Center for American Progress

There Are Significant Business Costs to Replacing Employees

SOURCE: AP/ Mike Groll

The cost of employee turnover for businesses is high, regardless of the level of wages being paid to the departing or incoming employees. Workplace policies that improve employee retention can help companies reduce their turnover costs.

By Heather Boushey and Sarah Jane Glynn | November 16, 2012

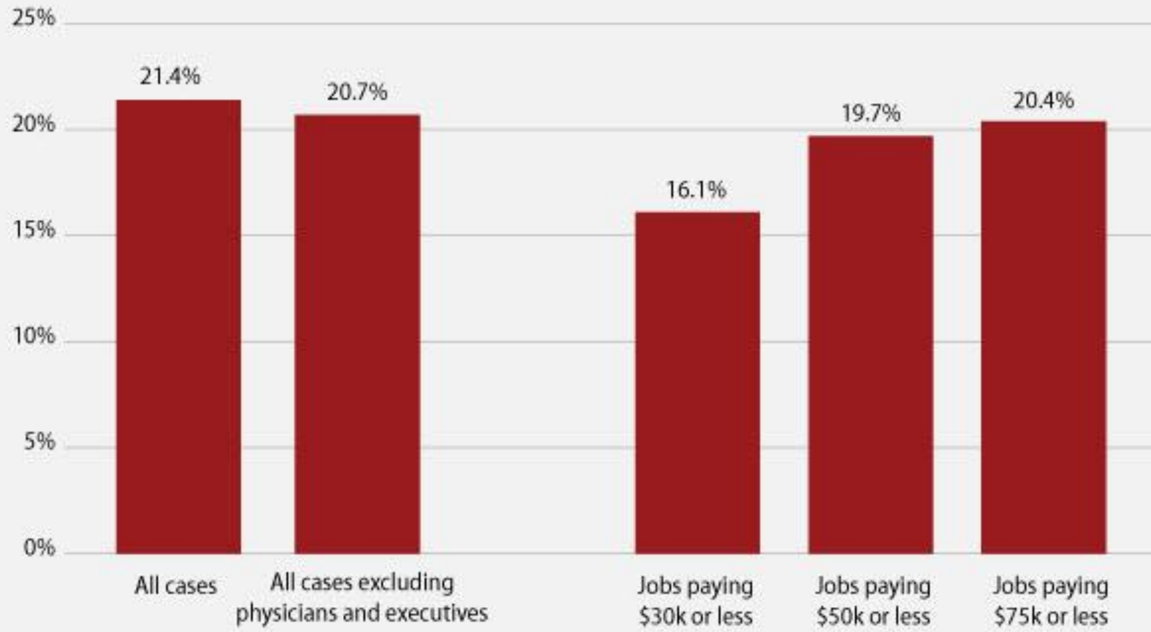
http://www.americanprogress.org/wp-content/uploads/2012/11/CostofTurnover.pdf

Indeed, it is costly to replace workers because of the productivity losses when someone leaves a job, the costs of hiring and training a new employee, and the slower productivity until the new employee gets up to speed in their new job. Our analysis reviews 30 case studies in 11 research papers published between 1992 and 2007 that provide estimates of the cost of turnover, finding that businesses spend about one-fifth of an employee's annual salary to replace that worker. (see Figure 1)

FIGURE 1

Replacing employees is costly for companies' bottom line

The cost of turnover is remarkably consistent across jobs at different pay levels, except the very highest-paid jobs, 1992 to 2007



Source: Authors' analysis of 30 case studies on the cost of turnover from 1992 to 2007

Specifically, the economic studies we examined reveal a number of patterns about the cost of turnover:

- For all positions except executives and physicians—jobs that require very specific skills—across the remaining 27 case studies, the typical (median) cost of turnover was 21 percent of an employee's annual salary.
- For workers earning less than $50,000 annually—which covers three-quarters of all workers in the United States—the 22 case studies show a typical cost of turnover of 20 percent of salary, the same as across positions earning $75,000 a year or less, which includes 9 in 10 U.S. workers.

Entrepreneur

http://www.entrepreneur.com/article/220254

The Hidden Costs of Employee Turnover

BY GWEN MORAN | September 10, 2011 | 15 Comments | Clip it

Employee turnover has some obvious costs associated with it, including recruitment, training and salary. However, every time an employee leaves, there are a variety of hidden costs you might not have considered, says Toronto-based human resources consultant Tom Armour. While you might not be writing a check for these costs, here is how turnover can drain dollars:

Slippage. When an employee is missing, the work that isn't getting done has a price attached to it, Armour says. Lost sales, production delays and lags in new product introductions all cost your company money.

Ripple effect. Turnover has an impact on the peer group, as well as the management chain, making everyone less effective. Co-workers need to pick up the slack, distracting them from achieving their own performance goals while managers need to devote time to finding a new employee. "One CEO I spoke with had his five-year growth plan turn into a six-year plan because of delays due to employee turnover," Armour says.

Customer loss. When a knowledgeable employee leaves, taking experience and customer service ability with him or her, that can have an impact on customer satisfaction. "Customer commitments are often not met, and the company loses important customers," Armour says. "Dealing with trainees can be challenging. If you have a lot of unwanted turnover, customers can get annoyed or begin to lose interest in your business."

Lost credibility. Turnover is a cost to management in two ways, Armour says: Management can lose credibility when it creates an environment with excessive turnover, and existing employees can become demoralized and decide to move on.

It's important for smaller businesses in particular to work on creating environments that retain employees. "Too often, small-business owners don't consider how important it is to invest time and resources into their employees," he says. "Either way, you pay."