

## **Talent Management Mistake #11: Failure to Assess the Cost of Employee Turnover**

In corporate America today, we are aware that there are costs involved in hiring a new employee. We incur these costs because we are convinced that the cost of hiring a new employee in a critical position will be recovered in greater efficiencies and greater sales or profitability down the line. Losing an employee carries a cost. Unfortunately, far too many companies today either don't understand the costs associated with employee turnover or, like the proverbial ostrich, they are content to stick their heads in the sand and ignore the impact of employee turnover on the bottom line.

My purpose in writing this article is to make enough noise to get all of the ostriches to pull their heads out of the sand, because failure to assess the cost of employee turnover is talent management mistake number 11 on my list. My new Special Report outlines talent management mistakes number 1 through 10. (To download your complimentary copy, [click here](#).)

The cost of employee turnover is far greater than many executives and human resource professionals would like to admit. And according to recent studies not only do nearly 50% of businesses not calculate and monitor the cost of employee turnover, almost 20% don't have a clue about the real cost.

So why do I want you to think about this cost in terms of talent management mistakes? I want you to think about it because failure to assess this cost

- is indicative of a company that doesn't have a dynamic talent management strategy;
- can cause a company to incur costs that directly affect the bottom line; and
- blocks thinking about how the costs can be significantly reduced.

Now if we are perfectly honest, we have to admit that there are times when employee turnover is a good thing. No company has a perfect track record in hiring. Every company will occasionally hire an under-achiever. Whether the problem is low productivity, inability to embrace corporate culture and values or poor fit with the job, the company will probably be in much better shape if this person is allowed to leave and be replaced by a more suitable employee. In this case, the increased productivity of both the new hire and the people with whom he or she interacts regularly will probably more than offset the costs of employee turnover.

Losing a promising or key employee is a different story. Losing a key employee can impose a very steep cost on a company, both in terms of the cost to replace that employee and the cost in lost knowledge, productivity and staff morale. These costs are often underestimated by companies. If you are not currently

calculating the cost of employee turnover, I would like to point you to two sources of information about the costs (including many that are often overlooked) of employee turnover and how to calculate them realistically. The first is by William G. Bliss, and can be found at <http://www.isquare.com/turnover.cfm>. The second resource features an excellent online calculator of these costs and can be found at <http://www.uwex.edu/ces/cced/economies/turn.cfm>.

If you were to assume that your company's rate of turnover was about average, you could expect to lose 10%-13% of your workforce each year (although these numbers are astronomically higher in some industries). If you take the average cost of turnover at 150% to 250% of salary, you can quickly calculate a serious impact on the bottom line. In a large company the cost can quickly rise into the tens of thousands (even millions) of dollars.

It is also important to create understanding at all leadership levels in the organization about why people leave their jobs and move to other companies (often competitors). Ensure that your corporate leaders understand the main reasons people leave companies – and specifically why they are leaving your company – and what might have kept them from leaving. Then have your leadership team working closely with your human resource professionals to design and offer alternatives to valued employees. These alternatives might include:

- a new openness to flextime
- openness to job sharing
- offering an array of benefits packages designed to meet the various needs of different employee constituencies
- developing career paths with key employees
- offering education, training, and career development programs
- providing the leadership support employees need
- providing stress management options for employees

These are just a few of the types of changes that can help stop the talent drain from a company. By listening to your employees, you can come to understand how you should most appropriately respond to their needs and interests.

A very large talent drain will occur in the near future as the Baby Boomer generation retires. In some industries, the exit of the Boomers will mean a loss of 60% or more of their senior leadership. While there will certainly be a number of Baby Boomers who simply want to retire or who want to retire and do something else, it is important for human resource professionals and corporate executives to consider that many members of this generation will not want to retire at 62 or 65 and many will not be in a financial position to do so.

Retaining the Boomers in some capacity should be part of the talent management strategy of almost every company. When these seasoned employees leave, companies will see not only productivity, but also corporate

culture walking out the door. Many Baby Boomers will want to continue to work. With some creative thinking about compensation, benefits and perks, you might be able to keep a large number of employees of this generation working for you instead of someone else.

So what should you do about the cost of employee turnover in your company? Here are the steps I recommend:

- Ensure that your company is carefully, realistically and consistently assessing the cost of employee turnover *and reporting it*.
- Put in place a process that determines why people are leaving the company and what might have given them adequate incentive to stay.
- Make this cost assessment part of a corporate talent retention strategy aimed at retaining promising and key employees at all levels of the organization.
- Get your executive staff and all levels of management on board about the increasingly critical need to keep valuable talent from leaving the company. Ensure that they understand the main reasons people leave organizations and their role in creating a work environment that encourages people to stay.
- Establish benchmarks and evaluate your progress in employee retention as well as in reducing the cost of employee turnover.

Every company needs to face the fact that the talent pool of the future is shrinking and will continue to shrink, especially in terms of skilled employees. It's time to start learning to stem the tide before the labor situation becomes worse. By paying attention to the reasons for employee turnover in your company, by developing strategies to meet employee needs, and by gaining leadership involvement throughout the company, you can implement a program that will save money, productivity and, maybe, the future of your company.