

## **CALCULATING THE COST OF A VACANT POSITION: A LIST OF THE POSSIBLE "COV" FACTORS**

*By Dr. John Sullivan*

If an airline bought a new 747, and then let it sit for two months on the runway because they didn't have a pilot, what would the cost be to the airline? In other words what is the cost of a vacant position?

Many firms calculate the cost of a hire, and some go so far as to calculate the cost of a bad hire, but few have taken the time to calculate the cost of a vacant position. These costs can be significant: anywhere from \$7,000 dollars per day to \$50,000 per day for an engineering position. Key leadership positions may cost as much as a million dollars per week. Couple these amounts with the fact that the length of many vacancies often exceeds 100 days, and you are talking about some serious financial impacts (\$7,000 X 100 days = \$700k).

### **CREDIBILITY**

Although I've done numerous calculations of the cost of a vacancy (COV), I have generally found that the results are less "believable" when the calculations are done by outsiders or by HR professionals. Instead I have had better luck when line managers do the actual calculation (even though the numbers might be off some). Also the results are more likely to be used by managers to put pressure on retention programs and on speeding up the recruiting and hiring process.

### **ASSUMPTIONS ABOUT VACANCIES**

\* Delaying product development and time to market in a fast changing industry means:

1. Lower margins, (as much as 10%)
2. A loss of first entry dominance
3. A loss of PR
4. Potential loss of market share (up to 30%)

\* Great ideas and products come from people, not from equipment, buildings or capital. If you don't have great people . . . you won't have great products. And without great products you won't have a great company.

\*If the vacancies are a result of slow recruiting process, it is important to also realize that a failure to fill vacancies rapidly will probably also mean that all of the top candidates will be gone by the time you make a hiring decision. So you will likely re-fill your vacancies with lower quality hires (especially because the best are usually the first to quit)

- \*Vacancies in a single team can have an impact on many other teams (because of interdependencies), which can cascade throughout the entire company.

## **COST OF A VACANCY CHECKLIST: THE BUSINESS IMPACTS OF A VACANCY**

*When you have a vacant position, one or more of the following things may happen. Guesstimate the dollar costs of each bullet point that fits your situation:*

### **1. PRODUCT DEVELOPMENT AND PRODUCTIVITY**

- \* Time To Market (TTM) is dramatically impacted by the entire production chain. Because departmental schedules and plans are closely interwoven, any disruption in one department may adversely affect all others.
- \* In industries that are seasonal (i.e. toys) this disruption may be even more costly. Vacancies in key skill positions may mean that products and projects may need to be dropped altogether.

### **2. TEAM IMPACTS**

- \* Team product development may be dramatically impacted by the disruption caused by the lost productivity, lost experience, leadership, idea generation and skills of the "vacated" person.
- \* If a team environment exists, a disruption in team cohesiveness may occur. This can result in a longer TTM (Time To Market) and a loss of focus that can also impact TTM.
- \* Vacancies may affect the idea generation of others because co-workers are frustrated or overworked.
- \* Vacancies may cause overworked employees (because they have to fill in) to tire, which may cause increased accidents.
- \* Vacancies may cause overworked employees to tire, which may adversely affect product quality through increased error rates.
- \* Excessive vacancies may lead to increase "whining," grievances and even union activity.
- \* If the team leader is the "vacancy" then "time to productivity" is likely to be even more negatively impacted.
- \* A vacancy may make a manager reluctant to terminate poor performing employees. Vacancies coupled with poor performers can cripple the team.

### **3. INDIVIDUAL EMPLOYEE IMPACTS**

- \* A vacancy means that a current employee must do the work of the vacant position.

This can cause a cascade effect causing others to have to fill in for their position, resulting in many "rusty" people doing unfamiliar jobs and decreasing productivity.

- \* Vacancies may frustrate other employees, causing them to lower their productivity.
- \* Vacancies may frustrate other employees, causing them to quit at higher rate than they normally would.
- \* Vacancies may cause the team to miss its goals, thereby reducing the possibility of individual and team incentives, which may further reduce productivity.
- \* Increased stress on overworked current employees (caused by having to fill in) may cause increased absenteeism and tardiness.
- \* Vacancies may hold up vacation time for current employees which may lead to increased stress or frustration.
- \* Understaffed departments will not be able to send current employees to training and conferences, which may lead to increased stress, decreased worker knowledge or frustration.
- \* If temps or "fill-ins" must be hired, they usually have a higher error rate than the average employee and they are unlikely to generate many new ideas.
- \* Superstar employees often resent being asked to fill in when lesser employees positions are vacant, which may cause them to quit also.

#### 4. INCREASED MANAGEMENT TIME AND EFFORT

- \* Teams with vacancies require "high maintenance" and more management attention and worry.
- \* Managers often have to skip their normal management planning and responsibilities in order to fill in for the vacant employee.
- \* When managers fill in for "vacant" employees that time can't be spent on the best employees.
- \* Vacancies in management and team leader positions have a multiplier effect on productivity and the recruitment of others.
- \* There are opportunity costs for things a manager and co-workers could have done if they didn't have to carry the extra load of filling in for a vacancy.
- \* If the vacancies are caused by top management decisions (hiring or budget freezes) it can cause managers to lose hope. This can impact morale and it may lead to a high management turnover rate.

#### 5. CUSTOMER IMPACTS

- \* Excessive vacancies may send a message to customers and suppliers that we are getting weak or we don't care about them. It may cause a period of confusion for suppliers and customers regarding whom they can contact and the stability of the relationship. Errors caused by "vacant" employees may lose sales volume and occasionally customers.

- \* Any "fill in" as a sales/account rep may provide them an opportunity or excuse to look for other suppliers.

## 6. COMPETITIVE ADVANTAGE

- \* Excessive vacancies may cause management to panic and to "quickly" hire some poor performers. Once the team is saddled with a large number of poor performers, you may never be able to hire any new top performers.

- \* Vacancies at the CEO, CFO, CTO, and other top manager positions can adversely impact our financing and the willingness of others to partner/merge with us.

- \* Vacancies in key positions may send a message to analysts and the stock market that you are getting weak.

- \* Vacancies may send a message to competitors that you are vulnerable, which can lead to increased competitive pressures.

- \* A large number of vacancies means we are losing employees, which means weakening our culture. New employees with new values may change or dilute our values and "corrupt" current employees.

## 7. IMAGE AND RECRUITING

- \* Excessive vacancies sends a message to your competitors you are getting weak. This might encourage them and improve their own confidence so that they become bolder in the product and employee poaching market.

- \* Vacancies may impact new recruiting because vacancies send a message to future recruits that we are not easily able to recruit replacements.

- \* Large numbers of vacancies may also send a message to our current employees we are headed down hill.

- \* High vacancy rates may over-stress our recruiters and recruitment process.

- \* Vacancies may send a message to outside recruiters that we are vulnerable, which can lead to increased "headhunter" activity.

## 8. OUT OF POCKET COSTS

- \* Having to hire high-cost consultants as "fill in help" could mean higher costs. If hourly employees are involved it probably means additional overtime costs.

\*Vacancies can mean the underutilization of plant and equipment.

#### OTHER MISCELLANEOUS CONCERNS (AND COSTS) THAT MAY ARISE

- \* The new hire may be a lower quality (low performance) candidate.
- \* New hires are unlikely to be immediately productive, thus resulting in increased costs.
- \* Some "vacating employees" take others with them soon after they leave. A "break in the dike" of one leaving may cause the whole intact team to leave.
- \* Many new hires don't work out and must be replaced within 6 months, essentially stretching the length of the vacancy.
- \* In a tight labor market vacancies in hard to hire jobs may not be replaceable, at any cost.
- \* In start-ups and small departments, where there is little cross training, the cost may be more dramatic. If you only have ten employees and you lose two, you have a 20% vacancy rate (big deal!).
- \* Spending the time to avoid vacancies may have a huge ROI especially if your former employees go to a competitor with "your" ideas, causing their revenues to increase as yours go down.

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