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The High Cost of Employee Turnover: And What to Do About It

Do you know what it costs your business to replace an employee? Probably much more than you think. Various studies estimate that the tangible and intangible costs of replacing an employee range from 50 to 200 percent of the employee's salary. Turnover can have a serious impact on quality, productivity, customer service, and your company's bottom line. So what can you do to reduce turnover – and the resulting cost to your business?

Begin at the Beginning

Employee retention really begins with the hiring process. How does your company find, assess, select and orient new employees? While no recruiting or hiring method is perfect, a thorough, effective hiring process can pay huge dividends. At a minimum, your recruiting strategy should include:

- Creating performance-based job descriptions for open and new positions.
- Obtaining accurate market compensation data to ensure that you're offering competitive pay.
- Assessing high performing employees currently in the position to find out what really works.
- Using structured and behaviorally-based interviewing techniques.
- Evaluating candidates against the position – instead of comparing candidates to each other.
- Conducting thorough reference and background checks.

The hiring process is also the time to make sure that potential employees understand what will be required of them. Zeroing in on what the job entails during interviews is a good starting point in reducing turnover.

Manage the Middle

Once you've hired the best and brightest, your next job is to keep them. What do you think has the greatest impact on employee satisfaction and retention? The answer may surprise you. Most companies home in on salaries and benefits as the means to “lock up” good employees. And while competitive pay is certainly critical, money alone is not enough to attract, retain and motivate good employees.

Think about a time when you yourself felt excited and energized about your work. Can you remember a time when you just couldn't wait to jump out of bed and get to work? What were you working on? What was special about it? Was it the pay? The perks? Or was it a challenging project, being part of a new venture, the rapport with your colleagues, the recognition from your peers or your own employees? In fact, it is challenging work – and quality relationships with others at work – that attracts high performing people to the best companies and keeps them there. Here are 10 key strategies to incorporate into your retention plans:

1. Make employee development a performance requirement for every supervisor in the company.
2. Clearly communicate goals, responsibilities and expectations to your employees.
3. Meet with your employees regularly. Involve them in your plans and decisions.
4. Make performance feedback a top priority. Conduct performance reviews regularly, thoroughly and on time.
5. Acknowledge attempts, as well as accomplishments.
6. Reward outstanding performance with more challenging opportunities.
7. Do not tolerate poor performance at any level or from any position in the organization.
8. Share information promptly, openly and clearly. Tell the truth with compassion.
9. Solicit employee feedback and ideas. Listen attentively to their concerns.
10. Encourage initiative. Provide opportunities for training, growth and development.

Educate Yourself at the End

Despite your best efforts, some employees will move on to other jobs. Take the opportunity to conduct an exit interview with each departing employee. Ask employees about their experiences with your company and why they're leaving. You may learn new information that should be incorporated into your retention strategy.

Turnover costs can have a major effect on the profitability of your business. Retention strategies involving careful hiring, capable supervision, open communication, and continual commitment to employee development will help reduce the impact. In the process, your company will earn a reputation as a great place to work.

McLean, Koehler, Sparks & Hammond helps owners and business leaders become more successful by providing innovative financial, technology and management solutions for every stage of their organizations' life cycle. MKS&H's organizational consulting division, Tandem Partners, specializes in people strategies that drive business results. For more information on this article or MKS&H, please contact Margaret Wilson at 410-296-6200 or via email: margaret@mksh.com.

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