SPOTLIGHT ON TALENT MANAGEMENT

TALENTQUEST THE SOURCE

"The True Cost of Turnover"

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Sheila, an employee of only six months, has decided to call it quits with your company. After a lightning-fast trip through shock, anger and disbelief, you quickly settle on acceptance. Oh well, it didn't work out. It's not like you invested a lot of time and energy with Sheila, right?

Wrong. Do you know what that bad hire is truly costing your company? Conventional 'wisdom' is all over the board; people cite that it is between two to fifteen times the person's salary. Most organizations cannot cite exact costs of losing an employee.

On average, US companies spend roughly **$25B** in turnover-related costs per year. While that number is staggering, how is it calculated? Many companies think about the direct and indirect costs associated with the new hire, such as advertising, administrative costs, sourcing, screening, interviewing, training/orienting, etc. But what about the costs of separation for the lost employee? Legal fees, severance, lost productivity, client management, morale issues, and lost time on core business issues? In addition, there are the opportunity costs, such as the cost of the time taken to manage the severance and hiring processes at the expense of other activities. Many of these costs are 'hidden' costs but have a significant net effect on the company's bottom line.

An often accepted estimate is that the cost is three times the employee's salary, plus 25-30%. If we apply this in Sheila's case, and her salary was $50,000/year, losing her cost the company over $187,500! Now let's use a more conservative estimate of 150% of the employee's salary. A company of 400 employees had a 20% turnover rate, losing roughly 80 people per year. If the average salary is $50,000, that is **$6M per year!**

Clearly, ensuring that you have the right people in your organization from the outset is an important element of organizational success and good financial stewardship. Here are a few tips to help you keep the great ones in and the 'not so great' ones out:

Make the right choice, the first time.
Using a compendium of hiring tools (recruitment, screening, interviewing, psychological assessments, behavioral interviewing, background checks) will increase the likelihood of making the best choice for your organization at the outset.

Effective onboarding.
When a new employee begins, ensure they are well-integrated into the organization. Give people a chance to 'learn the ropes,' understand the culture, etc., and set realistic expectations so they can thrive in the new environment. Avoid 'sink or swim' strategies.

Focus on development and management to increase commitment and retention.
Show new employees that they have the commitment of the organization to help them grow and develop. Ensure goals and objectives are clear, that succession plans are shared, and that individuals have regular feedback about their performance and development goals. This will increase not only retention, but commitment and loyalty to the company.

Create a unified framework.
Use these processes and tools interdependently and as part of a bigger human capital management strategy. Attracting, selecting and retaining the best talent should reflect the organization's business and people strategies. Matching these with metrics will underscore the value of such activities on the bottom line.

Measure, measure, measure.
The more 'hard data' you can collect on the costs associated with hiring decisions, the more you will understand the bottom line impact on the organization. For example, what do retention rates look like in 1-2 years? Are there particular jobs that are harder to retain? How long does it take to fill a given position? This will not only reveal current trends but provide excellent information for future hiring.

Losing an employee can be an expensive phenomenon, in both direct and indirect costs. But with some focus on the front end a long-term view of development and performance management in the middle and on the back end, good hiring can make a big difference in the company's financial success.

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