

# THE ROI OF RECRUITMENT AND ONBOARDING

WHITEPAPER



appical

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## Introduction

When it comes to talent acquisition, most HR and recruitment teams are measured by the twin metrics of cost per hire and time per hire. The key measure for recruitment success is usually considered to be quality of hire, but most organisations find this hard to quantify. Is it the length of time someone stays with you, or how productive they become within a certain period? Some might prefer to look at longer term milestones such as promotion, whilst many companies now seek to assess the influence an employee has on both their teams and the outcome of projects on which they work.

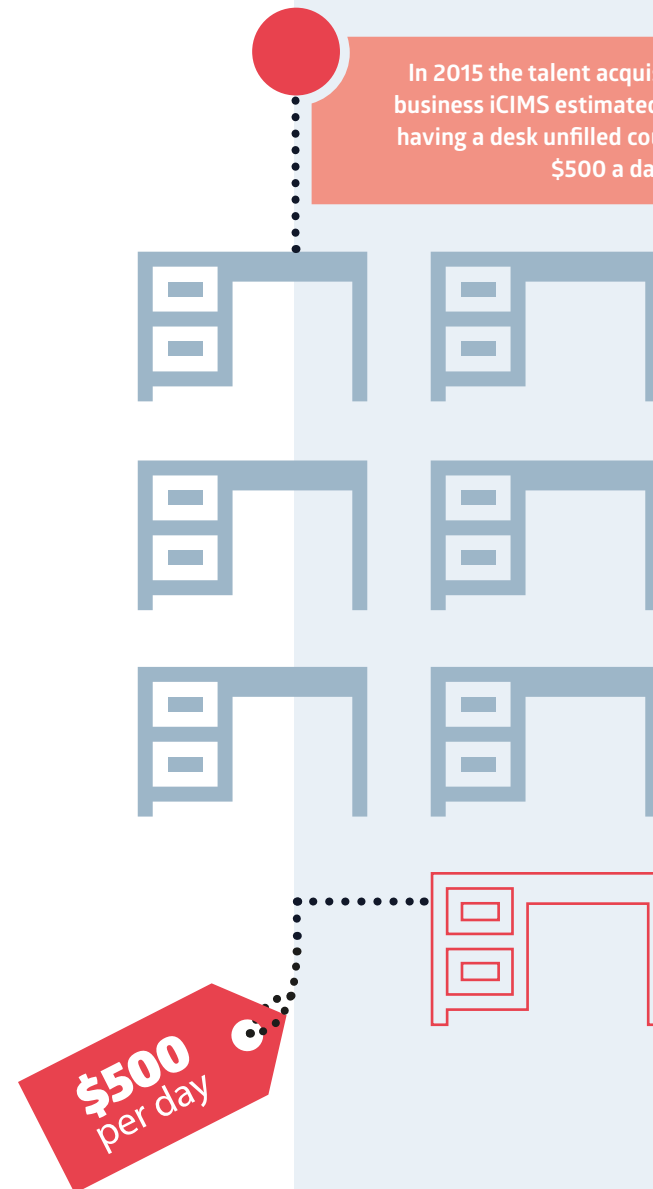
Whatever measures are used, it seems that both the cost and time of hire are increasing, and vacancies are remaining unfilled for longer. In a 2014 report, global business forecasting and analysis consultants Oxford Economics concluded that the full business cost of replacing a member of staff could be around £30,000. This included the logistical costs of recruiting and integrating a new employee as well as cost of lost output whilst they got up to speed. This latter factor, also defined as the cost of someone being less effective until they reached optimum productivity level, accounts for over 80% of the total cost.

Estimates from the UK usually back this up, with a figure of around £5,000 as the average cost of recruiting an employee. US figures are often a little different. In 2015 the talent acquisition software business iCIMS estimated that the cost of having a desk unfilled could

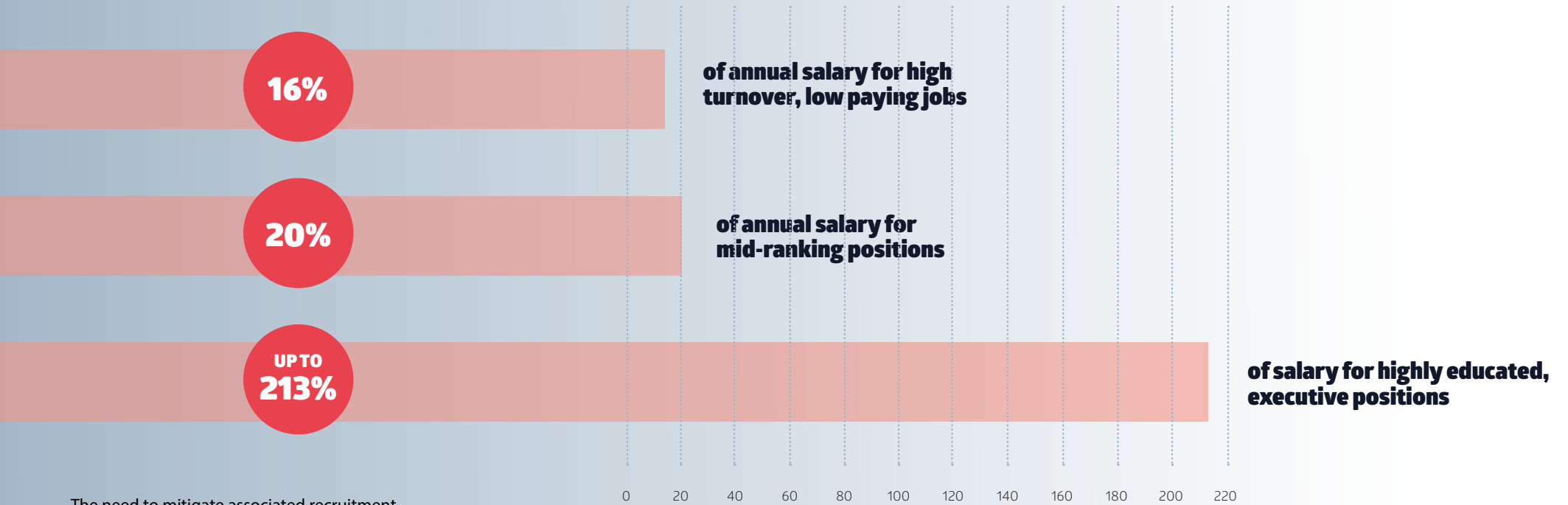
be as high as \$500 a day (which translates to around £390 or €435) and that the average length of time to fill a vacancy was 44 days. Around the same time global business insights consultancy CEB (now Gartner) found that the length of time to fill a regular vacancy had risen by over 60% since 2010.

Across Europe there are reports of skill shortages. Concerns over both the quality of future management pipeline and access to the skills necessary to keep the business agile regularly top the list of CEO and business leader challenges. Whichever measures we use, the costs associated with recruitment and retention are rising. For many businesses, the focus is usually on the transactional expenses of advertising, interviewing, accessing digital career sites and briefing staffing agencies. However, as we have already seen from the Oxford Economics research, the associated costs of recruitment can be very high.

In 2015 the talent acquisition software business iCIMS estimated that the cost of having a desk unfilled could be as high as \$500 a day



The influential HR consultant and thinker Josh Bersin, of Bersin by Deloitte, writes “many studies show that the total cost of losing an employee can **range from tens of thousands of dollars to 1.5-2X annual salary**”. In fact, a 2012 study from US research house Centre for American Progress found that average costs of replacing an employee were:



The need to mitigate associated recruitment costs, by finding the talent that business needs and improving the rates of retention, must be top of HR’s agenda. In this paper, we will look at some of the costs that often get overlooked, reasons why retention might be low, and ways in which businesses can improve their attrition rates.



# Transactional Cost of Hiring

Most practitioners see their cost of recruitment as either a staffing agency fee or the price of advertising a vacancy, in other words the purely financial transactional side of filling a vacancy. Whilst the proliferation of digital job boards and aggregators in recent years have helped to drive general advertising costs down - certainly when compared to the older days of print only advertising - the best results still require investment, whether through specific audience targeting, prime keyword searching, or candidate database access. Total costs may be around £1,000, but a lot of time will be consumed in assessing and selecting responses and interviewing candidates who might not be a good fit.

The cost of filling vacancies through specialist staffing agencies has also risen, not least as most charge a percentage of starting salary rather than a fee for time spent on the search. This is an area where it pays to invest - often the agencies who offer the lowest rates provide the least well matched service, relying on volume rather than careful selection. An agency that knows its market sector, can offer added value advice on market trends and preferences, and will also take the time to understand hiring company culture and needs, and match carefully. This may seem more expensive but can pay off in the longer term. Average fees can be between £5 - 10,000, but you should only be interviewing candidates who meet your specification, and you can negotiate a fee rebate if things don't quite work out.

Of course, job advertising and agencies are very traditional ways of finding new staff. Modern jobseekers - particularly millennials and tech savvy older workers - prefer to use social and digital networking routes. Whilst social media is often seen as being free to use, it's not without its costs if you want success when recruiting.

## ***LinkedIn, for example, is probably the starting point for most recruiting now.***

To get the best results though, you either need a recruiter licence, which costs around £7,000 a year per person. This will allow you to send 150 InMails (private messages) per month, use advanced search filters, and have access to everyone on the platform, plus offer the opportunity to add on extra (paid) features such as company career pages and job postings. Additional job postings can usually be bought at around £300 a month.

Whilst LinkedIn might be the starting point for hiring companies, for candidates most job searching starts with Google, so some companies may pay to have their career site job postings promoted. Similarly, Facebook ads can be promoted (at a cost) whilst most younger workers will expect to get some indication of what a business is like to work for from their Facebook company page. And those businesses concerned about their reputation and image as a desirable place to work will probably also be investing in a paid Glassdoor presence that showcases their employer brand.

With digital sites showcasing reviews from ex-employees, and real time feedback from candidates on the application and interior process, it is important that businesses can take ownership of this type of content, balancing peer reviews with their own marketing initiatives.



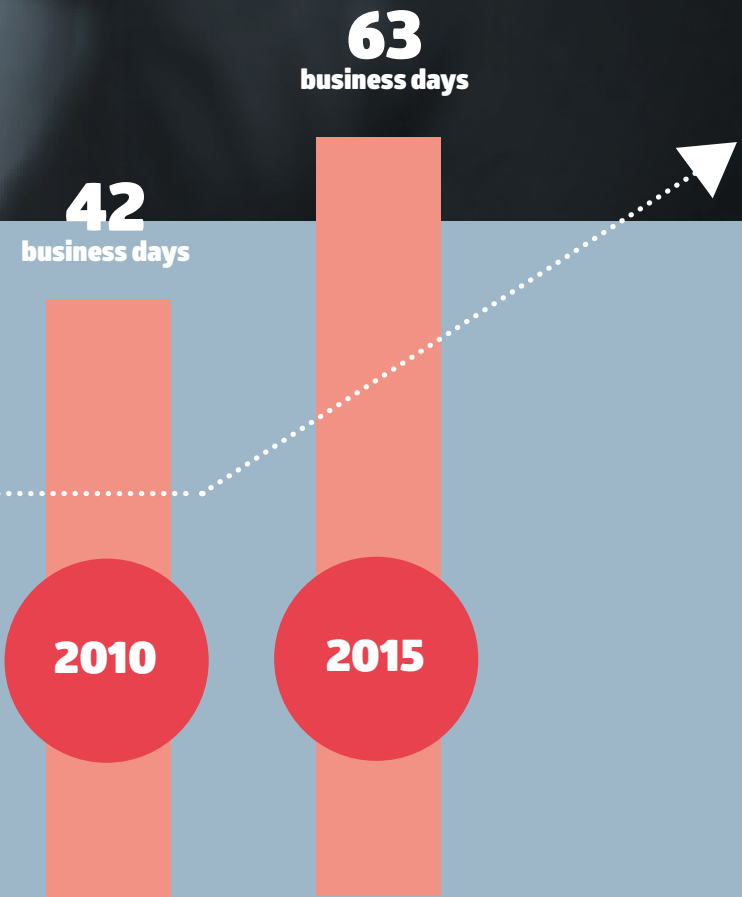
# The Problems of Unfilled Vacancies

The length of time it takes to fill a vacancy is rising. The 2015 Recruiter Effectiveness research report from CEB showed that the average time to fill a vacancy increased substantially between 2010 and 2015 from 42 business days to 63. In terms of a 5-day working week this time span is now over 12 weeks and represents the average time from creating a vacancy to the new hire's start date.

Unfilled vacancies can have a negative impact on the immediate team and management, with people stretched to cover extra work, and having to balance their time to include interviewing and selection. CEB's research estimated that an unfilled vacancy results in a business losing about \$407 a day - around £315 or €360 - which for 63 days equates to well over half of an average annual salary.

A report from Glassdoor's economist on longer hiring processes found that extended rounds of interviews were a key reason why vacancies take a longer time to fill. This time lapse varies between countries,

with jobseekers in France facing the longest hiring processes, closely followed but those in Germany. The shortest interview process tends to be in Australia, with the UK figures around average. Clearly longer, drawn out assessment and selection processes can be quite costly, with vacancies going unfilled for longer.





## 2

## COMPETING FORCES

The number of interviews is usually a sign of the level of screening that hiring managers feel is needed to get the right match for the open role. However, if this leads to the position being unfilled for longer then the screening process may need a more pragmatic overhaul. As the Glassdoor paper says:



Fill the opening as  
**quickly as possible**

Carefully screen candidates to find  
**the best possible job match**

**“Company hiring managers face a balancing act between two competing forces. On the one hand, firms want to carefully screen candidates to find the best possible job match for an opening. On the other hand, they want to fill the opening as quickly as possible, because an unfilled job means lost productivity and profits to the company. Thus, hiring managers face a trade-off between job match quality and lost profits from unfilled jobs”**

Alongside longer interview processes, many employers complain of being unable to find the skills they need. Global digital recruitment site Indeed’s 2015 study estimated that the UK economy alone loses £18 billion a year through unfilled vacancies and empty desks. They found that around half the jobs advertised on their site are still open after a month and just over a quarter (27%) remain open after 3 months.

Unfilled vacancies can impact a business in many ways. There is the lost productivity from having the role unfilled, which can place extra pressure on existing employees to cover the workload. The other team members who have to cover can feel pressurised and less engaged. Likewise, those who depend on the role for their own productivity can also feel under pressure, risking burnout and further disengagement. If the workload needs to be covered then there will probably be an additional cost of using temporary or contingency staffing, whilst hiring managers and internal recruiters may have to invest more time in trying to source and select suitable candidates.

Most costly of all will be the real risk of high quality candidates losing patience with the process and joining competitors.

# Impact of Regretted Attrition

With the cost per hire, and time per hire, rising it places more pressure on HR and recruiters to ensure that the candidates they do employ, get settled and productive quickly. Yet research often shows new hires are leaving their roles within the first one to two years. This leads to higher costs of both replacement, and of having the role unfilled again. The turnover of new employees that businesses would rather keep is known as regretted attrition, and is costly in both financial terms and for the upheaval and uncertainty it can cause with remaining team members.

Employee retention is a serious issue, and one that many organisations do not pay enough attention to. Greenhouse Software undertook a case study in 2016 to look at 'Employee Lifetime Value' as a way to illustrate the potential costs of regretted turnover. As an example, they found that retaining a sales person for three years instead of two (together with better onboarding and management practices) can make a difference of \$1.3 million in net value to the company over a three year period.

This is significantly higher than the Bersin estimate quoted earlier, of 1.5-2X annual salary, however Josh Bersin does write about how employees are appreciating assets that produce more and more value to the organisation over time. This helps to explain why losing them can be so costly - especially during the period from when the previous incumbent becomes less effective (as they wind down before leaving) and their replacement is fully productive. The more people we lose during - or just after - this period, the greater the drain on business performance for their team, and hence cost.



# Poor Engagement can be Expensive

Both unfilled vacancies and high attrition have a big impact on the people that you need most - your existing employees. They feel the burden of filling in and covering work of employees yet to be hired, invest time in being part of the process of onboarding and integration of new employees to help them settle and become productive, and then suffer if those new starters leave, as the cycle begins again.

This can lead to:



- 1 Stress, resulting in more time being taken off for sickness
- 2 Less focus on their own roles
- 3 Poor levels of engagement
- 4 The worst case scenario is if they become disillusioned, lose faith in the organisation, and look to leave themselves.

Employee engagement has long been a topic high on the agenda for HR and business leaders. Disengaged workers can lower morale, become less productive, and offer reduced service levels to customers and clients. Whilst some of these are hard to cost, a research study from Gallup calculated that actively disengaged employees cost the U.S. economy alone \$450 - \$550 billion per year.



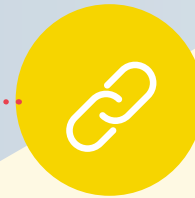
*Their State of the Workforce report looked at employees in 140 countries and reported two categories of disengagement:*



1



2



### **NOT ENGAGED**

Employees are essentially “checked out”, sleepwalking through their daily routine and putting in the time, but not necessarily the energy or passion. Actively Disengaged - employees aren’t just unhappy at work, but are acting out their unhappiness, undermining the efforts and productivity of more engaged co-workers.

### **ENGAGED**

Engagement itself isn’t purely an HR initiative that seeks to make people happy at work. It is the outcome of treating people well, of giving them the tools and support necessary to succeed and develop. Morale is a large part of this, and people who work closely with demotivated or underperforming colleagues are likely to need extra encouragement if they are not to become disengaged.



2013 research from CEB had concluded that 1 in 5 hires are bad or regretted decisions, whilst Leadership IQ estimated that at least 2 out every 5 hires turn out to be a bad hire within the first 18 months.

## Companies that are Committed to Investing in People Enjoy Better Economic Performance

In June 2017, the UK's Recruitment & Employment Confederation (REC) published a study into the effects of a 'bad hire'. They noted that there is no one definition of a bad hire, as each organisation will have its own subjective way of defining whether a new hire has been successful or not. The issue is very real though, with 85% of HR decision makers admitting that their business had hired someone who proved to be a bad fit for the job. 2013 research from CEB had concluded that 1 in 5 hires are bad or regretted decisions, whilst Leadership IQ estimated that at least 2 out every 5 hires turn out to be a bad hire within the first 18 months.

In trying to define a bad hire, the report considered what respondents felt made a good hire. For many it was the length of time a new employee stayed and their overall performance and satisfaction during that time, supplemented by contribution to overall performance of their team, and to the wider business effort. These factors take time to assess, so the identification of a hire as bad, by failing to settle or make the necessary contributions to business performance and success, often takes time to become apparent.

HR decision makers from businesses of all sizes were asked to consider which were the biggest costs incurred from making a bad hire. For larger companies, it was the loss of productivity, negative impact on other staff of having an unsettled employee and the time and money invested in training them. These costs were also felt by smaller organisations, who were additionally more affected by the time and money invested in the original recruitment process and the potential negative impact on their reputation.



1 in 5 of HR decision makers say that they don't know how much a bad hire has cost them. The report identified

## POTENTIAL COSTS

8

€

**WASTED SALARY**  
(for the time that the bad hire or underperformed has been with the company)

**INCREASED SICKNESS OR ABSENCE**  
(from the hire who has failed to settle or unsettled team members)

**COMPENSATION**  
(severance package and statutory settlements)

**TRAINING**

**COST OF REPLACEMENT**  
(possibly increased by agency fees if it becomes urgent)

**IMPACT ON THE MORALE OF THE TEAM**  
(leading to reduced productivity and increased turnover)

**LOST REVENUE**  
(underperformance can have a negative impact on customer or client retention)

**NEGATIVE IMPACT ON REPUTATION**  
(potentially a loss of future sales revenue and makes it harder to hire a replacement)

The aggregate of some, or all, of these costs can be significant. The longer an underperforming or unsettled hire remains in place then the higher these costs can become, with many sources suggesting that the cost of employee turnover can be as high as 150% of the outgoing hire's salary. Hiring businesses need to have improved selection processes, and adopt a management and performance approach that can identify at an early stage if someone is not going to be successful.



# Why do new employees leave?

We have seen that the cost of recruiting, particularly when replacing an employee who has left, can be large. Whilst many HR professionals and hiring managers admit to high levels of attrition amongst new and recent employees, it is important to try and understand why people leave their jobs. Some will inevitably leave for personal or life-event reasons, but the majority will almost certainly quit because of something that is down to their new employer.



Several reasons are cited for new hires failing to settle

1

## EXPECTATIONS

The top one is usually that the role is not what was expected from the hiring process, often with a lack of clarity around the job itself and responsibilities. There can be several reasons why this happens. The original job description might not accurately reflect the day to day duties, whilst a hiring manager keen to fill a vacancy may be tempted to oversell the opportunity when faced with a competent candidate. There is also a tendency in many organisations to try and hire someone who has done the role (or very similar) before in another company - often to help speed up integration. This is often unsuccessful as the new hire can feel unchallenged leading to them getting bored and restless quite quickly.

2

## COMPANY CULTURE

The second reason many leavers give is not liking the company culture, again something that can often arise from misconceptions gained during the hiring process. With many companies focusing the interview and selection process on eliminating those that they feel may not be right for the role, the eventual successful candidate may not gain much of a feel for organisational culture. Or might conclude that the working environment is quite different from the one that exists.

3

## COLLEAGUES

Failure to get on with colleagues or, more commonly, their manager is another reason regularly given by leavers. Whilst they don't need to be friends with their boss, there does need to be a professional relationship based on respect and open communication. Similarly, with colleagues and team members, a spirit of collaboration and shared values can help someone settle into a new role and feel that they have made the right choice.

4

## LACK OF OPPORTUNITY

Increasingly for some employees now, it's a lack of opportunity for challenge and progression, through taking on new projects to develop skills, that leads to them leaving. The desire to get varied experience can be frustrated through restricted chances to show their true potential. Whilst historically new employees were more concerned with linear promotion, they now seek more lateral development opportunities, and the chance to take responsibility for their development.

Becoming a great place to work, where people want to stay and grow, is now more about offering opportunity, scope and the chance to develop internal networks of influence, within an inclusive culture of recognition and collaboration. If new hires don't find what they want, or were left to expect from the recruitment and selection process, then they are more liable to leave.

# Your New Hires Won't Succeed Unless You Onboard Them Properly

We have seen how the costs associated with hiring employees who do not prove to be a good fit, and replacing those who resign, are high. Many businesses who look at purely transactional recruiting costs fail to consider the associated expenses of factors such as poor productivity and morale, the time invested in managing an underperforming worker and their wider teams, and the potential of lost reputational goodwill should the customer or client offering not match expectation.

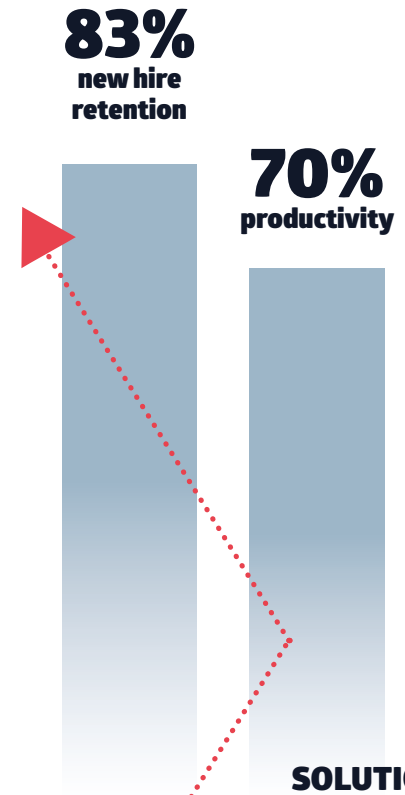
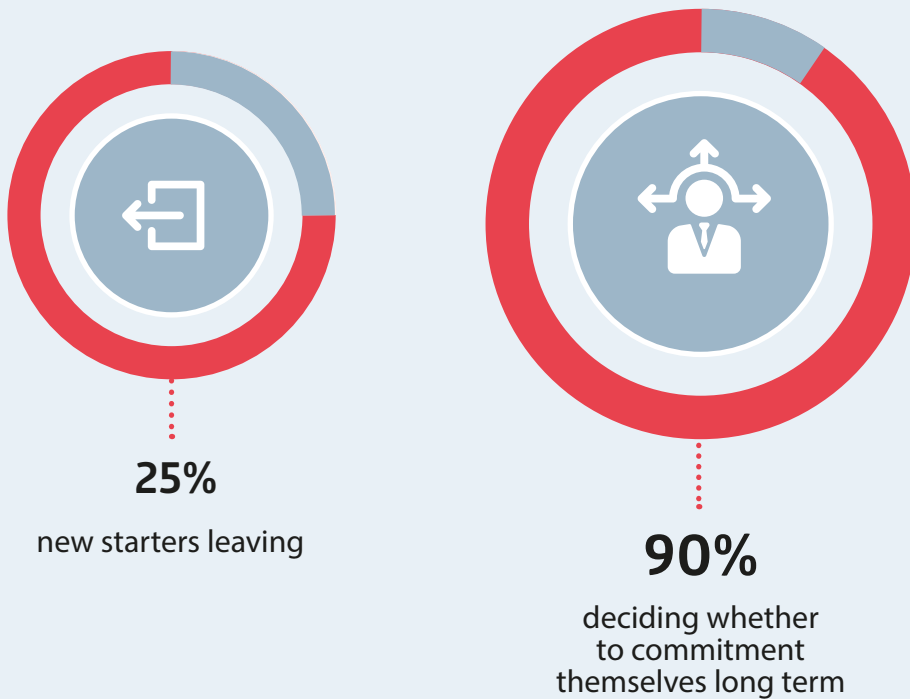
The reasons why employees leave, or fail to work out, are often seen as a problem with the attraction, assessment and selection processes, however as we have seen in the last section many of the factors contributing to a poor match, or regretted hire, are more operational in nature. The day to day role, culture or team dynamics may not be as anticipated, but this will only be exacerbated if the new employee is 'thrown in at the deep end' and left to figure a lot of the rituals and internal working dynamics for themselves.

A recent survey from Korn Ferry found up to 25% of new starters leaving within their first six months, echoing a report from Aberdeen Group in 2006 that found 90% of new employees using their experience of the first six months in deciding whether to commit themselves to the new business long term.

The key HR initiative for the early stages of employment is onboarding, the process, through which new employees are integrated into the business. In fact, a 2015 report from US research analysts Brandon Hall estimated that new hire retention can be improved by 82% and productivity by 70% with better onboarding. This ensures that new starters get off on the right foot.

*90% of new employees using their experience of the first six months in deciding whether to commitment themselves to the new business long term.*

First 6 months



They key HR initiative for for the early stages of employment is onboarding

the process, through which new employees are integrated into the business. This ensures that new starters get off on the right foot.

The quicker new employees become productive and fully immersed in organisational culture, the earlier they start contributing to the overall business. This in turn helps them to settle and therefore improves retention, while managers find they need to invest less time in training and integration, meaning that other team members do not feel neglected.

To make this happen successfully all new employees need a full understanding of their role and responsibilities, and how they fit in with the overall corporate vision. They should also have the opportunity to build internal social and professional relationships with their new colleagues, very much for support and as their own personal learning network for the new company's operational and cultural rituals and systems.

Some important things they need to know are: who supports them, which teams and departments have an input to the outcome of their role, and where to go if things seem to be going wrong, either technologically or personally. Without this kind of knowledge people can very easily start to feel disconnected and overwhelmed, which can lead to them making mistakes.



*The quicker new employees become productive and fully immersed in organisational culture, the earlier they start contributing to the overall business.*

# 4

## KEY WAYS IN WHICH THE ONBOARDING PROCESS CAN HELP WITH RETENTION

There are 4 key ways in which the onboarding process can help with retention and lessen the risk of exposing the business to the greater costs of having a dissatisfied employee and ultimately replacing them:



### Start the proces early

The problems that we have seen from demotivated and unhappy employee, and those that decide to leave early, can be eased by getting the new hire to feel part of the organisation from as soon as they have accepted the offer, otherwise known as pre-boarding. Some companies start during the interview phase - after all, one of those being considered will be your new employee! By getting people to complete their formalities and paperwork early, letting them connect to their new colleagues ahead of the first day, and beginning to ease them into the role before starting, the possibilities of them becoming overwhelmed and disengaged early in the relationship are lessened.



### Connections count

One of the most important factors in helping a new employee settle into their roles is having support from, and good relationships with, their new colleagues. All new hires need a supportive network to help show them the ropes and offer advice and guidance. By enabling people to build closer bonds with their new colleagues it will help foster greater social and cultural integration from the start. Give them access to platforms that will help them begin building those close partnerships and collaborations to help with learning and sharing, and also help to create the bonds that help should they also feel the need to have someone to confide in.



## Clear objectives and timelines



Before someone starts they need to know everything about the role that will help them succeed. Their duties and responsibilities, reporting lines and objectives. No one should join without already having met the people that they will be working with, or at least connected to them and have had interaction. They should know what process and achievements will be expected of them within certain timeframes - say 30, 60 and 90 days - and what support they will have. And there should also be a clear timetable for feedback. Rather than the 3-month probationary review that most roles usually carry, today's jobseekers will expect more regular feedback on how they are settling in and where they should be focussing their efforts, so make sure they know when this will happen and who will deliver it. Regular check-ins from managers or HR, to find out how new people are settling in and whether they are having problems, is a powerful way to create engagement from the start.

## Make it special



All new starters like to feel welcome. Nowadays job seekers have a much clearer insight into what it is like to work in a business before they join (thanks to review sites and employer branding messages), so it makes sense that the early part of their employment is geared to making sure the transition is smooth, and this starts with the first day. By turning it into an event, with maybe a team lunch or social event, or even a gift, and making sure that everything they need from the start (technology, passes, logins) has already been organised, the new employee can immediately feel part of a team and organisation that will support them.





# TURNING TALENT INTO HEROES

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