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Employee Retention: What Employee Turnover Really Costs Your Company

By Ross Blake

It's one of the largest costs in all different types of organizations, yet it's also one of the most unknown costs. It's employee turnover.

Companies routinely record and report costs such as wages and benefits, Workman's Compensation Insurance, utilities, materials, and space, yet most companies have no and report the cost of employee turnover. It can be much higher than you think.

How Much is it Costing You?

Several well-regarded studies have recently estimated the cost of losing an employee:

- SHRM, the Society for Human Resource Management, estimated that it costs \$3,500.00 to replace one \$8.00 per hour employee when all costs — recruiting, interviewing, hiring, training, reduced productivity, et cetera, were considered. SHRM's estimate was the lowest of 17 nationally respected companies who calculate this cost!
- Other sources provide these estimates: It costs you 30–50% of the annual salary of entry-level employees, 150% of middle level employees, and up to 400% for specialized, high level employees!
- Do a quick calculation: Think of a job in your organization where there has been some turnover, perhaps supervisors. Estimate their annual average pay and the number of supervisors you lose annually. For example, if their average annual pay is \$40,000, multiply this by .125% (or 125% of their annual pay, a reasonable cost estimate for supervisors). This means it costs \$50,000 to replace just one supervisor. If this company loses ten supervisors a year, then 10 times \$50,000 equals \$500,000 in replacement costs for just supervisors. This is the bottom line cost. The top line cost? If the company's profit margin is 10%, then it costs \$5,000,000 in revenues to replace these ten supervisors.

Do These Numbers Seem Unbelievable?

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Here's an actual calculation from a well-regarded organization in my community. The HR Manager of this human services organization (housing for disabled persons, sheltered workshops, etc.), estimated that 30 entry level people leave his organization on average every quarter.

This averages out to ten people per month. Let's be extra conservative and shave SHRM's estimate (see above) down to \$3,000.00 to replace each employee.

This amounts to \$30,000 per month, or \$1,000.00 in employee turnover costs every day of the month! Annually, this totals \$360,000.00.

Actual turnover costs are usually much higher than we think they are -- until we estimate them.

You may be thinking, "Some employee turnover is unavoidable, even desirable." You're right. Some turnover is necessary, to replace marginal or poor employees with more productive ones and to bring

in people with new ideas and expertise. However, high turnover costs are both avoidable and unnecessary.

This is where companies need to focus their efforts. The goal is to retain valued performers while replacing poor ones.

Most companies group both types of performers together when looking at turnover. By doing so, they're missing the cost and significance of replacing the good performers.

Why Don't More Companies See This as a Costly Problem?

There are a variety of reasons this is not seen as a problem, all of which cost companies in expertise and dollars. How many of these occur in your organization?

1. No process is in place to tabulate costs. One survey found that only 44% of its respondents had a process in place to estimate turnover costs; 43% of companies relied on intuition, and 13% had no process at all. (1)

2. Costs are not reported to top management. It's a business axiom that one of the best ways to get top management's attention is to show them what something costs. However, most top management never gets to see turnover cost estimates because most companies don't measure them -- or if they do, they don't report them to top management.

3. It's an inescapable cost of doing business. Except, it's not! While some turnover is unavoidable and desirable, most turnover, especially among your better and top performers, is largely avoidable. Thinking that turnover is just a normal cost of doing business is the same quality of thinking which says that accidents are just an inescapable part of being in the construction business.

4. It's an HR problem. While HR needs to be a key partner in reducing turnover cost, this is a strategic issue requiring top management's attention and actions, in addition to HR's efforts, to resolve it.

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5. Costs are underestimated, and so they register less concern. If costs are underestimated because the organization doesn't agree on or know what to measure, the statistics generated either register less concern than they should, or are disputed and held in disregard.

What Costs Need to be Fully Estimated?

A comprehensive program measures the following costs:

Exit costs Recruiting Interviewing Hiring Orientation Training Compensation & benefits while training Lost productivity Customer dissatisfaction Reduced or lost business Administrative costs Lost expertise Temporary workers

There needs to be advance agreement among Human Resources, Finance, and Operations as to which cost measures will be considered valid. Then, it has to be measured and reported.

6. Waiting until there's a crisis. I was amazed when the executive director of one organization told me she knew that one of her capable managers was unhappy, but decided it wasn't necessary to take action because she hadn't received a letter of resignation yet.

Prevention is what works best. Begin to measure your turnover costs and, very importantly, look at who is leaving so you'll know if you're retaining your best people.

The time to do this is now. Waiting until there's a crisis to take action limits your options and success rate. It also often triggers the common response of offering more money to get someone to stay, instead of fixing the original problem. Why Do So Many Retention Efforts Fail?

These are among the most common reasons company retention efforts fail, even when they're implemented by capable people.

1. No assessment, so ineffective solutions are chosen. In their hurry to correct a costly problem, companies often forgo conducting a relatively brief and cost-efficient assessment in order to correct the situation faster. However, implementing a solution without diagnosing who is leaving, and why they're leaving often results in solutions that are incapable of solving the root causes behind turnover.

Diagnosing the reasons behind turnover always pays for itself. Don't start without an assessment.

2. Implementing too many solutions instead of the most effective solutions. Managers often brainstorm a number of plausible solutions, then implement many of them — especially those favored by top management. However, what is most needed is to select and implement a limited number of solutions which will be most effective at solving the problem. Implementing too many solutions, even good ones, will diffuse your resources and weaken your efforts and success.

3. No way of measuring success to know what works. How do you know which retention solutions you've implemented are working effectively and which aren't, where you need to make refinements, and what strategies you need to drop if you don't have a way of measuring your results?

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How Do We Do a Better Job of Retaining Employees — Especially Our Most Valuable Ones?

First, rank your employees in three categories: best performers, middle performers, and lowest performers. Your objective is to retain your top performers; develop and retain your middle performers, turning them into near-top or top performers if possible; and potentially replace your lowest performers.

Second, agree internally on the measures you'll use to calculate turnover costs. Be certain you're taking all costs into consideration. Most organizations greatly underestimate them.

Third, report turnover costs to top management on a monthly, quarterly, and annual basis.

When turnover costs are unacceptably high, or higher than your industry's average, do an assessment. Find out who is leaving and why they're leaving. Exit interviews can help you find out why.

You need to know if it is your top, middle, or lowest performers who are leaving so you can gauge the expertise level leaving your organization. You're obviously going to employ (and pay for) different strategies if your top performers are voluntarily leaving, compared to middle or lowest level performers.

Develop solutions capable of solving the problems you uncover, and only implement a limited number of them.

Measure the success of your retention efforts, and refine them.

Two Very Key Strategies to Save a Large Amount of Time and Money.

Very key strategy # 1: Don't wait until turnover costs become unacceptably high before you implement an ongoing retention program. Put a retention program in place before you have crisis situation. You not only must find out why employees leave your organization, you must also find out why others stay.

Very key strategy # 2: Survey your top performers now in order to find out what keeps them there, why they might leave, what type of competitive offers they may find attractive, and what they need to be happier and more productive in their jobs. You'll do a better job of keeping them (along with their expertise and value). You'll also find out highly beneficial information about improvements your organization needs.

This means driving improvements in your organization by what your best people tell you, instead of focusing on taking care of the ever-present complainers in every organization.

Just How Valuable are Retention Efforts? One source estimated that a 10% reduction in employee turnover was worth more money than a 10% increase in productivity, or a 10% increase in sales!

Retain and gain.

Ross Blake of Retention Associates helps organizations improve employee retention and reduce turnover costs and problems. He has just written "10 Strategies to Develop an Effective Employee

Retention Program." Web:

<http://www.RetainsEmployees.com>

Employee Retention – Building Commitment

By Trevor Marshall

A committed employee is extraordinarily valuable. You can gain staff commitment by meeting people's key needs: paying attention to people at all levels; trusting and being trusted; tolerating individuality; and creating a blame-free, can-do culture. But why go through all these? What is the importance of gaining trust and commitment? It all goes down to the fact that when a company gains the trust and commitment of their employees they establish employee retention. And employee retention is vital in establishing a firm foundation as the company proliferates and achieves their goals.

1. What Is Employee Retention?

Basically, employee retention is all about encouraging the people to commit themselves throughout in the company. Through employee retention, the company is able to lessen the additional expenses of hiring and training new people and at the same time build trust and commitment within coworkers, the result of which is happier, harder working employees.

2. The Basics Of Gaining Trust

The quality and style of leadership are major factors in gaining employees' trust and commitment, thereby, initiating employee retention in the long run. Clear decision-making should be coupled with a mutual and emphatic approach. This entails taking people into your confidence and clearly and honestly valuing their contributions. In turn, you gain employee retention.

As the boss, you should also

– Make yourself as visible as possible – Show yourself to be approachable – Always be willing to listen to others – Never ask an employee to do something you would not be willing to do yourself – Learn to trust those who work for you – trust is a two-way street

3. Sense Of Ownership In The Organization

A company can gain trust and commitment and expand their shareholders at the same time by offering employees the opportunity to purchase shares in the company, or better yet, implement a rewards program where shares in the company are offered instead of monies. By letting them feel that they will realize that the success of the company is their success as well, and its downfall is their failure too.

4. Pride

If your employee takes pride in being a part of the organization or the company, chances are that

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employee will surely stay for good. Employee retention is achievable when the employee feels good about the work, loves the company, knows that they are in good hands, and takes pride in their work.

3. Willingness To Work Long Hours

If you are able to encourage your employees to work long hours without having to mandate them or push them, chances are you are establishing a good sense of employee retention. This just goes to

show that the employee is more than willing to commit longer hours of work not because of the overtime pay but the fulfilment that he or she wants to achieve.

4. Holding Personal Values Consistent With The Organization

If your employees continue to take part in the company's values and moral standards and incorporate these things within their own system, this goes to show that they are committed to the company and that they are willing to be a part of the group for as long as it exists. That is a clear manifestation of employee retention.

5. Creating A Strong Sense Of Team Spirit

Employee retention can be achieved if you know how to foster a sense of team spirit. If this is achieved, you can be assured that your employees will serve best for the interest of the group and their individual satisfaction as well. Corporate events and challenges between departments (or even between store locations) are examples of how you can foster team spirit.

6. Commitment

Commitment is the highest form of employee retention. If your employee is already committed to the company by expressing his or her desire to uplift the status of the organization, to boost productivity, and to refurbish mistakes and failures then you can be sure that the employee will stay for good.

Keep in mind that when employee retention is achieved, the company should, in turn, keep that retention as well by remunerating effectively and expressing appreciation through employee recognition. If this is all incorporated, then, a harmonious relationship between the employee and the company is at hand.

For more great employee retention related articles and resources check out

<http://retention.hrhaven.com>



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