

# ROEI<sup>®</sup>: Return On Employee Investment<sup>®</sup>



Increase Competitiveness  
Through Your Biggest Asset



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## Introduction

Why are some companies thriving while others are struggling to stay in business? What is the distinctive difference between a good company and a truly great company? The answers to these questions can only be found when looking at what defines the company: its people. The people who make up a company are that organization's unique and biggest asset. For most businesses, the workforce is also its largest expense, or better put, its largest investment.

At Sage, we believe that employees are the most important component in the quest to improve business results. It makes sense to treat employee-related expenses as an investment in the workforce. Like any other investment, this critical company investment must yield a healthy return. We call that the Return on Employee Investment® or ROEI®.

This white paper looks into investments that can help a company maximize the value of its workforce, and shows how technology can help improve ROEI and build a more profitable and successful business.

## Investing in Employees

A company is as good as its employees. We are used to talking about a company as if the organization itself is a person. But an organization does not generate ideas, does not give service, and by itself is neither efficient nor productive. People make all of those things happen.

Companies are accustomed to paying competitive wages and good benefits to attract talented managers and professionals. Yet often relatively little attention is paid to creating the best circumstances for each individual in the organization to perform at his or her best potential.

The effectiveness of HR-related technology or programs is regularly assessed in an isolated manner. A Human Resource Management System (HRMS) is judged by how much more efficient the HR worker becomes and how the software helps the HR department accomplish daily tasks. The Return on Investment (ROI) is measured as a result of the total costs saved or efficiency gained, divided by the Total Cost of Ownership (TCO).

But this approach is old fashioned and doesn't do justice to the real value that modern human resource management brings to finding and retaining talented employees. From recruiting to onboarding, from motivating and developing talent to supporting people managers and creating an engaged workforce, the effectiveness of employee management has a direct impact on business results and competitiveness.

The cost of employee management technology is actually an investment in employees. These investments will reward the company with a return that will impress any CFO.

"The best way for a company to increase competitiveness is to invest in its employees."

-Johnny Laurent,  
vice president and  
general manager,  
Sage Employer Solutions

## Cost Versus Investment

All employees cost money. Organizations pay their employees with wages and benefits. There are also infrastructure costs, including office space, tools and equipment, administration, and other employee-related expenses. Those are necessary costs but are not always investments. An investment is an expenditure in money, time, or effort that achieves a worthwhile result or increased value in the future.<sup>1</sup> In terms of employees, an investment in the workforce should help employees to achieve their full potential, improve their motivation, and strengthen engagement, all of which will help an organization reach its goals.

When a carpenter needs a saw, he has the option to purchase the cheapest one. Or he can achieve better results and get more years of use out of a higher quality, professional-grade tool.

Similarly, the HR professional has his or her own “toolbox” when it comes to optimizing the company’s workforce. Strategic investments in the organization and its employees can make a huge contribution to the bottom line. The right investments can both prevent unnecessary expenses, such as high employee turnover, and boost the productivity of the workforce by better engaging the employees.

## The Advantages of Engaged Employees

Employee engagement is “a blend of job satisfaction, organizational commitment, job involvement, and feelings of empowerment.”<sup>2</sup> Engaged employees identify with and are committed to the goals and values of their organizations. Organizations that can establish trust between the workforce and management, and between coworkers, can create an engaged workforce and the benefits that go along with it.

For organizations, the difference between engaged and disengaged workers can equate to success or failure. Disengaged employees are estimated to cost the U.S. economy as much as \$350 billion per year in lost productivity, accidents, theft, and turnover.<sup>3</sup>

A major opportunity for corporate performance improvement and employee retention lies in engaging the workforce to drive better customer engagement, better revenue, and higher profits. As Thomas Otter recently noted, engaged employees take fewer sick days, deliver increased productivity, are more likely to stay in their jobs, have a greater understanding of their customers’ needs, and are more likely to recommend their company and its products to other people. Therefore, increased employee engagement results in a higher level of customer service, which leads to increased customer loyalty. All these factor into increased revenue and greater profitability.<sup>4</sup>

Investing in employee engagement increases workforce retention and thus decreases employee turnover costs. But the advantages of engaged employees goes far beyond the reduction of the turnover rate. Increasing employee engagement correlates directly with a positive impact on key business metrics.

<sup>1</sup> Oxford Dictionaries—an act of devoting time, effort, or energy to a particular undertaking with the expectation of a worthwhile result. Example: The time and cost of providing employee training will create better skilled workers with increased productivity and greater loyalty. <sup>2</sup> Thomas Otter, “Reaching Peak Performance Through Employee Engagement,” Gartner, Inc., 2012, p.2. <sup>3</sup> Allan Schweyer, “The Economics of Engagement,” Human Capital Institute and Enterprise Engagement Alliance, June 2009, p.1. <sup>4</sup> Thomas Otter, “Reaching Peak Performance Through Employee Engagement,” Gartner, Inc., 2012, p.3,4.

According to Allan Schweyer, engaged employees:<sup>5</sup>

- Work more effectively, instead of just working more.
- Find ways to improve.
- Share information with colleagues.
- Develop creative solutions.
- Provide suggestions.
- Speak up for the organization.
- Try harder to meet customers' needs, leading to repeat business.

Numerous studies show a direct correlation between employee engagement and business results:

- A 2013 Blessing White study demonstrated a correlation between engagement and retention—85% of engaged employees planned to remain with their employer for ten or more months.<sup>6</sup>
- Gallup Consulting discovered that high-engagement firms grow their earnings-per-share (EPS) at a faster rate of 28%, while low-engagement firms experienced an average EPS growth rate decline of 9.4%.<sup>7</sup>
- The Center for Human Resource Strategy at Rutgers University found that highly engaged business units were on average 3.4 times more effective financially than units who were less engaged. This financial effectiveness was reflected in total sales and revenue, in actual performance compared to target goals, and in year-to-year gains in sales and revenue.<sup>8</sup>
- According to Bruce Rayton of the University of Bath, School of Management, 70% of engaged employees have a good understanding of their customers' needs, while only 17% of disengaged employees could say the same. This resulted in higher customer satisfaction.<sup>9</sup>
- In Gallup Consulting's Q12 study, it was found that organizations in the bottom quartile of employee engagement had 62% more accidents than organizations in the top engagement quartile.<sup>10</sup>

<sup>5</sup> Allan Schweyer, "The Economics of Engagement," Human Capital Institute and Enterprise Engagement Alliance, June 2009, p.5. <sup>6</sup> BlessingWhite, Inc., "The State of Employee Engagement," 2013, p.1. <sup>7</sup> James Harter, Sangeeta Agrawai, Stephanie Plowman, Jim Asplund, "Employee Engagement and Earnings Per Share: A Longitudinal Study," Gallup Consulting, 2010, p.1. <sup>8</sup> Castellano, William, "A New Framework of Employee Engagement," Center for Human Resource Strategy at Rutgers University." <sup>9</sup> Bruce Rayton, University of Bath, School of Management, "Engage for Success: The Evidence," 2012, p.5. <sup>10</sup> J.K. Harter, F.L. Schmidt, E.A. Killham, J.W. Asplund, "Q12® Meta-Analysis," Gallup Consulting, 2012, p.36.

## Employee Replacement Costs

The investment in an employee starts even before the actual hiring of the employee, and the recruitment and onboarding costs involved go way beyond just posting a job opening or hiring a recruitment agency. Costs associated with replacing a departing employee include:

- Recruiting.
- Interviewing.
- Hiring.
- Orientation.
- Training.
- Compensation and benefits while training.
- Lost productivity.
- Administrative costs.

Employee turnover is a very high and often an underestimated cost for employers. This cost does not simply represent wages and materials, but also includes recruitment costs, loss of productivity, impacts on team morale, new training costs, and other more subtle expenses.

According to Suzanne Lucas of CBS's "Money Watch", if a person is making less than \$50,000 a year, it will cost 20% of that person's salary to replace him or her. This accounts for more than 40% of all U.S. jobs. The cost of refilling an executive position can be as much as 213% of the salary.<sup>11</sup> Other estimates can vary, and some sources place these figures even higher. For the very highest level jobs, it's been reported that 400% of an employee's salary can be spent in finding a replacement.

These numbers represent averages. The replacement of the highest performing employees could cost significantly more, for the loss of productivity is much greater. To calculate the cost of replacing an employee at your company, use the calculator in Addendum 1 of this paper.

Four years ago, the U.S. turnover rate was 16.3%, but according to the U.S. Department of Labor, our current turnover rate is 3.1% (as of February 2013).<sup>12</sup> However, even with this low rate, more employees are considering leaving their jobs than ever before. Ned Smith, senior writer for *Business News Daily*, recently reported that three out of five employed people are planning to leave their jobs within five years. That amounts to 38% of our national workforce.<sup>13</sup> In 2009, the number of employees looking to change jobs was at 30%. The combination of a weak labor market with a stagnant economy and dropping engagement levels are working to lower our turnover rate and raise employee dissatisfaction and disengagement at the same time. The potential costs in productivity could be staggering in the time to come.

<sup>11</sup> Suzanne Lucas, "How much does it cost companies to lose employees?" CBS, "Money Watch", November 2012. <sup>12</sup> U.S. Department of Labor, Bureau of Labor Statistics, 2013. <sup>13</sup> Ned Smith, "Employees Grow Restless as Engagement Drops," *Business Daily News*, June 2012.

A quick calculation shows that investing in the reduction of employee turnover can result in a significant cost reduction:

Number of Employees: 300		Average Salary	Cost to Replace
Upper Management	10%	\$150,000	300% \$450,000
Middle Management	25%	\$80,000	150% \$120,000
Rest	65%	\$35,000	30% \$10,500

  

Turnover Rate Average	18.7%	\$4,590,383 Cost Per Year
Best in Class	5%	\$1,227,375
		<b>\$3,363,008 Difference</b>

  

Turnover Rate From	12%	\$2,945,700 Cost Per Year
Turnover Rate to	10%	\$2,454,750
		<b>\$490,950 Difference</b>

Figure 1: Cost of Employee Turnover

As you can see, employee turnover is incredibly expensive. Investing in increasing employee retention prevents a significant amount of replacement-related costs. In the case above, a reduction in employee turnover of 2 percentage points (from 12% to 10%) results in a cost reduction of almost \$500,000. With the same number of employees, implementing retention strategies that turn an average turnover rate into a “best in class” rate would yield a savings of nearly \$3.4 million!

## How to Increase Employee Retention

While some turnover is unavoidable and to some extent even desirable, turnover among your top performers is largely avoidable. And it is certainly worth the investment, given the extraordinary expense of replacing them.

Susan M. Heathfield, a human resources expert and consultant, has put together a checklist of the common reasons that employees leave their jobs. Sometimes the reasons for leaving originate from family or health concerns, but here are her top ten reasons for why people leave their jobs (2013):<sup>14</sup>

- **A poor relationship with management or their boss**—While employees don’t have to be friends with their bosses, a toxic relationship with a boss can be deadly.
- **Unchallenging work**—Being bored is a quick way for employees to lose their passion for their job. Employees are happier when they are challenged, excited, and engaged.

- **Poor relationships with coworkers**—Interpersonal problems between coworkers can become overwhelmingly negative for many employees.
- **No opportunities to use skills and abilities**—When employees aren't able to do what they are good at, they lose a sense of accomplishment concerning their work.
- **Fitting into the goals of the organization**—Employees need to know that their work helps to accomplish the business goals and strategies of the organization.
- **No autonomy or independence**—If employees have autonomy and personal choice in their work, they feel a greater sense of ownership and belonging.
- **A meaningless job**—Employees want to be involved in endeavors that are bigger than themselves and a good organization can provide that meaning.
- **An organization's financial stability**—Financial instability, lack of sales, layoffs, cutbacks, and salary freezes can contribute to an employee's insecurity, instability, and lack of trust.
- **The overall corporate culture**—Team building, workplace events, and respect between employees and management set the tone for the workplace environment.
- **Lack of recognition**—Not being recognized for their work can color employees' views of their organization and affect their future with a particular organization.

A high turnover rate is likely due to a combination of reasons. Thus, increasing employee retention also requires a combination of measures. Employees will be motivated to stay at a company when they are comfortable, well respected, fairly compensated, and (dependent on position and character) can see possibilities for growth and personal development. Here are some of the areas an employer can invest in to lower the employee turnover rate:

1. Information
2. Communication
3. Work environment
4. Employee engagement
5. Employee recognition
6. Training
7. Compensation and benefits

## Information

It is clear that no manager can make informed decisions without proper information. HR or employee analytics can help management decide where to invest, identify the top performers, determine what employees need to best perform, and what they value. Analytics also provide a consistent way to monitor the results of any measure taken.



Modern human resource management systems contain a wealth of information that can give managers and executives the insight needed to make the best possible decisions about the workforce.

## Communication

A lack of (or poor) communication, both top-down and between teams or peers, causes frustration and misdirected energy. Company values, the company vision and mission, job expectations, and performance feedback are not just “nice to know,” but essential for any employee to function well.

HR departments can greatly enhance company communication by publishing company values, vision, and mission statements. Provide easy access to the company handbook. Make use of the available technology for employee self-service portals and performance appraisal systems and encourage employees to use these resources.

## Work Environment

The physical work environment continues to evolve and adapt to meet the changing needs of workers, and this environment can greatly influence employee engagement. According to Matthew Davis, a researcher at the University of Leeds:

“It is necessary for organizations to provide areas that allow workers to meet informally if intra- and interteam collaboration is to flourish. This goes beyond simply removing office walls and partitions or seating colleagues closer together; rather, the focus is upon designing a variety of spaces for more individualistic tasks. Case studies exploring the provision of social space within contemporary office redesigns have consistently found that it helps to foster informal meetings and wider interactions. Furthermore, flexible workspace and easy access to meeting rooms have been related to higher job satisfaction and group cohesiveness.”<sup>15</sup>

Widespread usage of social media and web 2.0 technologies has proven that these spontaneous interactions and collaborations are no longer limited by physical borders. Employee collaboration and business social networking have already demonstrated value in terms of improved employee performance, creativity, communication, and informal learning.

The work environment is also positively affected by tools that help employees find relevant information. From a human resource perspective, a self-service portal is such a tool: It empowers the employees, and it not only allows them to view their personal information, but also provides the capability for employees to make requests for changes to certain types of information and view and control their benefit enrollment. Employees want to be self-sufficient and be able to do their jobs more efficiently.

## Employee Recognition

Most companies reward employees and recognize a job well done with a combination of compensation and benefits. But there are many more tools in the employee reward arsenal. To compete in the global workforce environment, an effective employee recognition program is a necessity.

Recognition delivers appreciation or acknowledgement of an individual's or team's performance. It can be informal or formal. Employee recognition programs usually consist of rewards, awards, and incentives. Many studies have been conducted and reports written on the effects of employee recognition programs, and the metrics on the ROI for these programs vary from report to report. The common conclusion is that employee recognition has a positive effect on employee engagement and job performance and can contribute to increased business value.

And employee recognition can also be one of the most cost effective methods for increasing engagement and organizational loyalty. According to Aon Hewitt Consulting, it is critical to recognize employees' effort and performance:<sup>16</sup>

“In today's environment, where organizations are hamstrung by sluggish sales and the continued need for efficiency gains, employees appreciate and are motivated by recognition, often simple feedback from the manager for doing a good job. Employees are motivated by nonmonetary recognition—an important factor for employers to keep in mind. This type of recognition doesn't carry a cost, and it is very important to employees.”

HR technology can help managers know when performance goals have been met and merit employee recognition. In addition, self-service technology can help the HR team communicate an employee's successes to coworkers.

## Training

Effective training and development programs are excellent instruments to reduce employee turnover. When employees feel like their careers are at a standstill in an organization, it is often time to leave. Good training programs can help your employees learn the skills needed for new projects and challenges or even a higher position within the company.

There's another way that training can help increase employee retention—management training. Managers with poor leadership and people skills often drive away the most talented top performers. Train great managers and your company will enjoy better engagement and lower turnover. Offering training and development programs is a smart way to invest in the future value of employees and is a proven method to increase employee retention. An HRMS can help the HR team plan employee training goals and programs, as well as track critical certifications and skill sets. In this way, the HR department can be a partner to employees and managers, ensuring that top performers don't get stuck in a career rut.

## Compensation and Benefits

Without an adequate and competitive package of compensation and benefits, it is difficult for any company to hire or retain top talent. The challenge for small business owners is figuring out how much their competitors pay and what package of benefits delivers the best retention results. If the main goal is to motivate talent to stay with the company—in other words, to create “stickiness”—it is important to choose a balanced package of benefits from many available programs:

<sup>16</sup> Aon Hewitt, “2012 Trends in Global Employee Engagement”.

- **Work/Life Balance:** Holidays, paid time off, flexible work arrangements
- **Financial Security:** Retirement plans, pensions, disability insurance, life insurance
- **Health and Medical Insurance:** Health insurance, dental, vision, flexible spending or health savings accounts, gym memberships
- **Career Development and Personal Growth:** Tuition reimbursement, onsite lectures, computer-based training subscriptions
- **Other:** Discounted auto, home, or pet insurance, savings clubs for shopping, employee loan programs to purchase computers

Each company has to find its own balance of mandatory and voluntary benefits. It's safe to say that the best employees will not stay long in a job that is either significantly undercompensated or lacking in benefits. Most surveys show employees rate healthcare benefits higher than most other benefits, aside from salary. But after ensuring that the big items are included in your package, don't overlook the possibility that a smaller and inexpensive perk might be a unique offering that your employees would value.

An HRMS can help organizations determine the most popular benefits programs by tracking what is most selected by employees during open enrollment. It can also help you generate reports about the cost trends of your benefits programs based on current, historical, and projected benefits data.

## The Cost of Sick Leave

Sick leave is a necessary benefit for all employees. If employers didn't offer sick leave, they would accelerate health problems and the spread of illness, thereby lowering productivity and morale. However, missed work time and increased insurance costs also hurt companies.

According to CCH Incorporated, a company that produces electronic and print products for the tax, legal, securities, insurance, human resources, healthcare, and small business markets, unscheduled absenteeism can cost up to an average of \$610 per employee, per year. CCH also found that only 34% of unscheduled absences were for personal illness.<sup>17</sup>

The consulting and futurist company, The Herman Group, puts the cost another way. It reports that unscheduled absences cost employers 9.2% of total payroll each year per employee. The Herman Group also believes that unscheduled absences will accelerate due to the increasing costs and demands of elder care on employees. It reports that according to one study, "The average elder caregiver costs his/her employer over \$20,000 per year in unscheduled departures."<sup>18</sup>

<sup>17</sup> Bob Moulesong, "Unscheduled absences: Find effective ways to manage employees' attendance," Times of Northwest Indiana, July 8, 2012. <sup>18</sup> The Herman Group, "Costly Unscheduled Absences will Accelerate," May 18, 2011.

## How to Reduce Sick Leave

Whether above average use of sick leave is health-related or due to a pattern of abuse, a company can actively reduce absenteeism through intelligent investments. Employee wellness programs can promote better health and management of chronic conditions. And an HRMS can make information about absences available to managers, so it's easier to identify possible patterns of abuse and address them with employees.

Absenteeism is also an area where improvements in employee engagement can reduce company expenses. CCH also found that 66% of unscheduled absences were for other reasons, like family issues, personal needs, entitlement mentality, and stress/burnout. And organizations with low morale or low engagement are more likely to experience higher unscheduled absence rates (2.7%) than those with high morale or high levels of engagement (2%).<sup>19</sup> Higher levels of engagement help mitigate the effects of stress.

### Wellness Programs

When Alticor, a division of Amway, instituted a wellness program that focused on mind, body, and heart, it featured programs that included achieving personal optimal health, encouraging personal accountability in managing health, and showing employees how to reduce their stress levels. 65% of their employees participated in the program at a cost to Alticor of \$442 per employee with a projected return of \$3 for every \$1 spent.<sup>20</sup> Other studies and programs show similar returns on this type of investment of around 300%.

According to the Center for Disease Control in Atlanta, Georgia, wellness programs have definite benefits, if they are implemented in an organization:<sup>21</sup>

- Help employees to take responsibility for lifestyle choices
- Educate workforce about hazards and opportunities for wellness
- Enhance employee productivity
- Reduce absences and idleness
- Reduce health care costs
- Shift health care paradigm from treatment to prevention

### Information

To fight against a pattern of sick leave abuse, you'll need the right information, supplied to both managers and employees. To start off, employers need to have a clear absence policy that is readily accessible to all employees, along with the employee handbook. Going through absence rules and processes should be part of the onboarding process.

Technology can be very helpful in this area:

- Business process automation tools can dramatically increase the quality of the onboarding process for all new employees. These tools ensure employees and managers follow time-off procedures that are consistent with corporate policies.
- Employee self-service portals or the company intranet are good places to store the company handbook.

In order to confidently talk with or discipline employees who have attendance problems, it is not enough to have a clearly written policy. Managers also need information that proves possible abuse or above normal patterns of sick leave. Sick leave statistics are needed at the individual employee level and the departmental or company level. Here again, an HRMS solution can identify patterns of abuse and also help report absenteeism results to employees and their managers:

- An HRMS system including time-off management and manager self-service functionality keeps management informed. Employees can also see their accurate and up-to-date allowance for sick days.
- The usage of data-monitoring software can automatically generate alerts to managers that signal the breach of any given predefined threshold. That way, managers will be notified if and when their attention is required.
- Dashboards and graphical representation can show management in one glance how well the company, department, or team is doing in terms of sick leave.

## Managing Talent

Sean Conrad, a product specialist at Halogen eAppraisal, had this to say about the current needs for managing talent in business:

“More and more research is showing the strong link between mature, integrated talent management processes and financial results. Truly successful organizations realize that the only true sustainable competitive advantage they have is their people, and they use strategic talent management to maintain this advantage.”<sup>22</sup>

Talent management and planning are among the hottest topics among business executives and are core components of today’s workforce strategy. And for good reason: More and more of a company’s value is based on intangibles generated by talent. According to Development Dimensions International, from intellectual property to customer satisfaction, 80% of a company’s valuation is now intangible.<sup>23</sup>

Talent management refers to the process of developing and integrating new workers, developing and retaining current workers, and attracting highly skilled workers to work for a company. Keeping the workforce engaged is one positive effect of investing in modern talent management.

<sup>22</sup> Sean Conrad, “Profitability Through Human Capital,” Intellectual Capital Consulting, Accessed April 2013. <sup>23</sup> Erik Wellins, Smith, and Erker, “Nine Best Practices for Effective Talent Management,” Development Dimensions International, 2009.

Talent management is much more than just a performance appraisal tool or process. That's only one of the components of modern talent management. A total talent management solution should also address:

### 1. Alignment with business goals.

A company needs to make sure its business is aligned around its strategy. In a recent study, Timothy Devinney, a professor of strategy at the University of Technology in Sydney, Australia, reported that only 29.3% of people can correctly pick the strategy statement of their own organization. Given that 15.7% of people can randomly guess the correct strategy statement for any given organization, the number of people who actually know their organization's strategy is certainly much lower than 29.3%.<sup>24</sup> Skilled workers only become top performers when their goals are aligned with business objectives and their energy is directed at the right targets.

### 2. People performance.

The typical business that used performance appraisal and management software shows a reduction of low performers, while the percentage of high performers in the company goes up. SuccessFactors business consultants reported a greater benefit—a 270% higher ROI—for organizations that invested in integrated talent management suites, compared to organizations that invested in stand-alone performance management, learning management, or recruiting systems.<sup>25</sup> A talent management solution may also include functionality to plan and track employee training and development. Acquiring new skills can improve employee performance, as well as boost worker engagement.

You will be able to measure the impact of a talent management solution on your company's ROEI® in three areas:

- 1. Cost Savings:** The automation of manual processes saves time, and the increased focus on talent management reduces turnover.
- 2. Revenue Growth:** You will more easily identify the best internal candidates for open leadership jobs and position your company for success.
- 3. Improved Employee Productivity:** Better talent management enables your organization to retain more high performers, thus improving productivity.

## The Whole Picture

Most executives would be the first to tell you that the success of their businesses depends on their employees. People are a critical asset that needs to be cultivated and properly managed. Without the right employees, businesses will not grow, become more profitable, or generate new ideas.

In this context, it is only logical to conclude that a company's workforce is not merely a necessary expense, but also an investment in future competitiveness and earnings. Much research supports the idea that keeping employees engaged and motivated, as well as retaining the best performing employees over the long term, have positive effects on corporate financial results.

<sup>24</sup> Timothy Devinney, "All Talk, No Action: Why Company Strategy Often Falls on Deaf Ears," *The Conversation*, March 2013. <sup>25</sup> Erik Berggren and Keith Messick, "Moving Mountains," a SuccessFactors Research Whitepaper, 2009.

Investing in employees affects the bottom line in two ways. First, it reduces employee turnover, sick leave, and healthcare costs. Second, investments in employee engagement programs, training, talent management, information and decision support, communication, wellness programs, and technology all have a positive effect on workforce performance and productivity.

In this light, it's time to reexamine the benefits of HR-related technology such as Human Resource Management Systems (HRMS) and Talent Management solutions. Traditionally, these systems were thought of as cost reduction tools, saving time and automating routine administration to raise productivity within the HR department itself. An HRMS certainly does deliver that result, but when viewed as part of an investment in a competitive workforce, it can do much more.

Through employee self-service, training development, and compensation and benefits management, HRMS and Talent Management can provide the tools to help keep employees engaged and satisfied. These systems also deliver the analytics to help managers and executives examine trends, support business decisions, and plan for future organizational changes.

Investing in an HRMS system—that is integrated with performance management, learning and training, tools for decision support, self-service portals, and more—is an investment in the most important asset of the organization: its employees. And the return on the investment in employees can turn a struggling company into a winner.

# Addendum A: The Real Cost of Replacing an Employee

## Separation Costs

Exit Interview	\$18	15-min. prep; 30-min. interview; 15-min. follow-up @ \$18/hr.
Termination Administration	\$36	2 hrs. @ \$18/hr.
Separation/Severance Pay	\$1,360	2 wks.
Any Increase in Unemployment Compensation	\$272	Marginal rate increase + tax
	<b>\$1,686</b>	

## Vacancy Costs

Loss of Productivity	\$800	
Cost of Additional Overtime	\$1,920	20 hrs. @ \$24/hr. for 4 wks.
Cost of Temporary Help	\$1,800	21 hrs. @ \$30/hr. for 3 wks.
Minus Wages+Benefits Saved Due to Vacancy	\$(2,040)	3 wks. @ \$560/wk.
	<b>\$2,480</b>	

## Replacement Costs

Preemployment Administrative Expenses	\$54	3 hrs.@ \$18/hr.
Cost of Attracting Applicants	\$1,000	Ads, agencies, and staff time
Cost of Entrance Interviews	\$120	5 interviews of 1 hr. @ \$24/hr.
Testing Costs (Drugs, Medical, Personality)	\$64	Aptitude, skill, drug testing
Reference Check	\$80	
Background Investigation	\$180	
Staff Costs	\$36	One 30-min. meeting with 3 people @ \$24/person
Travel and Moving Expenses	\$-	
Information Gathering	\$64	2 hrs. @ \$18/hr. + 2 hrs. @ \$14/hr.
Medical Exams	\$150	
	<b>\$1,748</b>	

## Onboarding and Orientation

Admin, Benefit Enrollment, and so on	\$18	1 hr. @ \$18/hr.
Orientation	\$28	1 hr. @ \$18/hr. + \$10 orientation materials (brochures, policies)
	<b>\$46</b>	

## Training

Formal Training + Literature Cost	\$1,500	
Informal Training	\$656	Mentoring, socializing, OJT-2 days @ \$24/hr. + 2 days @ \$17/hr.
	<b>\$2,156</b>	

## Ramp-up Costs

Management Attention	\$385	4 hours extra per week for 4 weeks @ \$24/hr.
Productivity Differential	\$2,000	Learning curve
	<b>\$2,384</b>	

**Total Cost of Replacement                    \$10,500**



## About Sage HRMS

An industry-leading, customizable HRMS solution, Sage HRMS helps companies optimize their HR business processes as well as maximize their Return On Employee Investment® (ROEI®). Developed by HR professionals for HR professionals, Sage HRMS delivers a tightly integrated set of comprehensive features and functionality that increases efficiency and improves productivity at every level in the organization.

With Sage HRMS, you can successfully meet and respond to the HR management challenges you face every day in the areas of payroll, benefits, employee self-service, attendance, recruiting, training, workforce analytics, and more. By automating and streamlining your day-to-day HR business processes using Sage HRMS, you and your staff are freed up to spend more time and energy on the business asset that is most vital to your company—your employees.

A global \$2.2 billion software company with over 30 years of experience and 6.3 million customers, Sage has provided HRMS solutions longer than any other company in North America. By choosing Sage, you not only get productivity-boosting HR and payroll software solutions, you get the support of an award-winning customer service team and access to many other business tools and resources that make your work life easier.

To learn more, please call us at 800-424-9392,  
or visit our website at: [www.SageHRMS.com](http://www.SageHRMS.com)

## Sage

888 Executive Center Dr. W., Suite 300  
St. Petersburg, FL 33702  
[www.SageHRMS.com](http://www.SageHRMS.com)

