How to calculate the true cost of employee turnover

A practical guide for leaders who need to retain good people.

Introduction

Most organisations underestimate the cost of losing a team member. They count recruitment fees and advertising. Occasionally they factor in onboarding.

What is harder to calculate, however, is the productivity loss, leadership time, cultural disruption, and secondary risk that follows one resignation.

Turnover is not just an HR issue. It is a performance issue.

This guide will help you calculate the real cost of losing one employee — and consider what that number means for your organisation.

Step 1: Calculate the Direct Costs

Start with the visible expenses.

Include:

- Recruitment advertising
- Agency fees
- Internal recruitment time (leaders + HR hourly rate x hours spent)
- Interview time
- Background checks and administration
- Onboarding time
- Initial training time
- Equipment and system setup

For example:

Annual salary: $100,000
Recruitment advertising and fees: $12,000
Leader interview time (20 hrs @ $90/hr): $1,800
HR time (25 hrs @ $60/hr): $1,500
Onboarding/training productivity loss: $8,000

Total Direct Replacement Cost: $23,300

This is where many organisations stop.

Step 2: Calculate the Productivity Gap

Now consider what happens during the vacancy and ramp-up period.

Questions to ask:

- How long is the role vacant?
- Who absorbs the workload?
- What is the cost of delayed projects or slower service?
- Does client satisfaction dip?
- Are errors increasing?

Conservatively estimate:

- 3 months at 50% productivity during vacancy
- 3–6 months at 70–80% productivity during ramp-up

Using the same $100,000 salary example:

3 months vacancy at 50% lost productivity = $12,500
3 months ramp-up gap at 20% productivity loss = $5,000

Productivity gap: $17,500

Add this to your direct costs.

New total: $40,800

Step 3: Account for Leadership Drag

Resignations consume leadership energy.

Consider:

- Extra supervision
- Reallocation of work
- Conflict management
- Morale repair
- Client reassurance

Estimate conservative leadership time:

40 hours of senior leadership time at $120/hr = $4,800

Revised total: $45,600

Step 4: Consider the Secondary Risk

This is rarely measured.

When one capable person leaves:

- Remaining staff absorb pressure
- Burnout risk increases
- High performers question stability
- Psychological safety can dip
- Trust in leadership may weaken

If one resignation triggers another within 12 months, the cost doubles.

Retention risk compounds.

A Conservative Multiplier

Research often estimates turnover costs between **1.5x and 2x annual salary** for skilled roles.

Using a 1.5x multiplier:

$100,000 salary = $150,000 true cost

Ask yourself:

- What if you lose three people this year?
- What if they are your strongest contributors?
- What does that do to productivity per team member?

Why This Matters

Turnover is rarely random.

It is often linked to:

- Role clarity
- Workload design
- Autonomy and accountability balance
- Feedback culture
- Meeting load
- Psychological safety

When these are misaligned, productivity drops before resignation occurs.

Resignation is usually the final signal, not the first.

A Better Question

Instead of asking:

"How do we replace them?"

Ask:

"What in our leadership and work design made leaving a rational decision?"

Retention is not about perks.
It is about how work operates.

When leadership works for people, they stay — and perform.

What is the Cost of Inaction?

If one resignation costs you approximately **1.5x salary**, then:

- Losing a $100,000 team member costs around $150,000
- Losing three costs $450,000
- Losing five costs $750,000

And that does not include cultural impact or leadership fatigue.

Now compare that to the cost of proactively strengthening retention.

If you could reduce preventable turnover by even **one person per year**, the investment pays for itself.

If you reduce it by two, the return multiplies.

Retention is not a just a human initiative. It is a financial strategy.

The Strategic Alternative

Most organisations respond to turnover reactively.

Recruit. Replace. Repeat.

The more strategic approach is to examine:

- Where productivity is being constrained
- Where friction is draining energy
- Where leadership behaviours are unintentionally increasing resignation risk
- Where work design is misaligned with how people actually perform best

This is exactly what our **"Lead as They Need " – Leadership Consultation Package** is designed to uncover,

What the "Lead as They Need" Consulting Package Delivers

A structured leadership consultation that:

- Identifies hidden retention risks
- Pinpoints productivity leaks
- Examines workload, clarity, autonomy, and decision design
- Assesses whether leadership behaviours are strengthening or weakening performance
- Provides a clear, prioritised report with practical recommendations

This is not theory.
It is a commercial review of how leadership is impacting retention and output.

The ROI Case

If your average salary is $100,000 and you lose three capable people in a year, you may be absorbing $450,000 in preventable cost.

If this process prevents even one resignation, the return exceeds the investment.

If it improves productivity across your existing team by even 5–10%, the return compounds.

You do not need perfection.
You need leverage.

Next Step

If you are serious about improving retention and increasing productivity per team member, book a strategic conversation to explore whether the **'Lead as They Need' Consulting Package i**s the right fit for your organisation.

Because replacing people is expensive.

Designing leadership that keeps them is smarter.

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