

To retain the best, start by hiring the best

Minimising the substantial losses from staff turnover starts with a good hiring process and rigour

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Everyone knows staff retention is important, right? That's why we measure it (you do measure it, don't you?). But few companies bring that measurement through to the bottom line. Why? Because it's often regarded as a 'soft-cost'; too rubbery for the balance sheet, too uncertain for the CFO.

I find this puzzling, as there is at least as much firm data about calculating the cost of staff churn as there is about executive remuneration and those figures never seem to be quite so soft.

Many studies have estimated staff turnover costs at between 50 and 200 percent of annual salary, and most agree that the more senior the position, the higher the percentage. But what about relatively low-paid hourly employees? Surely these horrendous figures don't apply to them? Actually, they do - retailers take note.

Cornell University Professors Timothy Hinkin and Bruce Tracey^[1] identified the major categories of turnover costs as:

- separation costs
- temporary replacement and/or overtime costs

- recruitment and associated costs
- training costs
- lost productivity (both pre-and post-termination).

When I show this list to managers, executives and business owners, more often than not they nod sagely and then 'vague out'. I can almost hear the mental, 'Yeah, yeah, yeah' with that fatigued downward cadence that signifies that nothing will change - it's all too hard.

Somehow it's not quite real to them. But break this down into a more concrete list and suddenly the cash haemorrhage is evident and the 'blood on the floor' appears (refer to diagram one).

So, let's work out the blood-loss equation, making a few assumptions:

- you have 100 staff with a turnover of 20 percent
- industry 'best' turnover is five percent
- average annual salary is \$50,000 (including on-costs)
- percentage turnover cost of 50 percent annual salary (lowest of 50 to 200 percent range).

This means:

- 20 staff leave each year
- 20 people x \$50,000 per annum x 50 percent annual salary
- = \$500,000 is lost from the business each year.

So, a saving to the business of more than \$300,000 will be realised as soon as staff retention issues are solved. Remember, these fearsome figures wound the business to the same degree regardless of how long the employee has been with you.

Some costs, like recruitment, selection and hiring, are the same. But lost productivity costs (think lost revenue, lost customers, costly errors and waste, supervisory disruption and deteriorating morale) are significantly greater when an appointee fails to make the grade early in the job.

Stopping the haemorrhage

So what steps can you take to reduce staff turnover?

Research tells us that the major causes of staff churn are:

- poor recruitment and selection – lack of process and rigour
- poor remuneration and reward strategies – lack of incentives

- poor career development opportunities – lack of prospects
- poor education and training – lack of growth
- poor management and supervision practices – lack of fairness
- poor vision and values – lack of meaning.

Organisations can improve any and all of these, but by far the greatest leverage point is right at the beginning – getting the right people by getting the recruitment right.

After all, there's no point in having great retention figures if you're retaining the wrong people!

Get the right people first

The right people will have the proper combination of the necessary skills (can do), the requisite personal attributes (will do) together with the quintessential match to the team and company culture (fit to).

Strangely, the least important of these (the can do) seems to dominate in most organisations hiring decisions. Of course, it's entirely necessary that who you hire should have the necessary minimum skill set, whether that be a driver's licence or a neurosurgeon's ticket. All too often we hire on skills but fire on attitudes, or in other words we hire on the 'can do' but fire because of the 'won't do'.

Perhaps this is because the only recruitment process most people know involves reading resumes and conducting interviews. That's a shame because these two activities contribute poorly to recruitment accuracy. A cost-benefit analysis of various recruitment methodologies shows how wasteful this is (refer to figure one).

Best predicative accuracy is obtained by combining simple and relatively inexpensive methods in logical order.

Screen out those applicants who cannot meet minimum skills criteria ('no-can-do'). Use psychometric screening to prioritise 'will do' applicants for telephone interview, highly targeted towards the strengths and weaknesses identified. Follow through with targeted reference checks to build your shortlist.

Positively avoid reading resumes until the shortlist is completed. This reduces bias from reading what is little more than an applicant advertisement^[2] introduced into what is otherwise a solid, reasonably objective process.

Excellent web platforms with cloud software exist to streamline and automate this process. Improved retention as a result of better recruitment and selection is now eminently achievable. The cost-avoidance achieved as a result makes this a place where retailers can cut time, cut costs and cut costly mistakes. ■

[1] Timothy R. Hinkin and J. Bruce Tracey Cornell Hotel and Restaurant Administration Quarterly, June 2000; vol. 41, 3: pp.14-21. <http://www.cuturnover.com/410600.pdf> [accessed 3Dec12]

[2] Brokensha G What is a resume for?

<http://www.expr3ssion.com/2012/11/whats-a-resume-for/>

Real life case study

– turnover performance at Beaumont Tiles

Beaumont Tiles is a national company operating across Queensland, New South Wales, Australian Capital Territory, Victoria and South Australia. Beaumont Tiles has over 90 outlets comprising of over 400 employees and a mix of Franchise and Company owned outlets, plus four major distribution centres.

Being predominately retail, warehouse and administration, it has a rolling annual average staff turnover of below three percent which it is very proud of. What does it put this down to?

There are several factors that it believes contribute to this success:

- being clear on the skills it needs to attract or develop to be successful for the position
- targeted recruitment for the position, ensuring candidates have the right skills, the aptitude for the role and they fit the culture of the business
- providing a robust induction and orientation program so new starters understand the job and the where they fit in within the organisation, as well as ongoing development and feedback opportunities
- providing benefits and flexibility to allow a good life balance and job security/stability
- paying a fair salary/wage.

There are many more little things it does, but the most critical area National HR Advisor, Chris van der Wijngaart believes is to appoint the right person to the position. "We use a web-based tool Expr3ss - www.expr3ss.com and this has been an invaluable tool in very efficiently identifying the 'can do', 'will do' and the 'fit to' the business. It has allowed us to very quickly filter the high priority candidates and has trained us not to spend countless hours reading resumes. The trap of reading resumes to determine your short list, is that the candidate only tells you what they want you to know and not what you need to know.

"There is no one fool proof tool or technique in getting the right person, however the screening process before you get to the work history (resume), spending valuable time on interviews and reference checks makes the likelihood of finding the right person a lot easier. Retaining the right people from there is made so much easier too".

Turnover-cost categories

Separation costs

- Exit interviewer
- Employee exit interview
- Paperwork processing
- Severance pay

Recruiting costs

- Advertising
- Search and agency fees
- Internal referral fees
- Managerial pre-employment admin
- Applicant travel
- Recruiter travel
- Recruiter time
- Misc (correspondence, couriers)
- HR pre-employment admin

Selection costs

- HR interview
- Managerial interview
- Applicant travel
- Background and reference checks
- Medical exam
- Police clearance
- HR admin

Managerial admin

- Hiring costs
- HR administrative functions
- Managerial admin
- Relocation costs
- Signing bonus
- Orientation
- Formal training
- On-the-job training
- Uniforms
- Security
- Informational literature

Lost productivity costs

- Vacancy cost
- Pre-departure productivity loss
- Learning curve (lost revenue & customers)
- Errors and waste
- Supervisory disruption
- Peer disruption
- Morale deterioration

Diagram one - turnover-cost categories

Cost/benefit of Proven Selection Methods...

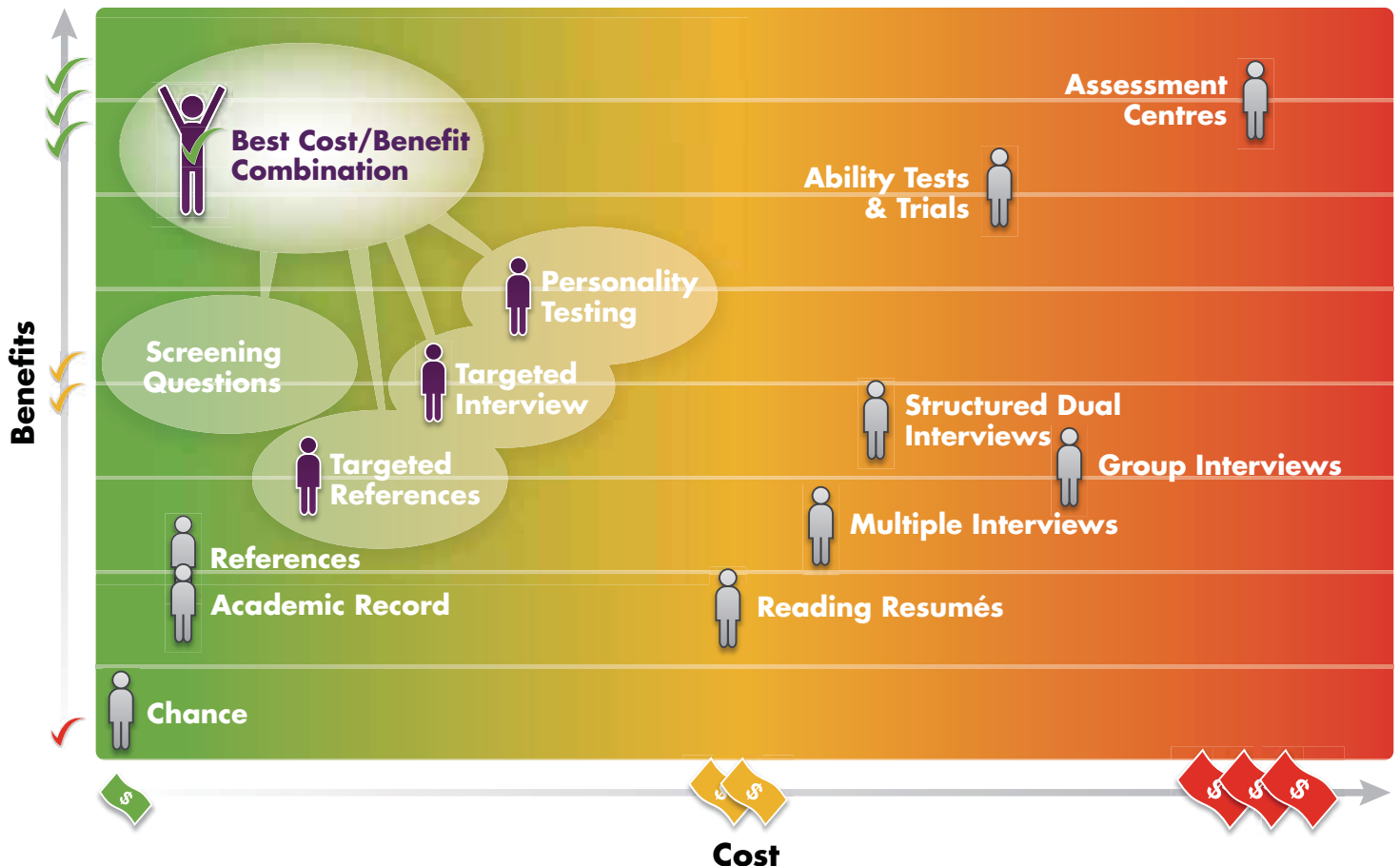


Figure one - cost/benefit analysis of proven selection methodologies

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