

SUMMARY

Using Labor Turnover to Measure the Cost Effectiveness of Employee Training

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*Working with Communities
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Since 1992, West Central Initiative's (WCI) Workforce 2020 Program has been subsidizing up to half of the cost of certain types of employee training for manufacturing establishments in west central Minnesota. While the recipient firms are genuinely enthusiastic about the training their employees have received, **WCI has been seeking a concrete way to measure whether Workforce 2020 adds sufficient value to the establishments to justify the cost that both they and WCI have been incurring.**

Training provided through Workforce 2020 is designed to increase employee productivity, but individual productivity is an elusive measure. Collecting data to measure productivity is time-consuming and expensive.

This study uses employee turnover as an indirect measure of job satisfaction, which is one component of the training's value. Since Workforce 2020 training includes a significant empowerment component that should lead to increased job satisfaction, the approach seemed appropriate. The study compared labor turnover rates among establishments that participated in the training with those that did not. Labor turnover is a suitable proxy for job satisfaction, since employees who are satisfied with their job tend not to seek new employment.

The study examines quarterly turnover data from 2000 through 2005 for approximately 314 manufacturing establishments in west central Minnesota. **Turnover rates for establishments that participated in the training were lower in 20 of the 24 quarters. The difference was statistically significant in 17 of the 20 quarters.** The difference was statistically significant in only one of the four quarters in which turnover for participating firms was higher, giving strong support to the hypothesis that job satisfaction is higher among employees who receive the training.

Firms participating in the training had a turnover rate of 26.2 percent in 2005, while those that did not had a turnover rate of 54.8 percent. This means that if the non-participating firms could reduce their turnover rate to the rate of the participating firms, they would have experienced about 900 fewer job turnovers. Since hiring a new employee and bringing him or her "up to speed" costs about \$4,800, the non-participating firms could have saved an estimated \$4.3 million in turnover costs. Providing training to all of the employees in non-participating firms through Workforce 2020 would have cost an estimated \$2 million, yielding a projected net savings of over \$2 million.

There are other benefits to the Workforce 2020 training, but this indirect measure shows that it is an investment with a clear and measurable return.

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