THE REAL COST OF

EMPLOYEE TURNOVER

In any business, employee turnover can be a real problem. Not only does it affect the productivity and continuity of the organization, but it can also reflect badly on the organization as a whole if the turnover rate is too high.

Employee turnover has a variety of associated costs, including interviewing, hiring, training, reduced productivity, lost opportunity costs and more. Here's a look at what employee turnover is really costing your business.

THE CURRENT STATE OF EMPLOYEE TURNOVER

Forbes published a fascinating article that provided some startling statistics on employee raises and turnover. In this article, they found:

1.3% Underperformers expected around 1.3%.[1]

3% In 2014, the average raise for employees expected was around 3%.[1]

4.5% Top performers expected around 4.5%.[1]

1% However, the inflation rate was 2.1% in 2014, which meant that a raise was actually less than 1%.[1]

When an employee leaves a company, the average raise is between a 10% to 20% increase in salary.[1]

10% **20%**

Cameron Keng, the author of the article, says, "The worst kept secret is that employees are making less on average every year. Staying employed at the same company for over two years on average is going to make you earn less over your lifetime by about 50% or more."

WHAT EMPLOYEE TURNOVER COSTS

Whenever you lose an employee, there is a cost associated with it. While many businesses do not think they can afford to increase salaries, they might learn that turnover will ultimately cost them more in the long-run.

Zen Workplace provided some interesting stats on what turnover really costs an organization:[2]

"For entry-level employees, it costs between 30% and 50% of their annual salary to replace them.[2]" **30% - 50%**

"For mid-level employees, it costs upwards of 150% of their annual salary to replace them.[2]" **150%**

"For high-level or highly specialized employees, you're looking at 400% of their annual salary.[2]" **400%**

Zen Workplace uses these numbers to provide a fictional but plausible example. Let's say that a "business loses around 12 employees in one year, averaging one per month.[2]"

"Six of these employees were entry-level, with an average salary of $40,000. It costs, on average, $16,000 to replace each employee at 40% of their annual salary, for $96,000 total.[2]"

$96,000

"Four of these employees were mid-level, with an average salary of $80,000. It costs, on average, $120,000 to replace each employee at 150% of their annual salary, for $480,000 total.[2]"

$480,000

"Two of these employees were senior, with an average salary of $120,000. At 400% of their annual salary to replace them, you're looking at almost $1 million, specifically $960,000.[2]"

$960,000

$1.5 MILLION

Based on this example, it will cost your organization over $1.5 million to replace all of these employees.

The overwhelming conclusion from this data is that "it costs less to retain than it does to replace.[2]"

THE MISSING INGREDIENT: EFFECTIVE EMPLOYEE EVALUATION PROGRAMS

All of this information begs the question of why loyal employees are getting the short end of the stick and those who jump around are making more and more money each year.

Businesses should be evaluating their employees on a regular basis to analyze their performance and help employees grow. But, a standard annual review won't help the organization or employees; an effective employee evaluation program needs to be ongoing and constructive. Josh Bersin, a contributor to Forbes.com, provided some great suggestions for successful evaluation programs:[3]

Employees want regular feedback, so provide a "feedback-rich culture and set of tools that encourages all employees to give each other feedback.[3]"

Forbes suggests that you "separate the discussions about performance from discussions about potential and future career plans.[3]"

A big part of employee growth is allowing them to set their own goals, but have managers give feedback on a regular basis. Resetting them can be important, too.

Managers need to be able to "assess performance regularly[3]" so that they can give feedback on a daily or weekly basis.

Focus on producing great talent and not just output. Companies who help their employees grow will thrive.

Instead of assuming a percentage of employees will perform poorly, use assessments to determine if the individual is in the right position or needs guidance on how to succeed. Investment in employees will encourage them to stay.

The reality is that employee turnover costs businesses a significant amount of time, money and resources in comparison to remediating and retaining them. Evaluating employee performance and providing constructive feedback is the best way to help employees grow, decrease employee turnover and drive organizational loyalty.

Interested in creating an evaluation program for your organization? Request a free trial of Standard For Success, an employee evaluation software that streamlines employee evaluations in order to drive improvement and organizational efficiency. Our software collects data in a meaningful way to collect data that will drive results.

Let's chat. Request a demo now:

bit.ly/SFSDEMO

The best part? Over the past 3 years, we've been able to maintain a 99% client retention rate due to our superior customer service.

99%

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Employee Evaluation Solutions

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Sources

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