 25% productivity level for the first two to four weeks. The cost therefore is 75% of the new employee's full salary during that time period.
- b.** During the fifth through the twelfth week, the employee is contributing at a 50% productivity level. The cost is therefore 50% of full salary during that time period.
- c.** During the thirteenth through the twentieth week, the employee is contributing at a 75% productivity level. The cost is therefore 25% of full salary during that time period.
- d.** Calculate the cost of coworkers and supervisory lost productivity due to their time spent on bringing the new employee "up to speed."
- e.** Figure the cost of mistakes the new employee makes during this elongated indoctrination period.
- f.** Estimate 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.
- g.** Calculate the impact cost on the completion or delivery of a critical project where the departing employee is a key participant.
- h.** Tally 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.

5. New Hire Costs

- a.** Calculate the cost of bringing the new person on board including the cost to put the person on the payroll, establish computer and security passwords and identification cards, business cards, internal and external publicity announcements, telephone hookups, cost of establishing e-mail accounts, the expense of establishing credit card accounts, or leasing other equipment such as cell phones, automobiles, pagers.
- b.** Figure the expense of a manager's time spent developing trust and building confidence in the new employee's work.

6. Lost Sales Costs

- a.** For sales staff, divide the budgeted revenue per sales territory into weekly amounts and multiply that amount for each week the territory is vacant, including training time. Also use the lost productivity calculations above to estimate the lost sales until the sales representative is fully productive. This can also be used for telemarketing and inside sales representatives.

b. For non-sales staff, calculate the revenue per employee by dividing total company revenue by the average number of employees in a given year. Whether an employee contributes directly or indirectly to the generation of revenue, their purpose is to provide some defined set of responsibilities that are necessary to the generation of revenue. Estimate the lost revenue by multiplying the number of weeks the position is vacant by the average weekly revenue per employee.

Conclusion

Given our original example of the \$50,000 employee, the total of all the costs can easily reach \$75,000 to replace them. As you can see, the costs and impact associated with an employee who leaves the company can be quite significant. This is not to say that all turnover should be eliminated. However, given the high price tag and consequences in running a business, a well thought out program designed to retain employees may easily pay for itself in a very short period of time.