

“HIDDEN COSTS OF TURNOVER IMPACT THE BOTTOM LINE”



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Employee turnover is a significant but usually hidden cost to organizations. It has been estimated that it costs anywhere from one half to two times a person's annual salary to replace just one person. The greater that person's impact on the business, such as management or sales, the greater the loss to the organization when they leave.

Unfortunately, many businesses have not grasped this reality, and do not look at turnover - and its cost to the business - as a major leak in profitability. They do not look beyond the obvious outgoing cash costs such as candidate sourcing, processing costs, or interview related expenses. Additionally, organizations that choose to leave a position vacant for long periods of time, believing that they are saving money, need to wake up to reality.

Studies continue to show that there are huge costs associated with employee turnover that are never captured and do not show in the reported budget, but are in fact very real losses to the business. These include the costs of a person leaving the organization, such as missed deadlines and other business obligations; indirect costs for recruitment and selection of the replacement, especially the value of management time and lost productivity to plan, interview and evaluate candidates; and the considerable costs for new hire on-boarding and training.

Additionally, there is a cost to the organization in lost knowledge, productivity and relationships. For instance, once an employee has given notice, they will have already "mentally vacated", and their productivity and effectiveness will deteriorate as they coast toward the end of their employment period. Consider the cost of projects, customer issues and tasks ignored, done poorly or incorrectly, -due to apathy or perhaps just the overwhelm of the transition.

Consider the cost of the customer relationships that were built and maintained by the departing person that may now be lost. We know that why people buy and why people stay with a product or service is frequently about the trusted relationship at its core. Consider also the cost of the remaining employees having to stretch to cover the production, service or administrative gap - and its impact on the customer - until a new person is on board and up to speed.

At the manager level, once their leader has gone, employees left on their own are likely to be less effective, having no one to guide and prioritize their efforts. And, if the leader was well regarded, their leaving will likely affect the morale and productivity of those left behind, adding to the hidden losses. Worst case, remaining employees may be looking to the person who left to introduce them to opportunities where they have landed, creating a turnover ripple effect.

The increasing talent shortage will make it even more challenging and costly to fill open positions going forward. Organizations will need to pay more attention to why people are leaving, and what it will take to keep them. Given this knowledge, the responsibility will be on the senior management team to identify and respond to the reasons for employee turnover. Clearly, the cost of implementing employee retention strategies will be less than the significant direct and indirect costs of letting valuable talent walk out the door.