



Talent & Workforce
Employee Engagement

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Calculating the True Cost of Voluntary Turnover: The Surprising ROI of Retention

Deloitte's *Global Human Capital Trends 2015* report¹ cites engagement and retention as the number one HR challenge, edging out both leadership and learning. An overwhelming 87 percent of business leaders surveyed believe the issue is "important," with 50 percent citing the problem as "very important."²

Similarly, PricewaterhouseCooper's 2016 annual survey finds 72 percent of global CEOs are concerned about the availability of employees with key skills, especially since 48 percent are planning to increase headcount in the coming year.³

Our research on the topics of engagement and retention says these executives are spot-on in these concerns—not only are they right to be troubled but also the cost of voluntary turnover is higher than many of these organizations understand.

Key Insights

- 1** Leaders should be deeply troubled by increasing voluntary turnover.
- 2** Voluntary turnover is costing many organizations millions of dollars.
- 3** Calculating the true cost of voluntary turnover creates a compelling business case.

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Leaders should be deeply troubled by increasing voluntary turnover.

Increasing Transparency in Today's World

Why are leaders worried about retaining employees? Because it has never been easier for employees to find new jobs. The Internet revolutionized employees' ability to search for jobs and market their skills. Current and potential employees can learn everything there is to know about an organization by performing a quick Internet search. Employees can also find open positions located anywhere in the world, and

those with critical skills in scarce supply can easily find organizations willing to pay them more money to switch jobs. Further, with the advent of social media came the ubiquitous ability to passively look for jobs (even when happily employed) by posting one's employment experience on a social or professional networking site.

“Today's organizations live in the Glassdoor era. Every corporate decision is immediately publicly exposed and debated. Once-private issues are now posted online for every employee—and every potential employee—to read. An organization's culture—which can be loosely defined as ‘the way things work around here’—is increasingly visible for all the world to see.”

**— Global Human Capital Trends 2015:
Leading in the new world of work**



Source: Deloitte University Press, 2015.

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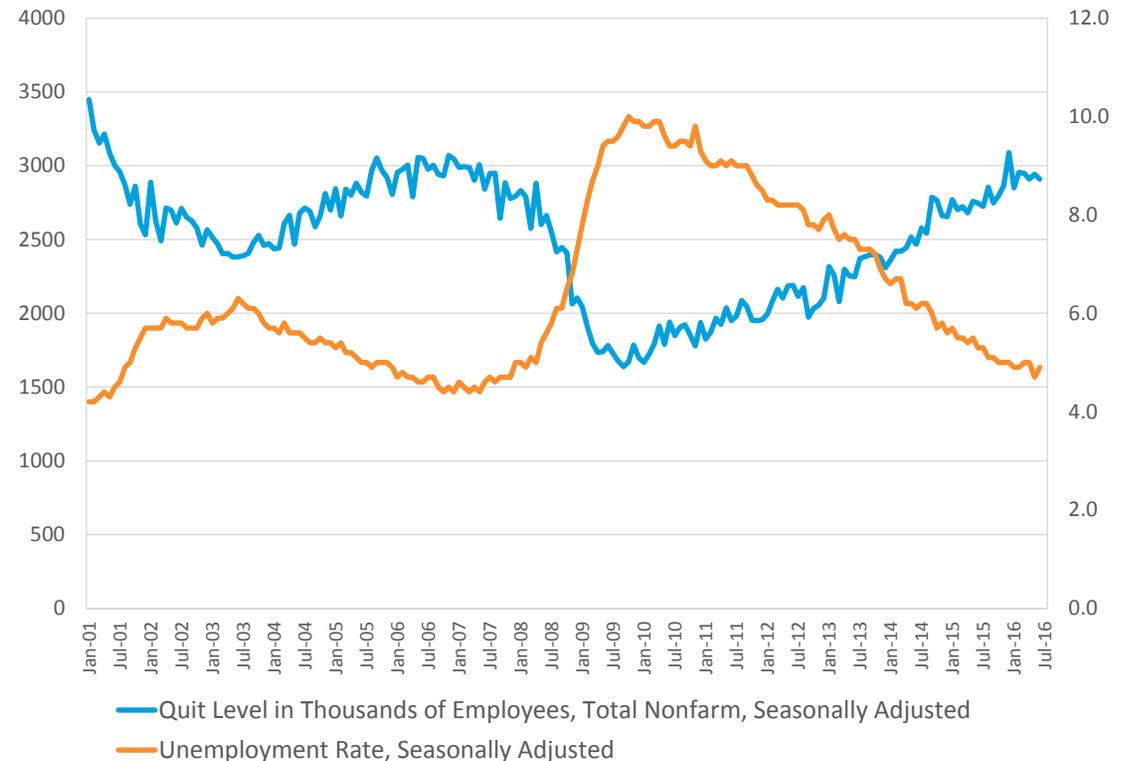
Leaders should be deeply troubled by increasing voluntary turnover. (cont'd)

The Strong Correlation Between Voluntary Turnover and Unemployment

Employees are also far more likely to look for new jobs when unemployment rates go down. Data from the U.S. Bureau of Labor Statistics shows an extremely strong negative correlation between voluntary turnover (quits) and unemployment ($r = -.96$, $p < .001$) between 2001 and 2016.⁴

Data from the last 15 years shows if the unemployment rate continues to stay low, the national voluntary turnover rate will likely stay high. Many companies will continue to struggle to fill job vacancies—in fact, at the end of June 2016, there were more than 5.6 million unfilled jobs in the United States.⁵ Worse, these shortages are most pronounced for skilled roles that have high barriers to entry and are crucial to a company's success.⁶

Voluntary Turnover (Quits) vs. Unemployment Rate (2001–2016)



Source: Bersin by Deloitte, 2016 (with data from the U.S. Bureau of Labor Statistics).

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Voluntary turnover is costing many organizations millions of dollars.

The direct (hard dollar) costs of replacing an employee who leaves voluntarily consist of the costs to source and recruit a new employee, typically referred to as “cost per hire,” plus the cost of his or her first-year training and orientation (see below).

According to Bersin by Deloitte research, across the United States, the average cost per hire⁷ is \$3,976, with cost per hire varying by organization size, ranging from \$3,139 per new hire within larger companies to \$5,380 per new hire within smaller companies.⁸

Direct Costs to Replace an Employee

Average cost per hire	\$3,976
Average first-year orientation and training costs per hire	+\$3,000
Total Direct Costs	\$6,976

Source: Bersin by Deloitte, 2016.

Average Cost Per Hire by Organization Size

	U.S. Total	Midsize (1,000-4,999 employees)	Mid- to Large-Size (5,000-9,999 employees)	Large (10,000- 24,999 employees)	Enterprise- Level (25,000+ employees)
Cost per Hire— All Positions	\$3,976	\$5,380	\$4,602	\$3,202	\$3,139
Cost per Hire— Entry Level	\$3,200	\$3,993	\$4,207	\$3,109	\$2,536
Cost per Hire— Experienced	\$3,655	\$5,402	\$3,808	\$2,885	\$2,725
Cost Per Hire— Executive	\$6,654	\$9,499	\$5,862	\$4,886	\$5,262

Source: Bersin by Deloitte, 2014.

Voluntary turnover is costing many organizations millions of dollars. (cont'd)

While there are direct costs, when an employee voluntarily leaves an organization, there is an interim reduction in labor costs until a new employee is hired, resulting in direct savings.

Interestingly, this number seems to be the one most executives think about when calculating the cost of voluntary turnover. For example, when asked what the impact of increased voluntary turnover would

be on their organizations' profitability, 66 percent of surveyed executives responded that voluntary turnover would increase their companies' profitability.⁹

According to Bersin by Deloitte research, across the United States, the average time to hire¹⁰ in 2014 stood at 52 days and varied by organization size, ranging from \$3,139 per new hire within larger companies to \$5,380 per new hire within smaller companies.¹¹

Interim Reduction in Labor Costs

Average annual labor cost (including base salaries, bonuses, benefits, taxes, and any other perks / incentives)	\$130,000
Average time to hire	X 52 calendar days (14% of year)
Interim Reduction in Labor Costs	\$18,200

Source: Bersin by Deloitte, 2016.

Average Time to Hire by Organization Size

	U.S. Total	Midsize (1,000-4,999 employees)	Mid- to Large-Size (5,000-9,999 employees)	Large (10,000-24,999 employees)	Enterprise-Level (25,000+ employees)
Overall Time to Fill (in Days)	52	52	51	55	51
Entry-Level Position Time to Fill (in Days)	38	36	32	39	39
Experienced Position Time to Fill (in Days)	52	52	49	61	49
Executive Position Time to Fill (in Days)	70	71	65	80	68

Source: Bersin by Deloitte, 2014.

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Voluntary turnover is costing many organizations millions of dollars. (cont'd)

Lost Productivity Costs Due to Exiting Employees

However, when calculating the cost of voluntary turnover, most organizations do not calculate the lost productivity that results from an open position or the time it takes to reach the same productivity of the lost employee (e.g., the days spent in orientation, in training programs, and on-the-job learning new skills).

Organizations should try to calculate lost productivity by adding the average time to hire to the average number of nonproductive days, and then multiply it by the average annual employee revenue.¹²

For this illustration, we estimated 60 calendar days to reach the productivity of the exiting employee and an average annual revenue of \$390,000 (3x their labor cost). The resulting lost productivity costs are \$120,900.

Lost Productivity Costs

Average time to hire	52 calendar days
Average time to reach productivity of lost employee	+ 60 calendar days
Total nonproductive days	= 112 calendar days / 365 (31% of year)
Average annual revenue per employee	X \$390,000
Lost Productivity Costs	\$120,900

Source: Bersin by Deloitte, 2016.

Voluntary turnover is costing many organizations millions of dollars. (cont'd)

In order to calculate a “truer” cost of voluntary turnover, it’s necessary to determine the direct costs of recruiting a new employee, the interim reduction in labor costs of the exiting employee, and the costs of lost productivity.

For the illustrative case outlined here, the organization stands to lose \$109,676 per lost employee, not an insubstantial amount.

Total Cost of Voluntary Turnover Per Exiting Employee

Direct Costs to Replace an Employee		Total Cost of Voluntary Turnover Per Lost Employee		Lost Productivity Costs	
Average cost per hire	\$3,976			Direct Costs	\$6,976
Average first-year orientation and training costs per hire	+\$3,000	Interim Reduction in Labor Costs	-\$18,200	Average time to reach productivity of lost employee	+ 60 calendar days
Total Direct Costs	\$6,976	Lost Productivity	+\$120,900	Total nonproductive days	= 112 calendar days / 365 (31% of year)
Interim Reduction in Labor Costs		Total Cost of Voluntary Turnover	\$109,676 per lost employee	Average annual revenue per employee	X \$390,000
Average annual labor cost (including base salaries, bonuses, benefits, taxes, and any other perks / incentives)	\$130,000			Lost Productivity Costs	\$120,900
Average time to hire	X 52 calendar days (14% of year)				
Interim Reduction in Labor Costs	\$18,200				

Source: Bersin by Deloitte, 2016.

Calculating the true cost of voluntary turnover creates a compelling business case.

According to Bersin by Deloitte research, the average voluntary turnover rate is 13 percent.¹³ Thus, if an organization has 30,000 employees and an average voluntary turnover rate of 13 percent, the potential cost to the organization is a staggering \$427.7 million in one year. If this illustrative organization can decrease its voluntary turnover by just 1 percent, it can save \$32.9 million in one year.

Once HR leaders have calculated these numbers for their own organizations, they should be able to make a compelling business case for investments in employee engagement and retention, e.g., additional bonuses and / or salary increases, improved benefits, employee engagement measurement solutions, high-potential programs, additional training and development opportunities.

Overall Cost of Voluntary Turnover to Organization

	13% Voluntary Turnover Rate
X	30,000 employees
X	\$109,676 cost per employee
Total Cost	\$427,736,400

Source: Bersin by Deloitte, 2016.

If this illustrative organization can decrease its voluntary turnover by just 1 percent, it can save \$32.9 million in one year!

Conclusion

While reaching hundreds of millions of dollars, this calculated total cost of voluntary turnover is still conservative as it does not include other indirect costs.

The high cost of turnover notwithstanding, we don't believe that organizations should try to retain 100 percent of their employees. Not all voluntary exits are regrettable, and some amount of voluntary turnover allows room for new employees with innovative ideas and additional diversity.

However, we do believe that high employee engagement and a strong employer brand are strategic differentiators that organizations should invest in to both effectively retain their best and brightest employees and attract high-potential candidates.¹⁴ ■

Other Indirect Costs of Voluntary Turnover

Lost costs of previous training for the exiting employee

Lost client relationships

Lost institutional knowledge

Lost time coworkers spend away from their own work

Lower employee engagement and morale

Source: Bersin by Deloitte, 2016.

Endnotes

- 1 *Global Human Capital Trends 2015: Leading in the new world of work*, Deloitte Development LLC and Deloitte University Press, 2015, www2.deloitte.com/content/dam/Deloitte/at/Documents/human-capital/hc-trends-2015.pdf.
- 2 Ibid.
- 3 *Redefining business success in a changing world: CEO Survey*, PwC, January 2016, www.pwc.com/gx/en/ceo-survey/2016/landing-page/pwc-19th-annual-global-ceo-survey.pdf.
- 4 U.S. Bureau of Labor Statistics, Job Openings and Labor Turnover Survey, <http://data.bls.gov/timeseries/JTS000000000QUR>, and Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey.
- 5 U.S. Bureau of Labor Statistics: Job Openings and Labor Turnover Summary, September 7, 2016, www.bls.gov/news.release/jolts.nr0.htm.
- 6 *The Talent Paradox: Critical Skills, Recession and the Illusion of Plenitude*, Deloitte Review / Robin Erickson, Jeff Schwartz, and Josh Ensell, 2012.
- 7 Bersin by Deloitte defines "cost per hire" as annual spending divided by the number of new hires brought into the organization for the year using mean figures. Spending includes internal staff compensation; job sourcing costs; prehire assessments; background check, eligibility-to-work, and drug testing expenses; travel expenses (for both candidates and recruiters); employee referral awards / payments; recruitment process outsourcing (RPO) fees; recruiting systems / technology costs; nonlabor related office costs; recruiting contractor costs; and marketing expenses.
- 8 *Talent Acquisition Factbook: Benchmarks and Trends in Spending, Staffing, and Key Recruiting Metrics*, Bersin by Deloitte / Jennifer Krider, Karen O'Leonard, and Robin Erickson, PhD, 2015.
- 9 *Talent Edge 2020: Blueprints for the new normal*, Deloitte Consulting LLP, December 2010.
- 10 Bersin by Deloitte defines "time per hire" as the average number of calendar days a position remains unfilled, between departure of exiting employee and start date of new hire.
- 11 *Talent Acquisition Factbook: Benchmarks and Trends in Spending, Staffing, and Key Recruiting Metrics*, Bersin by Deloitte / Jennifer Krider, Karen O'Leonard, and Robin Erickson, PhD, 2015.
- 12 There are various ways to calculate average annual employee revenue, e.g., some organizations may divide overall revenue by number of employees or professional services firms may know average billing rates and average utilization rates.
- 13 *HR Factbook 2015: Benchmarks and Trends for U.S. Organizations*, Bersin by Deloitte / Karen O'Leonard and Jennifer Krider, 2015.
- 14 For more information on employee engagement, see *Designing an Employee Engagement Strategy*, Bersin by Deloitte / Robin Erickson, PhD, and Heather Bussing, 2016.



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