

What You Should Know About Employee Turnover

SPECIAL REPORT



Susan Rochester

www.balanceatwork.com.au

1300 785 150

advice@balanceatwork.com.au

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Last year, Hudson conducted a survey of over 7000 employers in Australia that showed poor staff retention can result in serious productivity problems, low morale, and damaged business relationships.

National Practice Leader of Assessment and Development at Hudson, Simon Moylan, concluded that staff retention is the number one issue currently keeping employers awake at night.

'With the employment market continuing to tighten, employers are working harder than ever to attract, engage and retain the talent they have,' Moylan said. 'The "visible" cost of turnover, including recruitment, hiring, orientation and training sits somewhere between 50% and 150% of an individual's salary.'

'However, the additional unknown costs such as loss of expertise, reduced productivity, lower morale, the cost of the vacant position and the training of the new hire, means the true cost of turnover may be up to three times this amount.' This article looks at how you calculate the costs you can quantify, then gives tips on reducing turnover.

Calculating the cost

Employee turnover costs your business money. Knowing the cost helps you assess the value of employee retention for your business. These guidelines will help you find the true cost of losing and replacing a productive employee.

Direct costs

The direct costs of replacing a departing employee include:

- Expenses of advertising the vacancy
- Fees paid to recruitment agencies
- Fees paid to consultants for conducting tests, checking references, pre-employment medicals, etc
- Termination payout amounts, including pro rata long service leave and pay in lieu of notice

Indirect costs

The indirect costs are often less obvious and contribute a substantial proportion of the overall expense. Indirect costs include:



What You Should Know About Employee Turnover

Loss of productivity for other employees filling in for vacant position

Where other employees perform part of the vacant job as well as their own jobs, estimate one-third of each employee's total daily remuneration, multiplied by the number of days they continue to fill in.

In-house costs of hiring

This includes the hourly rate of each employee involved in the process, multiplied by the number of hours they spend on tasks such as:

- Drafting position descriptions and advertisements
- Liaising with advertisement placement and recruitment agencies
- Fielding enquiries from prospective candidates
- Reading resumes
- Screening applications and advising candidates
- Making appointments for interviews
- Carrying out interviews and debriefing
- Verifying qualifications, checking references, conducting pre-employment assessments, etc

Induction and training

Multiply the hourly rate for each employee involved, by the time spent on training and induction of the new recruit. Also include the cost of training and induction facilities.

Termination administration

Again, it is possible to calculate the cost based on the hourly rate of the relevant staff members. This may include:

- Pay officer time to process termination pay,
- Exit interviewer time,
- Employee and line manager time to finish paperwork, return and check employer's property (such as security tags, vehicles, tools, uniforms, sales resources, etc) and
- Administration time, for example, on cancelling computer access.

Loss of productivity in early stages of employment

New employees normally take some time before they become sufficiently familiar with their jobs to achieve 100% productivity. One suggestion is to use an estimate of 50% productivity until the required standard is reached.



Estimate the number of days required to reach 100% productivity and multiply this by 50% of the employee's daily total remuneration rate. Some estimates will be quantifiable, such as changes in sales income, but many will not.

Loss of productivity in final stages of employment

The productivity of many employees falls while they are serving out their notice period. For example, many are preoccupied with making new arrangements relating to a new job. Others may want to take unused sick leave or other days off they feel are owed to them.

There will also be time used for exit interviews, client hand over and farewell parties. You might attempt to estimate percentage loss of productivity based on your observations of past employees who resigned, and multiply the percentage by the employee's daily total remuneration rate and number of days after resignation. Again, some estimates will be quantifiable but many will not.

Summary of employee turnover costs

When all the quantifiable expenses are calculated, the total cost of turnover for one employee is as follows:

Total direct costs

- + Loss of productivity for other employees filling in for vacant position
- + In-house hiring costs
- + Termination administrative costs
- + Induction and training costs
- + Loss of productivity in early stages of employment
- + Loss of productivity in final stages of employment

LESS Unpaid remuneration while the job is vacant.

If you multiply the cost for one employee by the number of employees leaving your organisation each year, you have just one of many reasons for putting effort into retaining good employees! So what can you do about it?



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How do you improve retention?

The Hudson report points to a range of best practices that can help businesses increase staff retention:

Job fit and opportunities

- Thorough search and selection processes select employees with the best overall fit for your organisation and their role.
- Individual development plans are based on identified career paths.
- Opportunities are available for employees to develop in the organisation through career management, coaching and mentoring.

Flexible work options

- The most highly valued benefits are those that are tailored to employees' individual work/life situations.
- Understanding of individual employees' preferred ways of working and work environment are reflected in the programs offered by your organisation.
- Flexible work options are offered to staff, supported by management and consistent with the values of your organisation.

Financial incentives

- Competitive salaries are based on the market value of the roles in your business.
- Compensation packages are based on individual and business needs.
- Rewards are directly and transparently related to individual, team and business performance.

Management support

- Select and coach leaders so they have the skills to effectively support and develop their staff.
- Managers are able to offer constructive feedback to staff on their performance and areas for improvement.
- Staff retention is understood to be part of managers' and supervisors' key accountabilities.

For practical advice on employee engagement and retention, call us at Balance at Work on +612 9233 2293 or 1800 785 150, email advice@balanceatwork.com.au or visit our website www.balanceatwork.com.au. We look forward to assisting you!