

Do you know the cost of employee turnover?

You know the number is significant, but just how large is that number?

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Recently I've read a number of articles about employee turnover, the effect on morale, and the impacts to productivity. While it's difficult to quantify the true cost and the effect on productivity within a Finance department, we can look to other areas in the company for a view of what that cost really is. ***Once you can quantify it, the number is pretty staggering.***

With one previous company I was at I partnered with our headquarters in France to develop a new reporting structure for the Services segment of the organization. For this segment, it comprised approximately 30% of our revenues but a much more significant portion of our EBIT. Even with this level of significance, we did not previously have the ability to measure our productivity levels, margin performance by segment, or identify areas for opportunity. We were simply working with a consolidated P&L to report our monthly performance.

Our aim was to put a reporting in place that would allow us to measure the following:

1. How our field engineers were using their time.
2. What their productivity levels were.
3. Quantify their hourly cost rates.
4. Classify their activities by revenue segment.
5. Identify areas for productivity improvement.
6. Develop quantitative support for hiring decisions or promotions.

This was an absolutely huge effort that also involved a significant change in culture and the way our field engineers were used to working. It basically meant that there was going to be a much higher level of accountability at an individual level.

With respect to this discussion, the new reporting structure provided us with hours by activity type. One of these specific areas was Training. Our company was not one that was coming out with new products every month or quarter so this area of activity should have been relatively low. Nor were we a company that was expanding rapidly so we did not have to

increase our headcount to accommodate new Service business. ***Since we typically had a higher tenure overall for field services, we attributed these hours to training new field engineers.***

Let's take a look at some of the following statistics:

1. We had an annual "pool" of 330,000 labor hours.
2. Based on productivity levels, we had an hourly cost rate of \$100-\$110 per hour.
3. Historical figures showed that approximately 13% of hours were attributed to training & related travel.
4. Turnover within the Services area was averaging in the upper-teens.
5. The average hourly cost, from just a compensation perspective, was in the high-\$40 range.

With these figures in mind, it didn't take long to start calculating the cost of turnover. ***With almost 43,000 hours attributed to training, we were incurring wage only expenses of approximately \$2 million a year on a Services operating budget of \$18 million.*** When you take a look at this figure in a fully burdened capacity, it was obviously impacting our hourly cost rate and the subsequent margins by revenue segment.

More importantly, these were 43,000 hours that did not allow us time to interact with our customers, necessitated other internal expenses to support the training effort, and hindered our ability to achieve targeted service levels.

Transfer some of these same assumptions to Finance, or the rest of the organization, and the cost of employee turnover is huge and cannot be underestimated.....

Thanks for reading

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