

Calculating the Real Cost of Employee Vacancies

It's 8 a.m. Monday morning. Your R&D director walks into your office and informs you that he's resigning. To make matters worse, he's leaving to take a position with one of your top competitors.

You weren't expecting this loss, but you're able to keep things in perspective. Besides, this may be an ideal opportunity to reduce overhead and run on a leaner budget.

You make the decision not to refill the position. Instead, you decide to split the workload between your two remaining managers. They're experienced; they have longevity; and they have a strong rapport with the staff. Overall, you think the decision will have a positive impact on your bottom line.

Vacancy Cost versus Real Cost

At a first glance, it may appear that you're making an intelligent decision. But before you go bragging to the executive team about your newfound efficiencies, consider the real cost of the job you're leaving vacant.



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That's right, vacant jobs come with a cost, and there are two primary levels to consider when evaluating the cost of leaving a job unfilled: the individual job vacancy cost, and the total, or real cost.

Individual Job Vacancy Cost

According to chemical industry experts, the average manager should earn for their company anywhere from three to five times their annual salary. With the average salary for an experienced R&D director at \$120,000 annually, you could be looking at a loss of earnings potential between \$1,400 and \$2,300 a day by leaving a job unfilled. If the job sits vacant for six months, the loss skyrockets to around \$300,000.

While this is not a trivial figure, it only represents a small percentage of the total impact a job vacancy can have on your bottom line.

The Real Costs

In his article, "Calculating the Cost of a Vacant Position," HR guru John Sullivan outlines the real cost of job vacancies. Dr. Sullivan's calculations take into account the trickle down effect that vacancies have on the rest of the organization.

Don't be fooled into believing that open

positions cost you only some overtime. The truth is, vacancies can expose your organization to unforeseen and unacceptable expenses, including the following:

Revenue Costs

Loss of revenue is the most obvious and most quantifiable cost associated with open positions:

- Delayed revenue resulting from longer Time-To-Market (TTM) for new products;
- Lost revenue resulting from products/services that could never be introduced;
- Underutilized equipment and corporate assets; and
- Decreased output because employees are performing unfamiliar jobs. Personnel Costs Employees who remain in your organization are hurt by vacancies. The added workload and higher stress levels can result in a number of problems:
 - Sending a message that the company isn't performing well;
 - Greater incidences of illness, absenteeism, and tardiness;
 - No opportunity to focus on the growth of the current employees by sending them to development programs and training seminars;
- Increased frustration;
- Increased scrap and rework/error rates;
- Less chance of employees reaching individual goals;
- Higher turnover; and
- Reduced creativity and innovative thinking.

Team Costs

Open positions can also cost your work teams:

- Lost leadership, idea generation, and skills of the vacated person;
- Increased chance that other members will leave;
- Disruption in team cohesiveness;
- Increased likelihood that poorly performing team members will be retained; and
- If the team leader is the “vacancy” then “time to productivity” is likely to be even more negatively impacted.

Management Costs

Managers in charge of departments with open positions must contend with a number of headaches:

- Less time to manage remaining employees;
- Increased frustration over lack of corporate support;
- Higher turnover in middle management (and often in senior management);
- Increased opportunity costs because managers have to spend valuable time performing fill-in duties; and
- Vacancies in management and team leader positions have a multiplier effect on productivity and the recruitment of others.

Customer Costs

Vacancies in critical areas can affect customer satisfaction levels, sometimes with serious consequences: