

The true cost of losing employees and how to avoid them

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Abstract

The cost of losing a seasoned associate veterinarian can be as high as 2-3 times their annual salary, and for other staff members, it has been measured to be between 5.3% and 213% of their annual salary depending on the importance of the position and their time in that position. Reducing employee turnover is important for the financial health of the practice, team health and the client and patient health. Eliminating those factors that have been shown to be reasons for an employee to leave are important first steps in reducing employee turnover. Recent cultural and socioeconomic changes have produced changes in the labor market that will require “mind shifts” in the hiring, mentoring and managing the work force.

Key words: labor market, retention, turnover

Paper overview

This presentation provides an overview of the current labor market along with estimates of the cost of losing employees, provides specific actions to minimize employee turnover and leaves the attendee with thoughts to ponder about how to build a plan to create important “constructive turnover”.

Current labor market

Since 2008, the U.S. labor market has steadily moved from a labor surplus to a labor shortage. There are many factors that have contributed to this including demographic factors, a stagnate minimum wage, slow wage growth, the pandemic, and a changing allocation of labor demand across various industries. However, the “Great Resignation” that began during the pandemic and created the highest imbalance of labor supply and demand in decades, has begun to subside and will likely be the start in a major shift to a return to a labor market with excess supply of labor.

Cost of employee turnover

Prior to this change from a labor surplus to a labor shortage there were a great many studies that measured the cost of losing an employee. These studies measured both direct and indirect costs associated with the loss and replacement of employees.

The direct costs include:

1. Separation costs such as exit interviews, severance pay and higher unemployment taxes.
2. The cost to temporarily cover an employee’s duties such as overtime for other staff or temporary staffing.
3. 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.
4. Training costs such as orientation, classroom training, certifications, on-the-job training, uniforms, and informational literature.

The indirect costs include:

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

On average, across all industries, the studies found a cost to the business of roughly 20% of the employee’s salary was the total cost of loss and replacement. However, the range was 5.3% to 213% and for positions such as an associate veterinarian with 3 or more years on the job, the cost of loss and replacement might exceed 3 times the annual salary. For many veterinary practices, this may be equal to the entire practice profits for 2-3 years. This economic loss is certainly sufficient reason to warrant a focus on improving employee retention.

Minimizing staff turnover

Workplace policies that to help employees feel they are important in decision making (having a “seat at the table”) and are rewarded for their contribution to the success of the practice (having a “stake in the game”) will increase retention and practice performance and should not be considered as simply a “nice” thing for the practice to do for their employees. The National Center for Employee Ownership (NCEO)² has shown in numerous studies that when comparing similar businesses of all types, those that give employees a seat at the table and a stake in the game have less employee turnover, greater financial performance, and provide more community wide benefits.

A recent survey of studies by American Progress¹ have shown that 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.

Numerous studies have focused on identifying the reasons for quitting. These reasons fall into 3 broad categories: engagement and culture, well-being, and work life balance, pay and benefits, and managers and leaders. The most important reason for quitting is related to the employee’s lack of satisfaction with their future, and their job expectations (real or imagined). These findings point to “setting of expectations” as the most critical element for retention. These expectations include both those of the employee for the employer and of the employer for the employee. The expectations should be clearly defined, criteria elaborated for how performance on the expectations will be measured and the outcomes that will occur with the performance on each criterion.

Generally, reducing employee turnover will require improving team health and for many practices this will require a “mind shift” in hiring, managing and mentoring employees and how patients, clients and the community are engaged.

Creating constructive turnover

Turnover is going to occur and the disruptive aspect of this is the loss of a team member with no one positioned to assume the leaving employee’s duties. More importantly, in most practices, turnover should occur, and in fact should be considered by the owner as a measure of success. The owner is a leader, mentor and coach, among other things, and should be engaged with her employees to help them achieve their dreams. For most people these dreams include some type of self-improvement, increasing social standing and a feeling of accomplishment. “Job hopping” is a practice that is used to fulfill these desires, real or imagined.

By helping employees grow professionally, even when it involves moving to another job, practice owners and other mentors in doing will be helping their practice team ensure that the financial health of the practice, the health of the practice team members and health of the human/animal bond in their community is maximized.

I have found both in research and in practice that focusing on a few specific attributes greatly improves mentoring for most people. These include:

- “Impeccable in your word”, a Toltec “agreement” that encourages us to be respectful, or in more direct terms, be truthful but avoid trash talk. Famous football coach Lou Holtz made a similar statement, “If you burn your neighbor’s house down, it doesn’t make your house look any better”. I used this adage regularly as a baseball coach to stop and prevent trash talk between players.
- “The best team isn’t the team with the best players, but the team that plays best together”. I have used this adage extensively over the years, but broaden the definition of team to include parents, clients, associates and others outside the set of individuals that normally are thought of as the team. This is important because as George Shinn has noted, “There is no such thing as a self-made man, you reach your goals only with the help of others”. In veterinary medicine, there is a “team” that provides medical and wellness care to animals, but that team is only the leader for providing this care. The entire community must be engaged to “play best together” to provide the highest levels of care and create the greatest human/animal bond.

Concluding remarks

In rural areas, where many AABP members own practices, both recruiting and retaining good employees has become increasingly difficult as most small rural communities continue the economic decline that began at the end of WWII as a result of the rapid agricultural technology gains of the 1960s and 1970s.

Practices that hire staff that can easily assimilate to the rural community (either because of prior experience or the willingness to learn) will be the best fit for the practice team. The adaptation to a new culture is more difficult than the learning of new skills and thus focus on candidates with previous experience with different cultures may prove a successful strategy for reducing turnover. Can they stay in their own “lane”, are they the group “singer”, are they impeccable in their word?

While the first effort to reduce employee turnover is your hiring strategy, the second is the ability to help each person achieve their dreams. Again, this is a role specifically for the mentor but also include the team and the community.

Reducing staff turnover is important for veterinary practices and will not occur without specific strategies to improve hiring and mentoring with a specific objective of reducing turnover. It is important that the veterinary practice team and community at large are engaged in the development of these strategies.

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References

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