



There Are Significant Business Costs to Replacing Employees

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Introduction

Implementing workplace policies that benefit workers and help boost employee retention is not simply a “nice” thing for businesses to do for their employees. Maintaining a stable workforce by reducing employee turnover through better benefits and flexible workplace policies also makes good business sense, as it can result in significant cost savings to employers.

Thirty case studies taken from the 11 most-relevant research papers on the costs of employee turnover demonstrate that it costs businesses about one-fifth of a worker’s salary to replace that worker. For businesses that experience high levels of turnover, this can add up to represent significant costs that can potentially be avoided by implementing workplace flexibility and earned sick days at little or no cost at all.¹

Indeed, it is costly to replace workers because of the productivity losses when someone leaves a job, the costs of hiring and training a new employee, and the slower productivity until the new employee gets up to speed in their new job.² Our analysis reviews 30 case studies in 11 research papers published between 1992 and 2007 that provide estimates of the cost of turnover, finding that businesses spend about one-fifth of an employee’s annual salary to replace that worker. (see Figure 1)

Specifically, the economic studies we examined reveal a number of patterns about the cost of turnover:

- For all positions except executives and physicians—jobs that require very specific skills—across the remaining 27 case studies, the typical (median) cost of turnover was 21 percent of an employee’s annual salary.
- For workers earning less than \$50,000 annually—which covers three-quarters of all workers in the United States—the 22 case studies show a typical cost of turnover of

20 percent of salary, the same as across positions earning \$75,000 a year or less, which includes 9 in 10 U.S. workers.³

- Among positions earning \$30,000 or less, which includes more than half of all U.S. workers, the cost of replacing an employee is slightly less than among positions earning less than \$75,000 annually.⁴ The typical cost of turnover for positions earning less than \$30,000 annually is 16 percent of an employee’s annual salary.

Jobs that are very complex and that require higher levels of education and specialized training tend to have even higher turnover costs.⁵ In one study, economist Eileen Appelbaum and sociologist Ruth Milkman find that

executive positions, which are well-compensated and likely have stringent educational credential requirements, have higher turnover costs than jobs with low educational requirements.⁶ Very highly paid jobs and those at the senior or executive levels tend to have disproportionately high turnover costs as a percentage of salary (up to 213 percent), which skews the data upwards.

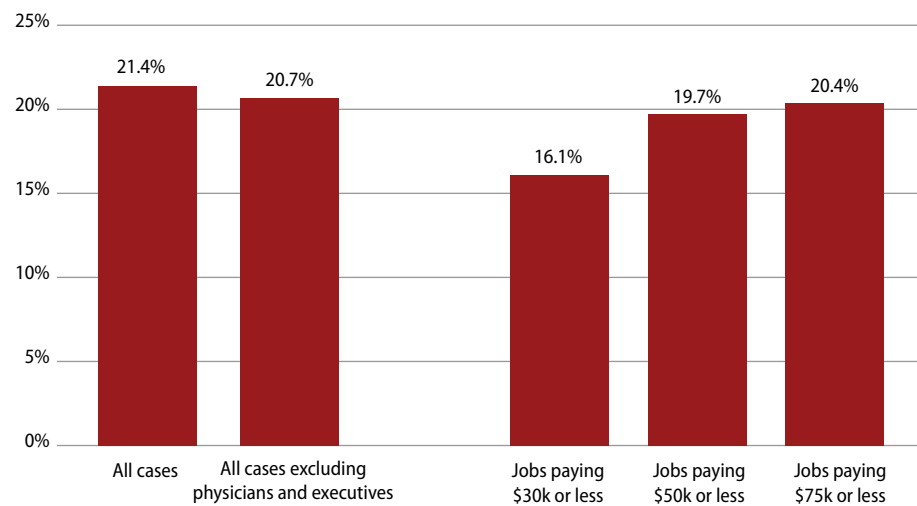
Because some jobs have very high costs of turnover and others are less significant, there is a wide range of estimates across all types of employment. Above, we reported the “typical” cost of turnover using the median among the case studies. This means that half of the case studies had a cost above what is “typical” and half had a cost below. The estimates of the cost of turnover in the 30 case studies analyzed here range from 5.8 percent up to 213 percent, depending on the job and employee skills. But the estimates are clustered around the “typical” (median) values. Looking only at estimates of the cost of turnover for workers earning, on average, \$75,000 per year or less, 17 case studies find a cost of turnover in the range of 10 percent to 30 percent. (see Figure 2)

The cost of turnover is an important economic issue because about one-fifth of workers voluntarily leave their job each year and an additional one-sixth are fired or otherwise let go involuntarily.⁷ While workers who were laid off might not be replaced at all, for other kinds of workplace exits it doesn’t matter whether an employee left a firm voluntarily or whether they were fired—the reality is that it will cost the firm to replace that

FIGURE 1

Replacing employees is costly for companies’ bottom line

The cost of turnover is remarkably consistent across jobs at different pay levels, except the very highest-paid jobs, 1992 to 2007



Source: Author’s analysis of 30 case studies on the cost of turnover from 1992 through 2007.

employee. In the long-term, even if a firm saves money by firing an employee who has stolen or has very low productivity, in the short-term the firm must address the costs of replacing that worker with one who will perform the job better than the one fired.

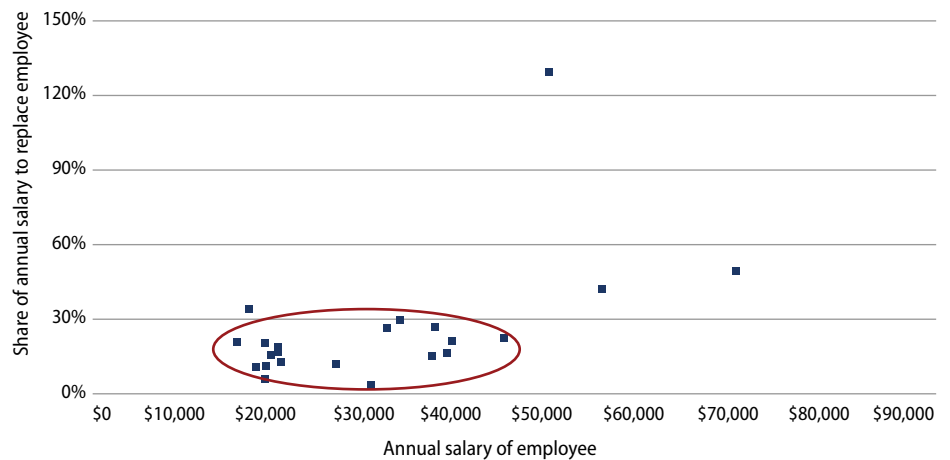
The Great Recession sharply increased the share of workers involuntarily leaving their jobs. At its peak in early 2009, the share of the total labor force subject to what the Bureau of Labor Statistics calls “layoffs and discharges”—but what those affected might refer to as “getting canned”—was 2 percent, up from 1.2 percent in 2006, before the recession began.⁸ As unemployment remained high, the recession and subsequent recovery reduced the number of workers who voluntarily left a job. In 2011, 23.6 million workers—or 17.9 percent of the total workforce—quit their jobs, down from 22.6 percent of the workforce in 2006.⁹ Due to the collapse of the housing bubble and the ensuing economic recession, workers employed in construction especially experienced spikes in unemployment and increased turnover rates. (see Figure 3)

High quit rates are often due to workplace policies. The Bureau of Labor Statistics data show that the accommodations—including hotels and motels—and food-services industries have the highest voluntary quit rate, with 37 percent of employees reporting that they quit their jobs in 2011, nearly twice as many as left their jobs involuntarily.¹⁰ These are jobs that tend to pay low wages and often have little in the way of workplace benefits or policies to help workers address conflicts between work and family.

FIGURE 2

Across jobs, the cost of replacing an employee is clustered between 10 percent and 30 percent of an employee’s annual salary

Range of estimates of the cost of turnover from 30 case studies spanning 1992 to 2007

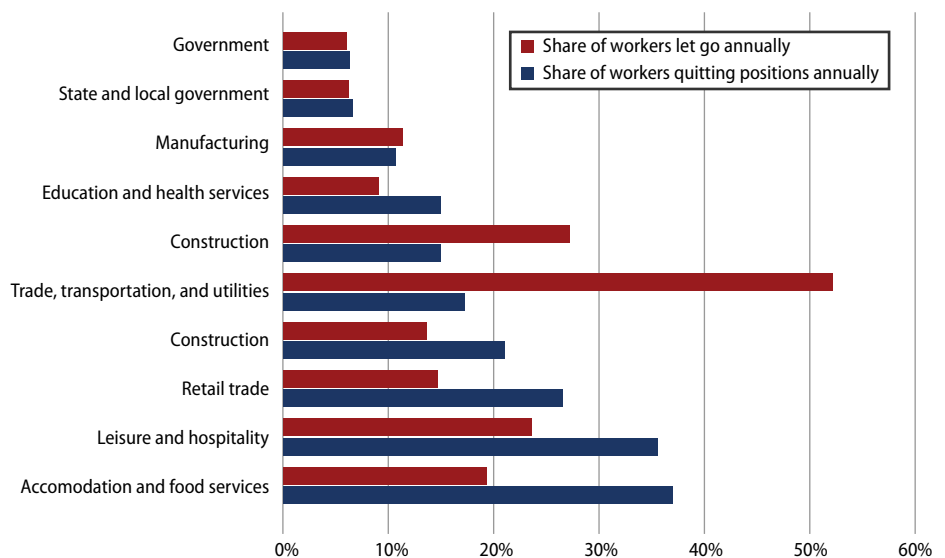


Source: Author’s analysis of 30 case studies on the cost of turnover from 1992 through 2007.

FIGURE 3

Job losses by industry

Share of workers who quit or were involuntarily let go by industry, 2011



Source: Bureau of Labor Statistics, Job Openings and Labor Turnover Survey - January 2012

Researchers find that high rates of turnover could be lowered through changes in workplace policies. Harvard Business School professor Zeynep Ton recently wrote in Harvard Business Review:

Highly successful retail chains ... have demonstrated that ... bad jobs are not a cost-driven necessity but a choice. And they have proven that the key to breaking the trade-off is a combination of investment in the workforce and operational practices that benefit employees, customers, and the company ... I believe that the model these retailers have created can be applied in other service organizations ... [such as] hospitals, restaurants, banks, and hotels.¹¹

Conclusion

This brief documents that the cost of employee turnover for businesses is high, regardless of the level of wages being paid to the departing or incoming employees. Companies typically pay about one-fifth of an employee's salary to replace that employee. While it costs businesses more to replace their very-highest-paid employees, the costs for most employers remains significant and does become less significant for those with low earnings.

Workplace policies that improve employee retention can help companies reduce their turnover costs. Family-friendly policies such as paid family leave and workplace flexibility help retain valuable employees who need help balancing work and family. For example, research has found that access to any form of parental leave makes women more likely to return to work after giving birth. Moreover, by 2050 up to 20 percent of Americans will be older than age 65, and improved leave policies would allow workers to provide the care their elderly parents may need without having to sacrifice their livelihoods.¹²

Appendix

The analysis presented in figures 1 and 2 is based on a thorough review of academic studies on the costs of employee turnover between 1992 and 2012. We found 11 published papers that provide empirical analysis of the cost of the turnover with detailed information on their methodology.¹³ Most of the research focused on a specific occupation within an industry, which meant that the 11 research papers provided 31 separate case studies. We then pooled these case studies to evaluate the typical cost of turnover across firms as a share of an employee's annual salary.¹⁴

The research papers examined a variety of turnover costs, but they can be broken down into two main categories—direct and indirect, which vary depending on the specifics of the job. Both direct and indirect costs will vary within and across firms in terms of skills and training needs for a particular job. There will also be differences in the cost

to replace an employee based on the industry, the region, and general economic conditions, as it may cost more to recruit employees to a remote location or if the unemployment rate is very low.

In the late 1990s, for example, when the U.S. economy was close to full employment, there was a great deal of media coverage about how employers were scrambling to fill positions. One story from the Associated Press was simply titled “Fewer workers mean more picky applicants” and detailed the creative ways employers would try and attract employees. The article highlighted one employer, an apparel maker, who offered eight paid days of vacation for each friend an employee recruited to the company.¹⁵

The first type of cost is direct costs. This category includes:

- Separation costs such as exit interviews, severance pay, and higher unemployment taxes
- The cost to temporarily cover an employee’s duties such as overtime for other staff or temporary staffing
- Replacement costs such as advertising, search and agency fees, screening applicants, including physicals or drug testing, interviewing and selecting candidates, background verification, employment testing, hiring bonuses, and applicant travel and relocation costs
- Training costs such as orientation, classroom training, certifications, on-the-job training, uniforms, and informational literature

The second category of turnover costs to businesses is indirect costs. This includes:

- Lost productivity for the departing employee who may spend their last days on the job writing exit memos or with reduced morale
- Lost productivity due to the need to hire temporary employees
- Coping with a vacancy or giving additional work to other employees
- Costs incurred as the new employee learns his or her job, including reduced quality, errors, and waste
- Reduced morale
- Lost clients and lost institutional knowledge

While direct costs may be easy to measure, by their very nature indirect costs may be hidden and difficult to ascertain. Because of this, out of the 11 research papers that we looked at, only 2 included indirect costs.

Table 1 describes the 31 case studies and their key findings.

TABLE 1
Studies estimating the cost of employee turnover, 1992 to 2007

Study	Study summary	Job category as described by study	Cost cited in study
Blake Frank, "New Ideas for Retaining Store-Level Employees" (Coca-Cola Company Retailing Research Council, 2000).	The author examines survey data from 2000 for 10 companies representing 18 grocery stores across the United States. The companies provided a total of nearly 600 surveys outlining costs associated with employee turnover and provided additional personnel data on more than 170,000 employees.	Grocery store manager	\$34,735
		Grocery department manager	\$9,962 to \$7,045
		Cashier	\$4,313 to \$2,286
		Hourly store personnel	\$4,291 to \$3,372
Timothy R. Hinkin and J. Bruce Tracey, "The Cost of Turnover: Putting a Price on the Learning Curve," <i>Cornell Hospitality Quarterly</i> 41 (3) (2000): 14-21.	The authors develop a computer program that used algorithms to determine the direct and indirect costs of turnover for employees in the hospitality industry. The study was conducted in 2000 but used earlier studies as a starting point.	Hotel front-office	\$5,688 to \$5,965
		Loss-prevention (security) associate	\$3,026
		Line cook	\$2,077
		Administration, sales, catering	\$7,658
		Gift-shop clerk	\$3,383
		Room-service wait staff*	\$1,332
Michelle I. Graef and Erik L. Hill, "Costing Child Protective Services Staff Turnover," <i>Welfare</i> 79 (5) (2000): 517-533.	The authors use a "utility analysis" method to determine the total cost of Child Protective Services staff turnover in one midwestern state in 2000. The costs considered were those of separation, replacement, and training of employees.	Child protective services worker	\$10,000
Frank Kelly and others, "The Shocking Cost of Turnover in Health Care," <i>Health Care Management Review</i> 29 (1) (2004): 2-7.	The authors review the turnover costs incurred by hiring, training, and productivity loss of employees at a large medical center in mid-2000. They use and improve upon previous empirical work done in quantifying turnover costs.	Physicians	\$66,137
		Registered nurses	\$23,487
		Allied Health personnel	\$6,368
		Technical staff	\$5,662
		Support	\$3,162
		Administrative assistants or managers	\$10,031

Study	Study summary	Job category as described by study	Cost cited in study
Cheryl Bland Jones, "The Costs of Nurse Turnover, Part 2: Application of the Nursing Turnover Cost Calculation Methodology," <i>Journal of Nursing Administration</i> 35 (1) (2005): 41-49.	The author uses a human resource accounting method to determine the cost of registered nurse turnover in a large acute-care hospital for FY 2002. Jones calculated both prehire costs and posthire costs.	Registered nurse	\$62,100 to \$67,100
Robert C. Atchley and Jane Karnes Straker, "Recruiting and Retaining Frontline Workers in Long-Term Care: Usual Organizational Practices in Ohio" (Oxford, Ohio: Miami University, 1999).	The authors conducted interviews with administrators at 100 Ohio home health agencies and 112 nursing homes in 1999. Seventeen percent of those interviewed had calculated the cost of turnover in their organization based upon the cost or savings of an employee leaving and the costs of a new hire.	Nursing home workers	\$1,685 to \$2,100
		Home health agency workers	\$952 to \$1,242
M. Zahrt, "The Cost of Turnover in a Home Care Agency," <i>CARING</i> (April 1992).	The author calculates the cost of turnover among home care aides in a single public home-care agency with a 50 percent turnover rate in 1992. The costs included in the calculations were recruiting, orienting, training, equipping, supervising, and replacing the departing aides with a substitute.	Home care aide	\$3,362
Steve Traci and Meg A. Seninger, "Direct Service Staff Turnover in Supported Living Arrangements: Preliminary Results and Observations" (RTC: Rural, University of Montana, 2002).	The authors survey seven private Montanan service corporations in 2002 on the operational costs incurred by turnover among direct service staff. The average corporation size was 102 employees and staff wages averaged \$7.56/hour.	Direct service workers for individuals with developmental disabilities	\$2,627
Gary Barnes, Edward Crowe, and Benjamin Schaefer, "The Cost of Teacher Turnover in Five School Districts: A Pilot Study" (Washington: National Commission on Teaching and America's Future, 2007).	The authors use the results of a pilot study to determine the costs of teacher turnover in five school districts in 2007. They base the cost estimates on the costs that stem from recruiting, hiring, and training new teachers.	School teacher	\$4,366 to \$17,872

Study	Study summary	Job category as described by study	Cost cited in study
Barbara Hillmer, Steve Hillmer, and Gale McRoberts, "The Real Costs of Turnover: Lessons from a Call Center," Human Resource Planning 27 (3) (2004): 34-41.	The authors develop a model to estimate the cost of turnover in 2004 using a call center. They aim to provide a conservative estimate of the direct and indirect (or intangible) costs of employee turnover.	Call-center employees	\$21,551.00
Eileen Appelbaum and Ruth Milkman, "Achieving a Workable Balance: New Jersey Employers' Experiences Managing Employee Leaves and Turnover" (New Brunswick, New Jersey: Center for Women and Work, 2006).	The authors conduct case studies of 13 employers (ranging from three employees to more than 3,000 employees) in 2005 in New Jersey and broke down turnover costs for hourly employees and for managerial and professional employees.	Heavy manufacturing plant employee	\$760
		Registered nurse	\$1,200
		Financial professional	\$8,500 to \$13,000
		Senior manager at a residential construction company	\$80,000 to \$90,000
		Middle manager at a consumer products company (making \$50-125k)	\$98,000 to \$117,000
		Lower-level executive at a consumer products company (making \$125k)	\$185,000
		Senior-level executive at a consumer products company (making \$200k)	\$260,000

*Information on the average earnings of room-service wait staff was not available and so is not included in the case studies referenced in this report.

Endnotes

- 1 Heather Boushey and Tanya Doriss began this analysis while they were staff at the Congressional Joint Economic Committee. For more analysis on this issue, please also see Tanya Doriss, "Meta-Analysis: Cost of Employee Turnover as a Percentage of Employee Salary" unpublished manuscript, 2010. The authors also wish to thank the committee staff and the leadership of Rep. Carolyn Maloney (D-NY) for her dedication to the issues of work-family balance.
- 2 Timothy R. Hinkin and J. Bruce Tracey, "The Cost of Turnover: Putting a Price on the Learning Curve," *Cornell Hospitality Quarterly* 41 (3) (2000): 14–21; Dorie Seavey, "The Cost of Frontline Turnover in Long-Term Care," (Washington: Better Jobs Better Care, 2004), available at <http://www.directcare-clearinghouse.org/download/TOCostReport.pdf>.
- 3 Author's analysis of the Center for Economic and Policy Research extracts of the Annual Social and Economic Supplement for calendar year 2010.
- 4 U.S. Bureau of the Census, "Current Population Survey: Population and Per Capita Money Income, All Races: 1967 to 2011" (2012).
- 5 J. Bruce Tracey and Timothy R. Hinkin, "Contextual Factors and Cost Profiles Associated with Employee Turnover," *Cornell Hospitality Quarterly* 49 (1) (2008): 12–27.
- 6 Eileen Appelbaum and Ruth Milkman, "Achieving a Workable Balance: New Jersey Employers' Experiences Managing Employee Leaves and Turnover" (New Brunswick, New Jersey: Center for Women and Work, 2006).
- 7 Bureau of Labor Statistics, *Job Openings and Labor Turnover – January 2012* (U.S. Department of Labor, 2012), available at http://www.bls.gov/news.release/archives/jolts_03132012.htm.
- 8 Ibid.
- 9 Bureau of Labor Statistics, *Job Openings and Labor Turnover: 2006 Annual Data* (U.S. Department of Labor, 2007).
- 10 Bureau of Labor Statistics, *Job Openings and Labor Turnover – January 2012*.
- 11 Zeynep Ton, "Why 'Good Jobs' Are Good for Retailers," *Harvard Business Review* (2012).
- 12 Sarah Jane Glynn, "Fact Sheet: Paid Family and Medical Leave" (Washington: Center for American Progress, 2012).
- 13 The 11 studies included here are: Appelbaum and Milkman, "Achieving a Workable Balance: New Jersey Employers' Experiences Managing Employee Leaves and Turnover"; Robert C. Atchley and Jane Karnes Straker, "Recruiting and Retaining Frontline Workers in Long-Term Care: Usual Organizational Practices in Ohio" (Oxford, Ohio: Miami University, 1999); Gary Barnes, Edward Crowe, and Benjamin Schaefer, "The Cost of Teacher Turnover in Five School Districts: A Pilot Study" (Washington: National Commission on Teaching and America's Future, 2007); Blake Frank, "New Ideas for Retaining Store-Level Employees" (Coca-Cola Company Retailing Research Council, 2000); Michelle I. Graef and Erik L. Hill, "Costing Child Protective Services Staff Turnover," *Welfare* 79 (5) (2000): 517–533; Barbara Hillmer, Steve Hillmer, and Gale McRoberts, "The Real Costs of Turnover: Lessons from a Call Center," *Human Resource Planning* 27 (3) (2004): 34–41; Hinkin and Tracey, "The Cost of Turnover: Putting a Price on the Learning Curve"; Cheryl Bland Jones, "The Costs of Nurse Turnover, Part 2: Application of the Nursing Turnover Cost Calculation Methodology," *Journal of Nursing Administration* 35 (1) (2005): 41–49; Steve Seninger and Meg A. Traci, "Direct Service Staff Turnover in Supported Living Arrangements: Preliminary Results and Observations" (RTC: Rural, University of Montana, 2002); J Deane Waldman and others, "The Shocking Cost of Turnover in Health Care," *Health Care Management Review* 29 (1) (2004): 2–7; M. Zahrt, "The Cost of Turnover in a Home Care Agency," *CARING* (April 1992).
- 14 The research most often examined the cost of replacing a worker but did not provide the salary level of the worker, and so we assigned the mean salary for each occupation using the National Compensation Survey's Occupational Wages in the United States. In instances where the annual wage data was not available for the year of the study because the job category was not yet included in the survey, the cost of turnover was inflated to the closest year for which data was available.
- 15 AP, "Fewer Workers Mean More Picky Applicants," *The Robesonian*, August 15, 1994.