The High Cost of Employee Turnover

It pays to keep staff happy and well-compensated.

BY JON A. HULTMAN, DPM, MBA

A medical practice experiences disruption and incurs considerable costs when it loses a valued employee. When any staff member leaves, existing staff must take on extra duties until a replacement is found, and patients lose the relationships they had had with that person. The practice must now launch a search, screen resumes, schedule and complete interviews with multiple candidates, and negotiate with and train the new employee. This all generates costs which can extend well beyond those associated with the search and training processes, and the employee may, or may not, work out over the long-term. In addition, the doctor and staff must now adapt to changing social dynamics created by the introduction of a new personality into the office. For all of these reasons, a practice should put forth significant effort to retain productive, well-trained employees.

The reason that medical staff usually leave their jobs is either that they are unhappy with the type of work they are doing or feel under-compensated (paid below the market rate) for that work. Multiple studies have shown that under-compensation does contribute to employee turnover; yet, it is not the sole explanation for its occurrence. Simply increasing an employee's salary will not compensate for a stressful workplace or for work that s/he is unhappy performing. When a productive employee leaves a medical practice strictly because s/he is unhappy with his/her salary, this typically creates a cost to the practice that goes well beyond what would have been incurred had that employee's salary simply been increased to a fair market rate. As to the employee who is unhappy with the actual tasks s/he is perform-

The reason that medical staff usually leave their jobs is either that they are unhappy with the type of work they are doing or feel under-compensated (paid below the market rate) for that work.

Continued on page 169

Stockbyte

Turnover *(from page 168)*

ing—efforts can be made to improve job satisfaction.

Such change almost always improves that employee's productivity—which, in turn, creates the means to increase his/her salary. In his *Hierarchy of Needs*[1], Maslow identifies those things that lead to personal happiness in a job. His study outlines for us the human needs a doctor wanting to retain capable staff members should strive to meet. These needs are: 1) Desirable salary, benefits, and job security, 2) a sense of belonging (relationships with management and peers), 3) esteem (recognition of employee efforts and career advancement opportunities), and 4) opportunity for personal skill development along with work that is both challenging and meaningful. Medical practices offer clear opportunities to meet all of these needs.

In his *Hierarchy of Needs*[1], Maslow identifies those things that lead to personal happiness in a job.

One of my first field projects in business school was assisting a member of the study group in quantifying the cost savings realized from measures his company had instituted to lower employee turnover. He was the general manager of an airline food company located at LAX, and the company had been undergoing the process of restructuring and implementing quality management and teamwork concepts in an attempt to increase quality and lower employee turnover. Annual turnover rates for several job categories at this company had consistently been measured at 75 percent, and after implementing the first phase of teamwork concepts, this rate had been cut by more than half—to 36 percent.

At the time of this project (1989), William M. Mercer, a New York-based consulting firm, estimated that administrative, recruitment and training costs for replacing a departing employee typically range from $10,000 to $30,000. We estimated that the administrative, recruitment, and training costs for one new employee in our study was $17,500—well within Mercer's range. Using this estimate, we calculated that the 52 percent reduction in employee turnover that had been achieved through the company's restructuring efforts would result in $1,225,000 in annual savings—a total validation of the quality im-

Continued on page 170

Turnover *(from page 169)*

provement agenda that had been instituted.

One could speculate that using some of this "found money" to increase the salaries of those who did stay might further reduce the future turnover rate. We did not quantify the impact that this reduced turnover had on productivity, but one would expect that this would also have been a significant number given that those employees who stayed were more experienced than those who would have replaced them had they left, and managers who would now be "wasting" less time interviewing and training new employees would have more time to be effective in their jobs.

How much does turnover cost a medical practice? Some recent studies estimate that the costs generated from turnover of each staff member could range from 20% to 150% of that employee's annual salary. In a typical small business, the actual out-of-pocket administrative, recruitment, and training costs may be relatively low; however, in a medical practice these costs are compounded by additional ones that are created by the negative impact that turnover has on practice productivity, efficiency, patient satisfaction, and growth. It can take a new hire up to one or two years to become as productive as a well-trained, existing staff person. This "opportunity cost" will vary dramatically among practices—depending on the number of employees in the practice, the level of efficiency of the business and medical processes the practice employs, and the degree to which staff members are empowered and cross-trained. No matter how good the situation, this cost is always significant.

Some recent studies estimate that the costs generated from turnover of each staff member could range from 20% to 150% of that employee's annual salary.

If a practice has three employees, losing even one decreases the staff by 33 percent. When the one leaving happens to be a key employee, he or she may actually be responsible for more than one-third of the total staff output. This can greatly impact staff effectiveness. If a medical assistant working in the treatment area with the doctor leaves, patient access to the practice, wait times, and productivity will all be affected. These factors, in turn, negatively impact both revenue and patient satisfaction. If an employee in the business office leaves, the percentage of receivables collected is likely to decrease. In some offices, the loss of one person can virtually halt the entire billing process or dramatically reduce the amount of time available to the doctor for providing necessary services at the time of patient visits. While poor service resulting from a decrease in staff may not have an immediate financial impact, it will definitely affect the long-term growth and reputation of the practice.

One method of estimating the cost of potential turnover in a medical practice is to measure the impact this turnover might have in terms of a range of percentages. For example: it might be determined that the impact would result in a 5 percent reduction in productivity or a 5 percent decline in the collection ratio—depending on which employee is leaving. The net impact of either of these happening would be a 5 percent reduction in total practice revenue. If the practice generates $600,000 a year, this 5 percent reduction would equate to $30,000, and this would be in addition to 1) any fees paid to a hiring agency and 2) any negative impact on patient satisfaction. In fact, most industries put the opportunity cost related to reduced productivity much higher than the Mercer Company's "maximum" of $30,000—especially if the exiting employee is a "superstar."

Employees who are more satisfied with their jobs are going to have a positive impact on office productivity and, thus, in revenue.

Since employee satisfaction—both with the type of work they are doing and the salaries they are being paid—are critical to retaining valuable staff, an ideal method for reducing turnover is to focus on improving practice efficiency and productivity. Focusing on these two components leads both to higher job satisfaction and higher profit. Efficiency improvement includes empowering and cross-training staff which makes their jobs both more interesting and more satisfying. Employees who are more satisfied with their jobs are going to have a positive impact on office productivity and, thus, in revenue. This outcome enables the practice to offer higher salaries. Well-compensated employees who are happy with their work environment will not want to leave, and from the doctor's perspective, working daily with staff who love their jobs and feel they are fairly paid is priceless. **PM**

Reference

[1] Maslow's Hierarchy of Needs is a theory in psychology proposed by Abraham Maslow in his 1943 paper "A Theory of Human Motivation" in Psychological Review.

Dr. Hultman is Executive Director, California Podiatric Medical Association, President, Medical Business Advisors, specializing in practice evaluations, valuations, and mergers. He is the author of Reengineering the Medical Practice and Medical Practitioner's Survival Handbook