HIGHER PAY RARELY USED TO RETAIN STAFF, DESPITE COST OF TURNOVER

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The average cost for companies of replacing an employee is about $28,500, according to a new survey of employers which highlights the financial and operational impact of workforce turnover.

The estimated cost to companies included recruitment expenses, onboarding and training costs, lost productivity and the time required for new employees to reach full performance.

The Australian Human Resources Institute survey found fewer than 10 per cent of employers used the offer of higher pay and benefits to retain employees and only 3 per cent used the promise of career development and promotion pathways. Instead, employers relied on better induction and onboarding processes, the offer of flexible work arrangements and learning and training initiatives to try to retain workers.

Survey respondents said the average employee turnover rate was about 15 per cent while 25 per cent were unable to estimate the cost of replacing an employee.

"Too many organisations are not estimating the actual cost of turnover," said AHRI chief executive Sarah McCann-Bartlett.

"Without understanding that cost, and the drivers behind this, such as management capability and job design, it becomes much harder to prioritise the investments needed to keep people engaged and supported."

Speaking about how higher pay and benefits were only used by 9 per cent of employers as a retention tool, she said pay was usually set through a framework.

"What the research says is that actually increasing someone's pay because they say they are going to resign is often not used as a retention tool by a large number of employers," Ms McCann-Bartlett said. Asked why, she said “because it’s often seen as a short-term response”. “It’s not an ongoing engagement tool. Pay is a hygiene factor rather than something that is going to keep an employee with the organisation in the longer term, satisfied, engaged and productive,” she said.

“Over time, employers have realised that it’s important to pay fairly for the job that is being done but that higher wages are not always the best retention tool.”

The survey identified a gap between the scale and complexity of recruitment and the use of technology. Despite high application volumes, nearly three-quarters of organisations still rely on manual processes to review applications, and adoption of AI-enabled recruitment tools remained limited.

Organisations were increasingly managing multiple workforce changes at once, with employers recruiting, restructuring, reskilling, reorganising and, in some cases, making redundancies concurrently. More than a quarter were implementing at least three of these activities at once, reflecting a shift to more interconnected and continuous workforce planning driven by economic pressure, skills shortages and technological change. Only three in 10 employers were reskilling at scale, with many organisations indicating their reskilling efforts were limited or ad hoc.

“Reskilling is a business imperative,” Ms McCann-Bartlett said. “The evidence is increasingly clear that organisations that invest in building the capability of their existing workforce are better positioned to respond to technological change, like the introduction of AI.”