Executive Summary

Both, onboarding and attrition, can prove to be expensive for organizations. Turnover is considered to be costlier to the organization as it affects financial growth, service levels, and employee morale, which affects the overall company culture. Turnover affects the health of the organization in two ways: financially and culturally. Organizations in the U.S. experience 24% of first-year-of service turnover with approximately $27 billion spent in turnover costs. In addition to losing the employees and the knowledge base, companies also suffer the loss of customer service and quality. Culturally, turnover has been known to impact motivation and the morale of the workforce. Individuals working in high turnover environments reported less cohesion among team, less opportunities for collaboration, poor communication among team, and increased levels of stress. In order to curtail bad hiring decisions and turnover, employers are now incorporating cultural fit into their recruitment process. Behavioral assessments can help identify the applicants that are better suited for the job based on their skills and behavior. In addition to reducing turnover costs, behavioral assessments can also aid in creating efficiencies for the human resources professionals by providing easy access to data. By reducing the time and costs of processing employee selection information, behavioral assessments create efficiencies for the human resources professionals, allowing them to use their time for other critical and strategic tasks.
Cost/Benefit Analysis Of Utilizing Automated Personnel Selection Tools

MSA 698 Directed Administrative Portfolio

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Cost/Benefit Analysis Of Utilizing Automated Personnel Selection Tools

**Problem Statement**

With the Human Resources industry experiencing technological transformation, the main question is to understand how technological advancements and automation has impacted human resources processes within the scope of employee selection, development, engagement, and retention. For the purpose of this paper, the author will explore the costs and benefits of utilizing automated technological tools for employee selection, engagement, and retention. In addition, the author will also emphasize the need for employers to create training materials on financial literacy as part of employee development programs.

**Background**

Human resources are one of the biggest investments for an organization. There are costs associated with both hiring and terminating employees. Both, onboarding and attrition, can prove to be expensive for organizations. Money spent on recruiting, advertising, and hiring are considered direct costs whereas, training, orientation, and termination costs are considered indirect (Jones, 2004). Turnover is considered to be costlier to the organization as it increases the indirect expenditure and also increases the direct expenditure of onboarding. This process expends valuable time and resources allocated to training and development, which affects the company’s profitability. In addition, attrition affects financial growth, service levels, and employee morale, which affects the overall company culture. Reducing turnover will generate cost savings that the organization can utilize for staff development programs, which in return would increase retention. The opportunity cost to HR professionals for performing repetitive, administrative tasks such as onboarding and terminations is the inability to focus on strategic goals that directly impact the organization.
Implications of Turnover

While turnover is inevitable, it is important to fully understand its implications for the health of the organization. Turnover affects the health of the organization in two ways: financially and culturally. The subsections below discuss both of these implications in detail.

Financial Implications of Turnover

There are significant financial implications of turnover for an organization. According to Tom Marsden, organizations in the U.S. experience 24% of first-year-of service turnover. Therefore, almost a quarter of the workforce does not stay with their employer for more than a year. This turnover rate translates into a wastage $27 billion due to bad hiring decisions (Marsden, 2016). An entry level position costs an organization 50% to 100% of the employee’s salary in turnover costs (Surji, 2013). This is a substantial amount of capital that organizations spend on just covering attrition costs. In addition to losing the employees and the knowledge base, companies also suffer the loss of customer service and quality. Once customer service and quality are impacted “Competitive advantage will be compromised…which in turn influences the risk of the loss of long-term customer relation and contracts in the industry” (Surji, 2013, p. 53). This makes turnover one of the most expensive and difficult workforce challenges for the organizations.

Cultural Implications of Turnover

There are lot of negative impacts of turnover on the overall workplace culture. Primarily, turnover has been known to impact motivation and the morale of the workforce. According to Kemal Surji, “employee turnover typically causes lack of motivation and low morale” (2013, p. 54). In addition, individuals working in high turnover environments reported less cohesion among team, less opportunities for collaboration, poor communication among team, and
increased levels of stress (Knight, Becan, & Flynn, 2013). These types of working conditions can be perceived as unfavorable and can make an employer seem less attractive to potential job applicants. In addition, such conditions can lead to further loss of human resources which can make it difficult for a workplace to function.

**Financial Advantages of Utilizing Behavioral Assessments**

Behavioral assessments are a useful tool in the employee selection process as it can match the candidate with the correct behavioral attributes to the correct position within the organization. There is a growing trend to not only hire the best skills for the job but also to hire a candidate who possess the behavioral attributes needed to be successful in the organization. Nearly 80% of employee turnover is due to bad hiring decisions, which is why 32% of employers are now incorporating cultural fit into their recruitment process (Marsden, 2016). Behavioral assessments can help identify the applicants that are better suited for the job based on their skills and behavior. Both of these elements are equally important when assessing whether or not a candidate is suitable for the position (Lahey, 2015). Behavioral assessments can provide HR professionals scientific data that proves to be useful in the hiring, coaching, training, and general oversight of employees (Lahey, 2015). The systematic evaluation of an applicant’s behaviors can be used to measure the capability of the applicant for organizational fit, work style, and potential (Roberts, 2014). Behavioral assessments can provide “a high, low or medium rating of a candidate’s cultural fit for a particular job” (Roberts, 2014). This helps hiring managers narrow down their pool of candidates and eventually pick the candidate that is best suited for the job and also for the department’s culture. Implementing behavioral assessments has shown to reduce two-digit turnover rates to single-digit (Roberts, 2014). The PI behavioral assessment surpasses its competitors because it “predicts primary personality characteristics and
cognitive ability so you can predict workplace behaviors and on-the-job performance… over 500 Validity Studies to ensure our science-based assessments can accurately predict across any job function, in any industry…” (Predictive Index). Behavioral assessments can also be used for promotions and career-pathing, which can improve company metrics such as customer satisfaction, employee engagement and revenue generation (Roberts, 2014). By identifying employees that are better suited for the company culture, behavioral assessments aid in increasing retention and reduces expenditure caused by turnover costs.

In addition to reducing turnover costs, behavioral assessments can also aid in creating efficiencies for the human resources professionals by providing easy access to data. Behavioral assessments are automated tools that provide instant assessment on whether a candidate is suitable for the job and for the company culture. This automated process is useful and “can sometimes add value by reducing the costs of processing and administering information” (Boudreau, 1990, p. 3). By reducing the time and costs of processing employee selection information, behavioral assessments create efficiencies for the human resources professionals, allowing them to use their time for other critical and strategic tasks. The amount of time saved by automating the employee selection process can be utilized for forecasting future needs, gaining competitive advantage, and increasing workforce productivity. The ability to focus on strategic goals, will allow the HR department to plan and develop programs that directly impact the organization. HR professionals can develop programs about financial literacy and create resources for employees that can provide information about financial management. This will ensure the financial wellness of not only the organization, but also of its employees.
Financial Wellness of Employees

Financial literacy is a critical aspect of financial wellness. The topic of money or finance is the leading cause of stress among Americans (Thompson, 2015). However, not many people have the necessary skills and knowledge required to successfully manage their finances. According to the Organization for Economic Co-operation and Development (OECD), financial education is becoming critical for the average person (2006). Clarke, Heaton, Israelsen, & Eggett (2005) found that poor financial habits of children tend to transpire from their parents. Therefore, it is critical for parents have an open dialogue with their children and teach them about financial planning. However, parents do not always feel comfortable discussing finances with their children. This is primarily due to cultural taboos that restrict open dialogue about money matters.

In addition, there is also a lack of formal education about financial management as the educational system does not include any mandatory coursework to prepare for it. There are several states that require school districts to offer an economics or personal finance class. However, the class is not part of a required curriculum. Therefore, the state regulations are being dismissed as suggestions or guidelines. Seventeen states have added personal finance courses in their educational programs however, only Missouri, Tennessee, and Utah, require students to take a mandatory course specifically covering personal finance (Green, 2009). This is creating a deficit in formal education being provided on personal finance, retirement savings, or managing money.

With a lack of formal education and resources about financial management, the responsibility of providing financial wellness training falls on employers. According to a survey conducted by Society for Human Resource Management (SHRM) in 2017, nearly 49% of employers offered financial wellness support to their employees in the form of resource
materials, advice tools, or financial counseling (Miller, 2017). Employers are keen on providing this benefit so that “…employees improve their financial management skills, plan how to manage debt, and hopefully alleviate stress and worry…” (Miller, 2017, para 3). By helping employees feel less stressed out about their finances, organizations can improve performance and productivity of their staff. Improved performance and productivity will also improve the overall retention rates of the company.

**Turnover at Michigan Legacy Credit Union (MLCU)**

For the purpose of this paper, turnover at Michigan Legacy Credit Union has been studied for the last 10 years, from 2009 to 2018. The HR department at MLCU implemented the Predictive Index (PI) behavioral assessment as a part of their hiring process at the beginning of 2015. The cost of utilizing PI per year is $6,320.00 along with one-time training cost of $5,000.00 for two HR professionals in the organization. The graph below indicates the turnover experienced by the organization over the last 10 years.

2015 was an important year for the credit union as it went through a reorganization process and implemented many cultural changes. As a result, the credit union experienced high turnover that
year. However, the not all turnover was due to performance issues. Most of the turnover experienced in 2015 was due to employees leaving at their own will as they did not accept the culture changes. However, the rate of terminations dropped significantly, since implementing PI, as it is evident by the drop shown between 2014 and 2015. The rate of terminations did increase in 2016 and 2017. The graph below indicates how turnover rates were impacted when employees were hired even though they were not a good fit culturally, based on their PI.

Even though the terminations increased in the years 2016 and 2017, majority of those terminations were due to bad hiring decisions where employees were hired even though they were not a good fit for the position. The HR department has started adhering more strictly to the PI results when making hiring decisions. This is evident as the termination rate has decreased in 2018 where all the terminations were due to PI results not matching the job requirements.

Implementing the PI behavioral assessment as part of the hiring process has proved to be beneficial for the credit union. The costs associated with training and implementing PI seem nominal compared to the savings created by the reduced turnover.
Financial Wellness of MLCU Employees

The HR department at Michigan Legacy Credit Union conducted a staff survey and realized that financial wellness was an area of struggle for the majority of its staff. The HR department along with the training department developed trainings and resources to educate its staff about 401(k) and other benefits offered by the credit union. The HR department sends out quarterly reports about 401(k) participation to encourage staff to save for their retirement. In addition, the company pays for a financial counselor to meet with its staff so that they can get counseling and guidance about financial management and debt consolidation. Lastly, the company also subscribes to a free service that offers help with various financial and legal matters while maintaining anonymity and confidentiality. Through these efforts, the 401(k) participation at the credit union has been increasing over the last 2 years and employees are more aware about their finances and are learning about investments.

Conclusion

Turnover, whether voluntary or involuntary, is inevitable. However, turnover can have detrimental impacts on the workforce and on the overall health of the organization. It is critical to understand the causes of turnover and address those issues to reduce employee stress and prevent further loss of staff. Implementing automated personnel selection tools, such as behavioral assessments, can help HR professionals identify the most suitable candidate for the position as well as for the company culture, thereby reducing the factors that cause turnover. In addition to making good hiring decisions, automated personnel selection tools can increase the efficiency of the HR department by reducing the amount of time spent doing administrative tasks, which in turn will create opportunities for HR professionals to do tasks that align with the strategic goals of the organization and increasing workforce productivity.
References

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