MAKING ENTRY-LEVEL TALENT STICK

Is There a Market for Lowering Turnover in Small and Mid-sized Businesses?

SOCIAL FINANCE

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ABOUT SOCIAL FINANCE

Social Finance is a national nonprofit organization dedicated to mobilizing capital to drive social progress. Social Finance has pioneered Pay for Success, a set of innovative financing strategies that directly and measurably improve the lives of those in need.

To date, Social Finance has mobilized $100 million of capital for social progress. Our projects address a wide range of social issues including criminal justice, education, health, homelessness, sustainability, and workforce development. Our sister organization, Social Finance UK, launched the world's first Social Impact Bond in 2010.

PHOTOGRAPHY CREDITS

Seedco [photos on pages 2, 3, 7, 9, and 12]

THE WORLD OF WORK IS CHANGING.

It's being reordered by globalization and revolutionized by the reach and scope of technology. As the economy has evolved, businesses and HR departments have risen to the challenge by becoming more sophisticated, their management more data-driven and scientific.

Yet there are surprising holes in our knowledge of how workers operate within the workforce. The skills that define the future of work are a moving target. Training and education programs remain hugely variable in quality and long-term impact, operating with little accountability for workforce outcomes. In the face of systemic disinvestment by institutions[1] and by governments[2] in workforce preparation, a weakened social safety net,[3] and fading mobility,[4] we sometimes lack answers to even the simple questions.

Last year, a partnership in New York City—including the NYC Center for Youth Employment, JobsFirstNYC, and Social Finance, with funding from the Rockefeller Foundation and The Pinkerton Foundation—set out to answer one of those simple questions. We had heard, through years of experience supporting the workforce development system, that turnover was a critical issue for businesses. ***So we asked: what's the real cost of turnover to employers?***

What we found was surprising. In reviewing the best literature in the field and speaking with dozens of national experts, we were left with the disconcerting answer that, for most industries and in most businesses, no one really knows. [5]

Over the last year, we have tried to answer that question through detailed quantitative interviews with businesses. The results are revealing. Among small- to medium-sized employers in New York City and Memphis, we estimate that a single instance of turnover at the entry level costs employers approximately $3,300. That represents a real drain on the business engines of those cities. And it seems to disproportionately impact smaller businesses, which are typically the worst-positioned to analyze and respond to challenges driving turnover, or to bear its costs.

$3,300

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These findings have led us to believe that there's a market failure at work. Many employers— fairly enough—restrict the focus on their employee retention efforts to the job itself. They have come to accept that sky-high rates of turnover are inevitable, and that drivers of that turnover are beyond their control. But our research suggests otherwise. ***Turnover among entry-level employees is often driven by challenges outside the workplace, such as transportation, child care, or housing. If employers could help to overcome those challenges, they could unlock value in their businesses by lowering turnover.*** But this isn't the role that most employers have traditionally played in the workplace; making the transition is uncomfortable, and its rewards are uncertain.

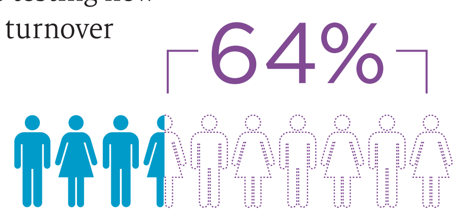
We believe a Pay for Success model may be able to overcome this market failure. Such a model would allow employers to buy better retention outcomes, spending money only if those outcomes are achieved—paying for employee supportive services to the extent that those services are successful. And based on the findings from our interviews, we believe that employers—when presented with models that allow them to pay only for results, rather than for services—are hungry for new, better ways to help their businesses.

THE COST OF TURNOVER

When entry-level employees leave a job—either by quitting or through termination—it often happens with no notice. Schedules have to be reworked last-minute, overtime has to be paid, managers or owners have to fill the gaps. Quality of services and products may suffer due to the surprise under-staffing, and dips in quality lead to disgruntled customers and loss of future business. For small and mid-sized businesses[6]—which account for more than 90% of all businesses in United States[7]—it can lead to a vicious cycle of "fire drill" hiring, where employees leave frequently and employers are constantly seeking to fill the same position.

This kind of no-notice departure is bad, but it's only part of a larger challenge facing employers. Separations happen for all kinds of reasons, and whether it's a voluntary departure with notice or an employer-initiated termination, turnover is costly. In a recent analysis, the nonprofit consulting firm FSG found that annual turnover among employees across the retail, food, and accommodation sectors was 64% - meaning that, in a given staff of 100, employees typically quit or are fired 64 times over the course of a year.[8] But those numbers can spike: employers in our study experienced upwards of 200% turnover quarterly at some locations.[9] That leaves businesses constantly training new people, and constantly staffed by employees still learning the ropes.

In the face of such prevalent and frustrating problems, three things are particularly striking. The first is that, while employers consistently cite high turnover among entry-level employees as a pain point,[10] they often struggle to articulate the cost of that turnover to their businesses. (We discuss this in more depth below.) The second is that employers seem widely resigned to the situation—as though there's nothing to be done about astronomical turnover among entry-level employees. (Our ongoing work, discussed later, is testing new models to challenge this assumption.) Employers simply build high turnover into their recruitment budgets as the cost of doing business. The third is that, among the organizations we interviewed, it is ubiquitous. Across industries and regardless of employer size, we found entry-level turnover to be a critical, pressing, and expensive problem.



FSG found annual turnover among employees across the retail, food, and accommodation sectors was 64%. In a given staff of 100, employees typically quit or are fired **64 times over the course of a year.**

Social Finance—in partnership with Seedco, a national workforce development nonprofit that is an affiliate of the Acacia Network—conducted in-depth quantitative interviews with thirteen employers that hire participants from Seedco's programs in New York City and Memphis.[11] In NYC, we spoke to employers in the food services industry; in Memphis, we spoke to employers in property management, retail, answering services, and home care. These employers range in size and structure. The smallest employers include single-location establishments with 5-20 employees, while the largest employers in our study have as many as 15 locations and 400-500 employees.

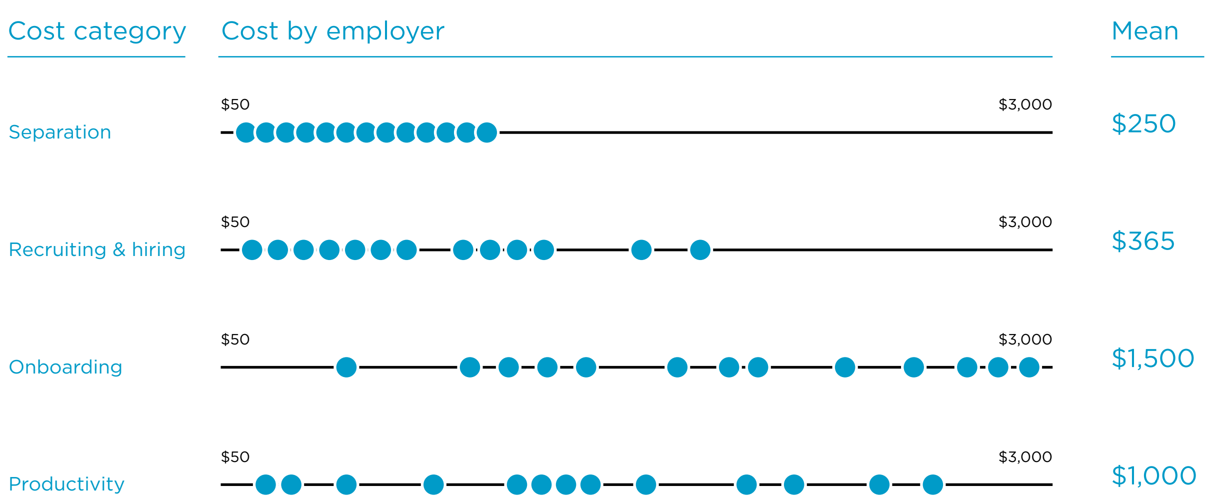
In a series of 90-minute interviews, we asked senior managers questions about their businesses, procedures, and employees. (See sample interview guide in appendix.) We worked with them to estimate the costs of turnover across different parts of their businesses, including:

- **SEPARATION,** such as overtime costs due to a vacancy, meetings between an employee and a supervisor preceding a termination, disputing unemployment claims, and processing paperwork
- **RECRUITING AND HIRING,** including filling vacancies by re-writing job descriptions, posting jobs, interviewing candidates, paying for trail shifts,[12] and conducting background checks
- **ONBOARDING,** such as orientation, formal training sessions (learning to use equipment), on-the-job training shifts (shadowing), materials (including uniforms), and more paperwork
- **PRODUCTIVITY**—the trickiest to quantify, but also perhaps the most important—including the costs of a new employee's acclimation period to become "fully functional," and the parallel drag on more-tenured peers.

What we found is that turnover isn't just a headache; it's expensive. For the employers we interviewed, on average, a single instance of turnover at the entry-level costs them approximately $3,300. On the low end, employers saw per-employee turnover costs of approximately $1,500, and on the high end, costs rose to $5,000. And that's just for a single instance of turnover. The costs can add up quickly: if an employer experiences turnover at the same position every quarter (four times in a year), that position alone will run $10,000 - $20,000 in turnover costs—on top of the salary, benefits and other expenses paid to the employee before they leave. ***A business with 30 employees facing the national average turnover rate of 64% would see 19 employees leave each year, with the cost of turnover and replacement alone reaching $63,000.*** *(See Figure 1)*

FIGURE 1

Individual employer costs and average for all employers by cost category.



This variability was expected. But some striking consistencies and patterns began to emerge.

SEPARATION:
PAPERWORK IS CHEAP; OVERTIME IS NOT

Separation processes—documenting incidents, sitting down with employees to discuss performance issues, removing separated employees from payroll—account for a small fraction of the total cost of turnover. In-person time dedicated to separation tends to be minimal; it typically involves only the employee in question and a direct supervisor. These meetings are rare, and short.

But separations can lead to unexpected vacancies and unfilled shifts. This is most common when employees leave without notice—making up nearly half of all turnovers reported in our interviews. ***"We expect employees to give notice if they're leaving, but usually you don't get much," said one employer. "Fully half of the time they'll just stop showing up."***[13] Employers face a tough choice: they can leave shifts understaffed, which leads to poor output and poor morale, or they can rework schedules to cover the gaps. Finding coverage often means paying overtime. Five shifts of eight-hours each—the smallest amount of coverage that employers we interviewed said was needed to fill scheduling gaps—cost $260 at the overtime rate for NYC's minimum-wage employees.[14] With the rising minimum wage, that figure will become $300.

Small employers are most vulnerable to these kinds of costs. A larger staff means greater scheduling flexibility, and therefore better capacity to cover unexpected vacancies without paying overtime. Smaller employers do so using overtime.

RECRUITING & HIRING:
HIGH COSTS ARE TYPICALLY DRIVEN BY WORKING INTERVIEWS

For most employers we spoke with, recruiting and hiring isn't expensive. As with separation processes, the different activities—writing and posting job descriptions, screening resumes, conducting interviews—require a small time commitment from one or two employees.

Employers who use working interviews as part of their hiring process see their recruiting and hiring costs jump dramatically when compared to their peers who don't. Working interviews (also known as a "trail shift" in the food services sector) are uncommon for many entry-level roles, such as groundskeeping or phone attendant, but are widespread for roles with baseline skill requirements, such as preparing plated dishes in the kitchen or providing home care to the chronically ill. These working interviews can range from one hour to a full eight-hour shift; interviewees are paid regardless of the employment decision.

ONBOARDING:
COSTS ARE DRIVEN BY TRAINING

Training costs account for the vast majority of onboarding expenses. Other onboarding activities—for example, meeting with the owner or HR representative, filling out tax paperwork, touring the facility, etc.—are quick. Training isn't.

Smaller employers tend to have informal, ad hoc training processes, but they follow similar patterns. A supervisor, manager, or more-experienced employee will pair off with a new employee; new employees typically take the lead during slow periods, and then shadow the more-senior employee during busier stretches. During this time, employers are paying two people for one job. While smaller employers often don't have a formalized training procedure, most require at least one week of shadow shifts.

Employers who hire in cohorts can achieve efficiencies of scale, driving down costs by teaching multiple employees simultaneously. However, these efficiencies tend to be offset by more involved training processes: larger employers in our interview set tend to dedicate more time per-employee to training.

PRODUCTIVITY
COSTS DECREASE WHEN EMPLOYERS INVEST IN TRAINING

It takes new employees time to learn the tricks of the trade. And for each instance of turnover, the learning process starts over. This is costly for employers because they have to pay employees for a shift even if they are only getting a small portion of the expected value from that employee.

Experience has taught employers how long it takes new employees to get up to speed. In interviews, most were quick to identify how long before they felt comfortable with new employees working without extra peer or supervisor oversight. In one case, that time was negligible; employees were considered "fully functional" by the time they completed training. It took another employer six weeks—and thousands of dollars in lost productivity—to feel confident in each new hire.

Despite the wide range of productivity costs, a clear pattern emerges. The more time employers dedicated to training, the less time they expected for new employees to get up to speed once training ends.

Our findings suggest that entry-level employee turnover is expensive. The total cost of turnover varies from $1,500–$5,000, and the drivers of cost differ by size, organizational structure, and training processes. But there is no doubt that turnover is costly, stressful, and frustrating.

CAN WE REDUCE THE FLURRY OF TURNOVER?

Many employers see the high cost of turnover as the cost of doing business. For those who seek to take action, there are two options: streamline—or invest.

To many employers, the root cause of departures—both terminations and resignations—is a mystery. They suspect that it's often due to issues outside of the workplace, such as housing, childcare, family issues, or transportation, but it's hard for them to be sure. As one employer in our interviews said, "it's the issues that employees don't tell you about that lead to terminations."[15] At the same time, though, most employers feel that these challenges fall "outside of their jurisdiction," and the few employers who do take steps to curb entry-level departures tend to take aim at the symptoms of the issue instead of the root cause. An employer we interviewed had, for example, temporarily deployed an attendance incentive, rewarding entry-level staff for showing up to all of their shifts. After a brief spike in attendance, retention returned to baseline.

The reality is that many entry-level employees have complicated lives. They may suddenly lose reliable day care for a young child. They may lack a reliable mode of transportation, with a car that won't start or a bus that stopped running in their neighborhood. They may be on the brink of homelessness, or moving between the homes of friends, family, and shelters. Many face significant financial constraints, meaning that even simple issues can be perniciously hard to solve; and many face real time constraints, as they operate under systems that require mandated appointments with government agencies and ever-shifting eligibility requirements.

Employers rarely have a clear sense of these challenges. They may seem intimidating in scope and expensive to solve. Partial measures often don't pay off: a handful of employers we spoke with had programs to help unbanked employees set up accounts and improve their financial literacy, and while there were anecdotal successes, these employers still suffered from high rates of turnover. Without broader-ranging supports, like childcare and housing, most employees still face real barriers to success.

It should come as no surprise, given the complex nature of the problem and high cost of potential solutions, that employers respond to high turnover by focusing on the other side of the equation: cutting costs by streamlining recruiting, hiring, and training (i.e., reducing the number of employees involved in recruiting, hiring, and training processes and their time spent on those processes). But there's limited value in streamlining. The greatest opportunity for pure cost reduction appears to be in cutting training costs; but our findings suggest that employers with low training costs are likely to lose productivity.

The other option—investing in programs and services tailored to employees' needs and circumstances—is continuing to gain momentum. Employee Resource Networks (ERNs), such as The SOURCE in Western Michigan and WorkLife Partnership in Colorado, provide post-hire supports—such as financial coaching, housing assistance, and transportation support—to employees, working with employer networks to fund and sustain those services. And here in New York City, many of these strategies are being put to the test through the CareerLift initiative, a pilot program created by the NYC Center for Youth Employment under Mayor Bill De Blasio. Backed by the Rockefeller Foundation and The Pinkerton Foundation and driven by Seedco and Madison Strategies Group, CareerLift draws on the learnings of these antecedent models.

APPLYING A PAY FOR SUCCESS MODEL

The continued adoption of ERNs and other examples of employee investments, such as employer partnerships with local banks to provide low-interest loans to employees, are encouraging signs that some employers are taking steps to broaden offerings for their employees.

However, uptake is far from universal. There are clear costs to providing these kinds of services, and it's unclear to most employers if, how much, and at what cost those services can impact employment outcomes like retention and advancement.

This is why supportive services for entry-level employees appear to be a good fit for a Pay for Success (PFS) structure. Our cost-of-turnover analysis and conversations with employers have shown that turnover is a pervasive and expensive problem. In New York City, a competitive labor market and increasing minimum wage mean that losing employees will only get more expensive, and retaining them more difficult. As one employer we spoke to said, "All of us [employers] are looking at how we attract and retain people, and in NYC we're struggling to keep talent. We're already looking at the impact the increased minimum wage will have on us. It's going to be big."

If the problem is turnover, and a potential solution is more intensive employee supports, why don't employers give it a try? For the most part, it's because they aren't confident that the solution will really work. There's too much uncertainty, and too much risk.

That's where innovative funding models come into play. Instead of buying supportive services directly, employers could enter into a performance-based contract with a third party, and agree to pay only on the basis of better retention outcomes.

In many ways, this approach fits with existing employer services. Businesses commonly pay recruiting and hiring fees to third-party companies when looking for senior-level employees; they also commonly offer access to (typically over-the-phone) counseling and coaching programs through Employee Assistance Programs (EAPs). However, staffing agencies are paid based on a percentage of the referred-employees' salary, so they specialize in roles that require experience and command higher compensation. And while EAPs may advertise a wide array of services, employers usually pay a fixed monthly rate per employee regardless of their organization's EAP utilization rate—often less than 5%[16]—or its effectiveness.

Partnering with workforce providers using a Pay for Success model could fill the staffing agency gap—shifting the payment focus to entry-level employees—while providing supportive services that employees will actually use, all while ***allowing employers to pay for what they want most: better employees who stay longer.***

Today, where supportive services are offered, they're usually funded by grants. Seedco, for example uses grant funding to support long-term, individualized case management for low-income workers. But this funding has inherent limitations in size, duration, and sustainability. Operationally, it's usually reserved for a sub-set of employees based on the grant's focus (e.g., young adults, parents). That limits the ability of these programs to become a true business solution, because the remaining employees—many of whom have similar needs—are unable to access the services.

"**All of us are looking at how we attract and retain people,** and in NYC we're struggling to keep talent."

Despite the challenges of today's approaches, it became clear during our interviews that relationship between employers and providers (like those cultivated by Seedco) and local credibility pave the way for more in-depth negotiations around performance-based payments.

RETENTION, RETENTION, RETENTION

So, what could an employer-focused PFS model look like?

It quickly became clear what outcome employers were most interested in paying for: retention. It represents a clear driver of value to the business. Turnover is expensive, and employees who stay longer are more valuable to the company, performing better and advancing more quickly.

Fewer employers were willing to pay for better performance, attendance, or advancements. More importantly, they were seen as either predictors of (or results of) strong retention; therefore, paying for retention proves the most appropriate way to capture value associated supportive services. As one employer we spoke to put it, "retention is most important for us. An employee who is bad at the job or doesn't show up for shifts isn't going to last a long time."

PRICING RETENTION IMPROVEMENTS

In our discussions, we pressed employers to think about what price they would be willing to pay for better retention. Two approaches to pricing resonate most with employers:

Cost-based pricing. As we worked with employers to estimate the cost of turnover for their businesses, the employers acknowledged it was a conservative estimate. Yet, it proved a valuable benchmark for pricing conversations. Employers consistently suggested that they would be willing to share about 50% of the value of improved retention with a workforce provider (like Seedco) that was able to show improvements. For employers in our study, that implies payments ranging from $750 - $2,500 per employee achieving retention goals.

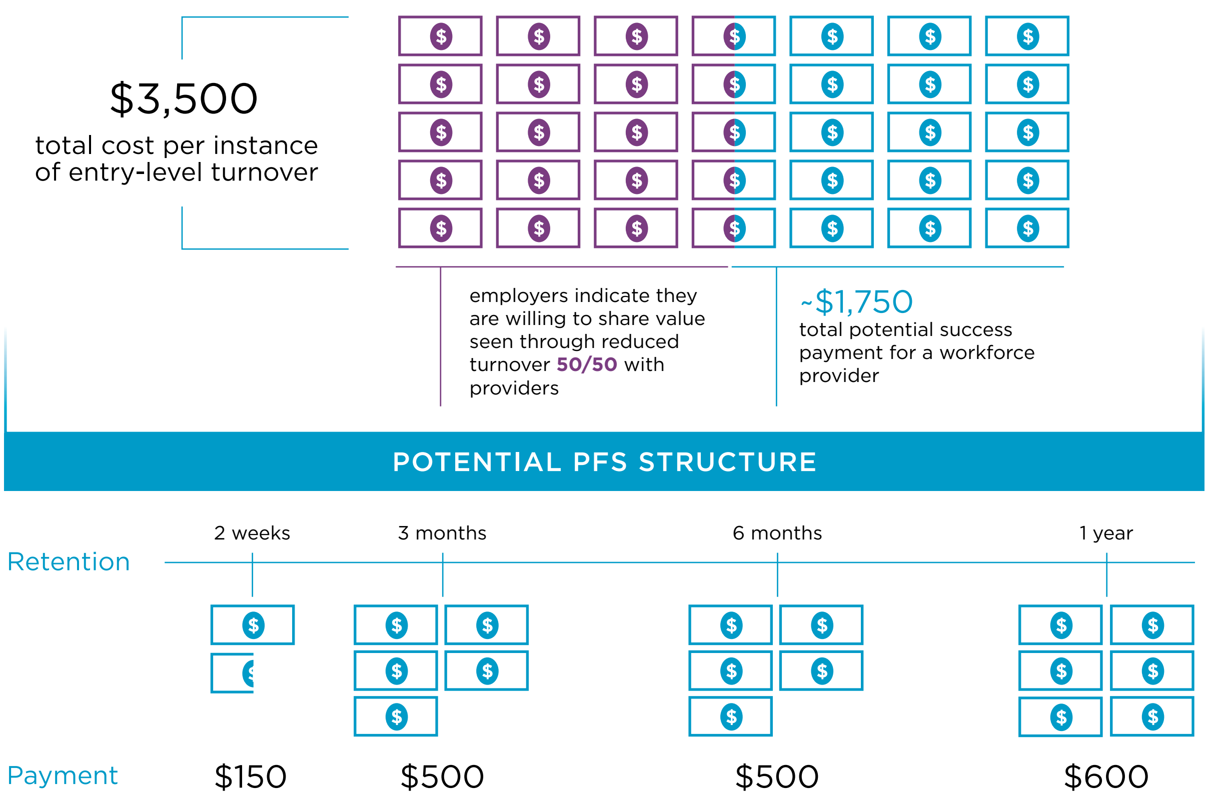
It quickly became clear what outcome employers were most interested in paying for: retention.

Wage-based pricing. Another potential pricing approach that appealed to employers is already common among staffing agencies. Payment to providers could be established by using an agreed-upon percentage of the employee's salary. A $15-per-hour employee (the 2019 rate of minimum wage in NYC) working a 40-hour work week for 50 weeks of the year makes approximately $30,000 annually. Pricing at 5–10% of an employee's annual wage, the potential payment to providers ranges from $1,500–$3,000.

Cost-based pricing offers more of an opportunity to tailor pricing to the employer but introduces an additional layer of complexity, as it requires an analysis of the employer's turnover costs. Wage-based pricing presents an easier process but may not accurately reflect the value of retention.

FIGURE 2

Paying for Retention: Illustrative Pay for Success structure with employers paying for retention benchmarks



TYING PAYMENT TO OUTCOMES

How could PFS and retention-based payments work?

Take, for example, a business with an estimated per-employee cost of turnover of $3,500. Using a cost-based pricing model, we agree that the business will share up to 50% of the value created from lower turnover—$1,750 for a full year of retention—back with providers. *(See Figure 2)*

We would propose structuring the contract along four different milestones:

- **PLACEMENT FEE.** Employers we interviewed were comfortable with a nominal ($100-$200) fee soon after placement, in recognition of the effort required to source new workers. Some employers would be willing to pay this fee as early as two weeks after placement, while others would prefer to wait until the one-month mark. This value represents the cost of recruiting and hiring saved through workforce provider referrals.
- **3-MONTH SUCCESS PAYMENT.** The first real benchmark of employee success. At the 3-month point, employers feel they have strong indications of an employee's reliability and potential. And for employers who are accustomed to frequent, rapid turnover, 3 months is enough time for an employee to add real value.
- **6-MONTH SUCCESS PAYMENT.** An employee who makes it to 6 months is likely consistent, performing well, and positioned to move up: "If they [the employee] stick it out for 6 months, they are probably already moving up in the organization."
- **1-YEAR SUCCESS PAYMENT.** The holy grail of entry-level retention. "If we think about a total cost of $1,750 [to be paid to a provider based upon outcomes]," said one employer, "you make that over multiple times for any employee who stays for a year."

For this example, we assume a service model in which the workforce provider acts as a referral pipeline for the employer. A similar outcomes-contingent payment structure could be applied for employers who wish to contract for additional services for incumbent employees by updating retention benchmarks and payment amounts.

LOOKING AHEAD: TESTING THE FUNDING MODEL

This approach has real potential to provide mutual benefit to employers and workforce providers. It allows employers to pay for outcomes that are meaningful to them and to their business.

A number of great providers are already using holistic supportive models to achieve employment success. Currently, these initiatives are supported by grants and some public funding. A Pay for Success structure would allow these organizations to scale up, and to build more predictable and agile funding models.

> There's appetite on all sides to put this thing to the test. We think the right next step is to engage interested foundations to seed a pilot with forward-thinking employers and a small number of high-quality workforce providers— **all trying something new to make the workforce better.**

To learn more, contact Jake Segal, Vice President of Advisory Services at Social Finance, at ***jsegal@socialfinance.org***.

APPENDIX:
EMPLOYER INTERVIEW GUIDE

Introduction: This is the tool we used when conducting interviews with Seedco's employer partners, to identify the many sources of turnover cost inputs. The full cost of turnover for one employee includes all the fixed costs, staff costs, and productivity costs associated with losing one employee and replacing them with another. These costs occur in four categories:

— ***Separation***—cost of processing and/or completing the end of one person's employment
— ***Recruiting and selection***—cost of advertising / posting a job opening, screening applicants, interviewing, and deciding to hire a replacement employee ("new hire")
— ***Onboarding***—the cost of fees, materials, and staff time (for both the new hire and other employees) associated with all checks / tests, formal trainings, on-the-job training, paperwork, uniforms, and administrative activities for employee onboarding
— ***Productivity***—cost of vacancy, learning curve, supervisory disruption, peer disruption

Activity	Fixed costs	New hire time	Other staff/instructor time
Separation			
Exit interview (if applicable)	--	Hours in exit interview	Interviewer time
Paperwork processing	--		Administrative hours to process separation
Overtime			Hours paid to other employees to cover vacancy
Unemployment insurance			
Recruiting and selection			
Advertising / job posting	List fee	--	Hours to develop, post, maintain
Application review		--	Hours to read total applications reviewed per hire
Interview scheduling		--	Hours to set interview logistics
Interview	Materials	--	Hours spent interviewing for all staff involved, all interviews per new hire
Interview debrief		--	Hours spent reviewing interview performance and making hiring decision
Onboarding			
Background check	Processing fee	--	--
Drug test	Processing fee		--
Orientation	Materials, meals	Total orientation hours	Total orientation hours per new hire
Paperwork	Printing cost	Hours to complete	Hours to process and file paperwork

Activity	Fixed costs	New hire time	Other staff/instructor time
Formal trainings (e.g. fire safety, conflict resolution)	Materials	Hours/days in training	Hours by instructor per new hire
On-the-job training(s)	--	Hours/days in training	Hours/days by supervisor/peers providing training per new hire
Uniforms	Per person price	--	--
Benefits enrollment		--	Administrative hours to add new hires to employee system(s)
Productivity			
Vacancy			Overtime or temp hours to cover vacancy; if not covered, estimated revenue lost
Learning curve		Hours/days before reaching proficiency	Unscheduled peer / supervisor hours supporting new hire

1. SEPARATION

What happens when an employee separates? Describe the most common process for a voluntary separation and for a termination.

— Do exiting employees receive an exit interview? If so, how long is it? Who conducts the interview?
— How much time do other employee(s) spend processing the separation?
— On average, how long does an unfilled position stay vacant? If a position is unfilled, is there a marginal cost of covering the vacancy? (i.e. overtime pay, temp hiring) What is the marginal cost per hour?

2. RECRUITING

How do you recruit candidates for open positions? Step by step, describe your recruiting process.

— ***Advertising:*** How do you advertise open positions?
  - What are the fixed cost of posting open jobs (e.g. online job boards) or placing ads?
  - How long do you advertise for a position before you fill it?
  - How much staff time is needed to develop, post, and maintain advertisements?

— ***Application review:*** How do you process responses to job postings?
  - Which staff screen resumes / other application materials? How much time do they spend per applications? How many applications are typically reviewed before a position is filled?

— ***Interviews:*** Describe your interview process.
  - Which staff are involved in scheduling interviews? How much time do they spend on this task? What is their hourly wage?
  - Which staff are involved in administering interviews? How long is each staff member's interview time commitment? What is each person's hourly wage?

- On average, how many candidates do you interview per open position?
- How do you debrief an interview? Which staff are involved in the decision to hire a candidate? How much time do they spend on the decision?

3. ONBOARDING

When a new hire begins work, what materials do they receive? What type of orientation and/or training is required? Describe the onboarding process from a new hire's first day.

— ***Checks/tests***

- Are background checks required? What is the cost per person of a background check?
- Are drug tests required? What is the cost per person of a drug test?

— ***Orientation***

- How much time to participants spend in orientation? What is a participant's hourly wage?
- Instructor/trainer wages: How much time does the trainer spend in orientation? What is the trainer's hourly wage? Does a trainer train multiple participants at once? How many?
- Do new hires receive an orientation lunch or other amenities? What is the cost per person?

— ***Formal training***

- What trainings (separated from the normal work day) are required for new hires? How much time does each training take?
- Instructor/trainer wages: How much trainer time is required for each formal training? What is the trainer's hourly wage? Does a trainer train multiple participants at once? How many?

— ***On-the-job training***

- Do new hires shadow experienced employees or engage in other on-the-job training? How much time do they spend in training?
- What other staff are involved in on-the-job training? How much time do they spend per new hire? What is their hourly wage?

— ***Materials***

- Do new employees receive any materials (handouts, paperwork)? What is the cost of printing those materials?
- How much time does the new employee spend filling out paperwork?
- What is the per page print cost of paperwork; how many pages do they receive? Who copies and compiles materials? How much time do they spend per packet? What is their hourly wage?
- Do employees receive a uniform? How much does it cost per person?

4. PRODUCTIVITY

— ***Vacancy***
- On average, how long does an unfilled position stay vacant?
- If a position is unfilled, is there a marginal cost of covering the vacancy? (i.e. overtime pay, temp hiring) What is the marginal cost per hour?

— ***Learning curve***
- Compared to an experienced employee in the same position, at what % level of productivity does a new hire start?
- On average, how long does it take for a new entry-level hire to reach expected productivity? (days / months)
- How many hours do you think peers/supervisors spend supporting new hires operating below proficiency?

5. IF YOU WOULD LIKE, please feel free to add anything that we might have missed that is valuable to better understand these processes at your work place. Thank you for your time!

EXAMPLE NOTES STRUCTURE:

Activity	Fixed costs	New hire time	New hire wage	Other staff/ instructor time	Other staff wage	Divided among # new hires*

* This is needed to establish the value of other staff activities per new hire. For example, if one supervisor conducts a one hour training with four new hires, the turnover cost input per new hire would be 15 minutes of their time (hourly wage divided by four).

ENDNOTES

1 Since 1996, there has been a ~40% reduction in employer paid-for training, and a ~35% reduction in on-the-job training. See 2015 Economic Report of the President, Council of Economic Advisers, Figure 3-27: “Percent of Workers Receiving Employer-Sponsored or On-the-job training, 1996-2008.”

2 Federal funding of workforce development programs has decreased by 35% since 2000, and continues its downward trajectory. National Skills Coalition, “Interactive Federal Funding Tool,” available at https://www.nationalskillscoalition.org/federal-policy/federal-funding-tool (last accessed February 2018).

3 See, for example, United Nations General Assembly, “Report of the Special Rapporteur on extreme poverty and human rights on his mission to the United States of America,” Human Rights Council, Human Rights Council, Thirty-eighth session, 4 May 2018.

4 See Raj Chetty et al., “Is the United States Still a Land of Opportunity? Recent Trends in Intergenerational Mobility,” American Economic Review, Vol. 104, No. 5, May 2014: p 141-47.

5 Or if they do, they’re not sharing. The strongest public source of analysis on the cost of turnover we found was in Boushey and Glen (2012), who reviewed 11 studies with 30 individual case studies on the cost of employee turnover. They estimated the cost of turnover overall is approximately 20% of annual salary, though the estimates vary from 6% to >200%; for employees making less than $30,000, the cost of turnover is typically 16%.

6 Considered here as an independent business with fewer than 500 employees.

7 The Small Business and Entrepreneurship Council, drawing from U.S. Census Bureau 2016 survey of entrepreneurs.

8 FSG, “Best In Class Strategies for Entry-Level Employee Retention,” October 2016, drawing from U.S. Bureau of Labor Statistics, 2015 turnover data.

9 Regional Manager; 100+ employees, multiple NYC locations.

10 Identified by all employer interviewees in this study.

11 To estimate cost of turnover, we conducted in-person interviews with one or more levels of management at each company, typically including an owner or Director of HR (or equivalent) and/or a store-level manager.

12 Also referred to as a “working interview”-prospective employees complete a partial shift (typically 3-4 hours) to allow employers to assess their on-the-job skills, paid at minimum wage

13 Operations Director, 10-20 employee restaurant.

14 Calculated using NYC minimum wage ($13/hr) and applying 1.5x overtime rate; assumes 40hrs of overtime to cover five vacant shifts.

15 Director of HR, 100+ employee restaurant.

16 Former Senior Executive, National Employee Assistance Providers, Inc

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