Losing good staff is costing UK firms billions

LONDON, UK: Failure to retain competent employees is costing UK businesses £42 billion (about R462 billion) a year and PwC issues warning on staff replacement costs as quarter of workers seek higher paid jobs.

New PwC research reveals that the cost of replacing a competent member of staff equates to approximately a year of that person's salary, reflecting all costs associated with lost skills and productivity, cost of replacement and training of new recruits. The research presents a stark warning to businesses given almost a quarter (24%) of UK employees are looking or intend to look for a new job because they feel their pay is insufficient, according to a poll of 1148 workers commissioned by PwC.

It's far better to keep good staff

With annual staff resignations in the UK averaging 10.4% and the average salary around £25 000 (about R275 000), the UK's failure to retain talent to the level of other mature economies costs British business around £42 billion per annum, or around £8 billion (about R88 billion) for every 1% increase in resignation (assuming a 31 million working population). The UK does not compare favourably to other leading economies in terms of staff retention. For example, resignation rates average 7% in the US and around 5% in France and Germany.

Richard Phelps, human resource services partner at PwC, commented: "Companies often vastly underestimate the financial benefits of retaining existing employees. With many businesses eager to maintain or grow staff levels as the economy starts to recover, it is crucial they consider the full costs of losing staff through resignation. The need is particularly pressing given that many employees who sat tight during the downturn may now be looking for new opportunities elsewhere."

Sometimes it pays to bite the bullet and pay more

PwC argues that these costs extend far beyond any employment agency fees and 'golden hello' incentives sometimes given to recruits from rival firms. The research factors in time spent interviewing candidates, particularly if a number of senior people are involved; reference checking and administration; the induction process and loss of competence before the new joiner is fully up to speed, revenue/productivity loss and customer disruption at the point the person leaves; not to mention the higher salaries often attached to new hires.

"Employers often resist pay rises because of the immediate cost impacts, and may resent being 'held to ransom' by workers threatening to leave. But losing dissatisfied staff can prove a far more costly exercise. When multiplied across a number of employees, high turnover can have a dramatic impact on a business' bottom line. While there may be many positive reasons for recruiting externally, such as to expand or acquire new skills or a fresh perspective, businesses need to recognise the value of holding on to the good people they have. Our research suggests that 90% of staff operate at a competent level," Richard Phelps added.

Optimal turnover rates will vary for different companies, sectors and markets. The issues are perhaps most significant for growth industries such as retail and service sectors, which need to retain or increase staff levels in a rising market. For instance, the typical level of resignation rates in retail can range from 20-100%, which represents a more significant cost to employers in these sectors despite lower wage levels.

To keep staff loyal and prevent unnecessary departures, companies need to consider carefully how they reward and motivate staff.

It's not only a money issue

Jon Terry, head of reward at PwC added: "Pay alone is no guarantee of a content workforce. Different individuals will be motivated by different rewards and ultimately incentives need to be tailored to the company and individual. For those companies with cash constraints, share ownership may provide an alternative incentive, or small 'one off" token rewards for good performance help can show appreciation that most workers crave.

"For many people, non-material incentives such as career development opportunities can be just as important as pay in maintaining loyalty and preventing the need to seek new opportunities elsewhere."

Notes

PwC's research on the cost of recruitment was conducted by its Saratoga team, the recognised leader in the measurement and benchmarking of human capital activity. A range of quantitative and qualitative tools are used to identify risk and o evidence best practice across an organisation.

The poll of 1148 UK workers was commissioned by PwC and conducted by Opinium Research in September 2010.