

The True Cost of Employee Turnover

The hidden costs your organization should consider when filling vacancies and hiring new employees.

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Turnover is inevitable in organizations. It can be an amicable breakup such as retirement or it can come in less desirable ways such as quitting or termination. One thing is certain though; it costs organizations a great deal of time, energy and money.

Depending on how the employment relationship was severed, your organization could face additional expenses. These could include termination and/or severance pay. Without cause terminations initiated by the employer requires notice and/or payment in-lieu of notice to the employee. The amount of notice and/or payment is commensurate with the employee's time spent with the organization. This type of termination typically occurs when an employer wants to sever the employment relationship but does not have enough in terms of progressive discipline to justify a "with cause" termination or when the employer is restructuring/downsizing. The amount of notice or payment required is enshrined in legislation such as the Ontario *Employment Standards Act (ESA)* or *Canada Labour Code*. If an employer is hesitant about whether an employee is the right fit for an organization, a release from employment can occur during the probationary period of their employment. In accordance with the *ESA*, a release of employment during the first three (3) months of service does not require termination pay or a reason to justify the release. The release from employment during the

probationary stage is a tool that is often overlooked in managing costs related to staffing.

With cause terminations do not require payment under legislation, but could lead to additional costs if not handled correctly. If the progressive discipline policy was not followed correctly, your organization could be subject to costly litigation well surpassing the pay requirements of a "without cause" termination. Time spent on the file by your staff, arbitration/court costs and the possibility of settlement payments all contribute to this problem. It underscores the importance of adequate preparation and following policy and procedure.

Now that the organization is in need of a replacement, a whole new set of costs are incurred. The most obvious being those involved in the recruitment drive. These can include items such as advertising costs, wage costs of the recruitment manager, time spent designing the interview process, time spent by the recruitment panel conducting the interview as well as time spent conducting reference checks. All of these costs may not apply in every case, but it is clear to see that the potential for exorbitant costs is there.

Once the employee has been recruited, orientation and training become important cost drivers. When employers are looking to cut costs, training is often the first to fall victim to such measures. This can have a detrimental effect on the quality of service or production of the organization. Poorly trained employees negatively affect the customer service provided by your organization, ultimately affecting the organization's bottom line. Sometimes it is difficult to gauge the value of training due to the less obvious correlation of training to performance in many cases. It is easy to see why training is seen as a cost center given the fact that it can cost an employer an average of over \$1,500 annually per employee. However, an alternate cost containment method is to ensure that your organization limits the amount of training required by enhancing its employee retention strategy. Instead of retreading the basics of your production/service with new hires, the employer could instead focus on the

more high level aspects of the work. More informed and experienced staff provide better service to the organization's customers. Employees, especially millennials, value being provided with learning opportunities. However, you also run the risk of training individuals only to have them leave your organization with that knowledge. Thinking this will happen is a defeatist attitude and may ultimately create a self-fulfilling prophecy. Organizations must find a balance between investing in current staff and managing training costs.

In terms of overall productivity, new hires generally produce at about a 25% level in the first month of employment. This increases to 50% during the second and third month of service, 75% in the fourth and fifth month, and ultimately 100% productivity at the sixth month mark. Given these statistics, it is easy to rationalize the detrimental effect that rapid turnover can have on an organization's bottom line.

In addition to work related training, there are also costs incurred in the integration of an employee within an organization. Understanding work processes, how they fit within a team and the low level functioning required to complete the work all take time and ultimately money. Constantly having to re-explain basic functions can also have a detrimental effect on those staff that remain with the organization. Often, job shadowing is necessary in the early days of employment and this can put great strain on the mentor if they experience a never-ending cycle of new hires. The fact that an organization cannot hold onto its employees may ultimately lead to other more senior employees becoming frustrated, disgruntled and disillusioned, thereby contributing to an exodus at higher levels within the organization.

It is estimated that it costs an organization 1.5x to 3x the salary of an employee to get them to a point where they are producing at the organization's desired level. Thus, all organizations should strive to create systems which encourage employee retention. Investing in and implementing in such employee-friendly practices such as training, flexibility and work life balance, may seem to create additional costs with no return; however, when looking at the alternative, a paradigm shift is perhaps necessary.