

March/April 2001

A pair of glasses and a pen are resting on a notepad. The glasses are positioned in the upper right, and the pen is in the lower left. The notepad has horizontal lines. The background is a light blue gradient.

# Human Resourcer

## In This Issue

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What Is the True Impact  
Of Employee Turnover?

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There's More to  
Recruitment Than  
Just Finding a Resume

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Zero Tolerance Is  
The Key to Ending  
Sexual Harassment

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# What Is the True Impact Of Employee Turnover?

By Lyndy Nierman, Managing Director, Human Resource Consulting Services

**W**hy do we throw festive, expensive parties when star employees leave? We should have celebrations when employees join the company or on their 5- or 10-year anniversaries. Organizations can benefit from new hires, they offer new ideas and fresh approaches to procedures, products and services, and to the companies' vision and goals. But the cost of turnover affects bottom-line performance.

Most companies try to reduce costs by eliminating search, advertising and referral fees. They spend countless hours calculating cost per hire. With the current competitive marketplace, companies often utilize every source available to locate and hire top personnel. Companies, instead, should concentrate on retaining key employees, because real costs begin to add up when employees leave. Let's take a closer look at how turnover creates a real resources drain.

## Productivity Drain

H.R. Harry left Telecom-R-Us and it cost the company \$160,000. When Alice Accountant left We Build It Corp., the cost was \$135,000; and Rhonda Receptionist left her old employer — Legal Eagles — with a debit of \$38,000.

When an employee gives notice (usually two to four weeks), he or she has already mentally "checked out" months prior to the announcement, costing the company significant dollars for a nonproductive employee. During this transition time, the departing employee doesn't take on new projects or meet with clients, he or she spends most of the day saying "goodbye" and telling others about the new venture.

The current employees never want to see one of their colleagues leave. The atmosphere in the office takes on a different tone. Current employees question their own

## Turnover Cost Formula\*

1. Annual wage: \_\_\_\_\_ X .25 = \_\_\_\_\_
2. Annual wage: \_\_\_\_\_ X .30 = \_\_\_\_\_ X .25 = \_\_\_\_\_
3. Total turnover cost per employee (add lines 1 and 2): \_\_\_\_\_
4. Total number of employees who left: \_\_\_\_\_
5. Total cost of turnover (multiply Lines 3 and 4): \_\_\_\_\_

### Using this formula, you can see the turnover cost for a fictional department:

1. Annual wage: \$50,000 X .25 = \$12,500
2. Annual wage: \$50,000 X .30 = \$15,000 X .25 = \$3,750
3. Turnover cost per employee: \$15,000 + \$3,750 = \$18,750
4. Total number of employees who left: 10
5. Total cost of turnover: \$18,750 X 10 = \$187,500

Source: Saratoga Institute and Kepner-Tregor Inc.



career decisions. These scenarios slow down the organization's productivity. And they also cost money. The current employees gain increased workloads to offset the vacant position. This causes burnout, inefficiencies and unproductive workers, which again can be costly.

The time and monies spent on recruiting a new employee are self-explanatory. The transition time for training and orientation for the new talent is another cost factor. One must realize that it usually takes a new employee approximately six months to get up to speed. Those first six months are a costly investment for the employer without any true benefits for the newly hired talent and the company until six months or more into the future.

### **Turnover Cost Formula\***

High turnover can sabotage your company's bottom line. To estimate the cost of turnover in your company, use the formula provided on page 2. Select a department or job function that has significant turnover. Use an

actual number or — lacking exact statistics — estimate the number of people who left the job or department during the last 12 months. Write that number on line 4. The average cost of turnover is 25% of an employee's annual salary (Line 1) plus the cost of benefits (Line 2) you provide. Typical benefits amount to about 30% of wages. The total cost per employee (Line 3) is the total of Line 1 and Line 2.

### **Prevention Is Key**

Be cognizant of employee turnover. Conduct exit interviews and analyze trends. But more important, develop action items to focus on these trends. Make sure that you challenge and value your star employees. The time, efforts and costs to retain good employees far outweigh the deficit that occurs when they leave.

Develop a policy to reward loyal employees. But more importantly, establish action items that will encourage them to stay. When they continue their employment, grow with the company and develop needed skills, you may want to throw them a party! 🌍

# There's More to Recruitment Than Just Finding a Resume

*By Steve Schulte, Senior Consultant, Staffing Solutions*

**R**ecruiters know that phone screens and face-to-face interviews are integral parts of the hiring process. But what some companies don't realize is that the recruitment and search process should not end there. It is imperative that companies couple their recruiting efforts with high-caliber background checks and executive or professional assessments. Internal human resources, internal management or outside consultants can provide these services.

With the employment market being so tight, candidates are likely to move from company to company without hesitation. This should not influence the hiring company to skip the basic background check. By checking references you are not only finding out the candidate's credentials, but also whether or not this candidate will be around in six months. The hiring company benefits greatly from background checks. Some companies even do "complete" background checks, which include



criminal, educational and credit histories. Let's examine how complete background checks and executive assessment can help companies find good hiring candidates.

### **Background Check in Action**

A complete background check helped one of our manufacturing clients hire a network manager. After going through an extensive recruitment process, the manufacturing client finalized its decision and was in the process of making an offer. We convinced the client to put the candidate through a third-party background check. Three days later, the general assessment was singing a different tune.

The background check came back negative. The references that the candidate gave did not check out. His educational history came back false — the college had no record of his attendance. He also gave the client someone else's Social Security number. We relayed the findings, and the client rescinded the offer, avoiding a bad hiring decision. Technically the candidate's resume was fine, but after further investigation, it was apparent that he would not have been a smart hire. The complete background check information gave the client a true evaluation of the candidate — his integrity, honesty and values.



### **Executive Assessments in Action**

An executive assessment provides an in-depth profile of the candidate's management and leadership style and potential red flags. It looks at the candidate from three perspectives: career management, competencies and leadership style. The assessment also addresses the degree of fit between the candidate and the other team members. It can also be used as a tool to facilitate the chosen candidate's entrance into the organization.

After a company hires a candidate, it should note whether the candidate's successful transition into the position was in the plan. Hiring companies too easily and commonly place their new hires into their new positions and expect them to succeed immediately. Individuals usually require six months to acclimate.

The company should implement an executive coaching program, which usually consists of two initial components:

1. An in-depth assessment of skills. This may include psychological testing, mental skills and ability testing, and a 360-degree feedback profile.
2. A comprehensive professional development plan. This plan coordinates measurable self-development objectives that align with the organizational objectives.

The themes and patterns of the assessment results are used to create a development plan. The development plan is then used as an ongoing guide throughout the year to monitor progress and motivate change.

### **Be Diligent**

Given the market, and the time and money it takes to hire a new candidate, it is imperative for the hiring company to do all it can to make their selection a successful one. Companies have begun to realize that the skills listed on a resume are not as important as the cultural fit of the individual to the hiring organization. Taking the time to complete the full selection process will lead to better transition and less turnover down the road. Companies will spend less time and money hiring new employees and bolster their bottom lines. 🌍

# Zero Tolerance Is the Key to Ending Sexual Harassment

*By Lyndy Nierman, Managing Director, Human Resource Consulting Services; and  
Amy Letke, Vice-President, Human Resources, Applied Systems, Inc.*

**W**hile the Paula Jones ruling has faded from the spotlight, the issue of sexual harassment continues to plague businesses. To avoid a lawsuit and bad publicity that accompany public actions, companies must create a work environment free of sexual harassment.

The two categories of sexual harassment recognized under the law are quid pro quo and hostile environment. The commonly recognized quid pro quo involves trading sexual favors for job security or advancement. The hostile environment concept is more difficult to define because it lends itself to more arbitrary arguments. Language or physical conduct that one group or individual considers normal may be offensive to another group or individual. Furthermore, conduct may become unacceptable as the group dynamics change.

Instead of trying to micromanage employee conduct, establishing a zero-tolerance policy eliminates the gray areas altogether. If a situation occurs that offends someone, it must stop. Period.

## **Where Do You Start?**

Top management must initiate any successful change in culture. This support will ensure the acceptance and adherence to the policy. Creating a zero-tolerance culture involves establishing a sexual harassment policy, training management to identify and react to sexual harassment complaints, and educating employees about the company policy.

Your sexual harassment policy must clearly state that no type of sexual harassment will be tolerated and that failure to comply can lead to termination. Retaliation directed toward anyone who makes a complaint is not allowed. Many employers also fail to understand their liability for sexual harassment situations when a vendor or sales representative is acting inappropriately.

## **Training Management**

Start by explaining the company's position on sexual harassment. Managers must have a clear understanding of what is and what is not acceptable behavior. Law can hold managers liable for failing to notice or deal with a sexual harassment situation.

Educating managers is not always an easy task. Often, senior managers entered the workforce more than 30 years ago, when women routinely suffered in a male-dominated work culture. Today's work environment no longer condones such practices. Managers must recognize and promote the new standards, especially since they will be in charge of enforcing them.

You need to establish a reporting process. A list of people who are trained and qualified to handle complaints should be provided to employees. This is difficult to discuss and by offering choices you increase the possibility that someone with a problem will choose to come forward, rather than go to a lawyer.

*continued on page 7*



# What is the best alternative to sourcing and hiring the “right” candidate? Is there a staffing solution that will meet my current needs?

*RSM McGladrey, Inc. will help you find the “right” solution to hire the “right” talent customized to your current needs. We specialize in the following:*

- ⊗ Developing customized recruitment strategies
- ⊗ Providing interim human resource and accounting professionals
- ⊗ Engaging a retained search for key positions
- ⊗ Designing and implementing a college recruitment program
- ⊗ Outsourcing specific staffing functions
- ⊗ Providing assistance and support with job fairs, job sites and interviewing
- ⊗ Applying market research, salary surveys, competitive analysis and job descriptions to your employment function

## Why are we exceptional and unique?

- ⊗ We are human resource consultants with extensive backgrounds in corporate and search entities and have personally experienced your situation.
- ⊗ We have the tools and resources to successfully complete your employment needs:
  - State-of-the-art technology
  - Extensive database
  - National offices with more than 150 human resource consultants
  - Resources within our office in strategic and business planning, compensation, training, performance management, benefits and compliance issues
  - Colleagues in tax, accounting, manufacturing, information technology, finance and industry specialization
- ⊗ We have appointed leadership roles in all human resource organizations.
- ⊗ We are committed and provide guarantees to successfully complete your project.

Before people problems affect your bottom line, call us today to discuss your employment needs and find out how we can help meet them. Copy and mail or fax this form to request a meeting. We would welcome the opportunity to make recruiting good employees a lot easier for you.

Visit our Web site for current position opportunities at RSM McGladrey, Inc. [www.rsmmcgladrey.com](http://www.rsmmcgladrey.com)

**Human Resourcer Express Fax: (847) 413-6464**

**Yes!** I would like to learn more about how your firm can help meet my human resource challenges. Please call me immediately at (    ) \_\_\_\_\_ to discuss my needs.

_____		
Name	Title	
_____		
Organization	Address	
_____		
City	State	ZIP
_____		
Telephone	E-mail	

Or copy and mail to Lyndy Nierman, Managing Director, RSM McGladrey, Inc., 1699 East Woodfield Road, Suite 300, Schaumburg, IL 60173

continued from page 5

## Educating Employees

It is not enough to just include the policy in the employee handbook. Further education and training for employees is a must in order to create a zero-tolerance company culture. It is very effective



to host a Q & A seminar, allowing employees to voice questions and concerns, as well as equipping them with examples of unacceptable conduct. Remind them of the policy at least once a year.

Expect complaints — don't be surprised if complaints are reported after a seminar or training session. This is what you want. It is proof that the education and training are working. Better to deal with the crisis in-house than in court.

## React Quickly

Treat all reports objectively. The investigator must be trained and capable of conducting an unbiased inquiry of the situation. Some companies rely on a consultant to keep the process objective. Try to keep the information confidential. This will limit retaliation and help keep employees focused on their jobs rather than the scandal. If the allegations prove to be true, immediately inform the offender that his or her behavior is intolerable and could lead to termination. Top officials should be informed and kept abreast of all complaints and any ensuing investigations.

At no time can managers look the other way. Some employers may believe that domestic disputes between romantically involved employees are not their problem. This is not always true. Any activity that creates a hostile environment in your company is yours to rectify. For example, at a small manufacturing company, two complaints were filed against an employee who was in management training. The manufacturing company did not have a human resources department and had no idea where to start its investigation. The employee had been demanding sexual favors in exchange for job security. Even

though he had been in a relationship with one of the complainants, it was still a strong case and required a response from the company. After an investigation, the harasser resigned and the company avoided a lawsuit.

## Be Strong

Don't be afraid to establish a zero-tolerance policy. Your employees want firm guidelines. By instituting a clear policy and reporting guidelines, you will create a safe environment for your employees and reduce the risk of expensive and time-consuming litigation. 🌐

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# RSM McGladrey, Inc.

## Human Resources Solutions

RSM McGladrey's Human Resource Consulting Services include:

- 🌐 Strategic Planning
- 🌐 Employee Climate and Attitude Surveys
- 🌐 Employee & Management Compensation Planning
- 🌐 Executive Coaching and Teambuilding
- 🌐 Human Resource and Financial Contract and Outsourcing Services
- 🌐 Human Resource Diagnostic Reviews
- 🌐 Management Assessment and Development
- 🌐 Change Management
- 🌐 Training and Development Programs
- 🌐 Organization Planning and Evaluation
- 🌐 Performance Management
- 🌐 Employee Handbooks and Policy & Procedure Manuals
- 🌐 Executive Search and Recruitment Strategies

RSM McGladrey's Human Resource Consulting Services can help you evaluate and design appropriate organizational and management structures, and install HR programs and systems that motivate employees to do their best.

Because each and every organization we serve is unique, we take a close, practical look at your organization's needs to gain a complete understanding of your business.

Our consultants have served as human resource professionals in a wide variety of businesses and industries. With first-hand experience, they know the kinds of HR problems most likely to concern you.

Regardless of your organization's situation or size, we can help you find solutions that are responsive to both your organization and your employee needs by:

- 🌐 *Looking beyond short-range problems to pinpoint strategic HR issues*
- 🌐 *Helping you align your HR function with organization goals and objectives*
- 🌐 *Applying the management resources and experience you need to help turn recommendations into action*
- 🌐 *Providing hands-on, day-to-day assistance*
- 🌐 *Helping you formulate major HR strategies and systems*
- 🌐 *Developing and implementing practical solutions*



## Interesting Web Site

[www.herman.net](http://www.herman.net)

The Herman Group is a firm of Certified Management Consultants with a strong expertise in workforce and workplace issues. A significant portion of their work is focused on the study of relevant trends and their potential implications on the world of employment. They are recognized for their knowledge and leading edge thinking on trends relating to the workforce, workplace, workstyles, and corporate design and philosophy.

Visit their Web site for articles and information on *Future Trends* and their on-line newsletter.

For more information on RSM McGladrey's Human Resource Consulting Services, contact Lyndy Nierman, Managing Director, 1699 East Woodfield Rd., Suite 300, Schaumburg, IL 60173, phone 847-413-6900, or email: [lyndy\\_nierman@rsmi.com](mailto:lyndy_nierman@rsmi.com).

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