

The Cost of Brain Drain

Understanding the financial impact of staff turnover



It will come as no surprise to learn that losing staff is a costly and risky part of business but what is the total cost of replacing an employee? Perhaps we could say how much the 'logistical' costs have set us back; advertising the role, interviewing and introducing someone new into the business. But can we monitor the cost of lost output while we wait for the new employee to get up to speed – their optimal productivity?

This Oxford Economics report identifies the costs of replacing an employee earning more than £25,000 and looks at 5 industry sectors in more detail; Legal, Accountancy, Retail, IT and Advertising/Media.



Because everyone needs a back-up plan

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Has your business underestimated the cost of brain drain?

The main costs of replacing an employee are split into two parts:

Logistical costs

This covers things like advertising the position, time spent on interviewing and agency fees

Lost output

The often forgotten cost is that of bringing an employee up to their Optimum Productivity Level (OPL) which means bringing them up to speed so they are performing effectively in their role.

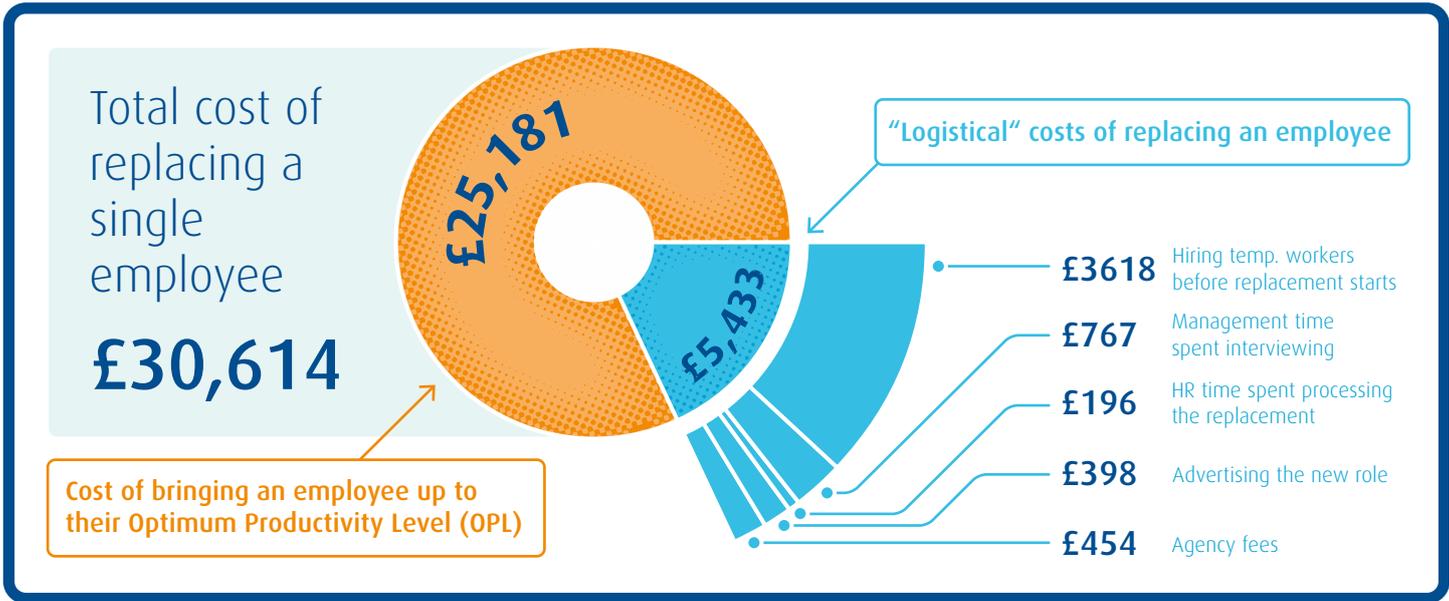
Key findings

The cost of replacing a member of staff depends on:

- ▶ Where the new employee has come from
- ▶ The size and industry sector of the business
- ▶ How long the new employee takes to reach their OPL and how much their employer is paying them during this period
- ▶ Money spent on the logistical costs of recruitment

Cost of replacing a single employee:
£30,614

Time to reach Optimum Productivity Level:
28 wks



Factors affecting how long it takes employees to reach their Optimum Productivity Level

Industry sector

Across various sectors the average time it takes to reach OPL varies, with the Accountancy and Legal sectors taking the most time for new employees to really find their feet. This is most likely because these sectors require fewer workers who are more highly skilled and understanding the intricacies of the business takes longer to grasp.



Business size

The size of the business also has an impact, with new employees in larger businesses (more than 250 employees) taking 6 months to reach their OPL. Although there is no clear reason for this, we can assume that employees in smaller companies have:

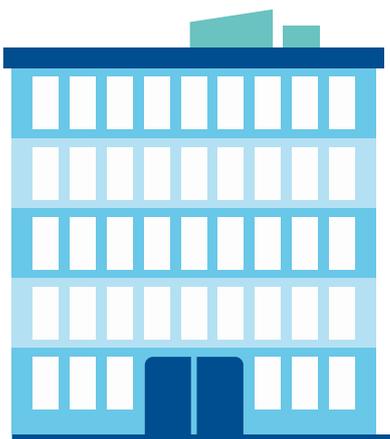
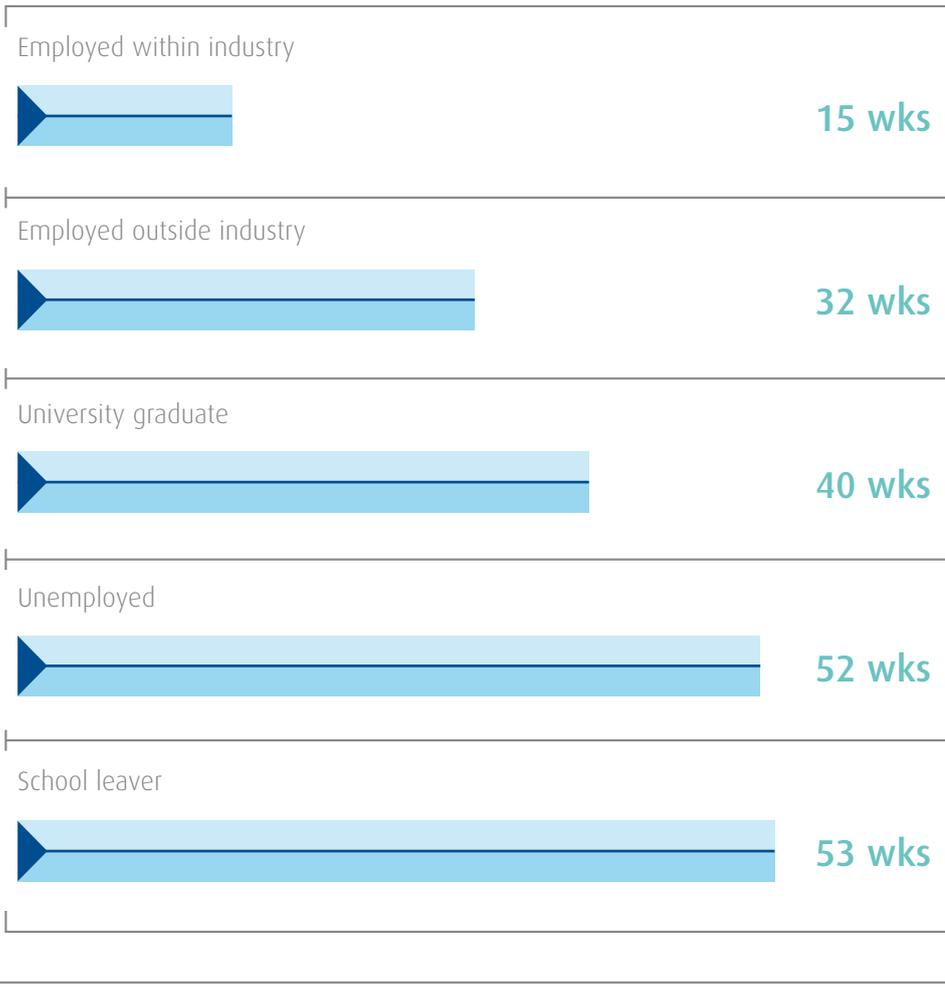
- ▶ Earlier access to senior management, giving them a more in-depth understanding of the business and its goals
- ▶ More immediate feedback in the role, making it easier to correct behaviour quicker
- ▶ Less complicated business processes and procedures to learn

Where the employee comes from

As would be expected, if an employee is coming from another company within the industry the time it takes them to reach OPL will be less than someone coming from outside the industry.

Employees joining the business straight from education or who've been unemployed undoubtedly take longer too.

This doesn't necessarily indicate that hiring from within the industry is the best choice as there are numerous benefits of bringing in those with fresh experiences from outside too.



250+ employees
28 wks



1-250 employees
24 wks

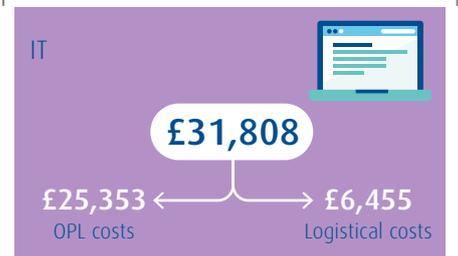
Overall cost breakdown by sector



Annual staff turnover cost: **£805M**



Annual staff turnover cost: **£580M**



Annual staff turnover cost: **£1873M**



Annual staff turnover cost: **£673M**



Annual staff turnover cost: **£184M**

To reduce the costs of brain drain to your business, focus on improving staff retention.

Review your retention strategy

Reducing staff turnover will help you keep valuable knowledge within your business, and create greater employee engagement, leading to a more efficient and effective organisation. Providing a great place to work will also encourage the best new talent to join too.

To keep staff they need to feel motivated, engaged and connected to the business. You should assess:

 **CULTURE**
Does it allow employees to perform to their full potential? Is it open to change and innovation or has it become 'stuck in its ways'?

 **MANAGEMENT**
Do your managers give staff the chance to make decisions and be autonomous? If not, employees may feel under-utilised and look to leave.

 **OVERALL PURPOSE**
Giving employees a clear line of sight between their role and overall company goals helps to inspire staff and build a greater connection between employee and business.

 **JOB PROGRESSION**
It's not always possible or realistic for employees to progress upwards but do you provide staff with opportunities to expand their knowledge and challenge themselves?

 **RECOGNITION**
Sometimes it's as simple as saying thank you but many companies fail at this, leaving employees feeling disappointed and unappreciated.

 **BENEFITS PACKAGE**
A recent Towers Watson report (2014) showed that higher pay does not buy employee loyalty, meaning that employers need to take a broader view if they're to keep hold of key employees.

If you DO need to replace an employee:

Give the new employee greater access to management and regular feedback, as well as ensuring business processes and procedures are clear and simple. This will make it easier for new employees to reach their OPL more quickly.



The overall benefits package plays an important role in employee satisfaction and can help to provide increased security and employee motivation, while offering employers a cost effective way to enhance performance.

Remember to communicate your benefits package effectively – failing to tell your employees about what's on offer means that you miss out on the positive motivations that a good benefits package can bring.



To find out more about unusual and useful retention strategies that won't break the bank visit:
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