THE COST OF TURNOVER

Most managers would agree that turnover can wreak havoc on an organization. The stress and strain required to recruit, select, and train replacement employees is difficult for managers and employees alike. But turnover is more than an annoyance; it brings significant costs to the organization and thus has a direct impact on the bottom line. This financial cost of turnover is not obvious. It doesn’t appear as a line item on the income statement, but its effect on profit is quite real and certainly worth measuring nonetheless.

Turnover can be measured in a myriad of ways, depending on the objective of the organization studying it. For purposes of simplicity, we will focus here on only the most basic approaches to turnover measurement. The first step in computing turnover cost is to determine the number of employees who separate from service during the period being studied. Such separations include those employees who quit voluntarily and those who are discharged (known as involuntary turnover). Although each group can be examined separately, this illustration addresses all types of separations. To determine the percentage of staff that "turns over", or separates from service, during a given time period, divide the number of employees leaving the organization by the average employee population during the period. The result is known as the separation rate. To illustrate: An organization that loses 13 employees in a one year period and has an average employee population of 48 has an annual separation rate of 27% (13 divided by 48). An organization’s separation rate is not meaningful unless it is compared to rates of other organizations in the community or industry, or studied in relation to a trend within the organization. Thus, the question of what is an acceptable turnover rate does not have a blanket answer. Once the separation rate is determined, further analysis should also include an examination of who is leaving the organization and why. When analyzing turnover, it is important to keep in mind that some turnover is unavoidable, and since new people bring new ideas, some turnover is actually desirable.

When determining the financial cost of turnover, an organization should consider three primary types of expenses:

Separation Costs

These include such items as: administrative and record-keeping duties; separation pay and expenses; and exit interviews.

Replacement Costs

This area involves recruiting and selecting new hires. Included in this category are: costs of communicating the job opening (advertising, etc.); selection interviews and pre-employment tests; recruitment agency fees; and candidate relocation fees.

Training Costs

These costs occur post-hiring and are required to bring the new employee up to speed in performing his or her duties. Included here are such items as: orientation programs; education in other workshops or seminars; and one-on-one on the job training from other employees.

You will note that most of these costs have no obvious price tag associated with them. Information must be ferreted out from various sources, and employees' time must be considered in terms of its cost to the organization. Separation, replacement, and training costs should be computed on a per-hire basis and then multiplied by the total number of separating employees to calculate the total turnover cost.

Determining what an acceptable turnover cost is must be based upon circumstances unique to each organization. Those organizations striving to reduce their total turnover costs can either reduce costs of the various components of turnover (ideally, while not compromising the effectiveness of the hiring and training processes) and/or reduce the number of employees who separate from service.