

## Calculating Your Talent ROI



Successful organizations make intentional investments in their human capital. From [recruiting](#) and hiring to onboarding, mentoring and training, the ability of organizations to effectively and consistently select and develop great talent yields significant benefits. In this highly competitive business environment of record-low unemployment, this fact is truer than ever before.

The financial return on human capital begins with [talent selection](#). With as much as 80% of employee turnover attributed to poor hiring decisions (Harvard Business Review), there's little room for error when it comes to selecting new hires. For businesses large and small, turnover can have a very negative impact on a business' budget, as can low productivity from an ill-fitting new hire. A Monster study found that 62% of companies have reported making a wrong hire.

Once a new hire has started, investing in their training and development can also greatly impact the bottom line. Employers stand to gain when their workforce is well-equipped with the tools and training needed to do the job. The American Society for Training and Development notes that companies that offer comprehensive training and development programs enjoy:

- 218% higher income per employee
- 24% higher profit margin
- 6% higher shareholder return

To find and cultivate high performers, organizations need not look far from their own company. A study conducted by LinkedIn cites that 48% of businesses say their quality hires come from employee referrals. Employees who enjoy their work and embrace the company mission, values and culture are more committed, likely to stay, and engaged – and can attract similarly high performing employees. Importantly, high engagement drives 23% higher business performance (CEB).

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Retention plays an equally important part in a company's financial success, as the financial impact of losing talent is significant. The Society of Human Resource Management states that employers need to spend the equivalent of six to nine months of an employee's salary to hire and train their replacement. The impact of turnover on companies can be financially staggering, not only in terms of cost to replace the individual, but lost productivity, negative customer goodwill, and increased workload for the employees that remain.

How much will it cost your organization to replace an employee? The following table can be used to calculate the cost of employee turnover.

| <b>Cost Area</b>  | <b>Amount \$</b> |
|---|------------------|
| <b>Separation process</b>   |                  |
| <b>Recruiting and advertising</b>   |                  |
| <b>Selection System</b>   |                  |
| <b>Development and training processes</b>   |                  |
| <b>Trainer and trainee wages</b>  |                  |
| <b>Technology, miscellaneous administrative work and paper work</b>   |                  |
| <b>Overtime for coworker covering gifts</b>   |                  |
| <b>Lost productivity of turned employee, coworkers, and supervisor</b>                                      |                  |
| <b>Disruption of team and coworkers</b>   |                  |
| <b>Waste and mistakes during training</b>   |                  |
| <b>Lost customer goodwill (if applicable)</b>   |                  |
| <b>TOTAL COST PER LOST EMPLOYEE</b><br>Sum of all completed categories                                      |                  |
| <b>LOCATION TURNOVER COST</b><br>Cost per lost employee multiplied by number of employees lost per location |                  |
| <b>COMPANY COST IN TURNOVER</b><br>Location turnover cost multiplied by number of locations                 |                  |

## Talent Selection

Making the right hiring decision on a consistent basis is not easy but can be greatly improved by [implementing pre-employment assessments](#). An Aberdeen Group study sites that businesses that use pre-employment assessments experience 39% lower turnover among high-potential

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employees. Moreover, organizations that use pre-hire assessments are 24% more likely to have employees who exceed performance goals.

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Research confirms that an assessment-based selection system improves hiring accuracy, objectivity, consistency and standardization. But how do you determine the best program for your organization? Below are a few considerations when evaluating a pre-employment assessment program:

- **Sound science.** Pre-employment assessments must be properly designed and implemented following strict guidelines and requirements. Consulting an unbiased expert is a must.
- **Output.** Assessment results (often called a “profile”) should enable the hiring decision-maker to clearly delineate between candidates who fit the job and culture and those who do not. The most effective output is competency-based and informs the overall interview process.
- **Recruiter/hiring manager training.** Anyone who reviews assessment results for making a hiring determination must be properly trained to ensure results are interpreted properly and consistently.
- **User-friendliness.** It is always important keep the candidate experience in mind. Difficult to navigate assessments can discourage good candidates from continuing through the process.
- **Technology/integration.** Most pre-employment assessments are administered in an online format and can be integrated with tools such as applicant tracking systems.

## Talent Development

Assessments also play a key role in employee and [leadership development](#). A study with Aberdeen found that “best-in-class” organizations were 36% more likely to utilize assessments for individual development and coaching. Assessment-based development and coaching provides self-insight that can serve as the foundation for behavioral change and performance improvement.

Some organizations also opt to include a [360-degree \(multi-rater\) feedback assessment](#) as a part of the development and coaching process to provide another lens from which to understand performance and shed light on potential blind spots. The Aberdeen group study found that 74% of “best-in-class” organizations use a 360-degree process for developing and coaching talent. The “one-two punch” of a behavioral assessment with a 360-degree tool is a powerful combination and can lead to stronger performance and engagement – which in turn can increase productivity.

In closing, balancing the talent equation is difficult but surely possible. By applying assessment-based selection and development best practices, your organization can improve the bottom line through the one advantage that cannot be replaced or repeated by your competition: *your talent*.

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