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People Insights

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People Insights, Inc.

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People Insights, Inc.

14313 – 91st Avenue

Surrey, BC V3V 7T7

604-585-6608

www.peopleinsights.com

Employee Turnover

What is the true cost of employees leaving your organization?



by **Neil B. Zambik**
President,
People Insights, Inc.

An employee has just given you a notice of resignation from your organization. You are not overly concerned, as you know employees come and go. You are now just worried about the hassle of having to hire a replacement...BUT have you ever considered the true financial cost to your organization when you lose a good employee?

In this issue of People Insights, we will examine the costs of employee turnover and how it can deeply affect the bottom line.

When looking at turnover, in any organization, it is often the best employees that leave, as they are the ones who are most employable. The cost of a good employee leaving your company can be calculated and often can approach 100% to 150% of that employee's annual salary.

Let's look at an example of an employee earning \$48,000 per year (\$4000 per month). What are the costs that your organization will incur as a result of this employee leaving? Please note that your true costs may differ from this example and may be higher or lower depending on your

company's circumstances and the employee's position. However, this will serve as an illustration of the true costs of turnover.

Costs of Departing Employee

The departing employee has mentally "checked out" of the organization 6 months ago as they focus on their job search. Therefore, assume around 75% productivity during this period.
 $\frac{1}{2}$ year salary X lost productivity
\$24000 X 25% \$6000

Two weeks of limited or no productivity after notice is given (not including the loss of productivity of other staff members talking to the employee about his/her new job) \$2000

Exit interviews, administrative costs of employee leaving, going away parties, etc. (HR time and administrative costs) \$2000

Position is vacant for 2 months before the new candidate is in place. There will be a loss of productivity and other employees will have to take up the slack. They will be paid overtime or get days off in lieu.
2 months X \$4000 per month \$8000

Loss of expertise, potential loss of customers to your competitors, negative word of mouth by your ex-employee, etc. This is difficult to measure but could be a huge number. TBD

SUBTOTAL **\$18000+**
see COST page 2 >

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Cost of Turnover is a Huge Bottom Line Expense



Take some time to consider the costs of turnover in your organization.

"Take care of those who work for you and you'll float to greatness on their achievements."

H.M.S. Burns

"A moment's insight is sometimes worth a life's experience."

Oliver Wendell Holmes

Look for the next issue on techniques for keeping excellent employees and creating a motivated and productive workforce.

Recruitment Costs

SUBTOTAL \$18000+

Advertisements for the position. Consider the following:

- Newspaper Ad \$2000
- Recruiter (20-30% of annual salary)
- Employee referral bonus
- Internet job posting (\$500 – 1000)

Assume one newspaper ad (minimum) \$2000

HR administration – writing ad, getting approval, getting ads placed, etc. HR time and hiring manager time. \$1000

First Interviews:

- 10-12 first interviews
- 2 interviewers per candidate
- 1.5 hours time (including preparation)

40 total hours X \$50 per hour time and benefit costs) \$2000

Second Interviews

- 5 second interviews
- 2 senior interviewers per candidate
- 2 hours time (including preparation)

20 total hours X \$75 per hour time and benefit costs plus HR administration time \$2000

Third Interview:

- Interviewers time
- Aptitude tests
- HR administration

\$2000

Hiring letter, reference checks, employee setup administration, new business cards, etc. \$1500

New Employee Costs

New employee orientation – several employees' time, welcome lunch, etc. \$1000

Training Costs – 6 weeks - Salary (\$6000) plus costs of training, travel etc. (\$6000) \$12000

Productivity (after training):

- 25% productive – first 2 weeks \$1500
- 50% - next 4 weeks \$2000
- 75% - next 4 weeks \$1000

Additional salary / benefits / vacation etc. to secure new employee (8–10% premium) \$4000

TOTAL \$50000+

Arguably these numbers may appear high, however there are other costs not considered here including:

- The new employee does not work out
- The new employee creates staff changes due to a new operating style
- The previous employee takes away existing customers
- The new employee makes critical business mistakes.

Now consider your annual turnover rate times your average annual salary. What is the true cost of employee turnover to your organization?

What are the costs of turnover for your business?

If this is a concern for your organization and you would like to find creative ways to reduce employee turnover, please feel free to contact the President, Neil Zambik, for a free initial consultation. In addition, **People Insights, Inc.** can also provide strategic Human Resources and

innovative People Development programs and processes for your business. Neil can be reached at:

Phone: 604-585-6608 or

E-mail: neil@peopleinsights.com