

# Loss of employee loyalty a big hidden cost of business

First, this is no scandal. But there's one cost of business that is so hidden in a company's books that it completely escapes the bean-counter mentality of Wall Street, the business media and even many erudite chief executives and financial officers.



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This hidden budget buster is the failure of employers to instill loyalty among their employees.

At last count, only 24 percent of American employees regarded themselves as truly loyal to their employer - satisfied enough with their jobs and organization that they were willing to stay with their current employer for at least two more years.

That means the vast majority either are ready to bolt whenever conditions are ripe or stay working for a variety of economic reasons even though they feel uncommitted to their job or employer.

For most employers, low employee loyalty is a major headache they don't realize they have.

"How people feel they are being treated translates in how hard they work, what they tell their family and friends about their employer and whether they are willing to go the extra mile with customers," said Marc Drizin, who tracked employee loyalty as part of the 2001 National Employee Benchmark Study conducted by the business research firm Walker Information.

The study, outlined last month before the Society of Human Resource Management's annual conference in Philadelphia, disclosed several other trends and warning signs, including:

Just over half (53 percent) of today's employees would be willing to recommend their firm to others looking for a job.

About the same number (54 percent) believe their organization treats employees fairly. Only half think they're paid fairly, and less (45 percent) feel managers fairly enforce company policies.

Fewer than half (44-45 percent) believes their employers care about them personally and professionally beyond whether they're present to do their jobs each day.

And only 41 percent believe their employer trusts them.

The findings break down to a pitifully low loyalty index that costs American employers billions annually.

"The biggest way that loyalty impacts costs is through turnover. The less loyal employees tend to leave sooner and must be replaced at a horrendous cost to the organization," said Drizin, a vice president of the Indianapolis-based business relationships research firm.

Yet, most CEOs and CFOs ignore employee loyalty because it does not show as a budget line item. "The costs of replacing a worker (a quarter of the annual salary of an hourly worker and 1.5 times the salary of a professional or management employee) is hidden, buried in HR, buried in marketing, buried in drug and alcohol testing, buried in headhunting, training and overtime costs," Drizin said.

The nation's nursing shortage provides a textbook example. Based on a 21 percent national average turnover, a hospital organization employing 400 nurses would lose 84 a year. At an average replacement cost of \$58,000 a nurse, the hospital incurs turnover costs of \$5 million annually - or more than \$18,200 a day. And that's just for nurses.

Drizin once met two human resource executives of a large regional trucking company firm that averaged a 133 percent annual turnover. "This company was hiring 6,250 people each year to fill the 5,000 positions the company had. It had a call center that did nothing more than call truckers offering them a penny more a mile to switch."

Turnover was costing the company \$180 million to \$220 million annually. Yet, when the numbers were presented to the CFO, Drizin said, "he brushed it off as the way it had been the last five years."

Relatively simple solutions exist that can quickly reverse poor loyalty and high turnover. They include:

- Recognizing that retaining employees does not equate to loyalty. "The turnover rate in government service is just 6 percent," Drizin said, "but two-thirds of government employees do not feel loyal or committed; they stay primarily because of job security, benefits and pension."
- Increasing worker training. "Train employees so that they feel more enabled to leave, and they will inevitably stay longer," Drizin said. "The training demonstrates that the employer cares about employees."
- Emphasizing ethical conduct among managers and senior leaders. Just 44 percent of workers felt managers demonstrated ethical standards in their work. Forty percent who thought their senior leaders had high integrity were truly loyal to their organizations - nearly double the national average. An astounding 1 in 11 who left their employer cited poor ethical conduct among co-workers and managers as their motivation.

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