



## **ANALYZING & CALCULATING THE COSTS OF TURNOVER**

Reducing turnover is a challenge that Human Resources (HR) has faced for decades. Why people leave and why people stay continues to mystify many employers. Removing the mystique will help HR finally get its arms around the turnover challenge.

### **Analyzing Turnover**

The first step to managing turnover is to understand how to calculate it. The formula is:

$$\frac{\text{Total number of employees terminating}}{\text{Average number of employees on payroll}} \times 100$$

Turnover can be calculated on a monthly, quarterly, or annual basis – or any other timeframe you deem appropriate.

Using this formula, the analysis can be broken down by department or division and should also be used to evaluate voluntary v. involuntary separations.

Once turnover is calculated, the next step is to determine why employees are leaving. Conducting exit interviews can identify if there is a problem with a supervisor, if pay or benefits aren't competitive, or if there are other working conditions that make it difficult for employees to remain with the organization.

When employees are fired from the company, the employer should take time to reflect why this person didn't succeed. Did this person have the right skill set to perform the job? Were the right questions asked during the interview to determine if the individual was a cultural fit for the organization?

One of the most important questions a company can ask itself is why people stay with us? What are the attributes of those who have been with the organization for a period of time?

### **Cost of Turnover**

Once turnover has been analyzed, the costs associated with it need to be determined. Determining the costs associated with turnover will support HR's recommended changes to reduce turnover when presenting those ideas to the executive team and to other managers.

## COST OF TURNOVER WORKSHEET

EXPENSE	COST
Employment Advertising – All recruitment advertising & related costs	\$
Employment Agency and Search Fees – fees to employment agencies, search firms, and recruitment consultants	\$
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Internal Referrals – costs for bonuses, fees, gifts, etc., awarded to employees participating in a company-sponsored referral program	\$
Applicant Expenses – travel and subsistence costs Relocation Expenses – moving expenses and all other costs associated with relocation	\$
Employment Staff Compensation – all salaries, benefits, and bonuses of the employment staff involved in recruiting, interviewing, hiring, and training new employees	\$
Other Employment Expenses – all other related expenses, such as the cost of facilities, telephone, consultants, etc.	\$
Orientation and Training – include management time, trainer fees, materials, and other costs for training new employees.	\$
<b>Estimated Total Costs:</b>	<b>\$</b>
<b>Total Number of New Employees</b>	<b>\$</b>
<b>Formula:</b>	<b>\$</b>
<b>Average Turnover Cost Per New Employee =</b> (Estimated Total Costs) ÷ (Total Number of New Employees)	
<b>CALCULATE ESTIMATED REDUCTION IN TURNOVER</b>	
Use the data collected from employees who have quit from the organization to evaluate why people are leaving.	
Once the reasons for leaving are determined, deduce how many of these individuals probably would not have left had various policies/programs been in place that may have reduced the turnover.	
<b>Formula:</b>	<b>Reduced Turnover:</b>
<b>Estimated Reduced Turnover =</b> (Total number of new hires) – (The number of Individuals who may not have left had we had these various policies/programs in place)	
<b>CALCULATE EXPECTED SAVINGS IN TURNOVER COSTS</b>	
<b>Formula:</b>	<b>Expected Savings:</b>
<b>Expected Savings =</b> (Expected reduction in turnover) X (Average Turnover Cost)	

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