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1. Cost of Losing an Employee: Article Highlights

2. Vehicles and Alcohol (a costly combination): Article Highlights

3. Proof Source: Full Text For Each Article Referenced Above

The Cost of Losing an Employee – [Often Underestimated]

Proof Source Highlights

1. How much does it cost companies to lose employees?
   - Suzanne Lucas, MONEYWATCH, November 21, 2012

"Turnover costs include productivity losses during training, recruiting and lost work while a position is vacant. For all jobs earning less than $50,000 per year, or more than 40 percent of U.S. jobs, the average cost of replacing an employee amounts to fully 20 percent of the person's annual salary, the liberal-leaning think-tank found in a study that looks at 31 corporate case studies."

"While the costs of losing a "normal" employee are high enough, CAP found that the cost of losing an executive is astronomical -- up to 213 percent of the employee's salary."

2. Employee Retention: What Employee Turnover Really Costs Your Company
   - Ross Blake, WebProNews, July, 2006

"It's one of the largest costs in all different types of organizations, yet it's also one of the most unknown costs. It's employee turnover."

"Other sources provide these estimates: It costs you 30-50% of the annual salary of entry-level employees, 150% of middle level employees, and up to 400% for specialized, high level employees!"

"Do a quick calculation: Think of a job in your organization where there has been some turnover, perhaps supervisors. Estimate their annual average pay and the number of supervisors you lose annually. For example, if their average annual pay is $40,000, multiply this by .125% (or 125% of their annual pay, a reasonable cost estimate for supervisors). This means it costs $50,000 to replace just one supervisor. If this company loses ten supervisors a year, then 10 times $50,000 equals $500,000 in replacement costs for just supervisors. This is the bottom line cost. The top line cost? If the company's profit margin is 10%, then it costs $5,000,000 in revenues to replace these ten supervisors."

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3. **Cost of Employee Turnover**

    - William G. Bliss, The Advisor

"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 costs to the employer."

"These calculations will easily reach 150% of the employees' 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 cost of turnover is then $75,000 per employee who leaves the company. For the mid-sized company of 1,000 employees who has a 10% annual rate of turnover, the annual cost of turnover is $7.5 million!"

"Do you know any CEO who would not want to add $7.5 million to their revenue? And, by the way, most of that figure would be carried over to the profit line as well. What about the company with 10,000 employees? The cost of turnover equals $75 million!"

4. **How Much Does Your Employee Turnover Cost?**

    - William H. Pinkovitz, Joseph Moskal and Gary Green

"Employee turnover (replacing employees) also costs money. We all know that. We also know better systems and training can help us find better employees and keep the good ones. The dilemma is knowing how much to spend to ensure you're getting an adequate return on your investment in people."

"Separation costs include: the costs incurred for exit interviews; administrative functions related to termination; separation/severance pay; and any increase in unemployment compensation."

"Vacancy costs include the net cost/savings incurred due to increased overtime or temporary employees needed to complete the tasks of the vacant position.

Replacement costs include the cost of: attracting applicants; entrance interviews; testing; travel/moving expenses; pre-employment administrative expenses; medical exams; and acquisition and dissemination of information."

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5. **The Real Costs of Employee Turnover**
    - The Rainmaker Group

"The costs of employee turnover can be staggering, ranging anywhere from 1/2 to 5 times an employee's annual wages dependent upon his or her position."

"Turning over one employee can cost around 1/2 of a low skilled hourly workers annual wages plus benefits, while losing a member of C-Level upper management can cost 3 to 5 times his or her annual wages and benefits."

Vehicles and Alcohol – [A Costly Combination]

Proof Sources

1. **The Business Case for Workplace Alcohol Prevention**
    - Barry Knott, October 1, 2012

"Driving Under the Influence: *Employers, especially those with large driving fleets, recognize vehicle crashes as the leading cause of occupational fatalities in the United States.*[18] *Contributing factors include fatigue, stress, extended hours, prescription drug use, and alcohol consumption. Employers without fleets and not subject to DOT regulations often perceive a DUI as an "off the job" problem and not part of the employer's business. However, employers often pick up the consequences of DUI in medical costs, work loss, higher insurance, a reduced workforce pool, and concern about the company's reputation."*

"Opportunities for improvement in this area include: *Establish a driver safety program at work. An excellent starting point is the whitepaper "Guidelines for Employers to Reduce Motor Vehicle Crashes," a joint effort by NETS, NHTSA, and OSHA to reduce motor vehicle-related deaths and injuries in the nation's workforce. (http://www.osha.gov/Publications/motor_vehicle_guide.pdf) "*

"Increase employee knowledge of the personal and employer cost of road crashes. Focus on drunk driving because of its large role in on-the-job and off-the-job road crashes."

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2. **Guidelines for Employers to Reduce Motor Vehicle Crashes**
   - Document represents a joint effort by NETS, NHTSA and OSHA

Highlights:

"Every 12 minutes someone dies in a motor vehicle crash, every 10 seconds an injury occurs and every 5 seconds a crash occurs. Many of these incidents occur during the workday or during the commute to and from work. Employers bear the cost for injuries that occur both on and off the job. Whether you manage a fleet of vehicles, oversee a mobile sales force or simply employ commuters, by implementing a driver safety program in the workplace you can greatly reduce the risks faced by your employees and their families while protecting your company's bottom line."

"Motor vehicle crashes cost employers $60 billion annually in medical care, legal expenses, property damage, and lost productivity. They drive up the cost of benefits such as workers' compensation, Social Security, and private health and disability insurance. In addition, they increase the company overhead involved in administering these programs.

The average crash costs an employer $16,500. When a worker has an on-the-job crash that results in an injury, the cost to their employer is $74,000. Costs can exceed $500,000 when a fatality is involved. Off-the-job crashes are costly to employers as well.

The real tragedy is that these crashes are largely preventable. Recognizing the opportunity that employers have to save lives, a growing number of employers have established traffic safety programs in their companies. No organization can afford to ignore a major problem that has such a serious impact on both their personnel and the company budget.

1 NHTSA [2003]. The economic burden of traffic crashes on employers: costs by state and industry and by alcohol and restraint use. Publication DOT HS 809 682."

"Alcohol and Drug Impaired Driving Alcohol use is involved in 40 percent of all fatal motor vehicle crashes, representing an average of one alcohol-related fatality every 30 minutes. It is estimated that three in every 10 Americans will be involved in an impaired driving-related crash some time in their life. Alcohol, certain prescription drugs, over-the-counter medications, and illegal drugs can all affect a person's ability to drive safely due to decreased alertness, concentration, coordination and reaction time. Businesses pay a high price for alcohol and drug abuse; alcohol is a contributing factor in 39 percent of all work- related traffic crashes."

"Impaired Driving: Safety Facts for the Road

• Alcohol impaired driving accounts for about 40% of fatal crashes.

• About three in every 10 Americans will be involved in an alcohol-related crash at some time in their lives.

• Research shows that alcohol is a contributing factor in 39% of all work-related traffic crashes.

• Nearly 1.5 million people are arrested each year for driving while intoxicated (DWI). Two-thirds of all drivers arrested for DWI are first time offenders.

• A DWI/DUI conviction on a person's driving record may prevent them from getting a job, receiving a promotion or even result in a job loss.

• Many companies have corrective action programs that suspend company driving privileges for a DWI/DUI violation.

• Nine out of 10 insurance companies automatically cancel the policy of a driver convicted of a DWI/DUI violation. Consequently, the driver must find a high-risk insurance company and face substantial rate increases."

Proof Source: Full Text

How much does it cost companies to lose employees?

By

Suzanne Lucas /

MoneyWatch/ November 21, 2012

(MoneyWatch) Pop quiz: An average performing employee comes to you with evidence that he is underpaid by 5 percent. Your company's budgets are already tight. He makes $50,000 a year. Should you:

A. Offer a 1-2 percent raise; B. Offer nothing. In this economy he's lucky to have a job; C. Offer a 5 percent raise; D. Give him $50 gift card to the local mall.

With job applicants lining up around the block, it might seem like good business sense to let employees quit rather than raising their salaries to be competitive. But a recent study from the Center for American Progress drives home why that isn't so: Employee turnover is expensive.

Turnover costs include productivity losses during training, recruiting and lost work while a position is vacant. For all jobs earning less than $50,000 per year, or more than 40 percent of U.S. jobs, the average cost of replacing an employee amounts to fully 20 percent of the person's annual salary, the liberal-leaning think-tank found in a study that looks at 31 corporate case studies.

So in the above example, choosing to not give even a middling performer a raise may net a temporary cost savings, but if he quits you'll be out 20 percent of his salary. The best option? Bump his pay up 5 percent. Although employee replacement costs are a one-time expense and a salary increase is ongoing, it would take four years of at higher salary to equal the cost of replacing him one time.

High turnover, lower-paying jobs (those under $30,000 a year) are slightly less expensive to replace, at only 16 percent of annual salary, but that still adds up quickly. For instance, 37 percent of hotel/motel and food services employees voluntarily quit a job in 2011. That represents a major expense to businesses already running at the margin.

MIT Sloan business professor Zeynep Ton found that such businesses could reduce their turnover by changing their internal policies. For instance, Wegmans Food Markets, which

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consistently ranks in Fortune's Top 100 companies to work for (this year it's number No. 4), has a full-time turnover rate of only 4 percent for it's hourly workforce [disclosure: I used to work for Wegmans.] In other words, those same policies that make it a great place to work also lowers turnover costs.

While the costs of losing a "normal" employee are high enough, CAP found that the cost of losing an executive is astronomical -- up to 213 percent of the employee's salary.

CAP also says that offering workers low-cost benefits, such as sick days and a little flexibility, can significantly lower turnover. The upshot is clear: While there is no perfect package of salary and benefits that will stop employees from jumping ship, companies should take turnover costs into account.

Employee Retention: What Employee Turnover Really Costs Your Company

By Ross Blake

It's one of the largest costs in all different types of organizations, yet it's also one of the most unknown costs. It's employee turnover.

Companies routinely record and report costs such as wages and benefits, Workman's Compensation Insurance, utilities, materials, and space, yet most companies have no records or report the cost of employee turnover. It can be much higher than you think.

How Much is it Costing You?

Several well-regarded studies have recently estimated the cost of losing an employee:

- SHRM, the Society for Human Resource Management, estimated that it costs $3,500.00 to replace one $8.00 per hour employee when all costs — recruiting, interviewing, hiring, training, reduced productivity, et cetera, were considered. SHRM's estimate was the lowest of 17 nationally respected companies who calculate this cost!
- Other sources provide these estimates: It costs you 30-50% of the annual salary of entry-level employees, 150% of middle level employees, and up to 400% for specialized, high level employees!

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- Do a quick calculation: Think of a job in your organization where there has been some turnover, perhaps supervisors. Estimate their annual average pay and the number of supervisors you lose annually. For example, if their average annual pay is $40,000, multiply this by .125% (or 125% of their annual pay, a reasonable cost estimate for supervisors). This means it costs $50,000 to replace just one supervisor. If this company loses ten supervisors a year, then 10 times $50,000 equals $500,000 in replacement costs for just supervisors. This is the bottom line cost. The top line cost? If the company's profit margin is 10%, then it costs $5,000,000 in revenues to replace these ten supervisors.

Do These Numbers Seem Unbelievable?

Here's an actual calculation from a well-regarded organization in my community. The HR Manager of this human services organization (housing for disabled persons, sheltered workshops, etc.), estimated that 30 entry level people leave his organization on average every quarter.

This averages out to ten people per month. Let's be extra conservative and shave SHRM's estimate (see above) down to $3,000.00 to replace each employee.

This amounts to $30,000 per month, or $1,000.00 in employee turnover costs every day of the month! Annually, this totals $360,000.00.

Actual turnover costs are usually much higher than we think they are — until we estimate them.

You may be thinking, "Some employee turnover is unavoidable, even desirable." You're right. Some turnover is necessary, to replace marginal or poor employees with more productive ones and to bring in people with new ideas and expertise. However, high turnover costs are both avoidable and unnecessary.

This is where companies need to focus their efforts. The goal is to retain valued performers while replacing poor ones.

Most companies group both types of performers together when looking at turnover. By doing so, they're missing the cost and significance of replacing the good performers.

Why Don't More Companies See This as a Costly Problem?

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There are a variety of reasons this is not seen as a problem, all of which cost companies in expertise and dollars. How many of these occur in your organization?

1. No process is in place to tabulate costs. One survey found that only 44% of its respondents had a process in place to estimate turnover costs; 43% of companies relied on intuition, and 13% had no process at all. (1)

2. Costs are not reported to top management. It's a business axiom that one of the best ways to get top management's attention is to show them what something costs. However, most top management never gets to see turnover cost estimates because most companies don't measure them — or if they do, they don't report them to top management.

3. It's an inescapable cost of doing business. Except, it's not! While some turnover is unavoidable and desirable, most turnover, especially among your better and top performers, is largely avoidable. Thinking that turnover is just a normal cost of doing business is the same quality of thinking which says that accidents are just an inescapable part of being in the construction business.

4. It's an HR problem. While HR needs to be a key partner in reducing turnover cost, this is a strategic issue requiring top management's attention and actions, in addition to HR's efforts, to resolve it.

5. Costs are underestimated, and so they register less concern. If costs are underestimated because the organization doesn't agree on or know what to measure, the statistics generated either register less concern than they should, or are disputed and held in disregard.

What Costs Need to be Fully Estimated?

A comprehensive program measures the following costs:

- Exit costs
- Recruiting
- Interviewing
- Hiring
- Orientation
- Training
- Compensation & benefits while training

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- Lost productivity
- Customer dissatisfaction
- Reduced or lost business
- Administrative costs
- Lost expertise
- Temporary workers

There needs to be advance agreement among Human Resources, Finance, and Operations as to which cost measures will be considered valid. Then, it has to be measured and reported.

6. Waiting until there's a crisis. I was amazed when the executive director of one organization told me she knew that one of her capable managers was unhappy, but decided it wasn't necessary to take action because she hadn't received a letter of resignation yet.

Prevention is what works best. Begin to measure your turnover costs and, very importantly, look at who is leaving so you'll know if you're retaining your best people.

The time to do this is now. Waiting until there's a crisis to take action limits your options and success rate. It also often triggers the common response of offering more money to get someone to stay, instead of fixing the original problem.

Why Do So Many Retention Efforts Fail?

These are among the most common reasons company retention efforts fail, even when they're implemented by capable people.

1. No assessment, so ineffective solutions are chosen. In their hurry to correct a costly problem, companies often forgo conducting a relatively brief and cost-efficient assessment in order to correct the situation faster. However, implementing a solution without diagnosing who is leaving, and why they're leaving often results in solutions that are incapable of solving the root causes behind turnover.

Diagnosing the reasons behind turnover always pays for itself. Don't start without an assessment.

2. Implementing too many solutions instead of the most effective solutions. Managers often brainstorm a number of plausible solutions, then implement many of them — especially those favored by top management. However, what is most needed is to select and implement a limited

number of solutions which will be most effective at solving the problem. Implementing too many solutions, even good ones, will diffuse your resources and weaken your efforts and success.

3. No way of measuring success to know what works. How do you know which retention solutions you've implemented are working effectively and which aren't, where you need to make refinements, and what strategies you need to drop if you don't have a way of measuring your results?

How Do We Do a Better Job of Retaining Employees — Especially Our Most Valuable Ones?

First, rank your employees in three categories: best performers, middle performers, and lowest performers. Your objective is to retain your top performers; develop and retain your middle performers, turning them into near-top or top performers if possible; and potentially replace your lowest performers.

Second, agree internally on the measures you'll use to calculate turnover costs. Be certain you're taking all costs into consideration. Most organizations greatly underestimate them.

Third, report turnover costs to top management on a monthly, quarterly, and annual basis.

When turnover costs are unacceptably high, or higher than your industry's average, do an assessment. Find out who is leaving and why they're leaving. Exit interviews can help you find out why.

You need to know if it is your top, middle, or lowest performers who are leaving so you can gauge the expertise level leaving your organization. You're obviously going to employ (and pay for) different strategies if your top performers are voluntarily leaving, compared to middle or lowest level performers.

Develop solutions capable of solving the problems you uncover, and only implement a limited number of them.

Measure the success of your retention efforts, and refine them.

Two Very Key Strategies to Save a Large Amount of Time and Money.

Very key strategy # 1: Don't wait until turnover costs become unacceptably high before you implement an ongoing retention program. Put a retention program in place before you have crisis situation. You not only must find out why employees leave your organization, you must also find out why others stay.

Very key strategy # 2: Survey your top performers now in order to find out what keeps them there, why they might leave, what type of competitive offers they may find attractive, and what they need to be happier and more productive in their jobs. You'll do a better job of keeping them (along with their expertise and value). You'll also find out highly beneficial information about improvements your organization needs.

This means driving improvements in your organization by what your best people tell you, instead of focusing on taking care of the ever-present complainers in every organization.

Just How Valuable are Retention Efforts? One source estimated that a 10% reduction in employee turnover was worth more money than a 10% increase in productivity, or a 10% increase in sales!

Retain and gain.

The Advisor

COST OF EMPLOYEE TURNOVER

by William G. Bliss

The following is a comprehensive checklist of items to include when calculating the cost of turnover in any organization. To determine the costs, have the hourly and weekly cost of fully loaded payroll costs (i.e. salary plus benefits) of the vacant position, the management staff, the recruitment staff and others as outlined 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 costs to the employer.

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These calculations will easily reach 150% of the employees' 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 cost of turnover is then $75,000 per employee who leaves the company. For the mid-sized company of 1,000 employees who has a 10% annual rate of turnover, the annual cost of turnover is $7.5 million!

Do you know any CEO who would not want to add $7.5 million to their revenue? And, by the way, most of that figure would be carried over to the profit line as well. What about the company with 10,000 employees? The cost of turnover equals $75 million!

Here is the list:

Costs Due to a Person Leaving

1. Calculate 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 as well as their own. Include the cost at overtime rates.
2. Calculate the cost of lost productivity at a minimum of 50% of the person's compensation and benefits cost for each week the position is vacant, even if there are people performing the work. Calculate the lost productivity at 100% if the position is completely vacant for any period of time.
3. Calculate the cost of conducting an exit interview to include the time of the person conducting the interview, the time of the person leaving, the administrative costs of stopping payroll, benefit deductions, benefit enrollments, COBRA notification and administration, and the cost of the various forms needed to process a resigning employee.
4. Calculate the cost of the manager who has to understand what work remains, and how to cover that work until a replacement is found. Calculate the cost of the manager who conducts their own version of the employee exit interview.
5. Calculate the cost of training your company has invested in this 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.

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6. Calculate the impact on departmental productivity because the person is leaving. Who will pick up the work, whose work will suffer, what departmental deadlines will not be met or delivered late. Calculate the cost of department staff discussing their reactions to the vacancy.
7. Calculate the cost of severance and benefits continuation provided to employees who are leaving that are eligible for coverage under these programs.
8. Calculate the cost of lost knowledge, skills and contacts that the person who is leaving is taking with them out of your door. Use a formula of 50% of the person's annual salary for one year of service, increasing each year of service by 10%.
9. Calculate 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.
10. Calculate 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.
11. Subtract the cost of the person who is leaving for the amount of time the position is vacant.

Recruitment Costs

1. The cost of advertisements (from a $200.00 classified to a $5,000.00 or more display advertisement); agency costs at 20 - 30% of annual compensation; employee referral costs of $500.00 - $2,000.00 or more; internet posting costs of $300.00 - $500.00 per listing.
2. 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.
3. 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.
4. 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. 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.

5. Calculate the administrative cost of handling, processing and responding to the average number of resumes considered for each opening at $1.50 per resume.
6. Calculate the number of hours spend by the internal recruiter interviewing internal candidates along with the cost of those internal candidates to be away from their jobs while interviewing.
7. Calculate 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 2 or 3 candidates.
8. Calculate the cost of the various candidate pre-employment tests to help assess a candidates' skills, abilities, aptitude, attitude, values and behaviors.

Training Costs

1. Calculate the cost of orientation in terms of the new person's salary and the cost of the person who conducts the orientation. Also include the cost of orientation materials.
2. Calculate 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 4 - 6 weeks or more of classroom training.
3. Calculate the cost of the person(s) who conduct the training.
4. Calculate the cost of various training materials needed including company or product manuals, computer or other technology equipment used in the delivery of training.
5. Calculate the cost of supervisory time spent in assigning, explaining and reviewing work assignments and output. This represents lost productivity of the supervisor. Consider the amount of time spent at 7 hours per week for at least 8 weeks.

Lost Productivity Costs

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

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1. Upon completion of whatever training is provided, the employee is contributing at a 25% productivity level for the first 2 - 4 weeks. The cost therefore is 75% of the new employees' full salary during that time period.
2. During weeks 5 - 12, the employee is contributing at a 50% productivity level. The cost is therefore 50% of full salary during that time period.
3. During weeks 13 - 20, the employee is contributing at a 75% productivity level. The cost is therefore 25% of full salary during that time period.
4. Calculate the cost of coworkers and supervisory lost productivity due to their time spent on bringing the new employee "up to speed."
5. Calculate the cost of mistakes the new employee makes during this elongated indoctrination period.
6. Calculate 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.
7. Calculate the impact cost on the completion or delivery of a critical project where the departing employee is a key participant.
8. Calculate 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.

New Hire Costs

1. Calculate the cost of bring 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 email accounts, costs of establishing credit card accounts, or leasing other equipment such as cell phones, automobiles, pagers.
2. Calculate the cost of a manager's time spent developing trust and building confidence in the new employee's work.

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Lost Sales Costs

1. 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 calculate the lost sales until the sales representative is fully productive. Can also be used for telemarketing and inside sales representatives.
2. 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. Calculate the lost revenue by multiplying the number of weeks the position is vacant by the average weekly revenue per employee.

Calculating and adding all these costs, given our original example of the $50,000 person 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 cost and impact on running a business, a well thought-out program designed to retain employees may easily pay for itself in a very short period of time.

This article was prepared by William G. Bliss, President of Bliss & Associates Inc., a Wayne, NJ consulting firm providing advisory services to entrepreneurial companies. You can reach him at wbliss@blissassociates.com or by calling 973-616-8600.

How Much Does Your Employee Turnover Cost?

By William H. Pinkovitz, Joseph Moskal and Gary Green

New-Online Employee Turnover Calculator

Many surveys say that the number one issue facing business is *finding and keeping good employees*. Nationally, the average annual employee turnover rate for all companies is 12

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percent. In our 1996 Wisconsin study, we found that 75 percent of the demand for new employees is simply to replace workers who have left the company.*

The good news is that there are many proven methods to help you do a better job of finding and keeping good employees. The bad news is well known to every manager who has ever suggested increasing employee training, developing formal job descriptions, implementing exit interviews for departing employees, or establishing more rigorous search and screen procedures. They all cost money.

Employee turnover (replacing employees) also costs money. We all know that. We also know better systems and training can help us find better employees and keep the good ones. The dilemma is knowing how much to spend to ensure you're getting an adequate return on your investment in people.

The following worksheet is a start. It will help you calculate the cost of employee turnover for your company. Knowing the cost of losing and then replacing an employee will help you determine how much you can afford to invest in keeping them. It will also help you analyze whether your investment in keeping your employees is adding to your bottom line.

The accompanying worksheet was adapted from formulas developed by Wayne Cascio (see *Costing Human Resources*, PWS-Kent, 1991) and H.L. Smith and W.E. Watkins (see"Managing Manpower Turnover Costs" in *Personnel Administrator*, vol. 23 #4, 1978). Smith and Watkins identified three major cost categories: separation costs, replacement costs, and training costs. Cascio added a category to include the performance differential between the employee who leaves, and the replacement. We've added another category, *vacancy* costs, to account for the added costs/savings realized while the position is vacant.

Separation costs include:

- the costs incurred for exit interviews;
- administrative functions related to termination;
- separation/severance pay; and
- any increase in unemployment compensation.

Vacancy costs include the net cost/savings incurred due to increased overtime or temporary employees needed to complete the tasks of the vacant position.

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Replacement costs include the cost of:

- attracting applicants;
- entrance interviews;
- testing;
- travel/moving expenses;
- preemployment administrative expenses;
- medical exams; and
- acquisition and dissemination of information.

Training costs include both formal and informal training costs. Performance differential recognizes the difference in productivity between those who leave and their replacements (Cascio, 1991).

Typically separation, replacement, and training are all net costs. However, vacancy costs and the performance differential can result in either a net cost or savings. For example, if overtime and/or temporary employees' costs are less than the employee would have earned while the position is vacant, a vacancy savings occurs. If the new employee's performance exceeds the predecessor's, a net performance benefit can result.

It's important to note that only tangible costs are included on this worksheet. Intangible costs are just as real and often much greater than the costs we can quantify. Examples of intangible costs include: the uncompensated increased workloads other workers assume due to vacancies, the stress and tension turnover causes, declining employee morale, and decreased productivity due to loss of work group synergy. These costs are very real. However, they are difficult if not impossible for most businesses to measure. Just be aware that completing this worksheet will provide you with only a portion of the total cost of employee turnover.

When completing this worksheet, include all quantifiable costs -- salary, materials, and expenses. A final reminder: This is simply an example, not your own customized worksheet. Modify, add, or delete categories as appropriate for your business. The example is included to help you get started.

*For more information about our face-to-face interviews with 78 companies (which represent over 20 percent of Rock County, Wisconsin's 72,000 employees), you can contact the authors at this e-mail address: bill.pinkovitz@uwex.edu.

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The Real Costs of Employee Turnover

The Rainmaker Group

Few managers or companies would debate that employee turnover hurts their organization's bottom line. However few managers grasp the full extent to which employee turnover effects their bottom line. Hard costs such as recruiting, interviewing, and training come to mind quickly and are easy to quantify. However there are other soft costs that are more difficult to quantify, but can have a huge impact on an organization's bottom line.

Employee turnover is unavoidable. It is a fact of business life as are its associated costs. Or is it?

The costs of employee turnover can be staggering, ranging anywhere from 1/2 to 5 times an employee's annual wages dependant upon his or her position. It is neither possible, nor desirable to completely eliminate turnover from your organization. Some of the costs associated with employee turnover are unavoidable and must be expected to occur in the normal course of business. **But not all the costs!**

You can do something about the high cost of employee turnover...

Before you can start to combat the costs of employee turnover, you must be aware of what these cost are and what they entail. There are, of course, some obvious costs that come quickly to mind, but there are also numerous other costs that you may have never considered that can have a serious impact on your bottom line.

The Hard Costs:

Turning over one employee can cost around 1/2 of a low skilled hourly workers annual wages plus benefits, while losing a member of C-Level upper management can cost 3 to 5 times his or her annual wages and benefits.

Consider this: if your firm has a turnover rate of 25% (about the national average) and employs 40 employees each earning $25,000 annually, your costs of turning over 10 of these employees over the course of a year will be at least $125,000! What could you do with an additional $100,000+ in resources?

Severance pay can also be a huge part of employee turnover costs. This is especially true with highly skilled employees and high-level management. These are wages on which you will never see any return on you investment!

The costs of recruitment: Each time an employee is lost the hiring and selection cycle must start again. These costs can be significant: advertising costs to announce your job opening to the masses, cost of recruitment agencies, background checks, reference checks, drug testing, cost of overtime pay, temporary help and much more.

Hiring costs: Once you've made a hiring decision, the costs of turnover don't stop, but rather continue. Sign on bonuses, relocation costs, and any increases in salary level necessary to attract new talent all add up quickly. The time spent by HR managers to onboard and train the new employee can also be costly and unnecessary. These are all tangible costs that could be avoided with a better employee retention strategy.

Other Costs: **Some Food for Thought**

There are clearly a number of turnover costs that can be easily quantifiable, but these costs often times are just the tip of the iceberg. There are numerous turnover costs that will never appear on any balance sheet or income statement that can have a serious impact on your firm's bottom line.

First of all consider the affects on productivity that are caused by turnover. It takes on average 8 weeks to recruit and hire a new employee. During this time production can seriously falter. Other employees have to pick up the slack in production, often taking on tasks and responsibilities they are unfamiliar with or untrained in. This can drain team morale and further hurt production. The negative affect on production caused by turnover doesn't stop when a new employee is hired.

There is always a learning curve associated with any job; for some it can be short and insignificant, while for many others it can be a considerable period of time. During this time it takes a new employee to "get up to speed" with the rest of the team, production will never be as good as it could be.

There can also be a significant loss in business due to employee turnover. Many employees enjoy a loyal following of customers with whom they share a real connection. The father of a close friend of mine is a great example. As a parts dealer for an automotive service center he worked with many customer on a regular basis and formed a real bond with these customers. They trusted him and knew they he would do whatever possible to help them. When this individual left that position and went to a competing service center, so did almost all of his loyal customers. Little did the firm know that the customers were loyal to the employee, not the company - and they paid dearly when they were unable to keep him on board.

Another serious cost to companies when they lose employees is the loss of organizational knowledge. Many employees are able to become experts in the field they work in and when they leave, so does that knowledge. These employees are no longer available to share this knowledge and mentor junior members in the company. Once again these costs are near impossible to quantify, but there is sure to be an affect on the bottom line.

What You Can Do About It

The stakes are clearly high when it comes to retaining good employees within your organization. Undoubtedly some industries are more susceptible to experience higher turnover than others.

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Turnover in the Accommodation and Food Service and Leisure and Hospitality industries average over 50% annually. If you compete in these industries, or any other industry susceptible to high turnover rates, you know and expect that turnover is going to be a challenge, but it doesn't need to cripple your company's ability to be successful.

A Harvard University study reports that 80% of employee turnover can be attributed to mistakes made during the hiring process. The implications of this are huge: up to 80% of your turnover can be blamed on hiring mistakes. The problem lies in the employee selection process. Simply put the wrong people are being hired for the wrong jobs.

A Michigan State University indicates that traditional hiring techniques - resume reviews, interviews, and reference checks only provide a 14% likelihood of a successful job hire. ONLY 14% !!! Your odds of winning a hand at Blackjack are significantly better at around 40%. If you rely only on traditional hiring practices you are truly gambling with the future success of your organization.

The Michigan State University study does offer hope in regards to these horrendous odds of hiring the right employee. The effective utilization of powerful personality assessments are shown to increase the likelihood of a successful job hire to 75%!!!. The power of these assessments is staggering and provides a powerful insight into the values, behaviors, and attributes the job candidate possesses. This information can then be compared against a Benchmark established for the job position and an informed hiring decision can now be made. The results are incredible. Check out these success stories to see the power of personality assessments in action.

At The Rainmaker Group we do not sell personality assessments - anyone can sell you those. Rather we sell results. The power of the personality assessments combined with the Job Benchmark we help you establish can yield amazing results for you organization. Unwanted turnover will all but disappear, employee morale will increase, and your bottom line will be much healthier.

At The Rainmaker Group we are committed to helping your organization improve employee retention and reduce unwanted turnover costs. Give us a call today and we'll discuss some strategies for improving employee retention in your organization!

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The Business Case for Workplace Alcohol Prevention

Workplace alcohol abuse need not be accepted as an inevitable cost of doing business.

By Barry Knott, Oct 01, 2012

Driving Under the Influence

Employers, especially those with large driving fleets, recognize vehicle crashes as the leading cause of occupational fatalities in the United States.[18] Contributing factors include fatigue, stress, extended hours, prescription drug use, and alcohol consumption. Employers without fleets and not subject to DOT regulations often perceive a DUI as an "off the job" problem and not part of the employer's business. However, employers often pick up the consequences of DUI in medical costs, work loss, higher insurance, a reduced workforce pool, and concern about the company's reputation.

Opportunities for improvement in this area include:

- Establish a driver safety program at work. An excellent starting point is the whitepaper "Guidelines for Employers to Reduce Motor Vehicle Crashes," a joint effort by NETS, NHTSA, and OSHA to reduce motor vehicle-related deaths and injuries in the nation's workforce. (http://www.osha.gov/Publications/motor_vehicle_guide.pdf)
- Increase employee knowledge of the personal and employer cost of road crashes. Focus on drunk driving because of its large role in on-the-job and off-the-job road crashes.

Guidelines for Employers to Reduce Motor Vehicle Crashes

This document represents a joint effort by NETS, NHTSA and OSHA to reduce motor vehicle-related deaths and injuries in the nation's workforce.

Highlights:

"Every 12 minutes someone dies in a motor vehicle crash, every 10 seconds an injury occurs and every 5 seconds a crash occurs. Many of these incidents occur during the workday or during the commute to and from work. Employers bear the cost for injuries that occur both on and off the job. Whether you manage a fleet of vehicles, oversee a mobile sales force or simply employ commuters, by implementing a driver safety program in the workplace you can greatly reduce the risks faced by your employees and their families while protecting your company's bottom line."

"Motor vehicle crashes cost employers $60 billion annually in medical care, legal expenses, property damage, and lost productivity. They drive up the cost of benefits such as workers'

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compensation, Social Security, and private health and disability insurance. In addition, they increase the company overhead involved in administering these programs.

The average crash costs an employer $16,500. When a worker has an on-the-job crash that results in an injury, the cost to their employer is $74,000. Costs can exceed $500,000 when a fatality is involved. Off-the-job crashes are costly to employers as well.

The real tragedy is that these crashes are largely preventable. Recognizing the opportunity that employers have to save lives, a growing number of employers have established traffic safety programs in their companies. No organization can afford to ignore a major problem that has such a serious impact on both their personnel and the company budget.

1 NHTSA [2003]. The economic burden of traffic crashes on employers: costs by state and industry and by alcohol and restraint use. Publication DOT HS 809 682."

"Alcohol and Drug Impaired Driving Alcohol use is involved in 40 percent of all fatal motor vehicle crashes, representing an average of one alcohol-related fatality every 30 minutes. It is estimated that three in every 10 Americans will be involved in an impaired driving-related crash some time in their life. Alcohol, certain prescription drugs, over-the-counter medications, and illegal drugs can all affect a person's ability to drive safely due to decreased alertness, concentration, coordination and reaction time. Businesses pay a high price for alcohol and drug abuse; alcohol is a contributing factor in 39 percent of all work- related traffic crashes."

Impaired Driving

Safety Facts for the Road

• Alcohol impaired driving accounts for about 40% of fatal crashes.

• About three in every 10 Americans will be involved in an alcohol-related crash at some time in their lives.

• Research shows that alcohol is a contributing factor in 39% of all work-related traffic crashes.

• Nearly 1.5 million people are arrested each year for driving while intoxicated (DWI). Two-thirds of all drivers arrested for DWI are first time offenders.

• A DWI/DUI conviction on a person's driving record may prevent them from getting a job, receiving a promotion or even result in a job loss.

• Many companies have corrective action programs that suspend company driving privileges for a DWI/DUI violation.

• Nine out of 10 insurance companies automatically cancel the policy of a driver convicted of a DWI/DUI violation. Consequently, the driver must find a high-risk insurance company and face substantial rate increases.