

**The High Cost of Turnover:**

**Is Your Company Losing  
Millions?**

by Charlie Badenhop

**SEISHINDO**

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# Is Your Company Losing Millions in Poor Performance and Employee Turnover?

Poor performance and employee turnover are a silent drain on your company's profitability. This article will help put these issues into sharper focus.

In many years of working with companies of all sizes and across multiple industries, I've found most managers shy away from talking about the costs of poor performance and employee turnover – and about how to reduce those costs. This is partially because many managers simply don't know how to measure the expenses. While the number of “planned redundancies” and “unexpected exits” is usually estimated, it's rare to find the cost of such events shown in the yearly budget.

If department heads and team leaders had to take financial responsibility for the costs of poor performance and employee turnover, we might see very different scenarios play out for supporting, educating, and coaching employees who aren't performing to expectations.

## **REPLACING AN EMPLOYEE COSTS WHAT!? A COLD, HARD LOOK AT THE NUMBERS**

Labor experts estimate employee turnover costs run between 150% and 250% of an employee's annual salary, with the higher end of the scale representing senior management and high-performing salespeople. (Links to additional resources, including sources for these statistics, are available at the end of this article.)

You can run your own calculations for your own organization. While the methodology for doing so is beyond the scope of this article, be sure to take into account:

- Administrative costs of an employee's departure: exit interviews, payout of benefits and salary, security changes, administrative costs, and so on.
- Productivity loss due to remaining employees and managers redistributing the workload while a replacement is being found, and lower productivity due to lower morale.
- Loss of reputation, relationship, and revenue when clients hear about the turnover. This is especially true when losing a good salesperson, but also occurs whenever there's a break in communication and relationships with clients.
- Cost of lost knowledge, experience, and breakdown in team viability.
- Recruitment costs: advertising, screening resumes, interviewing, payments to recruitment firms, and the time spent by HR in supporting the hiring process.
- Processing the incoming employee: background checks and drug screening (usually outsourced and rather costly), setting up payroll, benefits, security.
- Company orientation, training, and other “settling in” costs.
- Effect of the learning curve on productivity for the incoming employee and all his or her co-workers and managers.

(This is just a partial list of replacement costs. The resource list on the last page includes articles with extensive checklists and cost-of-turnover calculators.)

If we assume your company's average salary is \$50,000, at the low end of the replacement range (150%), replacing a single employee is going to cost you at least \$75,000.

Like it or not, this is the average low-end cost when you include all the costs shown above.

Let's say your company employs 1,000 people, and you have a 12% annual turnover rate (the statistical average over a wide range of industries). This means 120 employees leave and are replaced each year.

At an average salary of just \$50,000, and using the lower 150% cost of turnover, you're losing \$9,000,000 annually in turnover costs!

Yes, that's \$9 million.

And it's \$9 million that negatively impacts your bottom line. It's a simple fact: the costs of employee turnover can eat up a significant portion of your company's profit margin.

## **THE "SOFT" COSTS OF EMPLOYEE DISENGAGEMENT AND TURNOVER**

Whether an employee is let go or leaves on his or her own, it's relatively easy to calculate the financial cost of filling the empty position.

But leaders also need to consider and calculate the emotional costs involved – and they need to recognize that these emotional costs also have a financial impact.

When employees are unhappy or fearful of being let go, they spend time at work worrying, gossiping, and job-hunting, instead of being vitally engaged in their day-to-day responsibilities. Performance and productivity drops, and their interaction with other employees and customers becomes tainted.

And turnover becomes a self-perpetuating cycle. When one employee leaves, customers start considering other alternatives and co-workers begin thinking about – and worrying about – their own future.

Employee turnover tends to create a wave of misunderstanding and mis-communication. It's crucial to actively address the fallout in order to keep the emotional and financial expense to a minimum.

## **IMPLICATIONS OF THE IMPROVING JOB MARKET**

As the global economy improves, people who had been afraid to risk being unemployed are beginning to dust off their resumes.

Companies who continue to put pressure on their employees without acknowledging and taking steps to mitigate the impact of stress and anxiety are companies who will face potentially significant employee turnover – and the associated costs.

Companies who take action now to re-engage their employees, reinforcing the message that their people matter, are the companies who will be poised for success as the economic pace picks up.

## **EMPLOYEE ENGAGEMENT AND RETENTION: OPTIONS FOR SOLUTIONS**

Whether or not your company suffers from a high turnover rate, there are always steps you can take to keep your employees engaged, vitally involved in their work, and productively contributing to the company.

Here are four crucial keys to apply in your efforts.

### **1. Be specific and be proactive**

It's not enough to claim you want to make things better for your employees. You have to show them you really mean it. And showing them you really mean it involves taking definite action – action with significant, meaningful results for the employees you want to motivate and retain.

You need to communicate clearly and on a regular basis what you're doing to improve the work life of your employees. Then you need to carry through on what you say.

Until you walk your talk, you'll keep losing valuable employees – and paying valuable money to replace them.

## 2. Invest in your people, just as you do in your infrastructure

Investing in your people goes much further than promotions and pay raises. Study after study confirms employees are far more motivated by intangibles such as good relationships, recognition, and the opportunity to work on things they enjoy, than they are by the contents of their pay packet.

Recognize that the education and support your employees want and need goes well beyond the hard skills they require to do their jobs. It's crucial to educate people in life skills, leadership, relationship building, and stress management. Provide real opportunities for professional and personal growth, and allot time for people to develop their understanding of how to apply what they've learned.

## 3. Be consistent, be honest, and listen

Walk your talk. Don't say one thing and do another.

Communicate clearly to avoid confusion.

Be consistent in your policies from one team, department, and division to another.

Respond honestly and clearly to the rumors you hear.

There will be times when you can't disclose confidential or time-sensitive information. But people know when something's in the air – and under stress, it's a natural human tendency to imagine the worst. Be honest, even when that means saying that you can't tell them all about what's happening.

Listen! Listen openly and without judgment. People want and need to be heard. If you really listen, you'll learn a great deal and your employees will feel respected. In return they'll respect you and your management team.

## 4. Recognize the need for and benefits of coaching

Every professional sports team provides coaching for its players.

Sports teams provide coaching because good coaching leads to improved performance, fewer injuries, and greater overall confidence.

A sports team manager doesn't wait until a player is in a slump before calling in a coach. More importantly, the manager doesn't say, "With his experience and with all the money I'm paying him, he shouldn't need coaching!" They realize coaching is a necessary and cost-effective tool to keep players in tune and performing at their best.

Why is it the team activity known as "business" doesn't have the same understanding?

No matter how much education and experience your people have, from time to time they get stuck. And no matter how straightforward the problem seems from an external perspective, the people involved usually can't see the forest for the trees.

CEOs get stuck, sales managers get stuck, MBAs get stuck – everyone gets stuck from time to time. It's a fact of life! Everyone does well until they run up against a challenge that stymies them. Rather than feeling guilty or inadequate, people should feel free to reach out for help. The stigma of the rumor – "I heard he's getting coached, he must be in trouble!" – should not be part of your corporate culture if you're fully supporting your people in performing to their full potential.

If you knew in advance coaching was going to get the results you desire, then it's obvious that paying 5-15% of an employee's annual salary for coaching would be far more cost effective than paying 150-250% of the employee's annual salary to replace him or her. Life offers no guarantees, but choosing the right coach can go a long way towards significant cost savings, and towards keeping the entire team efficient and happy.

Beyond the significant cost benefits coaching offers, you'll find your employees become more motivated, engaged, and loyal when they know they can ask for help when they need it, rather than simply getting squeezed out of their job.

Well-developed coaching programs are solution-oriented, cost-effective, and humane.

## COACH AND TRAIN, OR CUT YOUR LOSSES?

This is a very important question. While in most cases, coaching and training are appropriate, there are situations where they may not be the best answer.

To evaluate your situation, consider these factors.

- ***Good coaching skills are an essential part of being a good manager.***

The mantra for today's knowledge worker is, "Work smarter, not harder." To fulfill this objective, managers need to be adept at coaching their team to help them work more creatively and efficiently.

Yet most managers aren't trained in how to coach. And it's a natural human tendency to avoid conversations that could be uncomfortable or confrontational. Instead, most managers take one of two paths.

1. They wait till the situation is out of control and they no longer have any option except to take drastic corrective action.

*OR*

2. They provide frequent criticism without offering clear advice and support about how the employee could improve.

It's unusual to find a manager with natural coaching skills. Your organization can reap significant benefits from providing regular coaching programs to your managers.

- ***In many instances, employees perform poorly because they don't know what else to do.***

It's rare that a struggling employee knows what to do differently. This may sound odd or too simple, but it's nonetheless often the case.

People need support, advice, and constructive feedback. It's a great mistake to assume an employee knows how to change their behavior but chooses not to.

Most employees are perfectly capable of learning new skills. So if an employee has been unable to improve his performance, even after repeated warnings, simply asking him or her a few questions designed to determine if there's a knowledge and understanding gap will often clarify the situation.

It's crucial to discern if the person has "an attitude problem," or if they just need some clear, supportive training and coaching.

- ***The most important factor in an employee's ability to improve is his or her willingness to learn and change.***

If an employee openly acknowledges a need and desire to improve and is open to constructive feedback, in most instances coaching and training can reap clear benefits.

Conversely, if a person continually blames circumstances or other people for their poor performance (they don't "own their outputs"), meaningful change is unlikely.

- ***Attack the behavior you're not satisfied with, not the person.***

People are far more open to hearing about and acting upon the need to change if they don't feel like they're being put down or belittled.

When you find ways to fully support someone while they actively work on changing their behavior, you'll find that people stay motivated to make the necessary changes.

Unfortunately, managers often make it personal – and then lasting change becomes almost impossible to achieve.

- ***Consider the need for an external professional coach.***

Often, the relationship between manager and the direct report has become so dysfunctional that constructive change is unlikely. Compounding the difficulty is the fact that most managers have not been taught how to coach effectively.

Hiring a professional coach and agreeing up front on the desired result is often the best course of action.

- ***Make it clear your company cares about its employees.***

There's nothing that starts a bigger rush towards the exit than when good employees feel a co-worker has been let go without due process. People need to understand that everyone gets a legitimate chance to change prior to being let go.

This is important enough that a short-term coaching engagement can be money well spent even if the employee is let go after the coaching engagement is over.

- ***Meet your legal obligations***

By offering employees the opportunity to be professionally coached, you ensure your company has met its legal obligations regarding education and ample warning.

- ***Take into account the financial and emotional costs of employee turnover, and weigh them against the cost of training and coaching.***

After considering these points, you'll have what you need to decide whether it's more prudent to spend 5 to 15% of the employee's yearly salary on coaching and training, or 150 to 250% of his or her yearly salary to replace him or her.

If the employee demonstrates a willingness to learn and change, then coaching and training will usually yield the desired benefits.

It's your call!

## **A ROBUST RETURN ON INVESTMENT REQUIRES REALISTIC BUDGETING OF BOTH TIME AND MONEY**

There's an inside joke amongst training consultants and professional coaches. It goes like this:

*If brain surgery ever became a required corporate skill, most HR departments would demand the course be taught in one day, due to the expenses related to training and everyone being so busy.*

The cost of a well-thought-out, solution-oriented training and coaching program pales in comparison to the costs of not having one.

Are you expecting to save money in the short term by cutting back on training and coaching?

Or are you willing to gain money in the long term by making an intelligent spend?

When you cut back on training because you want or need to save money, the common result is that your employees don't get enough exposure to the subject matter, so they're unable to implement what they've learned.

Not only does this represent a significant waste of money, but it also leads to employees believing that meaningful change is unlikely.

Significant improvement in skills, whether it's in time management, relationship building, or brain surgery, takes a significant amount of education. You might not like to hear it, but it's true nonetheless.

## **NEXT STEPS**

In reading this white paper, you may have uncovered some difficult truths about the considerable expenses your company faces due to poor performance and employee turnover.

If you'd like to explore what Seishindo can offer you and your company to help you decrease your rate of employee turnover, increase worker satisfaction and efficiency, and improve your bottom line – please give me a call at 81 (0)50 5534 8510, or drop me an email at [charlie@seishindo.org](mailto:charlie@seishindo.org).

# Resources

At the time this article was written, these links were active and valid. However, all website links are subject to change. If when you click them, they're no longer useful, please let me know!

Of course there are many more resources available every day. If you type "Cost of Employee Turnover" into your favorite search engine, you'll find additional resources and statistics. Including your industry in the search clause will help filter your results more specifically.

1. Article from the University of Wisconsin: "How Much Does Your Employee Turnover Cost?" Includes an online worksheet for calculating actual costs.

<http://www.uwex.edu/ces/cced/economies/turn.cfm>

2. The HR Chally Group Worldwide was founded in 1973 by a U.S. Justice Department grant for the creation of actuarial assessment techniques and a validation technology predicting on-the-job effectiveness. This is the link to their cost-of-turnover calculator.

[http://www.chally.com/turnover\\_cost\\_calculator.htm](http://www.chally.com/turnover_cost_calculator.htm)

3. The U.S. Bureau of Labor Statistics provides many graphs and other useful numbers about job turnover by industry. This shows latest numbers on job openings and labor turnover.

[http://data.bls.gov/PDO/servlet/SurveyOutputServlet?data\\_tool=latest\\_numbers&series\\_id=JTS00000000TSR](http://data.bls.gov/PDO/servlet/SurveyOutputServlet?data_tool=latest_numbers&series_id=JTS00000000TSR)

4. Sibson Consulting (a division of Segal) is an independent benefits, compensation, and human-resources consultant. This is their cost-of-turnover calculator.

<http://go.sibson.com/row/cot/>

5. ISquare is a small-business advisory website. This article provides interesting statistics on turnover costs, including guidelines for factors to include when calculating costs. "Cost of Employee Turnover"

<http://www.isquare.com/turnover.cfm>



# About Charlie Badenhop



If I had to use just one word to describe myself and my background, it would be *eclectic*.

In 1985, I moved to Japan from my place of birth, New York City. I've lived here ever since.

My Japanese friends and clients say, "Charlie-san has a Western face and name, but a Japanese heart." My friends and clients in the West tell me I offer an intriguing Eastern sensibility, couched in modern terms.

I'm glad to hear people say these things, because I love the combination and cross-pollination of Eastern and Western cultures that my work offers. It's a mix of the best of Western problem-solving abilities and Eastern contemplative awareness. My clients appreciate the intersection and interaction between the thinking mind and the feeling body, heart, and spirit.

Seishindo is an interweaving of Eastern and Western philosophies with my wide range of business, professional, and personal experience.

- I've conducted import-export business in the United States, Italy, and throughout much of Asia.
- I'm a fourth-degree black belt in Aikido, and I'm one of the few foreigners in Japan to be certified as an Aikido instructor. (No small honor, believe me!)
- I'm a certified Neuro-Linguistic Programming (NLP) and Ericksonian Hypnosis trainer.
- I've coached, consulted, and conducted business in Japan, the United States, Nepal, India, Italy, Russia, and Korea – to name just a few countries. My clients have included multi-national corporations and small businesses, CEOs and private individuals.
- I'm a long-term practitioner and student of many forms of healing and bodywork, including Sei Tai, Seiki Jutsu, Yoga, self-relations therapy, Gestalt therapy, Feldenkrais, Alexander Technique, and others.
- I've had the good fortune to study and collaborate with many exceptional consultants, healers, martial artists, coaches, and therapists.

Having worked through many personal and professional challenges in my own life, it's my passion to assist my clients in doing the same. My clients rekindle the spirit of their emotional and physical well-being, recognizing and embodying their true heart's desires. My work is known for its magic, depth of experience, and celebration of life.

I know my clients are capable of great change. My experience of life has shown me that every individual and organization already has the resources they need to achieve deeply-desired goals. The challenge is to uncover and appreciate the strengths of "the system," and build from there.

My intention as a coach is to create a relationship of trust, safety, and respect with my clients. I encourage them to go beyond their demons and limiting beliefs to experience what they're capable of when they truly believe in themselves.

I'm a coach because helping people connect to the energy of life, having faith in people when they're not yet capable of believing in themselves, are gifts I deeply enjoy sharing with others.

I urge people to have the courage to declare a greater purpose for their life.

# What others say about my work

## **I HAVE A NEW PERSPECTIVE ON LIFE**

My work with Charlie has been so important in helping me to understand that my professional life and my personal life are not nearly as separate as I had thought. This has been a great revelation. Why? Because it helped me finally start to understand about this gnawing dissatisfaction I had which was slowly eating away at everything I did. After our work together I feel like I have a new perspective on life which is much more positive in general. I have come to understand that a totally happy life requires satisfaction both personally and professionally. This has really led me to change the way I think about my career, and it has also been a major influence in helping me to change the way I manage others. Thanks so much.

- Cheryl McCarron, *Sales and Marketing Manager*

## **AN IMPRESSIVE APPROACH**

I first saw Charlie giving a presentation that even in a public setting gave an impressive glimpse of his approach to the issues that his clients bring him. One-to-one, he emphasises the mind-body connection and the need to bring the whole system into balance. Issues in the mind can have physical effects and physical difficulties can cause mental blocks. Charlie addresses both. He can give therapy to loosen physical problems while working on the thoughts that helped to create them and to reconcile the conflicts that many of us feel. He was able to give some telling advice on strategy in a key business negotiation that gave me a much better outcome than if I had worked on it only by myself.

- Tim Coomber, *Platform One*

**THE OPPORTUNITY TO DEEPLY ENGAGE MYSELF IN LIFE'S MANY PARADOXES.**  
Charlie can be seriously funny, irreverently respectful, fiercely tender, and a wise man and a fool.

And experiencing these paradoxical qualities in Charlie gave me the permission and freedom to explore and revel in the many paradoxes that make up "me." Indeed, I discovered if I try and hide certain parts of myself, my charisma seriously dissolves and I'm a lot less effective as a leader!

Working with Charlie, you get to experience that your "problem" is offering you the opportunity to work on the life you truly desire, instead of settling for less. In other words, in some important way your problem is a gift you've been refusing to receive. If it wasn't for your many problems, you'd likely be less of a person!

- *VP of Corporate Social Responsibility at a global financial institution*