

The Cost of Turnover - by Anne Howard

"The greatest danger for most of us is not that our aim is too high and we miss it, but that it is too low and we reach it."

- Michelangelo

Helped by the great economy, the hard work to build the small manufacturing company is paying off. The Plant Manager, John, has warned Sales that customers are going to have to be told they are at capacity and turnaround on orders is going to be 50% greater than it has been. Sales says that cannot happen. They are already at the low end on order to completion time compared to industry standard. Their competitive advantage; consistent, high quality products with shipping reliability is what has built their business. That cannot be compromised.

Production is currently short four people that cannot be found; 3 months of 13 hours per week mandatory overtime for all staff has resulted in an increased error rate; and, a couple of people have recently said if they don't get back to a regular 40 hour week they are quitting. John feels like he has 10 fingers in the dyke and a new hole about to pop open.



Does this scenario have a familiar ring to it?

Small businesses generally argue that they cannot afford to carry any extra staff to help out when an especially busy period comes along or to step in when someone leaves. In the past couple of years John has thought about carrying a "spare" production staff member or two but has never been able to convince himself or other management team members that it would be a good decision. Wage and benefit costs to do so have exceeded the recruiting costs and until the last year there has been a sufficient supply of labor for replacement of departing staff without excessive problems. Now, with all the problems the vacant positions are causing, John is thinking he wasn't really measuring all the costs involved.

There has been and will likely continue to be a lot of skepticism about the actual costs of turnover because some of the costs are hard to quantify and the statistics needed to do so are not maintained. What is generally agreed is that the cost of turnover is more than just recruiting and selection related.

Turnover costs, some of which are pretty straightforward to measure and some of which are not, include:

- Advertising
- Time spent reviewing applications
- Time spent interviewing
- Administration of the recruiting and hiring process
- Formal training and Certification Costs
- On-the-Job Training Costs
- The impact on production of the departing employee once that person has decided to leave
- The impact on production of the departing employee's co-workers once the planned departure is known about by co-workers
- The cost of lost productivity while the position(s) remains vacant
- The cost of lost productivity for the period the new employee is learning
- The costs associated with increased errors (and waste) with new employees
- Costs associated with errors (and waste) with experienced employees who are over-worked.
- Cost of reduced morale and pride in work for experienced employees working in short-staffed situations
- The costs of overtime pay as compared to regular time wages
- Potential for and cost of increased accidents in short-staffed situations
- Payroll and other administration costs associated with the departure and hiring of replacement workers
- Cost of not meeting customer expectations
- Cost of conflict and stress related to problem solving efforts related to staffing and turnover



It is generally understood that at *the senior levels it can cost up to two times an annual salary, professional/technical people can cost from one to one and a half times annual salary, and other workers range from 50% to a 100% of annual wage costs to replace.* That generalized type of knowledge is just hard to believe. The real problem with it is that there is no proof that it is true for us.

Companies that have a deep understanding of the replacement cost of the people also know the real value of people. That knowledge establishes the basis for making decisions like John needs to make about how much excess human production capacity it is cost effective to carry. It also establishes the basis for creating and sustaining an environment where people want to work because valuable assets are usually well cared for.