

# Employee Turnover: How much does it cost you?

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For businesses to thrive in today's economy, finding and retaining the best employees is important. This is especially true for small businesses and nonprofits competing with larger businesses, and larger budgets, for top talent.

Happy employees help businesses thrive. For example, in a sample of management personnel with average salaries in the \$65,000 range, it was found that being psychologically distressed could cost the organization roughly \$75 a week per person in lost productivity. With 10 employees that translates to \$750 per week in performance variance; for 100 employees the numbers are \$7,500 per week or \$390,000 per year. When employees have low levels of well-being and job satisfaction, they are more likely to quit their job.

Frequent voluntary turnover has a negative impact on employee morale, productivity, and company revenue. Recruiting and training a new employee requires staff time and money. According to the Bureau of Labor Statistics, turnover is highest in industries such as trade and utilities, construction, retail, customer service, hospitality.

## The cost of employee turnover

There are several studies on the cost of employee turnover. Some studies (such as SHRM) predict that every time a business replaces a salaried employee, it costs 6 to 9 months' salary on average. For a manager making \$40,000 a year, that's \$20,000 to \$30,000 in recruiting and training expenses.



But others predict the cost is even more - that losing a salaried employee can cost as much as 2x their annual salary, especially for a high-earner or executive level employee. Turnover seems to vary by wage and role of employee. For example, a Center of American Progress study found

average costs to replace an employee are:

- 16% of annual salary for high-turnover, low-paying jobs (earning under \$30,000 a year). For example, the cost to replace a \$10/hour retail employee would be \$3,328.
- 20% of annual salary for mid-range positions (earning \$30,000 to \$50,000 a year). For example, the cost to replace a \$40k manager would be \$8,000.

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- Up to 213% of annual salary for highly educated executive positions. For example, the cost to replace a \$100k CEO is \$213,000.

## Why does it cost so much?

1. The cost of training and on-boarding
2. Interview expenses
3. Advertising costs
4. Lowered employee engagement.
5. Productivity of new hires
6. Impact on morale and the “grapevine machine”
7. Less effective service

## Full List of Most and Least Loyal Employees

How do salary, typical worker age, job satisfaction and job stress affect how long an employee spends with that company? PayScale compares the companies on the Fortune 500 list to see how employee tenure varies among employers.

<http://www.payscale.com/data-packages/employee-loyalty/full-list>

## What can you do to reduce turnover”

- Mentoring is one of the most effective, cost efficient ways of increasing employee tenure benefitting the mentor, the mentee and driving significant retention.
- Workplace policies that improve employee retention can help companies reduce their turnover costs. Family-friendly policies such as paid family leave and workplace flexibility help retain valuable employees who need help balancing work and family. For example, research has found that access to any form of parental leave makes women more likely to return to work after giving birth. Moreover, by 2050 up to 20 percent of Americans will be older than age 65, and improved leave policies would allow workers to provide the care their elderly parents may need without having to sacrifice their livelihoods
- Benchmark your employee retention rate
- Use proven retention strategies, not guesswork
- Don't assume employees are happy (create a high-feedback environment)
- Implement a health benefit and wellness program
- Provide different benefits for different employees (focusing on the high-value, expensive to replace employees)

## Hire right the first time

I am big proponent of hiring right the first time. That is, put your talent acquisition dollars into making sure you are hiring the right person for the job. What do I mean by the right person? Hire a person with skills, attributes, and knowledge into a position that best matches what they will excel at and that they will be successful.

I highly recommend Paul Greens, PhD “More Than a Gut Feeling” approach to hiring interviewing. Below is a link to a video of the latest version of “More Than a Gut Feeling.” <http://www.crmlearning.com/more-than-a-gut-feeling-IV>

